From Traditional to Institutionalized Hegemony

By Alison Bailin
bailina@yahoo.com
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ABSTRACT

Both hegemonic stability and institutionalism attempt to explain the stability or continuity of the liberal economic order over the post-WWII period. The US, however, has not acted as the sole hegemon since the 1970s and the main financial and monetary institutions are too large and lack the flexibility and resources to resolve global crises. This article introduces a new model, institutionalized hegemony, which synthesizes and extends hegemonic stability and institutionalism. It shows that a group of great powers replaced the US as the hegemon in the mid-1970s. The model of institutionalized hegemony specifies the necessary hegemonic and institutional mechanisms that enable great powers to collectively manage global economic crises and maintain the liberal economic order.

FROM TRADITIONAL TO INSTITUTIONALIZED HEGEMONY

International crises have plagued the capitalist world-economy throughout the post-World War II era. Currency volatility, stock market crashes and mounting debt foster global instability, yet the liberal economic order persists. Some scholars argue that the US is still the primary power sustaining the liberal economic order.[1] Others contend that countries cooperate through international institutions and regimes to govern various aspects of the world-economy.[2] The traditional hegemonic approach supports the former, while neoliberal institutionalism advocates the latter explanation. Both explain the stability or continuity of the liberal economic order. They differ, however, in their approach.

Traditional hegemony asserts that a single country's preponderance of power accounts for stability, whereas institutionalism contends that countries participate in multilateral arrangements to overcome "market failures."[3] Both claim that the continued strength of institutions and regimes, such as the International Monetary Fund (IMF) and the liberal trade system, support their models. The academic confusion stems from the fact that hegemonic stability and institutionalism are often presented as competing rather than compatible perspectives.[4] This paper reconciles the two approaches.

Hegemonic stability focuses almost exclusively on the distribution of power among countries. The hegemon uses its overwhelming share of power capabilities to supply goods, such as liquidity, open markets and foreign investment, that entice countries to engage in economic cooperation. As the hegemon declines, these multilateral cooperative arrangements weaken. The hegemon is no longer able or willing to unilaterally provide the necessary goods. Hegemonic stability fails, however, to consider that countries may cooperate to provide goods and hence sustain the liberal economic order.

Institutionalism, by contrast, emphasizes that prescribed sets of rules, the embodiment of institutions and regimes, facilitate cooperation among countries. These formal and informal agreements among countries help regulate currency exchange, open markets and foreign investment thereby negating the role of the hegemon. However, international institutions, such as the IMF, World Bank, and World Trade Organization (WTO), need the support of the great powers. If we assume that global power is concentrated in a handful of countries, then trade and financial institutions depend on the support and cooperation of the powerful few. Power plays an equally important role as institutions.

Even with great power support, these well-known institutions are too large and lack the flexibility to respond in a timely matter to a global economic crisis. An international economic crisis is defined herein as an event that threatens the major economies, and hence the liberal economic order. Most countries in the world depend on the powerful few for stable exchange rates, trade and foreign investment. Any crisis in the core impacts the periphery, but not necessarily the other way around. An international crisis is a global saga requiring urgent, perilous and costly choices.[5] A crisis manager has to be flexible and often must improvise to restore the status quo since each crisis is different. The IMF, World Bank and WTO are not well suited to mitigate global economic crises because they are based on bargaining and standard rules. Bargaining takes time, and standard rules leave little room for maneuverability. As Bergsten and Henning argue, "the global institutions themselves created smaller steering groups, notably the Interim Committee for the IMF and the Development Committee for the World Bank, but they were still too large and too heterogeneous to play an effective leadership role."[6]

If the most important economic institutions cannot put out international fires, and no single country is powerful enough or willing to do so on its own, then who or what is managing international economic crises? The above discussion is missing the link between power and multilateral cooperation. The model of institutionalized hegemony, presented herein, makes the connection. It proposes that great powers may collaborate, given a certain institutional arrangement, to mitigate global crises. These countries collectively have the necessary hegemonic traits, such as power capabilities and global interests, to act as the global stabilizer. These characteristics are necessary, but not sufficient for a small group of powerful countries to be a "group hegemon." In addition to hegemonic traits, group hegemony requires an institutional arrangement that shapes the behavior of its members and makes collaboration possible. As Caporaso notes, "multilateral activity without an organization to facilitate and enforce agreements brings up all the problems that haunt international political cooperation in the first place: absence of trust, weak and unreliable information, incentives to defect, and reneging on agreements when it is convenient."[7]

Institutionalized hegemony specifies the necessary hegemonic and institutional features that enable a group of powerful countries to collaborate and resolve global crises. It proposes that the Group of Seven (G7) is the global stabilizer. This institution includes Britain, Canada, France, Germany, Japan, Italy, and the United States. The term G7, as used herein, refers to the heads of state, finance ministers and central bank governors of these countries. This multilateral management model, like hegemonic stability, contends that a hegemonic order exists, i.e., the concentration of economic power has continued throughout the post-war period concurrently with the liberal economic order. However, the G7, rather than the US alone, accounts for this preponderance of power from the 1970s to the present. The G7, as an institution, facilitates cooperation among members in accordance with the institutionalist approach. However, the G7 institutional features shape great power interaction in contrast to most international institutions that govern specific issue-areas.

The G7 was created in the mid-1970s to combat the inability of the US to sustain the Bretton Woods system, the oil shock and the worst economic downturn in global economic activity since the great depression. The G7 intended to replace American predominance with collective leadership.[8] The G7, as the group hegemon, collectively manages international economic crises. Routine maintenance of the liberal economic order is the responsibility of international institutions and regimes in accordance with the institutionalist approach.

The G7 is able to act as a crisis manager because of its institutional base and its members' enormous economic power. As a group of countries, the G7 members are willing and able to furnish liquidity, manage exchange rates, provide large open markets and supply foreign investment. These countries also support the major international economic institutions. As an institution, the G7 facilitates great power collaboration. G7 institutional traits help shape its members' behavior. For instance, membership is restricted to a small number of countries with compatible political and economic systems. This trait or rule encourages group identity and mutual expectations. It lessens the temptation to free-ride and let other great powers bear the costs of global stabilization.

The first section of this paper draws broad comparisons between hegemonic stability and institutionalism in terms of their utility in explaining the continuity of the liberal economic order. It examines why these perspectives should be modified. The model of institutionalized hegemony is presented in the second section. It advances the study of great power multilateral cooperation by transforming it from an abstract concept to an applied model. It addresses the question: what mechanisms produce great power collaboration?

HEGEMONIC STABILITY VS. INSTITUTIONALISM

The traditional hegemonic approach explains how and why the most powerful country maintains the liberal economic order. It describes stability in terms of a preponderance of power. Historically, the hegemon has been a single country with enough economic power to furnish the world's main supply of liquidity, manage exchange rates, provide the largest open markets, and supply the vast majority of foreign investment.[9] The hegemon's superior power enables it to create and enforce norms of behavior and rules to regulate monetary and trade transactions among countries. After WWII, for example, the US used its vast resources to entice states to join its liberal trade regime. The US offered to lower American trade barriers as long as countries acted within boundaries specified under the General Agreement of Tariffs and Trade (GATT). This offer induced countries to participate in GATT. They reduced tariffs and limited discrimination against GATT members.

Hegemonic stability theory assumes that a decline in the hegemon's power presages the breakdown of the liberal economic order. It is widely accepted that the US was the hegemon in the first half of the post-WWII period. What is questionable is whether the US still possesses an overwhelming share of power and unilaterally acts as the global stabilizer. Some scholars present empirical evidence indicating that the US no longer exhibits the necessary international power to act as the sole hegemon. [10] Other scholars have argued that the US is still the world leader.[11] Russett states, for example, that continuity rather than decline better characterizes American power in the last half of the post-war period.[12] He concedes that "While virtually all power base measures show a clear decline in American predominance over the past forty years, they do not agree on the rate or the depth of that decline. Some few show the United States slipping to second place in the world, but many more show merely a shrunken lead for the front-runner."

The "anti-declinist" scholars neglect to consider the possibility that the US has collaborated with other great powers since the 1970s to resolve global crises. Great powers, in theory, may engage in collective action if necessary to achieve reasonable outcomes.[13] As the hegemon declines, other states increase in size. In this situation, the hegemon will not be willing nor able to provide goods by itself. Secondary powers realize their cooperation is essential in order to maintain regimes. Collective action is increasingly likely to occur as the hegemon declines since no one state can provide goods by itself.[14] This theory begs the question: how do countries know they are members of the contributing set? Even if the group is identified, why would great powers collectively act if it is in their best interest to defect, i.e., reap the benefits without incurring the costs? The model of institutionalized hegemony specifies the mechanisms that designate a contributing set and overcome collaboration problems, such as free-riding.

In contrast to traditional hegemonic stability, institutionalism explains how multilateral arrangements facilitate cooperation.[15] Institutionalism describes stability in terms of coordination games. Countries coordinate their policies through international institutions to maintain the order with or without a hegemon.[16] Institutions are constructs of self-interested states, but they also alter state behavior.[17] In terms of constructs, institutions help states resolve problems. They provide information to actors and reduce transaction costs.[18] In terms of constraints, these multilateral arrangements provide the structures to govern issue-areas. They prescribe rules and norms that pertain to particular issue-areas. These rules and norms form the foundation for countries to systematically coordinate their policies to achieve mutually beneficial outcomes.[19] For instance, the IMF and World Bank provide the machinery for the coordination of currencies and exchange rates and promote the flow of capital resources to individual countries. The GATT contributes to open markets, as does its more formal successor, the WTO. The Multilateral Investment Guarantee Agency and the Settlement of Investment Disputes oversee the rules and norms governing foreign investment. In short, international institutions now perform hegemonic functions on an everyday basis.

Institutionalism, however, reveals three theoretical voids. First, the existence of institutions alone does not adequately account for global economic stability. Institutionalism fails to take into account the importance of power. The main trade and financial institutions are inconsequential without the support of the most powerful countries. For instance, the G7 members, the largest economies in the world, are the main export destinations for most countries. The G7 countries also provide the bulk of funding for international institutions. The point here is that trade and financial subsystems depend on the support and cooperation of a few, powerful countries and therefore, power plays a significant role in global stability.

As previously stated, the second problem with institutionalism is that well-established international institutions are too large and lack the flexibility to address international crises and new situations. Even if a small handful of countries bear the costs of maintaining these multilateral arrangements, most members participate in the process of bargaining, negotiating and voting on agreements. The more members the more time it takes to establish procedures and policies. Principles, norms, rules and expectations must be set before institutions can address a new situation. For example, there were no intergovernmental rules or procedures to respond to the oil price hikes in the 1970s. The International Energy Agency was established *after* the oil crisis to set future energy policies. The key here is that large institutions may govern future problems, but not present crises.

The third shortcoming of institutionalism is that it primarily applies to situations in which countries have no incentive to defect from the order. This situation is referred to as a coordination game. The dilemma in coordination games is choosing among a number of Pareto-optimal equilibria, points at which no player has an incentive to change its behavior.[20] Once the coordination point is established, it does not need to be enforced because players lack an incentive to depart from the cooperative solution.[21] From a functional standpoint, countries coordinate their policies to minimize transaction and information costs. Members devise mutually acceptable rules and shared expectations that pertain to a particular issue. They establish equilibrium. The rules are the same for every actor. Membership in the institution is contingent upon the actor accepting and adhering to the prescribed rules. In coordination games, free-riding is neither feasible nor desirable.[22] Institutionalism fails to adequately address situations in which there is a temptation to free-ride, a situation known as a collaboration game.

Collaboration involves situations in which individual countries receive great immediate payoffs from defecting. Martin and Simmons elucidate the collaboration dilemma, "the problem states face in this situation is finding ways to bind themselves and others in order to reach the Pareto frontier."[23] How can countries attain self-enforcing agreements when each is tempted to defect? This dilemma typifies global economic crises. The contributors incur different costs to resolve the problem, but the benefit is nonexcludable. All enjoy stability whether or not they contribute to it. The US, for instance, had a strong incentive to desert the 1978 Bonn summit accord. The accord called for Americans to raise domestic oil prices as part of a G7 plan to jump-start the world-economy. Other G7 countries also had incentives to defect in order to avoid making domestically painful sacrifices, such as deficit spending. International economic crises often require the most powerful countries to collaborate, but why would they take such action if it is not in their best interest to do so?

The model of institutionalized hegemony addresses this question. The model explains how great powers bind themselves through an institutional arrangement in order to reach the Pareto frontier. Collaboration situations require different institutional traits or rules than coordination games. Institutional traits are the mechanisms through which the institution affects behavior. In coordination games, the prescribed sets of rules govern specific issue-areas. Institutional traits for coordination situations only require that actors mutually agree on a set of preferences relating to an issue-area.

In collaboration games, the focus shifts away from preferences since each actor would prefer to free-ride. In a collaboration situation, the prescribed sets of rules must pertain to members' interactions rather than issue-areas. Rules, such as identifying the contributing group, ensuring that group members can reach mutual agreements, and developing trustworthy relations, substitute for monitoring and enforcement mechanisms and help overcome the temptation to defect. For instance, the G7, as an institution, solidifies a pattern of great power relationships. The G7 requires members to meet on a regularly scheduled basis. It is widely accepted that iterated interaction increases the likelihood of cooperation even in the absence of enforcement mechanisms.[24] These meetings build trust, encourage communication, and reduce uncertainty in great power interaction. These are important factors in a global crisis that requires quick, great power collaboration. Each actor knows from the start that it will not be played a sucker, that its contribution is necessary, and that others will do their part.

This study proposes that a small institution, comprised of the most powerful countries, may become the global stabilizer if it exhibits certain hegemonic and institutional traits. The model of institutionalized hegemony identifies the mechanisms that enable great powers to collaborate to mitigate international crises. The model is presented in the next section. It begins with an analysis of global power and the necessary hegemonic mechanisms. The focus then shifts to the necessary institutional mechanisms.

INSTITUTIONALIZED HEGEMONY

Institutionalized hegemony describes the continuity of the liberal economic order in terms of great power cooperation. The model defines the hegemon as a global stabilizer. The hegemon extinguishes major international economic fires to maintain the liberal economic order. Stability is a public good. The hegemon possesses the necessary power capabilities and global interests to mitigate global crises or supply the public good. If global power is concentrated in the hands of a few countries, then they must collectively provide the good or behave as a group economic stabilizer since no one country has an incentive to unilaterally act. The group of powerful countries uses its overwhelming resources to support institutions, such as the IMF, World Bank and WTO. These multilateral arrangements oversee the everyday management of the world-economy, but they do not have the necessary resources and flexibility to address global economic crises. This involves great power cooperation through a different type of institutional arrangement.

The cooperation literature describes the attributes of cooperating countries. The group size is small, the members share mutual interests, and a shadow of the future looms over them.[25] The literature, however, does not explain the determinants of cooperative attributes, that is, what brings about great power cooperation? For example, it is well established that the fewer the players, the more likely actors will cooperate. They will know their roles and the roles of others. Small numbers simply describe the makeup of the group that can provide public goods, often referred to as the k-group. This attribute does not address the following questions: How is the k-group designated and why would great powers participate in the group when each can reap the benefits of public goods without bearing the costs? The second cooperative attribute, mutual interests, holds that when countries share common preferences they are more likely to reach mutual agreements. This attribute, however, does not answer the question, what determines mutual great power interests? The third cooperative characteristic, the shadow of the future, constrains behavior because members' actions may be reciprocated in the future, assuming that countries will continually interact. The goal here is to develop trustworthy relations. An actor's past action serves as an indicator of its future behavior. Other actors then know if they should also cooperate or defect, a tit-for-tat strategy.[26] Again, iterated interaction describes the cooperative attribute and its purpose, but it does not address the issue: what ensures that members continually and systematically interact to develop trustworthy relations?

The model of institutionalized hegemony specifies six hegemonic and institutional mechanisms that produce great power cooperation or group hegemony. The first two mechanisms, a concentration of global power and group identity, address the questions: How is the k-group designated and why would countries want to be part of the group?

The next two mechanisms involve restricting membership to capitalist democracies and implementing a preparatory process. These features shape great power interests and result in mutual agreements. The last two mechanisms develop trustworthy relations. They include a system of great power interaction and documentation of interactions.

The above mechanisms may be categorized as either hegemonic or institutional. A concentration of global power indicates a hegemonic order may exist. Group identity designates the contributing set. Restricting membership to capitalist democracies means that the actors share a mutual interest in maintaining the liberal economic order. These are group hegemonic mechanisms. The preparatory process, system of great power interaction and documentation institutionalize great power relations. These institutional mechanisms, or rather the effect they produce, substitute for monitoring and enforcement agreements in situations requiring great power collaboration. The preparatory process provides information to actors, a key function of institutions, and shapes the great power agenda.[27] A system of great power interaction provides a shadow of the future. Actors learn from repeated games and build trust based on continual interaction. Documentation holds countries accountable. The following discussion examines these mechanisms and how they designate a k-group, result in mutual agreements, and develop trustworthy relationships. These mechanisms and their effects are summarized in table 1.

Table 1. Summary of Cooperative Mechanisms, Attributes and Functions

Mechanisms Concentration of power	→	Attributes	→	Functions
Group identity Capitalist democracies	→	Small group size	→	Designate k-group
Preparatory process System of great power interaction	→	Mutual interests	→	Reach mutual agreements
Documentation	→	Shadow of the future	→	Develop trustworthy relations

Group Hegemonic Mechanisms

Institutionalized group hegemony is only possible if a hegemonic order exists. This means that power is concentrated in the hands of the few. This group alone has the ability to supply an international means of payment. This is demonstrated by the fact that the world's main currencies are that of the great powers. The powerful few are also the main export destination for the vast majority of countries in the world. In addition, they supply an overwhelming amount of the world's foreign investment. In other words, institutionalized hegemony assumes that a small group of great powers exhibits the same hegemonic traits as a single global stabilizer. The group collectively possesses the capabilities, global influence and interest to mitigate global crises and maintain the liberal economic order. The following mechanisms enable the great powers to function as a group hegemon.

1. Concentration of Global Power

The greater the concentration of global power, the fewer the great powers. The concentration of power determines the size and membership of the k-group, a small number of players who collectively have the resource capabilities to provide public goods without the help of others (n-k). This preponderance of power mechanism is consistent with Caporaso's contention that the conditions that bring the k-group into existence are primarily "structural properties of the international system, properties such as the number of important actors and the concentration either of aggregate power or sectoral power."[28] Without this structural condition, it would be very difficult to assess who and how many should incur the costs associated with global crisis management. In other words, the more even the distribution of global power, the larger the k-group.

A large k-group is doomed to fail. The members will not be able to cooperate to collectively provide public goods. The cooperation literature established that as the number of players increases the likelihood of cooperation lessens for three reasons.[29] First, transaction and information costs increase with the number of players.[30] Second, it is difficult to detect defectors and control the players as their numbers increase. Third, if defectors are identified, who should bear the responsibility and cost of sanctioning them? An institution with limited membership can overcome problems associated with larger, more bureaucratic organizations. A concentration of global power results in a small k-group.

Five variables measure hegemonic power: gross domestic product (GDP), monetary reserves, imports, exports, and foreign direct investment (FDI). The first two measures, GDP and monetary reserves, are resource capabilities. GDP measures a state's aggregate wealth. A country's international reserves indicate its potential comparative control over international capital flows, international banking and international bond financing.[31] Reserves are used to pay for imports and influence currency exchange rates in a floating exchange rate system. GDP and monetary reserves are both widely used measures of economic hegemony.[32] In addition to GDP and monetary reserves, a hegemon exhbits a comparative advantage in trade and outflow of FDI. Imports and exports indicate the importance of a country's markets and production to international trade. A country's outflow of foreign investment represents its role in supplying much needed capital. A country's share of trade and foreign investment also measure its global interests and influence. The greater the shares, the greater the global interests and influence. In sum, a country's share of GDP, monetary reserves, imports, exports, and FDI measures its economic power.

A hegemonic order exhibits a high concentration of economic power. I use the methodology proposed by Ray and Singer to estimate the concentration of economic power among the advanced industrialized countries.[33] The methodology and formula are as follows. Each country's share of the total value for each variable is calculated for the period from 1950 through 1998. The variables include GDP, monetary reserves, imports and exports. Foreign direct investment will be examined separately because it is a relatively new phenomenon. Since the resulting ratios are all on the same scale, they are easily combined. I averaged the percentages across the four indicators to determine each country's final score. The final scores represent P in Ray and Singer's formula to calculate the statistic for the concentration of power,

$$\sqrt{\frac{\Sigma P^2 - 1/N}{1 - 1/N}}$$

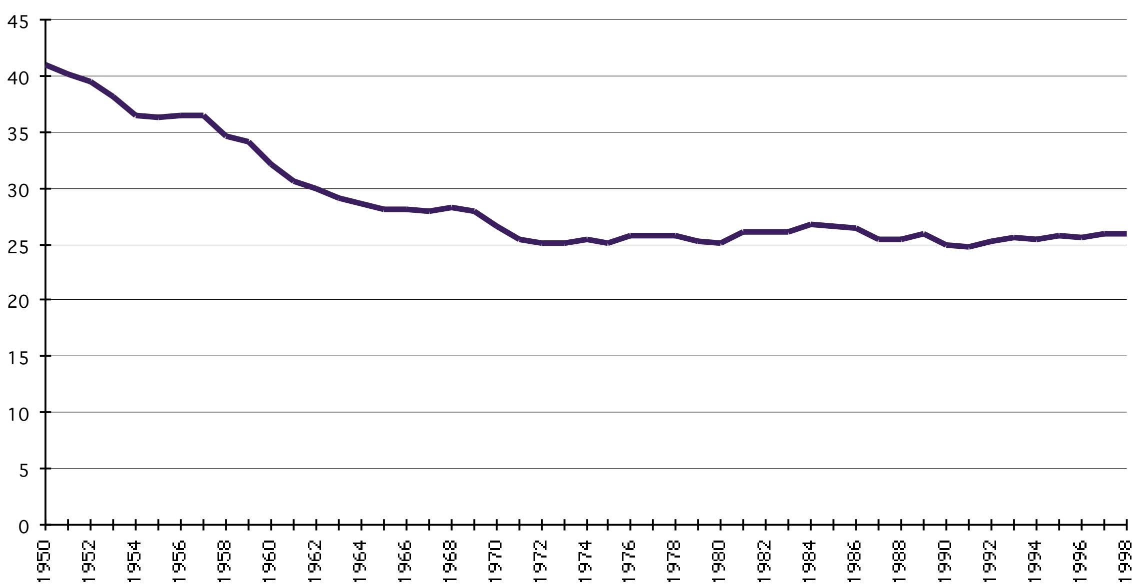
Ray and Singer's formula results in a good measure because it clearly displays the concentration of power within the system as illustrated in figure 1. The formula only results in a nonzero number when one or a few countries have a significant share of the system's total amount of power. If power were more evenly distributed, the line would hover around zero in figure 1. The concentration of power persists throughout the post-WWII period. It declined from 1950 to the late 1960s and then stabilized. The gradual recovery of war-torn European countries and Japan, what Nye refers to as the "World War II effect," probably accounts for the decline in concentration through the 1950s and the 1960s.[34] As these countries recovered, power was more evenly distributed among core members. The continued concentration of economic power within the core after the 1960s is intriguing, especially given the economic decline of the United States. The concentration of power within the core persists throughout the post-war era. One or a few countries possess an overwhelming share of power.

The question still remains, who accounts for this preponderance of power? Figure 2 displays the economic power of the US, the G-6 (the G7 without the US), and the G7, each as a share of the core's total power. The core includes all of the advanced industrialized countries. Clearly, the US does not account for the constant power concentration, since its power has declined. The power of the G7 has remained constant throughout the post-war period despite the decline of US predominance. The waxing of G-6 power compensates for the waning of US superiority. The G7 accounts for about three-fourths of the core's power even though the G7 constitutes less than one-third of the core's membership. The G7 has an enormous comparative advantage over the other 15 core countries. Even if these other countries joined forces, their share of economic power does not come close to matching that of the G7. The G7 is responsible for the concentration of economic power within the core.

The next question that needs to be addressed is, do one or two G7 countries account for the concentration of economic power or is the G7 the group stabilizer? Figures 3 - 6 compare the power of the G7 countries. These figures show a similar pattern with the possible exception of GDP and import shares, which will be discussed below. The US is clearly the hegemon in the 1950s and 1960s with an overwhelming share of G7 GDP, monetary reserves, imports, and exports. From the 1970s on, the distribution of power among these seven countries looks more like parity rather than a preponderance of power. No one country has a sizable margin over the others with the exception of US GDP. US capabilities steadily declined in comparison to those of the other G7 members. For instance, figure 4 illustrates that by the 1970s, Germany's share of monetary reserves surpassed that of the US. Japan's share was also greater than that of the US by 1977. In terms of trade, figure 6 presents a picture of relatively evenly matched countries from the 1970s to the present. In short, the US had a huge comparative advantage in the immediate post-war period. Since then, its economic power has declined precipitously. Parity rather than a preponderance of power characterizes the distribution of power among the G7 countries.

The US stands out among this group in terms of GDP because of its comparatively large size. The US has twice the population of Japan, the next largest G7 member. It is unlikely that Japan and the European powers will rival the US in terms of GDP given their relatively small populations. What is amazing is that the other G7 countries have caught up to the US in terms of monetary reserves, trade, and foreign investment despite the US advantage in having such a large economy. GDP may overestimate American power because it is tempered by a large trade deficit. Having such a sizeable import market may diminish rather than enhance US power relative to other G7 countries.

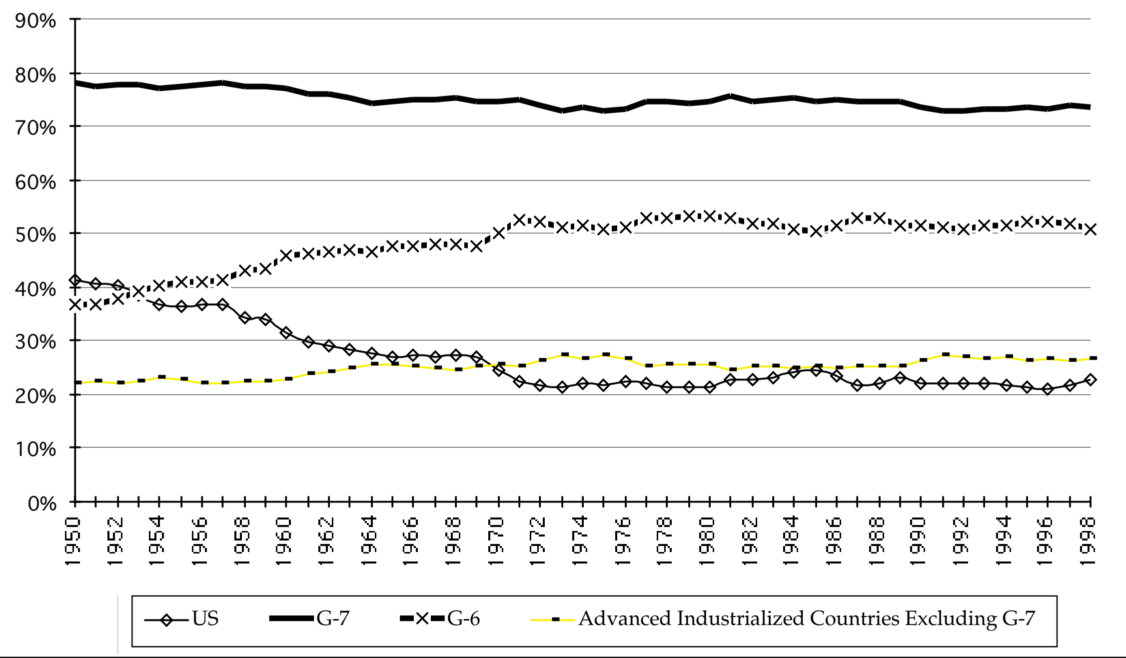
Figure 1. Concentration of Power Among Advanced Industrialized Countries 1950-1998



Sources: 1) GDP for 1950-1992 calculated from: Robert Summers and Alan Heston, The Penn World Tables available at FTP:nber.harvard.edu (1994); GDP for 1993-1997 calculated from: OECD, Main Economic Indicators (Paris: OECD, 1998); GDP for 1998 calculated from: OECD, Main Economic Indicators (1999).
2) Monetary reserves for 1950-97 calculated from: IMF, International Financial Statistics [CD-ROM] (Washington, D.C.: IMF, 1998); Monetary reserves for 1998 calculated from: IMF, International Financial Statistics (2000).
3) Imports for 1950-97 calculated from: IMF, International Financial Statistics [CD-ROM] (Washington, D.C.: IMF, 1998); Imports for 1998 calculated from: IMF, International Financial Statistics (2000).
4) Exports for 1950-97 calculated from: IMF, International Financial Statistics [CD-ROM] (Washington, D.C.: IMF, 1998); Exports for 1998 calculated from: IMF, International Financial Statistics (2000).

The trend toward greater parity among the G7 is also visible with regard to foreign investment in the 1980s as demonstrated in figure 7. This trend occurred later because foreign investment follows from rather than accompanies greater economic performance. Once a country gains superiority in technology and industry as well as dominance as an exporter of goods and services, greater foreign investment ensues. The Netherlands, the United Kingdom, the United States and Japan have all traversed this path to world economic eminence. The United Nations states, for example, that "Japan's leadership as a trading nation is being followed by the spread of its corporations - financial as well as industrial - into transnational activities and the emergence of the country as a major international financial center."[35] Japan took over the position of the largest investor in the late 1980s. France surpassed the US in 1990. By 1991, the US was back on top. It appears that the leader in foreign investment has changed every few years in the 1980s and 1990s. The US has made a significant come back in the last five years. While the US has maintained high

Figure 2. Average Shares of Power Among Advanced Industrialized Countries 1950-1998



Sources: 1) GDP for 1950-1992 calculated from: Robert Summers and Alan Heston, The Penn World Tables available at FTP:nber.harvard.edu (1994); GDP for 1993-1997 calculated from: OECD, Main Economic Indicators (Paris: OECD, 1998); GDP for 1998 calculated from: OECD, Main Economic Indicators (1999).
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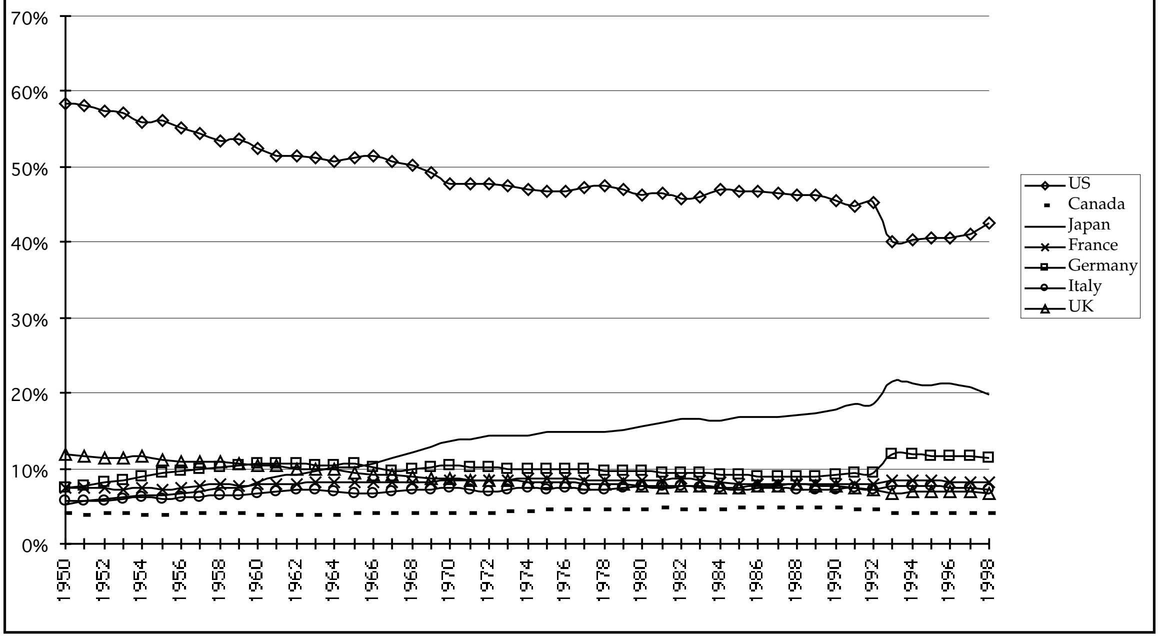
4) Exports for 1950-97 calculated from: IMF, International Financial Statistics [CD-ROM] (Washington, D.C.: IMF, 1998); Exports for 1998 calculated from: IMF, International Financial Statistics (2000).

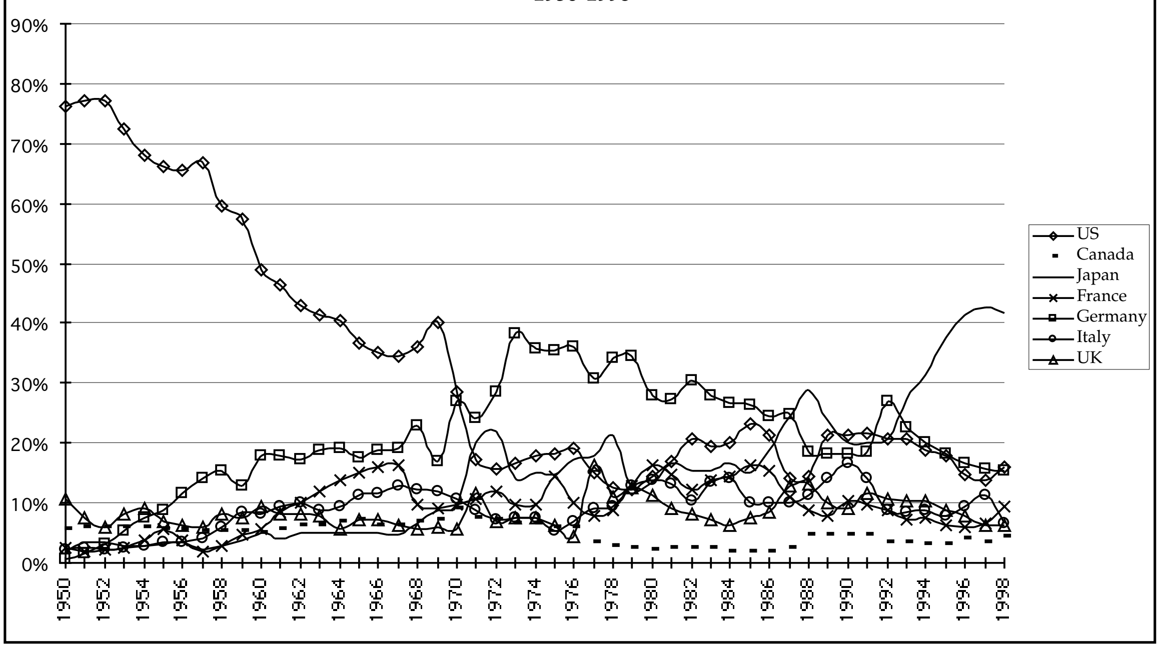
Figure 3. Shares of G-7 GDP
1950-1998



Sources: GDP for 1950-1992 calculated from: Summers, Robert, and Alan Heston. 1994. The Penn World Tables, [Online]. Available FTP:nber.harvard.edu; GDP for 1993-1997 calculated from: OECD. 1998. Main Economic Indicators.
GDP for 1998 calculated from: OECD. 1999. Main Economic Indicators.

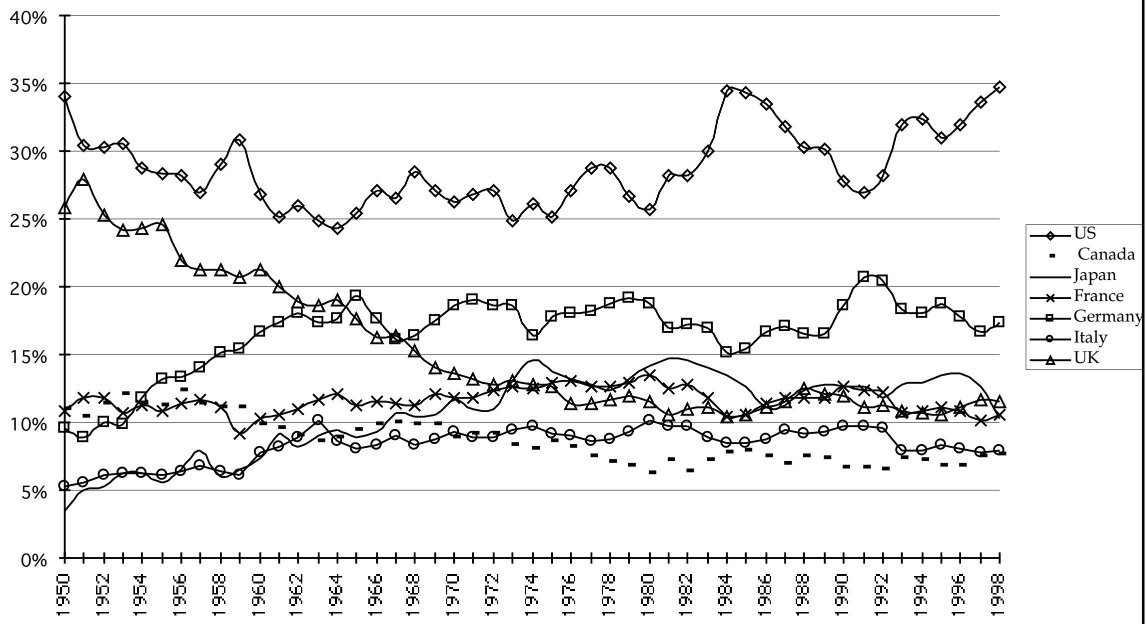
Note: GDP is reported in constant 1985 US$ for the years 1950-92.
From 1993-98, GDP is reported in constant 1990 US$.

Figure 4. Shares of G-7 Monetary Reserves
1950-1998



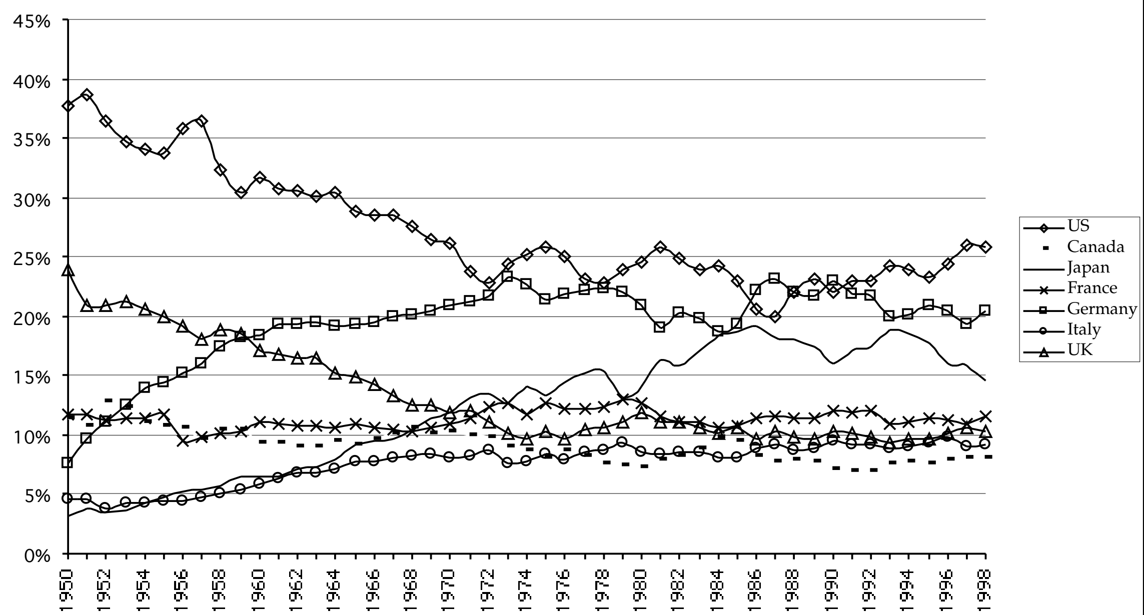
Source: Figures for 1950-97 calculated from: IMF. 1998. International Financial Statistics, CD-ROM.
Figures for 1998 calculated from: IMF. 2000. International Financial Statistics, CD-ROM.

Figure 5. Shares of G-7 Imports
1950-1998



Source: Figures for 1950-97 calculated from: IMF. 1998. International Financial Statistics, CD-ROM. Figures for 1998 calculated from: IMF. 2000. International Financial Statistics, CD-ROM.

Figure 6. Shares of G-7 Exports
1950-1998



Source: Figures for 1950-97 calculated from: IMF. 1998. International Financial Statistics, CD-ROM. Figures for 1998 calculated from: IMF. 2000. International Financial Statistics, CD-ROM.

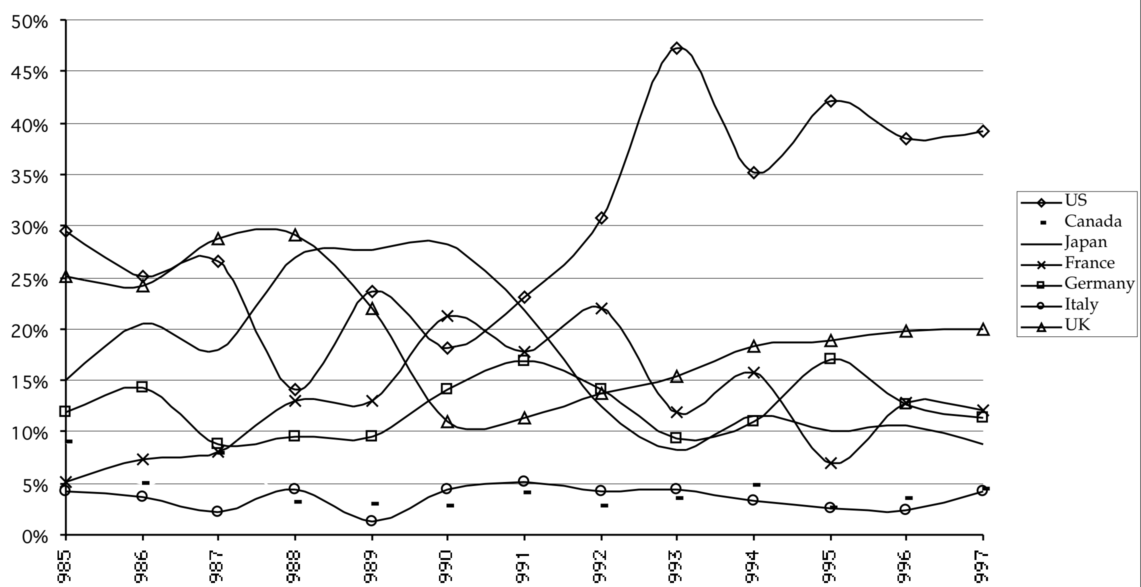
levels of outflows, it is not as dominant as it used to be during the 1970s, when it accounted for well over 50 percent of the G7 outflows.[36] The US has enjoyed tremendous prosperity in the 1990s, while Germany, France and Italy have tightened their belts to get ready for the Euro currency, and Japan and Canada have suffered from the Asian crisis. These trends are reflected in figure 7. It is difficult to say at the time of this writing whether these are short or long term trends.

In sum, the figures indicate that global power is concentrated in the hands of the G7. The great powers know that their participation is necessary to maintain the liberal economic order. They must act as a collective hegemon. This group alone has the capability to supply an international means of payment. The powerful few are also the main export destination for the vast majority of countries in the world. In addition, they supply an overwhelming amount of the world's foreign investment. Providing liquidity, managing exchange rates, and maintaining open markets offsets short-term panics and business cycles, and encourages economic growth and development.[37] The concentration of global power provides a convenient mechanism to identify the necessary k-group members.

2. Group Identity

The second mechanism necessary to designate a k-group is the public recognition of the group. Recognition is accomplished through well-publicized great power summits. The members become part of a visible and prestigious club. Countries want to be identified

Figure 7. Shares of G-7 Direct Investment Outflows 1985-1997



Sources: Figures from 1985-96 from OECD. 1997. International Direct Investment Statistics Yearbook
Figures from 1997 from OECD. 1998. International Direct Investment Statistics Yearbook.

with the world's most powerful and exclusive group. This establishes a sense of group identity. Summit discussions reinforce group identity. Summiteers develop personal relationships. The group designates roles for members through discussion. Each knows that fulfilling its role is critical for success. In such a small, exclusive group, it is easy to discern a single actor's contribution or effect on the situation. Defection is no longer a dominant strategy when a minimal contribution set has been identified because it frees the players from the risk of being played a sucker and the uncertainty that others will not do their part.[38]

The stronger the group identity, the more likely the members will cooperate. Dawes, Van de Kragt and Orbell find that group identity greatly enhances cooperation.[39] They conducted a study to test the effect of group identity on cooperation, net of self-interest, reputation, mutual altruism, or conscience. They established group identity by allowing people in a group to talk about the dilemma they faced. The "discussion" groups were compared with groups of subjects who were not permitted to communicate. The dilemma involved a binary choice between cooperation and defection regarding substantial amounts of money. Their experiments showed that group identity radically affects cooperation rates. Dawes, et al., state that people in small discussion groups "immediately start discussing what 'we' should do, and spend a great deal of time and effort to persuade others in their own group to cooperate (or defect!), even in situations where these others' behavior is irrelevant to the speaker's own payoffs."[40] This experiment and others like it demonstrate that group identity cultivates cooperative relations.

The G7 summits began as confidential meetings among finance ministers in the early 1970s. The meetings were held in response to the economic uncertainty at that time. The US, Britain, France, and Germany held secret and informal meetings between their attendance at meetings of larger international groups, such as the Group of Ten and the Committee of 20. The small group met secretly because they feared protests from excluded countries and they wanted to avoid the bureaucratic trappings of larger and more open meetings.[41]

Membership in the G7 has been restricted to Britain, Canada, France, Germany, Italy, Japan, and the US. The President of the European Commission was also invited to be a member of the summit group. This invitation served to thwart the challenge to the legitimacy of the summits posed by secondary European countries. The G7 summits remained restricted to these members until 1998 despite pleas for membership from other countries.[42] The G7 is often referred to as the G8 because Russia fully participated in all but financial and certain economic discussions at the 1998 Birmingham Summit. The G7 members, however, may meet without Russia and have done so since the summit.

The G7 summits are now media spectacles, with thousands of print, radio and television journalists covering the scene.[43] The G7 has become a highly visible club, restricted to the most powerful countries. The small numbers of participants facilitate discussion and establish group identity. As Webb describes the potential for G7 cooperation, "The number of states represented is relatively small, they are the most important states in the system, and the individuals who attend the meetings are top political leaders who have the power to implement international agreements."[44] The G7 meetings do not always result in policy coordination, but they do develop personal relationships and group identity, which set the foundation for collaboration when necessary.

3. Capitalist Democracies

A hegemon does not simply emerge because it has the capabilities and influence to do so. It must also have an interest in sustaining the capitalist world-economy. A hegemon's tremendous share of world trade and foreign investment manifests this desire. The hegemon profits from an open or liberal economic order. In this system, states strive to produce commodities, sell them, and make a profit.[45] This economic activity requires an order characterized by relatively free trade and the free flow of capital.

The more the members are established capitalist democracies, the greater their interest in maintaining the liberal economic order. The hegemon strives to sustain a relatively open economy instead of a world empire because it attains wealth through global capitalism rather than through taxation or tribute.[46] Brawley argues that capital-abundance drives a democratic state to become a leader of a liberal economic order.[47] The US, for instance, enjoyed a surplus of capital after WWII. Capital-intensive sectors within the US lobbied the state for help in expanding their activities abroad. The US obliged these capitalists by insuring the relatively free movement of capital across borders and protecting overseas investments. Countries with worldwide interests need a stable, liberal economic order to advance their trade and protect their investments. The hegemon does not need to protect its infant industries and therefore can take advantage of expanded world markets both in trade and in foreign investment.[48] In short, each member of the group hegemon is an entity in which capitalist or mercantilist sectors have some influence over the government.

Capitalist democracies share a mutual interest in collectively maintaining the liberal economic order. They are also more likely to peacefully interact. It is well established that democracies rarely engage one another in war.[49] Democracies are distinguished by norms of behavior and rules to peacefully manage competing interests and values. Democracies recognize this universal trait for peacefully resolving disputes in other democracies. This may explain why democracies rarely engage other democracies in war even though democracies are not more or less war prone than other types of regimes.[50] As Doyle argues, as democracies "gained deeper domestic foundations and longer international experience, a pacific union of these liberal states became established."[51] While the G7 countries are economic competitors, their mutual political compatibility enables them to collaborate when necessary. They peacefully manage their competing interests and values. This is an important issue given that members of the group hegemon incur different costs depending on the situation and each country's capabilities. The G7 countries have reached the apex of the world-economy. They share mutual political and economic interests in maintaining the status quo.

Institutional Mechanisms

A group hegemon is likely to emerge when the world leader shares costs and power with potential contenders. Sharing hegemonic costs and power with other great powers may have enabled the US to maintain its strength rather than suffering the fate of past hegemons. As the data showed, US economic power declined precipitously throughout the 1950s and 1960s. It stabilized from the 1970s to the present as other great powers began to bear more of the costs associated with maintaining the liberal order. A hegemon may exchange some power for help in maintaining the liberal economic order. This sharing takes place within the context of institutions. Ikenberry explicates two reasons why a hegemon may want to share power. First, a hegemon may realize that its enormous postwar power advantages may be fleeting. To combat this problem, the hegemon may create and support an institutionalized order to preserve "favorable arrangements that continue beyond the zenith of its power."[52] The second reason has to do with reducing "enforcement costs." It is more costly to use power capabilities to punish and reward secondary states than to shape their interests and orientations through institutions.[53]

The great powers may choose to institutionalize rather than relaying solely on ad hoc cooperation for reasons similar to why a hegemon shares power. First, these countries are at the pinnacle of the global economic hierarchy. It is in their best interest to institutionalize cooperation in order to maintain the status quo rather than risking conflict that may change the order. Second, institutions provide solutions to dilemmas of strategic interaction. Social relations develop from being part of a small, identifiable group in which members regularly interact. These social relations reduce misunderstandings, miscommunications and mistrust. As Keohane notes, "In the absence of appropriate institutions, the abilities of states to make agreements may be thwarted by externalities, uncertainty, information asymmetries, and fears that partners will behave opportunistically."[54] Institutionalizing collaborative efforts is functional and practical. Institutions reduce information and transaction costs. They also act as a forum for bargaining so that specific agreements can be made more easily.[55] The following mechanisms institutionalize great power relations.

1. Preparatory Process

The greater the preparatory process, the more likely it will result in mutual interests and mutual agreements. The preparatory process develops a consensus on which issues will be discussed. The preparatory process involves gathering and distributing information to members. Oye finds that information may change perceptions or alter states' understanding of their interests.[56] Specialists provide the necessary background information. They prepare reports and papers for the personal representatives, ministers and leaders. The issue-experts also make recommendations and thus contribute to the successful resolution of global problems. The preparatory process helps great powers reach mutually acceptable agreements. It develops a more focused and potentially more successful great power agenda.

This process increases efficiency because it distills the agenda and makes it more manageable in an arena of countless issues.

The G7 preparatory team consists of a personal representative of each leader, often referred to as a sherpa, two sous-sherpas (one representing finance, the other foreign affairs) and a political director from each foreign ministry as well as issue-experts.[57] The sherpas meet several times a year to follow-up on past summits, discuss the priorities and political constraints of their leaders, shape the structure and preliminary agenda of the next summit, isolate specific issues for discussion at the summit and draw-up a preliminary draft of the summit's communiqué.[58] Writing about the G7 preparatory process, Ullrich and Donnely state, "Former sherpas have commented about the relaxed atmosphere of preparatory meetings in which mutual trust allowed them to speak openly in order to discuss concerns and resolve controversial issues."[59] The sous-sherpas also have their own network of meetings and plenaries.[60] The specialists prepare decisions and keep track of problems, even when they have been assigned to other institutions.[61] The G7 ministers also meet to distill the summit agenda and make collective recommendations on particular issues, such as employment. The preparatory process shapes the interests and expectations of the great powers. It makes it easier for these countries to reach mutual agreements.

2. System of Great Power Interaction

A system of great power interaction refers to a cooperative process that is carried out through regularly scheduled and ad hoc meetings among multiple levels of government on various issues. The more institutionalized the system, the more likely members will develop trustworthy relationships, which will facilitate collaborative efforts.

Regularly scheduled meetings provide the mechanism to ensure iterated interaction. These meetings generate 'reputational' effects and give members the opportunity to continually review difficult problems. It often takes several attempts to find acceptable solutions.[62] Actors learn from repeated games and build trust based on continual interaction. Heads of state, finance ministers, and central bank governors have to answer to their colleagues throughout the year. For instance, the Japanese made trade concessions prior to several summits to save the prime minister from 'losing face'.[63] Regularly scheduled meetings result in the expectation of future interaction. This mechanism reduces uncertainty and the temptation to defect. Actors know that their actions will probably be reciprocated in the future. In short, iterated interactions substitute for continual monitoring and enforcement mechanisms based on reciprocity.

The G7 summits are not simply once-a-year events. Annual summits are supplemented by ad hoc meetings of the leaders and their finance and foreign ministers.[64] In addition, a majority of the ministries of government meet several times per year and make collective decisions on issues of concern to the G7. For example, Hajnal states, "The quad [trade ministers' quadrilateral] meeting held just before the 1993 Tokyo Summit was especially important because it hammered out an agreement on market access to manufactured goods—an agreement that was a catalyst for the completion of the stalled

Uruguay Round of multilateral trade negotiations."[65] Ad hoc meetings provide the necessary flexibility to address global crises. These ad hoc meetings are effective because members already know and trust one another. This condition enables the G7 to quickly respond to crises because the group members do not need to expend time gathering information. The regular meetings develop relationships that improve communication and reduce misunderstandings based on continual interaction and reciprocity.

Meetings are held not only at the highest level of government, but also at the ministerial level. A finance minister or a central bank governor, for example, meets with his or her foreign counterpart. This decentralized system promotes the collective nature of the great power institution because it creates bonds, or at least familiarity, among various levels of government officials. It increases efficiency as the meetings are more focused and the attendees often have similar backgrounds. Likewise, discussions among issue-experts increase the ability of the great power institution to address various global problems.

Cooperation based on iterated interaction and reciprocity is much easier to manage if there is one institution overseeing many issues. One of the problems of the multilateral institutionalist approach is that most international institutions are designed to address one issue-area. Cooperation, in this case, is based on diffuse reciprocity.[66] Actors expect to benefit in the long run over a variety of issues rather than satisfying a specific *quid-pro-quo*. Diffuse reciprocity makes it difficult to hold countries accountable when a state may cooperate in the IMF, but defect from rules governing the WTO. In contrast to multilateral institutionalism, the model of institutionalized hegemony is characterized by direct reciprocity because it consists of one great power institution that addresses many issues. This arrangement more effectively allows for the strategy of issue linkage. It also gives the institute the flexibility to shift strategies or policies. The institution can thus easily detect defectors and control players. It can more easily manage global crises.

3. Documentation

Documentation determines compliance and accountability. The greater the documentation, the more trustworthy the relations. Documentation outlines the issues discussed and the call for action. This may include binding commitments for member states and recommendations for other international institutions. If members sign documents stating they will implement certain policies, they will be held publicly accountable. The group hegemon may also propose specific reforms for other institutions, such as the IMF. Since the great powers contribute the most to this monetary institution, they also exercise tremendous influence over the IMF. Documentation serves to reduce misunderstandings and miscommunications.

The G7 designates roles for members and for international organizations through discussions. These roles involve commitments and recommendations. The documentation of these roles is a form of communication and public accountability. It enhances the G7's surveillance capacity and thus increases national compliance with commitments. Economic communiqués and political declarations cover subjects ranging from currency policies to terrorism. Most ministerial meetings also release some type of public communiqué although they do not do so on a regular basis. For example, the foreign and finance ministers "issued over 40 pages of agreed documentation plus national employment plans for each participant" in 1998.[67] Documentation is most successful in promoting changes in national and international policy when it identifies specific problem areas and outlines clear directions for dealing with them.[68]

The hypotheses presented above are all well established. What is new is combining them in a framework to understand great power collaboration. In sum, institutionalized hegemony specifies the necessary hegemonic and institutional mechanisms to produce great power collaboration.

G7 Collaboration and Crisis Management

The G7 exhibits the necessary hegemonic and institutional mechanisms, but do they collaborate to manage global economic crises? Is the G7 a group hegemon or does the US call the shots? As previously stated, addressing a crisis requires states to make policy changes that often involve costs. The test is to see if the great powers behave differently due to the G7 institution than if no such multilateral arrangement existed. The evidence presented herein suggests that the G7 acts as the global stabilizer. It shows that the G7 has responded to the major economic crises that emerged in the last half of the post-WWII era. The effort was truly multilateral as opposed to the US dictating policy. The G7 members coordinated their policies even though the members incurred high individual costs.

G7 collaboration began with the 1978 Bonn summit.[69] During the 1970s, the G7 countries needed to cooperate to sustain the liberal economic order. They needed to combat the detrimental effects of the breakdown of the Bretton Woods system of fixed exchange rates, the first oil shock, and the inflation that plagued advanced Western countries and Japan.[70] In essence, policy collaboration among the G7 countries was necessary to jump-start the world economy. The Germans agreed to adopt specific reflationary measures. Reflation refers to a policy to stimulate aggregate demand. Germany introduced a substantial pump-priming program, producing a budget deficit significantly higher than would have been expected on the basis of earlier trends.[71] The French also followed expansionary policies. The Japanese stimulated domestic demand as illustrated by their adoption of a public works program. They also agreed to export restraints, which resulted in a significant decline in their trade surplus. The Americans raised domestic oil prices.

In this example, the G7 was not simply an echo of its members' governments, that is, a construct in which to pursue self-interests. While it is true that the US pressed Germany and Japan to pursue expansionary domestic macro-economic policies, the European G7 members convinced the US to implement a domestically unpopular policy to raise oil prices. The Bonn summit resulted in a truly multilateral negotiated policy. The members honored their commitments even though they involved costs. Putnam and Henning contend that it is unlikely that these governments would have pursued such policy changes in the absence of the Bonn accord.[72] They state, for example, that the US "president's commitment to his colleagues at

Bonn played a central role in the heated intramural debate about the administration's energy policy, and was probably crucial in the final decision to decontrol oil prices." The G7 institution helped governments implement and justify difficult and unpopular decisions.[73] The heads of state could use the rationale that the international institution is recommending difficult policies for all, and all must share the burden in order to achieve success.

It is highly doubtful that the G7 members would have agreed on the Bonn accord if the foundation for great power collaboration were not already in place. There was no time to build trust and commitment among the great powers. The established G7 hegemonic and institutional features provided the conditions for collaboration. G7 discussion determined the roles for each member. The members performed different functions depending on their capabilities. The democratic peace hypothesis enabled the members to manage their competing interests. Since the members were all established capitalists, they had a great interest in sustaining the liberal economic order. Each player had an incentive to defect, but none exercised this option because they knew they would be held accountable at the next summit and their commitments were recorded in a public document. In addition, their great resources mitigated the burden of being the global stabilizer.

The 1979 Tokyo summit also exemplifies how the G7 is a group hegemon rather than an entity in which the US calls the shots. During that time, the second oil crisis hit the West hard, especially the US with its high energy consumption. The European G7 members sharply disagreed with the US, Japan and Canada over an appropriate response.[74] Bowing to European pressure, a G7 policy was reached in which all participants agreed to limit oil imports to specified levels.[75]

Regular meetings develop personal relationships among the G7 colleagues. These personal relationships enable the G7 members to collectively respond to crises as evidenced in the October 1987 stock market crash. The stock markets declined sharply in many countries in a period of a few days in October 1987. The G7 countries reached an accord over the telephone to mitigate the economic effects of the stock market declines.[76] The G7 central banks quickly pumped liquidity in the system to offset the fall.[77] No one country was able or willing to act alone to resolve the crisis. They needed to collaborate. As Bryant notes, "Concerns that any one central bank might have had that its own currency would depreciate unduly in response to a unilateral lowering of its interest rates were dissipated when the central banks promptly acted together."[78].

The telephone accord exemplifies how an institution facilitates great power collaboration. It also demonstrates the necessity of the seven countries to act as a group hegemon to stabilize the liberal economic order. According to Dobson, treasury ministers and deputies and their central bank colleagues were in constant communications with each other.[79] She concludes, "That these extensive communications were able to take place relatively smoothly was one of the great benefits of regular G7 meetings in preceding years and other investments in building familiarity among the players.[80] The institutional foundation enabled the G7 members to collectively intervene in order to stabilize the system and restore public confidence.

The rescue package for the 1994-95 Mexican peso crisis, according to Bergsten and Henning, "again revealed the capacity of the G7 to contain international monetary crises."[81]

Although the G7 did not prevent the peso crisis, it did respond and mitigate the problem. Initially, the US took unilateral steps and failed. The US needed and received the financial support from the other G7 members to prevent a financial collapse with global implications.[82]

The G7 also managed the 1997-8 Asian crisis. The G7 finance ministers, meeting both separately and as part of the IMF Board of Governors, made several important decisions to help contain the Asian crisis.[83] These included increasing the IMF quota share by 45 per cent and amending the IMF Articles of Agreement within the year to make the IMF responsible for capital account liberalization. The US feared congressional opposition to the IMF quota share increase, but the other G7 countries pressed the US to accede to the addition. It should be noted that collectively, the G7 wields almost one half of all votes in the IMF.[84]

The G7 countries also agreed to support a beleaguered South Korea with a package of US$35 billion from the IMF, the World Bank, and the Asian Development Bank, reinforced by a second line of defense from their own national funds.[85] The G7's stabilization of South Korea reduced the negative repercussions for nearby countries, especially Hong Kong, Taiwan, China and Japan. The Asian crisis demonstrates the G7's burden-sharing quality. The contributions in the Asian financial crisis second line of defense were as follows: Japan $10 billion, the US $5 billion, each of the four European G7 members $1.25 billion, and Canada up to $1 billion.[86]

As the Asian financial problem spread to emerging markets, it was clear that international institutions lacked sufficient resources to address such a global crisis. The G7 stepped-up its role and made contributions along with the IMF and the World Bank as part of a first line of defense. The G7 pledged action was enough to calm the markets. The G7 also reached an agreement through conference calls to approve Clinton's proposal for a new IMF precautionary lending facility and a support package for hard hit Brazil. The G7 was able to contain the crisis because of its flexibility, its interest in maintaining the liberal economic order, and its ability to overcome collaboration problems and collectively supply resources.

In sum, the G7 does not resolve every crisis in its first attempt. The G7's real contribution is its iterative treatment of serious global problems.[87] The G7 is most successful in addressing macroeconomic problems in which it has experience. For instance, the G7 was more competent in addressing the Asian crisis than the Mexican peso crisis. The G7 does not prevent problems. It does not govern the world-economy on a daily basis nor does it directly dictate policies for third party states. This is one reason the G7 is limited in addressing regional microeconomic problems that require individual governments to make structural adjustments. Russia is a case in point. The G7 can provide support packages, integrate Russia into the Western system, and contain the global effects of Russian destabilization, but the G7 is severely limited in its ability to micromanage Russia.

The G7's significance is in global crisis management, not prevention or daily governance. For over 20 years the G7 has responded to crises that threaten the stability of the global order. The G7 institutional arrangement transforms great power collaboration into a coordination game. The dominant strategy is no longer defection. The G7 members choose among a number of Pareto-efficient selections to defuse global economic crises. For instance, they coordinated currency and monetary policies extensively throughout the last half of the post-war era as exemplified by the Plaza Accord and the 1987 telephone accord. The G7 continues to provide debt relief for the world's poorest countries. The London G7 summit encouraged longer, multi-year rescheduling of commercial debts for severely indebted low-income countries. The G7 also provides support packages to prevent further economic damage as it did in the peso and Asian financial crises. The G7, as an institution, constrains its members' behavior in accordance with member commitments. Its power enables it to provide the necessary resources to mitigate crises.

CONCLUSION

The above discussion indicates that the G7 acts as a group hegemon to manage global economic crisis and maintain the liberal economic order. Like past orders, institutionalized hegemony will eventually come to an end. Since the emergence of the group hegemon was different from the rise of past hegemons, its demise will also be distinct. Past hegemons have declined in power relative to others because they disseminated their capital and technology to potential competitors.[88] In both hegemonic stability theory and power transition models, a more even distribution of power is associated with conflict.[89] The most powerful countries are likely to challenge one another as they achieve parity in power. This challenge culminates in a global war.[90] A new hegemon emerges, and the hegemonic cycle begins anew.

According to the above conventional wisdom in international relations, a rising power will one day challenge the group hegemon. However, the emergence of the group hegemon broke the cycle of the rise and fall of the hegemon. The waxing of Japanese and European power and the waning of American power did not result in war. Instead, the great powers cooperated to support the US-created Western order. It is highly unlikely that a single country would increase its power to such an extent as to pose a threat to the group hegemon. In addition, large countries, such as China, profit from the capitalist world-economy. Other countries, like Russia, are dependent on the most powerful for aid, trade and foreign investment. These large countries benefit from participation in institutionalized hegemony, yet they incur little of the costs of maintaining the order. Thus, there is no economic basis for them to challenge the institutionalized hegemonic order. It is also improbable that a group of countries would cooperate to challenge the G7. A challenge would require most countries in the world to pool their resources to be as powerful as the G7. However, cooperation among countries is only likely to take place if the group size is limited, the countries continually interact and they have a basis for solidarity.[91]

The demise of institutionalized hegemony is most likely to emerge from within the group hegemon. A number of factors could trigger the dissolution of the group. For instance, domestic strife within G7 countries, especially the reduction in social welfare programs, may prompt the call for greater protectionism. This violates two conditions of group hegemony. First, if one or a few G7 countries are erecting trade barriers then they do not share a mutual interest with the other members in promoting free trade. Second, the protectionist countries are not maintaining large, open import markets, which is one of the indicators of hegemonic power or capabilities. The cause of the fall of institutionalized hegemony is subject to speculation. However, the conditions for the continued existence of the group hegemonic order are specified.

In sum, the existence of institutionalized hegemony depends on the fulfillment of six basic conditions: a concentration of global power; group identity; restricting membership to capitalist democracies; a preparatory process; a system of great power interaction; and documentation. A concentration of global power and group identity establishes a k-group. Restricting membership to capitalist democracies and implementing a preparatory process result in mutual great power interests. The group can then more easily reach mutual agreements. A system of great power interaction and documenting the outcomes institutionalizes great power relations. These mechanisms build trust among potential contenders. If these conditions are not satisfied, it may presage the fall of institutionalized hegemony and the present liberal economic order.

Institutionalized hegemony models great power collaboration in terms of global crisis management. It explains the continuity of the post-WWII liberal economic order. The model, admittedly, is flawed. The model's drawback is its limited application. It is restricted to a situation in which a hegemonic order, i.e., a concentration of power exists, and an institution shapes great power interaction. These are very specific and difficult conditions to satisfy. Despite these problems, the model is attractive for many reasons. Institutionalized hegemony shows the relationship between two very important factors in international relations: power and institutions. This relationship helps explain stability, while allowing for change in the distribution of power. The model specifies the mechanisms that produce great power cooperation. These features make collaboration possible because they substitute for monitoring and enforcement mechanisms. They designate a k-group, enable great powers to reach mutual agreements and develop trustworthy relations. Hopefully, the model of institutionalized hegemony contributes to the understanding of great power collaboration and the maintenance of the liberal economic order.

NOTES

[1] Bruce Russett, "The Mysterious Case of Vanishing Hegemony; Or, Is Mark Twain Really Dead?," International Organization 39, No. 2 (1985), pp. 207-231; Susan Strange, "The Persistent Myth of Lost Hegemony," International Organization 41, No. 4 (1987), pp. 551-574; Henry R. Nau, The Myth of America's Decline: Leading the World Economy in the 1990's (New York: Oxford University Press, 1990); Joseph S. Nye, Bound to Lead (New York: Basic Books, 1990).

[2] Stephen D. Krasner, International Regimes (Ithica: Cornell University Press, 1983); Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984) and "International Institutions: Can Interdependence Work?," Foreign Policy Spring (1998), pp. 82-96; G. John Ikenberry, "Institutions, Strategic Restraint, and the Persistence of American Postwar Order," International Security 23 (1998/99), pp. 43-78.

[3] Keohane, After Hegemony, p. 82, defines market failures as "situations in which the outcomes of market mediated interactions are suboptimal, given the utility functions of actors and the resources at their disposal."

[4] The theory of hegemonic stability was originally a central theorem of international regimes literature. See Robert O. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967-1977," in Ole R. Holsti, Randolph M. Siverson, and Alexander L. George (eds.), Change in the International System (Boulder: Westview Press, 1980), pp. 131-162; and After Hegemony. Institutionalism, however, argues that a hegemon is not necessary to maintain the current liberal economic order.

[5] Ron Hirschbein, What if They Gave a Crisis and Nobody Came? (Westport, CT: Praeger, 1997).

[6] C. Fred Bergsten and C. Randall Henning, Global Economic Leadership and the Group of Seven (Washington, D.C.: Institution for International Economics, 1996, p. 2).

[7] James A. Caporaso, "International Relations Theory and Multilateralism: The Search for Foundations," in John G. Ruggie (ed.), Multilateralism Matters: The Theory and Praxis of an Institutional Form (New York: Columbia University Press, 1993), p. 62.

[8] Robert D. Putnam, "The Western Economic Summits: A Political Interpretation," in Cesare Merlini (ed.), Economic Summits and Western Decision-Making (New York: St. Martin's Press, 1984), p. 44; Age F. P. Bakker, International Financial Institutions (New York: Longman Publishing, 1996).

[9] Charles P. Kindleberger, The World in Depression, 1929-39 (Berkeley: University of California Press, 1973); Stephen D. Krasner, "State Power and the Structure of International Trade," World Politics 28 (1976), pp. 317-47; Keohane, After Hegemony; David A. Lake, Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939 (Ithaca: Cornell University Press, 1988); Michael C. Webb and Stephen D. Krasner, "Hegemonic Stability Theory: An Empirical Assessment," Review of International Studies 15 (1989), pp. 183-198.

[10] Thomas J. Volgy, Lawrence E. Imwalle, and John E. Schwarz, "Where Is the New World Order: Hegemony, State Strength, and Architectural Construction in International Politics," Journal of International Relations and Development 2 (1999), pp. 246-62; Thomas J. Volgy and Lawrence E. Imwalle, "The Two Faces of Hegemonic Strength: Sructural Versus Relational Capabilities and Global Architectural Construction," International Interactions (forthcoming).

[11] Russett, "The Mysterious Case of Vanishing Hegemony"; Strange, "The Persistent Myth of Lost Hegemony"; Nau, The Myth of America's Decline; Nye, Bound to Lead.

[12] Russett, "The Mysterious Case of Vanishing Hegemony," p. 210.

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