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# Extensions of Power Transitions: Applications to Political Economy

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## Abstract

This is a paper about theory in political economy terms and political economy in theoretical terms. It unifies power transition theory and applies it to the central questions that now confront political economists. Will trade wars emerge as the security challenge declines? What are the economic effects of integration, trade and growth? How will economic patterns influence international power relationships? This paper offers a preliminary bridge whereon practitioners and theorist may meet to assess the challenges that lie at the intersection between politics and economics.

The economic collapse and political dissolution of the Soviet Union left policymakers and scholars searching for new fundamentals about the nature of the international system. During the Cold War era the supreme threat to international peace and security overshadowed economic concerns. The nature of that threat was a powerful mobilizing tool for government, business, and society. The loss of the immediate security threat has forced policymakers to search for explanations which fit the new international circumstances without violating old, cherished and proven concepts. In the last 10 years the foreign policy community has gone through a difficult and wrenching exercise.

The sense of uncertainty about the future of the new world stems not just from the radical changes it has undergone, but equally from the realization that the new environment requires the same level understanding of the politics of security and the politics of economics.

This paper is designed to accomplish two goals. First, it offers the reader a composite picture of power transition theory, integrating the various extensions and amplifications into a coherent whole. It brings together that new research and weaves it into the rich text of the underlying theory. By providing a systematic outline of the hierarchical relationship among power and satisfaction we offers a foundation for exploring conflictual and economic interactions in world politics.

## **EXTENSIONS OF POWER TRANSITIONS: APPLICATIONS TO POLITICAL ECONOMY**

Jacek Kugler<sup>1</sup>  
Claremont Graduate University

### **THE SEARCH FOR NEW EXPLANATIONS**

This is a paper about theory in political economy terms and political economy in theoretical terms. It unifies power transition theory and applies it to the central questions that now confront political economists. Will trade wars emerge as the security challenge declines?

What are the economic effects of integration, trade and growth? How will economic patterns influence international power relationships? This paper offers a preliminary bridge whereon practitioners and theorist may meet to assess the challenges that lie at the intersection between politics and economics.

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### **1. Theoretical Framework: The Structure of Power Transition**

The heart of this section is devoted to the three components of power transition theory: structure, dynamics, and policy. The structural aspect of the theory is explored to provide an understanding of the nature of power and power relationships among nations that lead to war, as well as accounting for the problems of political economy.

In a theoretical sense, power transition defies traditional typecasting. It is neither realist nor idealist, we prefer to call it rationalist. That is, it is structural, yet dynamic, since it recognizes that policy interests are at the core of all disputes. Subject to empirical testing, it

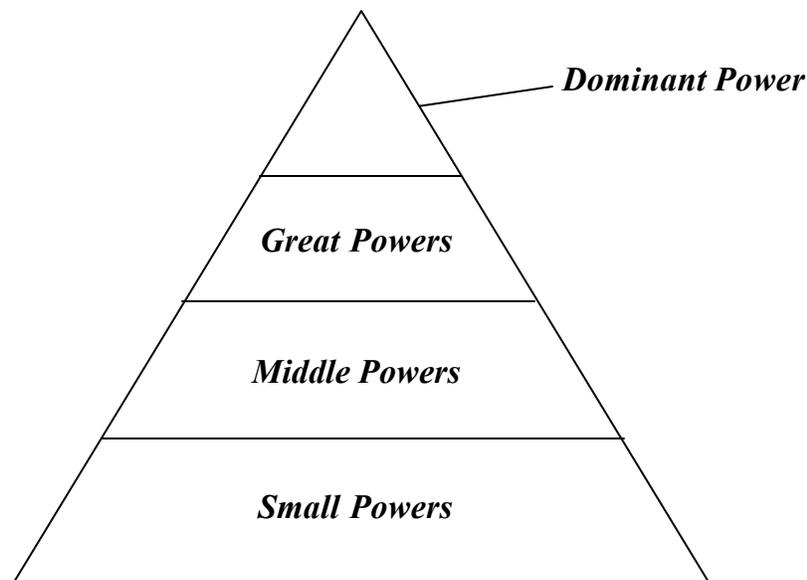
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<sup>1</sup> Paper presents at the Sixth World Peace Science Congress, held May 24-26 1999 at the Tinbergen Institute in Amsterdam. Much of this material to be published in *Power Transitions (2000)* (Chatham House) forthcoming.

meshes well with objective conclusions flowing from history. It is a theory that lends itself to a blend of the empirical and policy worlds.

### *Hierarchies*

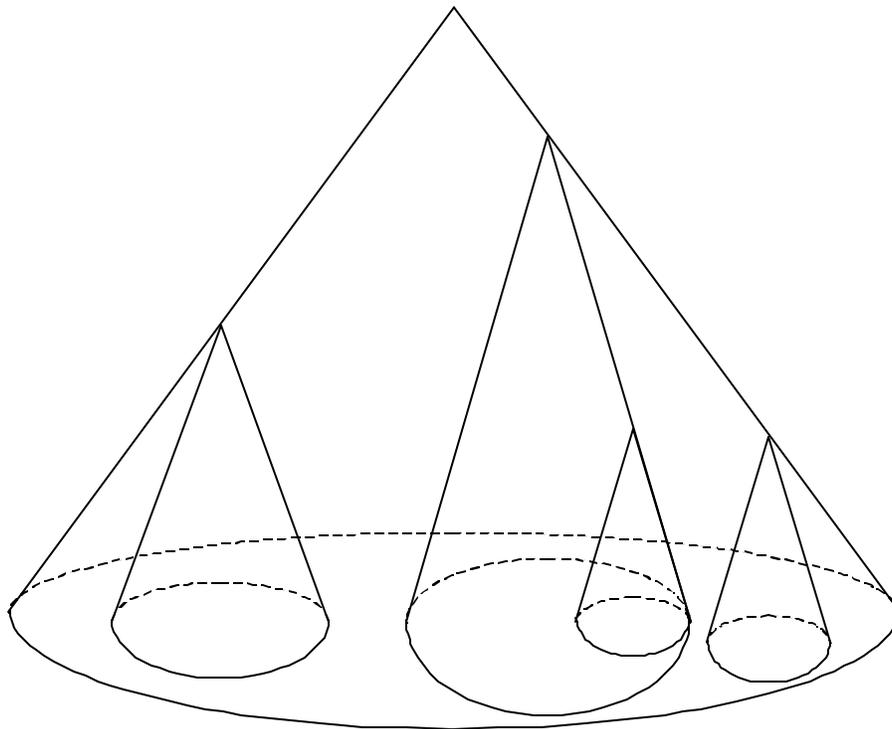
Power transition theory describes a hierarchical system. All nations recognize the presence of this hierarchy and understand their relative position within this power terrain. The distribution of power is uneven and concentrated in the hands of a few. A dominant nation, that controls the largest proportion of resources within the system, sits at the top (see Figure 1.1). Yet this nation, despite our description as dominant, is *not* a hegemon. It cannot single-handedly control the actions of other powerful nations, rather it maintains its position as dominant power by ensuring power preponderance over potential rivals, and by managing the international system with rules that benefit its allies and satisfy their national aspirations.



**Figure 1.1. Classic Power Pyramid**

Figure 1.1 shows that great powers reside below the dominant nation, each having a significant proportion of the power of the leader. Today the great powers are China, Japan, Germany or the EU *in toto*, Russia assuming recovery, and potentially India. Most great powers are satisfied with the regime's rules, share in the allocation of resources and help maintain the international system. Occasionally, great powers are dissatisfied, such as China or India today, and are not fully integrated into the dominant power's regime. On rare occasion a challenger arises out of this pool. Challengers are defined as nations that have 80% or more of the dominant country's power. China today is the strongest potential challenger to the United States. In the future India could also play this role. The EU is satisfied and thus not a potential challenger. Dissatisfied challengers and their supporters can be the initiators of war unless economic and political means are applied to alter their course.

Beneath the great powers in Figure 1.1 are the middle powers, substantive states of the size of France, Italy, or Brazil with resources that cannot be dismissed, but with insufficient power to challenge the dominant power for international control. The largest number of nations resides farther down the pyramid; those small powers have few resources relative to the middle and great powers. They pose no threat to the dominant nation's leadership of the international system but can be essential to understand interactions within sub-hierarchies. New research has shown that relatively independent hierarchies also exist at regional levels.<sup>2</sup> Within each region, South America or the Middle East, regional hierarchies exist with their own sets of dominant powers, great powers and lesser powers. These regional hierarchies are influenced by the global hierarchical system but cannot, in turn, control that larger system. Figure 1.2 reveals the relative power distributions in the global system and in two regional systems.



**Figure 1.2. Hierarchies in the International System**

Note that the distribution of power clearly makes the regional hierarchies subordinate to the international hierarchy. These regional hierarchies function in the same manner and operate under the same rules as the international hierarchy. The dominant power in the regional hierarchy, however, is subordinate to the influences of the dominant power and the great powers in the international hierarchy that exercise their options within their “spheres of influence”.

### *POWER*

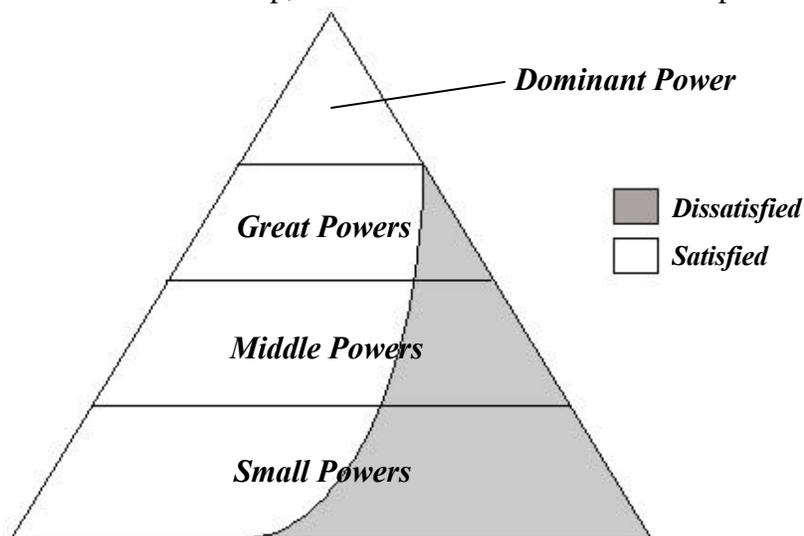
In power transition relative power establishes the precondition for war and peace and economic disputes. Power is defined as the ability to impose or persuade an opponent to comply with demands.<sup>3</sup> Power is a combination of the number of people who can work and fight, their economic productivity and the effectiveness of the political system in extracting and pooling the

individual contributions to advance national goals. Population alone, however, does not confer power, as seen by the relative weakness of India, Indonesia, or Brazil - the population also must be productive. For this reason developed countries have far more influence than their developing counterparts. But power potential cannot be realized without political capacity, defined as the ability of governments to extract resources to advance national goals. Politically capable governments can expand their resources to achieve their goals. For this reason a politically capable North Vietnam defeated the more populated, affluent but politically weak South Vietnam, despite massive help from the US.

#### *SATISFACTION AND DISSATISFACTION* \*

The motivation driving decisions is satisfaction with the rules of the international or regional hierarchy. Conflicts are generated by the desire of a nation to improve its political position in the hierarchy. Dissatisfied nations challenge the *status quo*. Conflict does not occur when nations are relatively *satisfied* as they support the existing rules of the international system. *Status quo* nations seek cooperative solutions to problems that enhance their economic and security gains. Nations at the top of the hierarchy and are more likely to be more satisfied with those rules than those lower in the international hierarchy. This should not come as a surprise since the satisfied great powers set the rules, control most of the wealth, enjoy most of the prosperity, and wield most of the power in the international system. For this reason the dominant power is satisfied, absent open challenges to its dominance. Indeed, the dominant nation is *the* defender of the *status quo* for it creates and maintains the international or local system, and gains substantial benefits from its existence.<sup>4</sup>

The few dissatisfied nations at the top, and the many at the bottom of the hierarchy view the international system as not conferring benefits equal to their expectations and long term interests. They consider the international system to be unfair, corrupt, biased, skewed, and dominated by hostile forces. Their rationale or grievance may be historical (Germany prior to World Wars I and II), ideological (Soviet Union during cold war), religious (Iran), territorial (Palestine), personal (Libya), or economic (China). Despite different reasons for their grievances, dissatisfied nations all view the international *status quo* as unfavorable. They are dissatisfied with the established international leadership, its rules and norms. Dissatisfied powers wish change.



**Figure 1.3. Distribution of Satisfaction**

The few dissatisfied nations at the top, and the many at the bottom of the hierarchy view the international system as not conferring benefits equal to their expectations and long term interests. They consider the international system to be unfair, corrupt, biased, skewed, and dominated by hostile forces. Their rationale or grievance may be historical (Germany prior to World Wars I and II), ideological (Soviet Union during cold war), religious (Iran), territorial (Palestine), personal (Libya), or economic (China). Despite different reasons for their grievances, dissatisfied nations all view the international *status quo* as unfavorable. They are dissatisfied with the established international leadership, its rules and norms. Dissatisfied powers wish change.

#### *DYNAMICS ECONOMIC GROWTH*

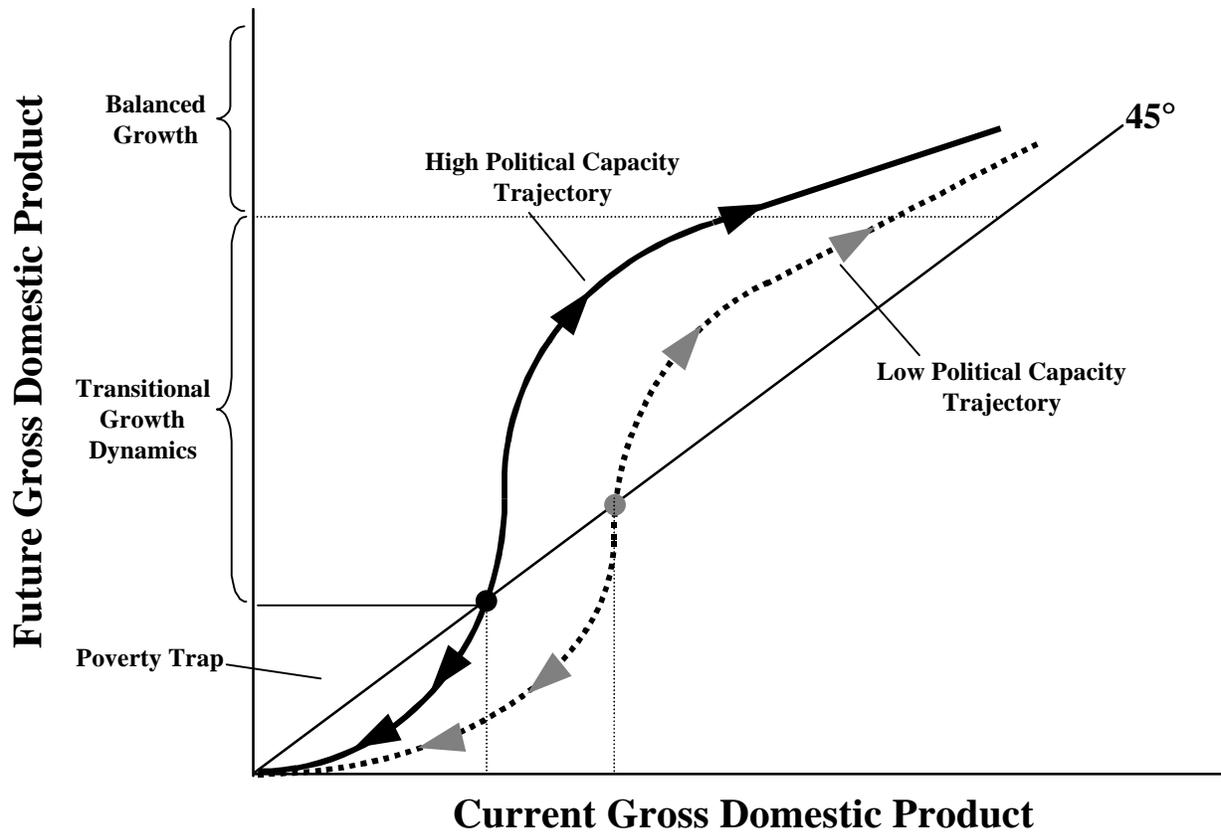
The foundation for economic growth described in Figure 1.4 is adapted from current to future capital accumulation dynamics. Capital for our purpose is effectively reflected by national income and measured by gross domestic product per capita. Political capacity, detailed below, is the ability of governments to extract resources from their populations in order to advance the policy goals of the government. Note that nations with limited gross product and low political capacity may fall into a “poverty trap.” On the other hand, as economic growth starts, prompted by changes in political capacity, rapid economic growth is achieved. For this reason, empirically fast rates of output change are concentrated among developing societies. When nations achieve relatively high levels of capital accumulation and, they maintain political capacity at average rates, output growth stabilizes and produces sustained growth at moderate levels.

Reinforcing the tenets of power transition, endogenous growth theory refines the characteristics of the S curve of development proposed by Organski.<sup>5</sup> Endogenous growth theory shows that the technological revolution combined with political changes will help developed societies maintain steady growth rates, but will not allow them to hold off rapidly developing countries. The dynamics of endogenous growth suggest that the distribution of capital and labor across societies will force output convergence. As figure 1.4 shows societies with relatively low rates of per capita output will, if they avoid the *poverty trap*, enjoy higher growth rate than their richer counterparts. Thus, convergence anticipates that power transitions will occur as long as relatively large global and regional populations are poor, but when all societies attain sustained economic growth, power transitions will cease.

Note that countries with different levels of political capacity are expected to have different growth trajectories. Countries are either headed into a “poverty trap” (the southwest corner of the figure) or toward sustained economic growth (the northeast corner of the figure). For the path that leads to a poverty trap, political capacity and initial physical or human capital is sufficiently low so that the economy will be caught in a low-income developmental trajectory. That is, when there is a paucity of physical and human capital, birth rates will be so high that human capital decumulates over generations. As a result, output will contract.<sup>6</sup> Nations with high political capacity should grow rapidly and achieve sustained growth earlier than low political capacity nations who flirt with the possibility of falling into the poverty trap.

Power transition shows that the shifts in power associated with such dynamics have serious consequences for stability. The dynamics of national power growth cannot be changed dramatically by international interventions. Over the long-term, political factors prompt changes in physical and human capital driven by technology, and lead to economic convergence in per capita terms. Challengers with high growth rates will rise in the international system due to the

dynamics of convergence. The high differential in per capita GDP, for example, between the US and China is a temporary condition which today accounts for the substantial power advantage of the US over China. In the future, expected US annual economic growth rates will compare poorly with those of China.<sup>2</sup> Short of partition, China will become the world's largest economy. The EU should also overtake the United States. An overtaking can produce war when the contenders are dissatisfied (as is China today) or peace when the contenders are satisfied (as is the EU today) but overtakings always changes the structure of the hierarchy.



**Figure 1.4. The Endogenous Growth Trajectory of National Capabilities<sup>3</sup>**

#### *POLITICAL CAPACITY*

The final component of national power is relative political capacity. Remembering that relative political capacity is the ability of governments to extract resources from their populations in order to advance the goals of the government, the following question is which countries will translate their economic vitality into national power? Focusing on the S curve above, let us examine the possibilities.

<sup>2</sup> Maddison (OECD) 1998.

<sup>3</sup> Adapted from Kugler, Zak and Feng (1998)

Countries at the bottom of the S curve with low levels of economic development have difficulty extracting resources from their populations, since individuals consume most if not all resources in daily existence. As nations develop, however, it does not necessarily follow that power increases either directly or proportionally. Among low and early growing nations on the S curve, there is substantial variation in national ability to extract resources. Nations with strong political controls have leverage and can mobilize potential population resources into actual national power. The Vietnam war provides a good example of the differences between potential and actual power. By virtue of effective political controls, North Vietnam extracted a higher proportion of resources from a lower base during the conflict. South Vietnam, with weak political controls yet a more robust economic base, could not. Even substantial US assistance and direct military intervention in support of South Vietnamese could not right this imbalance.<sup>7</sup>

For countries with large populations and improving productivity on the steep portion of the S Curve, relative political capacity becomes the crucial variable for the creation of power. For example, should India with a population of perhaps 900 million increase its per capita productivity and then efficiently extract resources from its population, it would be on a trajectory to dominate all other nations in its subcontinent regional hierarchy and eventually challenge international leadership should it so desire. On the other hand, if Iraq, were to undergo economic modernization and increase productivity, that nation can only aspire to challenge for dominance in its regional hierarchy due to the relatively small Iraqi population.

Countries at the top of the S curve have mobilized most of the population and economic resources in their society and face increased costs for any marginal addition. It is physically impossible, for example to double the extraction of resources in Sweden when the government already takes more than half of the available gross domestic product. Subsequently, these mature societies expand slowly both in economic and political development due in large part to technological advances. The lens of power transition allows one to see that political and economic changes are inescapably linked and always have been.

## ECONOMIC APPLICATIONS

Power transition bridges the gulf between traditional national security practitioners, who view economic factors as relatively unimportant, and economic theorists, who concentrate on economic trends to the exclusion of political dynamics.<sup>8</sup> Power transition recognizes no distinction between security and economics. The *status quo* is defined by the dominant nation's assertion of its preferences on the security and economic relations with potential challengers. For both the security and economic dimensions, the dominant power as well as challengers will approach each other cooperatively or non-cooperatively, depending on their degree of satisfaction with the *status quo* and the distribution of power in the international system.

From a policy perspective, *cooperative and competitive dyadic relations guide both economic and political interactions*. If the competitors support the *status quo*, then disputes are resolved with the dominant nation generally following a cooperative strategy. If opponents challenge the *status quo*, then the dominant nation tends to prefer a competitive strategy, frequently producing confrontational situations that may lead to war. The political and economic arenas are not two different worlds that must be described by alternate theories. Instead, elites choose alternate negotiating postures in response to perceived differences in geostrategic conditions.

Policy analysts argue that economic interactions that concentrate on maximizing cooperative relations are fundamentally distinct from political interactions that emphasize competitive relations.<sup>9</sup> The classic illustration of the cooperative relation's principle is profit. Businesses, seeking to maximize their net present value, often pursue cooperative relations. Every dollar added to the bottom line increases profit. Year-end sales of cars illustrate this principle. Since so much economic analysis concentrates on profit, there is a mistaken belief that cooperative relations are the sole objective of all economic phenomena.<sup>10</sup> Businesses, however, sometimes foster competitive relations. When two firms compete over market share, their purpose is to dominate an existing market and obtain more profit in the long-term. The Boeing-Airbus competition, for example, is not over profits but control of that market. Similarly, the Microsoft-Netscape competition is over control of the emerging Internet market, and not over immediate profits from this technology. Thus, depending on circumstances, business leaders select either a cooperative or competitive strategy.<sup>11</sup>

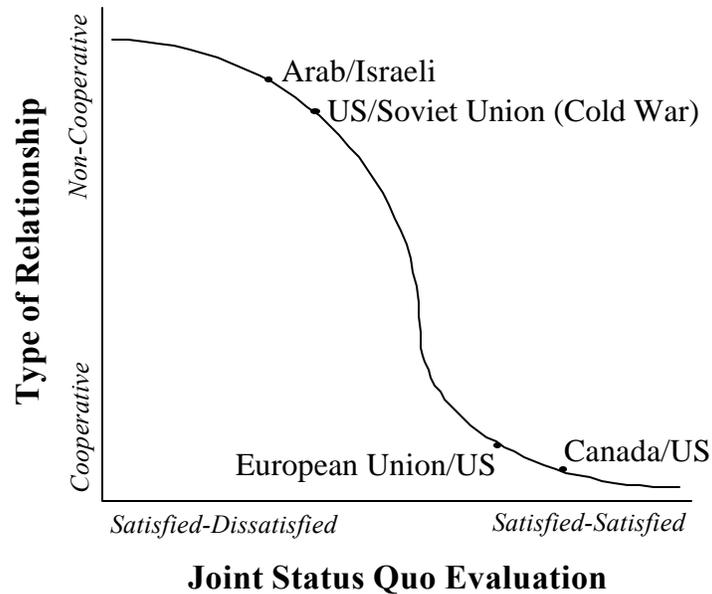
A theory that accounts for political and economic interactions must consider the full range of options both at the economic and political levels. Unlike more traditional approaches, power transition's rejection of the assumption of anarchy in political interactions opens the door for consistent analysis of both political and economic phenomena from a single, general perspective, using the *status quo* as a reference point.

#### STATUS QUO AND POLITICAL ECONOMY

Power transition postulates that *status quo* nations will overwhelmingly use a cooperative strategy. Recall that the rules of the international system closely reflect the preferences of satisfied, powerful nations, which in turn select strategies to strengthen their national goals and objectives. Direct challenges among such actors are rare and war is unlikely. Dissatisfied nations, on the other hand, wish to change the *status quo*, and will aggressively seek to modify the structure of relations in the international arena when provided the opportunity. Thus, dissatisfied nations use non-cooperative strategy to weaken opponents. In interactions between satisfied and dissatisfied actors, and among the dissatisfied actors, attempts to use a non-cooperative strategy to overtake a satisfied defender of the *status quo* are common, and thus war is possible.

Power transition postulates that bargaining postures reflect the degree of satisfaction and dissatisfaction within a dyad of nations. Economic and security interactions, then, are not distinct and alternate states of the international system.<sup>12</sup> There is a distinction of degree rather than kind between economic interdependence—as exemplified by relations between Canada and the US, or among European Union (EU) members—and confrontational interactions—as characterized by Soviet-American relations during the Cold War or the current Arab-Israeli relations. These are simply examples of cooperative relations where conflict is rare and non-cooperative interactions where conflict is frequent. Either strategy can characterize political or economic bargaining.

Figure 1.5 illustrates the relationship between the joint satisfaction of two countries and the degree of cooperation. The horizontal axis reflects the degree of joint satisfaction of a challenger and defender, where the defender is always satisfied with the international *status quo*,<sup>13</sup> while the challenger's satisfaction varies.<sup>14</sup> The vertical axis reflects the degree of cooperation present in their relations, ranging from extreme non-cooperation to perfect cooperation. The indifference curve illustrates the relationship between these factors as suggested by power transition theory.



**Figure 1.5. Maximizing Cooperative and Competitive Dyadic Relations**

Economic interactions among satisfied nations, including such issues as trade and capital flows, are generally resolved cooperatively.<sup>15</sup> Note in Figure 1.5 that Canada and the US considered a jointly satisfied dyad exhibit an extremely cooperative relationship. The European Union's interaction with the US is only slightly less satisfied, and thus relations are slightly less cooperative. The overriding goal of nations attempting to cooperate is to reach agreements that strengthen their partnerships without losses to the individual nations.

By contrast, non-cooperative strategies take on a different form. In Figure 1.5, the Arab-Israeli example is considered non-cooperative, reflecting the Israeli satisfaction with the regional *status quo* compared with Arab dissatisfaction, producing the non-cooperative element to their relations. The US-USSR Cold War relations are an even more dramatic example. The aim was to alter the policy of each other, to weaken or change their domestic regimes, and to impose biased international rules on the challenger.

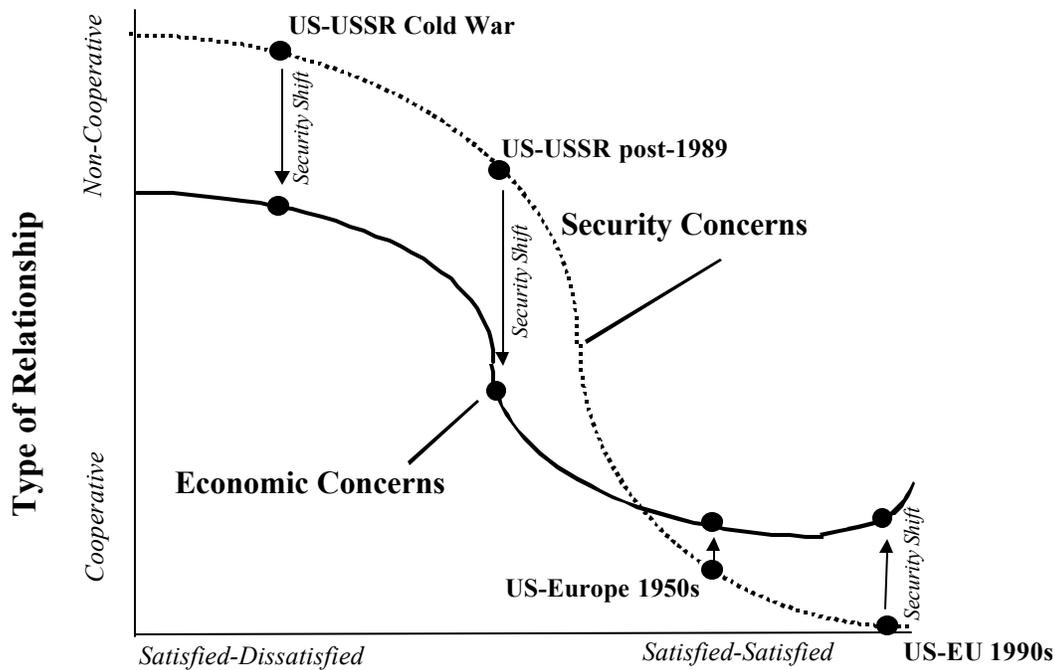
Let us complicate this picture somewhat by jointly considering security and economic concerns. Modern mercantilists treat competitive relations as the goal of all foreign policy elites. They argue that the need to defend international primacy and maximize gains dominates all policy-making concerns.<sup>16</sup> An alternative view suggests that foreign policy practitioners follow a mixed strategy that combines conflictual and cooperative interactions. Power transition suggests that the unified view of these differing motivations is an effective representation of policy choices.

Figure 1.6 presents a picture of power transition's characterization of policy choices for both economic and security concerns. The vertical axis again places the degree of cooperation along a continuum. At one end are extremely non-cooperative policies, when nations select strategies that provide maximum benefits for themselves while minimizing the benefits accrued by opponents. Thus they will enter into agreements that provide proportionally more to them than to opponents. As generally anticipated, challengers will not enter into agreements when the defender gains more.<sup>17</sup>

At the other end of the continuum, cooperative relations describe a foreign policy stance where the nation seeks to cooperate, producing the largest joint benefits. Under cooperation,

agreements are possible even if one side gains more relative to the other. Nations will not enter into agreements that result in absolute losses.

The horizontal axis again places the joint evaluation of the *status quo* along a continuum ranging from dissatisfaction to satisfaction. The relationship between cooperation and conflict in security and economics differs, and is nonlinear. In general, satisfied nations cooperate with opponents because they are less concerned with improving their relative position than in accruing joint gains. In relations with dissatisfied nations, satisfied nations are concerned with the relative power that can be augmented by security or economic exchanges.



### Joint Status Quo Evaluation

Figure 1.6. Economic versus Security Concerns

While Figure 1.6 focuses on economic interactions, Figure 1.6 illustrate how security interactions also follow these alternate paths. Members of NATO are generally cooperative in their interactions with each other. In order to maintain stability in the Western World during the Cold War, for example, the United States subsidized the military preparedness of Europe, creating a “free rider” situation where allies can take advantage of each other in the short-term.<sup>18</sup> The US adopted similar principles towards nuclear proliferation. Nuclear weapons were given to England and technological transfers helped France and Israel’s nuclear programs.<sup>19</sup> *Status quo* nations are cooperative in both economic and security interactions. Equivalent actions by challengers of the *status quo* are competitive. The United States and the USSR undertook large arms buildups during the Cold War, and under President Reagan’s leadership the US kept military expenditures high despite overwhelming military superiority to press for the USSR’s political transformation. Similarly, nuclear weapons acquisition by Russia and then China generated recrimination and technological restrictions. Military aid was frequently provided in reaction to the USSR or China’s interventions rather than in support of like-minded regimes. The aim here is to force opponents to change policies. Either policy will change—as exemplified by

the change in relations between the US and Russia following the USSR's collapse—or conflict may persist and escalate if change is not achieved—as exemplified by the continued tensions between the US and Cuba.

Figure 1.6 shows how the security shifts between economic and security considerations reflect the difference in interactions between cooperating and non-cooperating nations. Security is a primary concern among opponents, while economics dominates interactions between allies. Note that the security shifts differ along the joint satisfaction dimension. Indeed, the relations between the US and USSR during the Cold War starting with 1950 were extremely chilly along security dimensions, while trade interactions were generally not as overtly hostile. Thus, economic concerns are less critical than security concerns for nations that are dissatisfied.

Notice that as Russia's relationship with the United States changed following the collapse of the USSR in 1989, the gap between security and economic concerns widened. Economic interactions became mildly cooperative while security considerations remained non-cooperative, but at a much less intense level. If Russia's satisfaction with the *status quo* improves, then even more cooperation is forthcoming. Policy makers have recognized the importance of this transition by allocating large amounts of resources with the intention of working with Russian leaders toward further cooperation. However, the ultimate outcome does not depend on the outside world as much as on the ability of Russian leaders to resolve their economic difficulties.

Among satisfied nations, on the other hand, the relationship is reversed. The security relations between the EU and the US are still anchored firmly by NATO, but economic disputes may become more competitive. For example, the most recent economic dispute revolves around banana exports. Similar concerns can emerge if the value of the Euro is kept artificially low. The EU and the United States compete more in the economic arena despite consistent joint security concerns. The implication is that once security concerns are resolved, economic concerns remain conflictual but are eventually resolved in a cooperative manner. Power transition indicates that economic disagreements among satisfied nations involve that involve economic exchanges do not escalate to war. The difference between economic and security concerns is simply a matter of intensity of preferences. These are not high and low politics, just politics.

A major departure from the conventional wisdom is that a dominant nation, such as the US, should not view satisfied nations as potential challengers.<sup>20</sup> Indeed, following the collapse of the USSR, many academics and some policy makers argued that Japan would challenge the United States for international hegemony. Similar concerns preceded and followed German unification.<sup>21</sup> Power transition argues that this is a dangerous misunderstanding of the power dynamics in world politics. Given demographic change and the pattern of economic growth, Japan can no longer challenge the United States. The same is true for Germany. Even though a reunified Germany is the dominant power within the EU, it cannot become the preeminent power of the 21<sup>st</sup> Century. A very similar argument applies to Russia. Challenges to the US dominance, given current alliances, can only come from Asia.

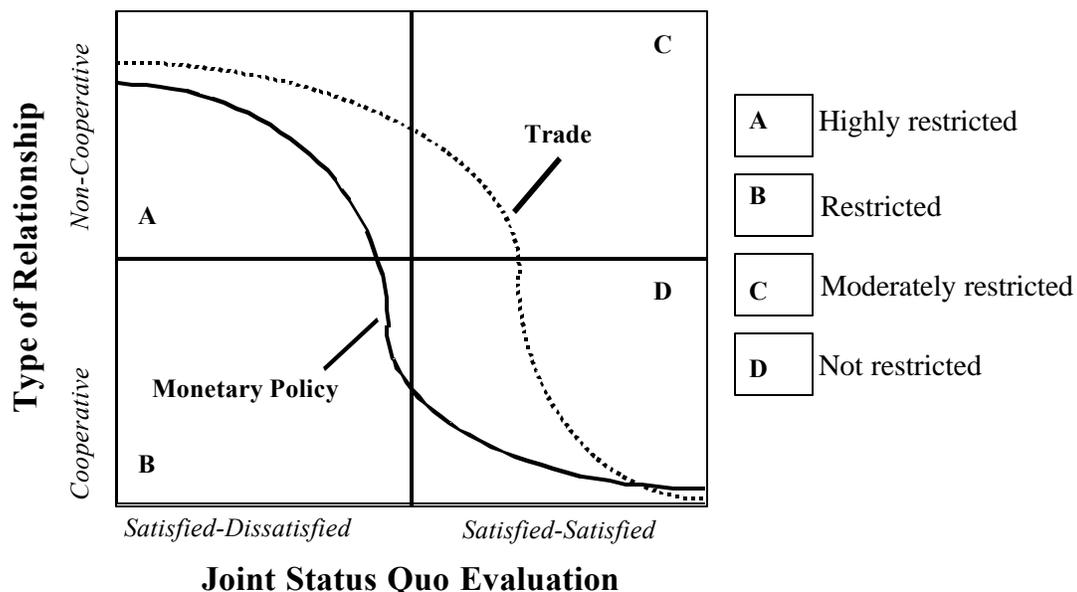
Thus far, the economic implications of power transition have been explored far less than the security implications. Yet the power transition perspective provides a general road map for the realm of political economy, as it does for security. The rest of this paper concentrates on areas where power transition provides insights that frequently challenge current policy. This paper discusses the implications for integration as well as international trade, foreign aid, monetary policy, labor policy, and technological transfers. The intent is to motivate policy attention and additional research in this important interaction between politics and economics.

## ECONOMIC IMPLICATIONS

The power transition perspective suggests that the degree of cooperation in economic policies—in particular trade, aid, monetary policy, labor policies and technology transfers—is related to the level of satisfaction between a challenger and dominant country. Nations that support the *status quo* generally will follow a cooperative strategy when their partners are also *status quo* nations. They will assume a competitive strategy or even total exclusion when the recipients challenge the *status quo*. The argument is not that trade, aid, and technology follow the flag, but that geostrategic circumstances and the potential impact of such interactions on the dynamics of growth drives these decisions.

### TRADE

Political analysts repeatedly note that the dominant nation invests political capital to create and encourage a free trade regime. Yet such actions do not maximize the competitive economic advantage of dominant and large nations.<sup>22</sup> Similarly, dominant nations engage in aid transfers that frequently strengthen potential competitors or nations that do not share common values. Such actions run contrary to the notion of anarchy, where the objective would be to utilize competition in the international system to ensure national sovereignty. Power transition accounts for both competitive and cooperative strategies, providing a framework that helps sort out the political motivations of actors that pursue seemingly inconsistent policies in their trading relations.



**Figure 1.7 . The Dynamics of International Trade and Monetary Policy**

Figure 1.7 compares the relationship between trade policies and monetary policies within the power transition framework. Between jointly satisfied nations, complete satisfaction implies free trade, yet trade is restricted much sooner than monetary policy. For example, even though Japan and the US were both satisfied in the 1980's, they adopted a trade policy with restrictions toward each other. Monetary policies, on the other hand, tend not to be as overtly competitive. As the challenger becomes more dissatisfied in each case, a non-cooperative strategy is taken

(more restrictions are imposed, as suggested by the boxes of the figure). Note, however, that trade policy rarely becomes so competitive that complete restriction of trade is imposed.

As the Cold War between the United States and the Soviet Union intensified, trade between both superpowers and non-aligned countries increased.<sup>23</sup> Congruent with expectations of the Power Transition, when competing nations are threatened by the proximity of great power parity, they will adopt a cooperative attitude towards trade with their allies. The defender offers generous trade policies to consolidate its political position with nations wavering between satisfaction and dissatisfaction with the *status quo*. As nations are farther from parity, the immediacy of the security threat decreases and the defender can shift more toward a competitive strategy. The Soviet Union's actions in the Middle East during the Cold War are consistent with this logic. During the Cold War, trade subsidies and foreign assistance were provided in response to geopolitical necessities. With the reduction of systemic tensions, foreign assistance declined and reciprocal trade was increased.<sup>24</sup>

Political analysts repeatedly note that the dominant nation invests political capital to create and encourage a free trade regime.<sup>25</sup> Yet such actions are not necessarily optimal for the largest nations. Similarly, dominant nations engage in aid transfers that frequently strengthen potential competitors or nations that do not share common values. Again such actions run contrary to the notion of anarchy, where the objective would be to maximize relative status in the international system and ensure national sovereignty. Power transition provides a framework that helps sort out the political motivations of these seemingly inconsistent actions.

Unlike the classical benevolent view of free trade, neoclassical economic research shows that large nations have incentives to use optimal tariffs to restrict trade. While small nations benefit from specialization to gain competitive advantage in a free trade environment, specialization provides no trade advantage to large economies. Economies as large as the United States or the EU begins to approximate the world market in resilience,<sup>26</sup> and can impose tariffs with much less cost than small countries as part of a competitive strategy. On the other hand, since small countries lack market diversification, they fair best under free trade when they specialize in areas where they hold a comparative advantage.

In world politics, however, large dominant nations advocate free trade while small ones frequently resist such advances. Utilizing a competitive strategy, large nations should restrict trade through optimal tariffs. Empirically, the opposite prevails, particularly in the case of dominant nations. The United States in the latter half of the 20<sup>th</sup> century and Britain in the first half of the 19<sup>th</sup> century generally supported free trade.<sup>27</sup> After World War II, the United States encouraged the creation of the IMF, whose sole purpose is to provide a loan and credit system to facilitate international trade. The World Trade Organization, the successor to GATT, is an institution devoted to minimizing trade barriers and standardizing trade transactions. Participation in such organizations and encouragement of their regulatory role deprives Great Powers in general, and the dominant nation in particular, of the ability to utilize superior political and military capabilities to advance trade objectives.

This unexpected economic behavior of Great Powers is consistent with power transition. The US accepts cooperation in trade transactions with allies because such policies foster support for a *status quo*. Indeed, the United States accepted trade restrictions imposed by Germany and Japan—the largest global exporters—during the Cold War to strengthen the coalition pitted against the USSR. After the collapse of the USSR, cooperation was abandoned in favor of a more mixed strategy, but the US still did not revert to pure competition.<sup>28</sup> Political considerations directly affect the willingness of nations to subsidize others. Recall that the US confronted Japan

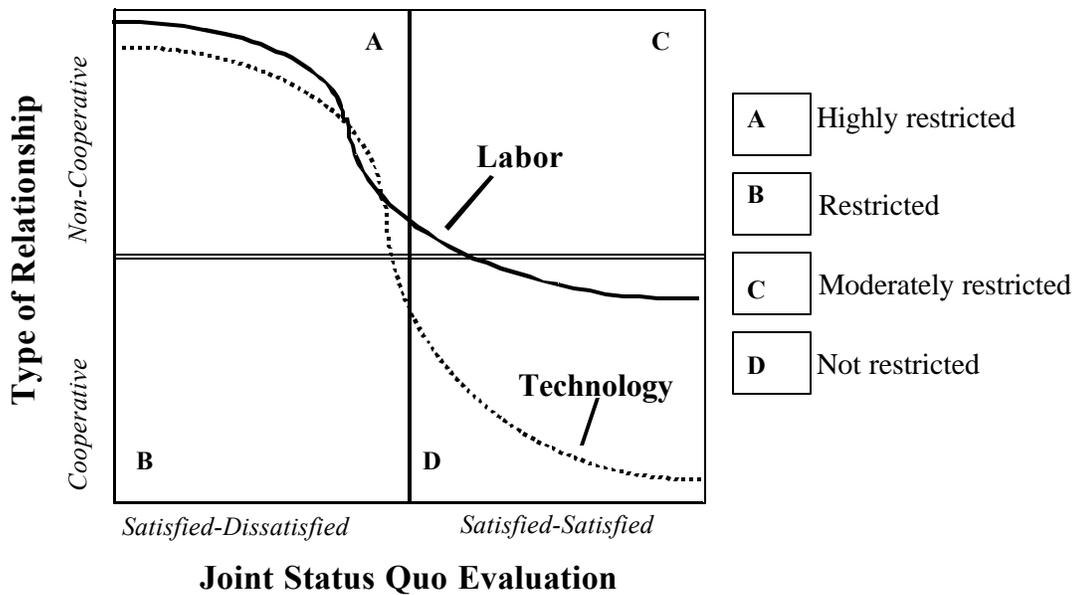
and the EU over trade barriers. Despite meek attempts to do so in the past, after 1989 the United States actively sought to restructure trade agreements with Japan because there was no longer the need to accommodate in order to maintain a strong anti-Soviet alliance. Policy negotiators during the Bush and Clinton administrations advocated a more even playing field with the intent of reducing and eventually eliminating trade deficits. US policymakers did not advance the notion of recuperating past losses or generating trade surpluses similar to those of Japan. Instead, “evening the terms of trade” became the objective.

The dominant nation uses trade and aid to incorporate potential competitors into the *status quo*. From the Power Transition perspective, the policy of economic engagement towards China is effective. This stance, started under President Nixon, extended under President Bush, and further enlarged by the Clinton Administration, is an appropriate choice to avoid a hostile competitor down the road. Trade policy is one tool that can be used to shift the preferences of dissatisfied nations from confrontation toward cooperation. If the US is able to co-opt China into satisfaction with international *status quo* by using policies such as the Most Favored Nation (MFN) trading status, by supporting its entry into the WTO, and creating incentives to expand market forces. If such actions are successful a major challenger within the power hierarchy could come to support the international order. Similarly, the financial support provided Russia following the collapse of communism is consistent with the expectations of power transition.

#### *LABOR MOBILITY AND TECHNOLOGY TRANSFERS*

Policies affecting the mobility of labor and restrictions on the transfer of technology vary in similar ways to trade and aid. Figure 1.8 compares the degree of cooperation given different distributions of satisfaction in labor policies and policies over technological transfers. As illustrated in Figure 1.8, the mobility of labor is mildly restricted even between jointly satisfied countries. For example, immigration policies in the US apply broadly to satisfied allies and dissatisfied nations. Indeed, most nations try to keep their own high-skilled labor at home and exclude other nations’ low-skilled labor. The EU is unique because it allows labor to move freely across borders, but domestic restrictions apply as labor migration is minimal compared to that within the United States. Simply put, political restrictions are applied far more to labor than any other economic factor. Technological transfers have a similar relationship among the satisfied and dissatisfied powers. Extreme dissatisfaction leads to acute non-cooperation. Technology is shared quite freely between friends and even mild competitors.

Any nation with sophisticated technology can *transfer* some of that knowledge to enhance the rate of development in another country. However, high technology transfers frequently generate security externalities.<sup>29</sup> Even when no direct security issues can be identified, transfers of technology can accelerate the potential growth of the recipient. When the transfers are made from a high technology nation such as the United States to low technology nations such as China, this effect is magnified. Recall from Figure 1.8 that between jointly satisfied countries, technology is shared freely. Minimal restrictions persist even when the challenger is slightly dissatisfied, but once this dissatisfaction becomes more pronounced, the restrictions on technology increase quickly.



**Figure 1.8. The Dynamics of Labor Mobility and Technology Transfers**

As in the case of trade, the choice of how to approach technological transfers depends on the perception of elites regarding the degree of cooperation between potential recipients. If elites conclude that leaders of the recipient nation are satisfied, a cooperative relationship should emerge and restrictions will be limited by commercial competition. If they conclude that recipients may eventually challenge, then a competitive relationship should emerge. Indeed, the United States imposed severe restrictions on the export of technology to the USSR and other CMEA countries during the Cold War to avoid security externalities by the transfer of technology with dual use. Evidence suggests that such actions delayed the technological advancements in the restricted areas but did not thwart them.<sup>30</sup> Applying technological sanctions to dissatisfied nations is reasonable.<sup>31</sup> However, such sanctions are contrary to the interests of individual firms within one's own nation that wish to expand to foreign markets. Absent a consensus between domestic coalitions within *status quo* nations, preservation of technological restrictions is problematic. Restrictions on technology were relatively successful during the Cold War when members of the dominant coalition—including Germany, France, Italy, Britain and Japan—concurred. However, after a thaw in relations occurred during the *détente* period, Europe and Japan have no longer consistently complied, and effectiveness of such sanctions has diminished.<sup>32</sup> Such problems escalate when there is no agreement among *status quo* nations about the future. Effective policies to co-opt the dissatisfied are doomed if one member of the Western coalition believes that Russia and China pursue a protracted strategy to weaken the dominant nation and its allies, while the other contends they wish to join the existing *status quo*.

A case in point is the provision of missile guidance technology to China. Both sides agree that such transfers improve the launch reliability of communication satellites. The same technology can be adopted to improve warhead delivery vehicles. If one adopts the view that China is moving towards the *status quo*, a cooperative strategy is preferable. If the technology had been denied, launch failure would persist—reducing gains for both parties.<sup>33</sup> Indeed, the provision of improved guidance systems diminished the costs for American telecommunication groups, increases their competitiveness in the global information market, and ensures that US technology will be utilized in future launches. Furthermore, to prevent failure, China would no

doubt seek similar technology elsewhere. Russia and Sweden are likely targets because they can provide a very effective guidance systems at low cost. On the other hand, if one anticipates that China is not moving towards the *status quo*, the answer is to adopt a competitive strategy. From this viewpoint the provision of guidance technology is a serious problem.

First, guidance transfers improve the commercial viability of China's low priced launchers, and reduce US opportunities to compete effectively in this area. Moreover, the security danger to the United States and regional stability is intensified, as effective guidance systems can easily be adapted to improve ICBM accuracy. These positive and negative assessments are derived from similar geostrategic considerations. Policymakers should base them not on technical grounds or political assessments, but on the expectations of future behavior given changes in the power hierarchy. Here the shadow of the future should drive current policy.

From the power transition perspective, policies that affect technical transfers involve risk. Outcomes are preconditioned by geostrategic conditions, but decision makers evaluate the future of economic dynamics and changes in the *status quo* before final decisions are made. If a risk is to be taken, it should be taken in favor of creating stability. Confronting China or Russia is unlikely to produce a stable international system while co-opting these nations may produce a lasting peace. Since the US and China will approach parity in the future, a policy that builds trust in the *status quo* is required to achieve peace. The alternative is a policy that leads to the collapse of the challenging government and fragmentation of China. This second option was successful during the Cold War, but has no assurance of success in the future. Failure can lead to war.

### *ECONOMIC GROWTH*

Economic growth conditions the political dynamics that lead to war. Peace is ensured when cooperation persists despite power transitions. In world politics, then, the dynamics of economic change lead to challenges against the *status quo* only if nations are dissatisfied. The dominant nation and key members of the international system have an overriding interest in ensuring that long term economic growth persists at the regional and global level and that the international *status quo* is preserved.<sup>34</sup>

The policy objective is to encourage economic and political congruence. Economic growth by itself is not the sole policy goal. World Bank stabilization programs reinforce market economies and encourage political structures congruent with those adopted by the dominant nation. The international *status quo* set up by the United States supports market competition, encourages the adoption of strong property rights, the application of consistent patent rules, and insists on repatriation of profits. In addition, the United States explicitly advances democratic principles and fosters human rights. Preservation of the international fiscal and trade regimes to achieve market economies and extend economic growth goes hand in hand with the evolution of democratic principles. Political and economic convergence is desirable to preserve systemic stability.

Let us consider first the economic dynamics that underlie challenges to the *status quo*'s stability. Despite its desire to ensure growth for *status quo* members, the dominant nation cannot maintain prosperity for all. Nevertheless, the resources and policy instruments of the international *status quo* should be used to encourage growth where possible. A stable economic environment can go a long way toward accomplishing this goal. Following World War II, the Marshall Plan was instituted to help Western Europe and Japan recover from war, avoiding the repetition of fiscal failures that followed in the wake of World War I.

Power transition provides a unique perspective on growth. Recall that the hierarchy of power is altered by dynamic changes in economic performance.<sup>35</sup> The international *status quo* can only be preserved in the long term if other nations agree to its structure, and in turn preserve it. The reason the US overtook Britain without bloodshed in the 19<sup>th</sup> century is that both nations shared similar principles and had close economic ties. As one democratic system overtook the other, the leaders in these nations chose not to fight and instead forged a special relationship that still persists.

The relative size of a dominant nation imposes natural limits on the duration of a *status quo*. With a population of under 50 million, Britain could not maintain dominance over nations the size of Russia or the United States (with populations over 200 million), and these nations, in turn, cannot expect to lead China or India, which have populations of a billion or more. The reason for dominance at different periods in history is based on variations in the rate at which nations develop. Earlier development by some nations provided them with a temporary, but fundamentally short-term, preponderance. As economic convergence diminishes the differences in productivity across nations, challenges to the *status quo* leadership will emerge. The primary question is not whether the conditions for such challenges will occur, but whether they can be resolved and what the outcome of a conflict might be.

From the perspective of power transition, a dominant nation that successfully co-opts potential challengers to preserve the existing *status quo* also ensures that the international *status quo* will be preserved. Economic growth, however, is not determined primarily by foreign policy interaction. Domestic decisions to adopt market reforms allow nations to travel faster through the endogenous growth path, and ultimately converge in the rates of output.<sup>36</sup> Faced with a challenge from a fast growing dissatisfied nation, and failing co-option, the dominant nation can still preserve preponderance through alliances. By persuading medium and smaller nations to “bandwagon” the dominant nation gains time to achieve support for the *status quo* from the challenger. Such are short term solutions and may prove costly and untenable in the long-term because the dominant nation is declining in power. Regardless of temporal delays, when a dominant nation fails to incorporate challengers into the *status quo*, a transition may lead to military challenges. The defender may have to wage war to preserve the *status quo* or face the prospects that it will be replaced.

Growth is directly related to the development of cooperative relations in the international system, and these in turn are linked to domestic regimes. At the domestic level, research shows that economic development is tied to the transition to democracy, yet the mere presence of democracy does not secure sustained growth.<sup>37</sup> In most economies that sustain growth, reversion from democracy to authoritarian rule is infrequent. Indeed, in England, Germany, the United States, and Japan the process of economic growth is tied to the development of democracy. In Latin America and Asia, the most successful economies are becoming democracies.<sup>38</sup> Given the increase in the number of democracies, the international system should be far more stable in the future as more and more nations coordinate their domestic regime types. Research on the democratic peace supports this argument.<sup>39</sup>

There is, however, a potential drawback: democracies that fail to reach sustained growth. India, a democracy for half a century and a budding great power, has thus far failed to achieve sustained growth, and has not fully implemented a market economy.<sup>40</sup> Furthermore, it is not a fully cooperative and satisfied nation. Democracy by itself, therefore, does not guarantee stability. Likewise, China is modernizing its economy, moving very fast into a market economy but failing to develop democratic structures (though at the local level some democratic activity is

present).<sup>41</sup> The central government remains an well-entrenched autocracy.<sup>42</sup> If the economic institutions continue to converge, but the political institutions remain at odds, the consequences for cooperation are unclear. China, like India, may remain non-cooperative or move towards neutrality without becoming cooperative. From a power transition perspective, coordination of political and economic structures is the key to ensuring peace.

Power transition posits that nations sharing preferences are far less likely to engage in conflict.<sup>43</sup> For this reason it is not surprising that liberal democracies seldom engage in war. Evidence now has emerged that nations with similar political systems—authoritarian and democratic—do not wage war against each other. However, democracies wage war at the same rate as authoritarian governments, but concentrate this activity against nations with different regime types. Power transition's explanation for the democratic peace thesis is that a successful dominant nation imposes common preferences on its allies. When the defender is successful in adjusting domestic political regimes within its alliance to one type, as the US has been, members do not fight each other. Moreover, as such an aggregation becomes preponderant the probability of war is reduced dramatically. Supporters of the *status quo* reinforce their economic growth through trade benefits, fiscal stability, investments, technology transfer, labor mobility and security. The democratic peace we have so effectively recorded is consistent with power transition, but may be fragile. If democracies fail to adopt open economies (India) or if open economies fail to become democracies (China), the tie between domestic regime types and peace should unravel. Today, democratic and market economy principles held by the preponderant US led coalition ensure the perpetuation of *Pax Americana*.

### INTEGRATION

Power transition advocates economic and political integration among nations that support the *status quo*, but warns against such advances with and among challengers. Political and economic integration produces joint benefits in the long-term among *status quo* nations willing to pursue a cooperative relationship. Moreover, integration favors the dominant nation because the economic gains accrued by *status quo* major powers strengthens them. As economic and security arrangements are formalized, as with the EU or NAFTA, relationships consistent with the goals of the dominant nation are institutionalized, increasing the probability of the preservation of established rules even beyond the period of dominance by the defender. The democratic peace is related to this argument. In the case of integration, nations formalize their cooperative postures. In the case of the democratic peace, they adopt conciliatory security policies toward each other. In each case cooperation is driven by similar evaluations of the *status quo*.

Integration tends to either follow peaceful power transitions or emerge after dramatic reductions in the degree of conflict among contending parties. Integration of *status quo* nations assures further reductions of instability because it creates institutional channels for the resolution of policy differences.<sup>44</sup> Advancing integration is beneficial to the dominant power because it creates satisfaction, enhances the pool of resources in the alliance, and maintains systemic stability. US support for the EU, and its participation in NAFTA, is completely consistent with the interests of the dominant nation. By advancing integration among *status quo* nations, the United States ensures consistent support for market economies, patent restrictions, financial structures, and other forms of economic behavior, which advance the integrity of the international *status quo*.

Consider the long-term implications of a unified EU. A strong Europe would provide support for the very structures that have made the United States successful in the post-war era. The United States consolidated its international political and economic position through the recovery of Western Europe, as these nations became its primary trading partners. A strong Europe meant that NATO was an effective fighting force, and that security did not depend exclusively on troops and equipment supplied by the United States. Indeed, as their economies recovered, the financial and logistical responsibilities have increasingly shifted to the Western European nations themselves.<sup>45</sup> Consistent with the policies initiated under the Marshall Plan, the United States should continue to support integration. This includes the impending monetary union in Europe, since a strong European currency would reinforce stability of that continent, and thus the US-led international system. Adjustments to the dollar—the only international currency at present—may follow, but both sides are likely to operate well within the rules established by the current international *status quo*. A stable European currency resulting from monetary union among Western European nations may reinforce satisfaction within the international system. US support for this institution is critical to provide the international monetary system with credibility. A stable European monetary union would help cultivate satisfaction for the *status quo* along the economic dimension, but could also generate economic comfort if cooperation endures.

Given our interest in integration, what are the consequences of further expansion of the EU? Expansion by the EU reinforces the commitment of Western European nations to stability, *provided* that satisfaction with the *status quo* is maintained. Challenges could come if Europe were to renege on its commitments to NATO or if it were to adopt a different set of rules for economic interactions. This is a very unlikely scenario because of the long-standing security arrangements as well as the economic ties between the United States and the EU that are so profitable for both. We anticipate that conflict along the economic dimension will grow as the EU becomes a global economic contender, but that overall relations will remain cooperative, anchored by security collaboration. The development of institutions like the OECD, GATT and the WTO help ensure that economic disputes, even difficult ones, can be resolved through negotiations. Integration and the institutionalization of cooperative solutions to dispute are therefore useful tools in the advancement of the *status quo*'s stability.

There are additional gains from integration. Economic theory suggests that when the factors of production are approximately equal across countries, increasing capital flows and trade will generate larger economic rewards for partners. Indeed, after a devastating war, the Marshall Plan and economic integration rekindled the economies of Europe.<sup>46</sup> The early coal and steel community was enlarged at the Treaty of Rome because the continental European nations understood that a larger market gave them a competitive edge. However, economic integration between nations with dramatically different factors of production will favor faster growth rates in nations with lower production costs. Indeed, successful integration accelerates economic convergence among nations with different production capabilities. Thus, the long term expectation for NAFTA is that while the United States, Canada, and Mexico will grow, the fastest growth rates should be enjoyed by Mexico, then Canada, and finally the United States. Power transition suggests that enhancing economic convergence, while fostering behavior congruent with those of the international *status quo* is a strategy that will ensure continued stability.

Integration, nevertheless, is not a panacea. Conflict can be generated when challengers pursue integration. Economic cooperation among dissatisfied countries enhances their

capabilities, and these can be used to challenge the dominant nation and its coalition.<sup>47</sup> This was the strategy adopted by the USSR during the Cold War. Although the Soviet Union could not explicitly challenge the US at the global level by itself, it created a competing coalition. Even though the Soviet-controlled COMECON fell short of its sponsor's expectations and never challenged the US-led European Union, COMECON economic institutions consolidated the hold of the USSR over Eastern Europe. Nevertheless, we *now know* but should have known earlier that centrally planned economies are not economically viable in the long-term. They are simply not competitive with open economies.<sup>48</sup> Yet, had COMECON survived, had the USSR and managed to liberalize its economy with abandoning political centralization (as China has), and had the Sino-Soviet split been amicably resolved, then the economic and political power of these challengers may well have been far more difficult to overcome. Successful integration among dissatisfied nations, therefore, can be a recipe for war.

Given its current preponderance in the power hierarchy, to enhance systemic stability the United States can seek to increase integration among *status quo* nations. Yet, given the prevailing common wisdom, it is tempting to disregard the international *status quo* and act as if anarchy dominates relations among allies. Such actions by the dominant nation could destroy trust and reduce allied commitment to the *status quo*, and eventually weaken the power base of the US. The challenge for US policy is to be bold and forward-looking. Positive responses to changing international dynamics include US support for the expansion of the EU to Eastern Europe, the incorporation of Russia into NATO and the EU, the enlargement of NAFTA to include Mercosur, and further commitment to APEC. Economic and political integration among *status quo* nations generates not only a stable policy environment, but also reinforces the power structure of the international system.

From the power transition perspective, reinforcing commitment to the *status quo* is the most effective means to preserve the integrity of the international system. The original designer of the *status quo* cannot forever be a dominant nation. The EU has shown that integration can bring old enemies together by generating favorable returns because of economies of scale and positive spillovers. Encouraging an old competitor, like Russia, to join the EU enhances hierarchical stability. The same strategy of economic engagement and integration that succeeded in Western Europe can reinforce Russia's drift towards democracy and strengthen its commitment to the *status quo*. Through integration, *Pax Americana* can continue unchallenged well into the 21<sup>st</sup> century.<sup>49</sup> Through integration the international *status quo* designed by the United States can last beyond its own dominance.

## CONCLUSIONS

Power transition shows a very different structure for the world. It suggests that domestic dynamics of economic expansion reshape the structures of the international arena. It shows that parity increases the probability that wars are waged. Political elites can take advantage of periods of preponderance to establish strong common bonds with allies and eliminate tensions with opponents. The use of economic instruments that facilitate trade, stabilize currencies, manage labor mobility, and increase technological transfers are the tools with which dominant nations can use to enhance support for the *status quo*. When such tools are applied effectively, as did the United States following World War II, transitions are peaceful, and the periods that follow them are increasingly stable. When, however, the dominant nation and its key allies fail to take

advantage of temporary preponderance to establish workable relations with potential opponents, as Great Britain did during *Pax Britannica*, then stability is challenged and war likely.

To preserve peace it is important to reconcile the preferences of competing nations. Economic interactions can be used to generate the support needed to bring dissatisfied nations towards the *status quo*. Much can be accomplished with the elite of dominant nations pursuing a cooperative strategy. While such strategies do not maximize the immediate economic interests of the dominant power, they build the trust that is essential for an “internationalist” perspective. The process of economic and political integration that is frequently vaulted for its economic spillovers has more important security implications. Nations undergoing the process of economic integration establish a cooperative relationship, eliminating the need to use conflict to resolve disputes. As the record of Europe before and after World War II attests, the integration process eliminates the need to rely on military power to ensure one’s safety against neighboring countries. The additional payoff of integration is that as the creation of supra-national units concentrates power, it also ensures that participants are preponderant over a larger set of opponents.

Power transition suggests that peace is the result of convergence of preferences. Stability is achieved when the dominant nation and its coalition partners persuade potential challengers to support the *status quo*. Throughout the process, the dominant nation is torn between its interest in preserving stability than in advancing common preferences. Long term stability comes from building common preferences. Testimony to the primacy of stability over common preferences, however, abounds. During the Cold War, US support for regional pro-American dictatorships was driven by fear that the Soviets would step into the vacuum. Even when the Soviet Union was collapsing, the United States *did not* actively support independence for the Baltic nations, and did not favor the dissolution of the USSR into Russia and the former Soviet Republics. Stable relations in the long term cannot simply rely on security in the short term. A successful international *status quo* can only be preserved through flexibility in relations and through the incorporation of new preferences advanced by nations that challenge the existing order. There is evidence that even the most determined attempts to change the international hierarchy by force are *short lived*. The implication of the “phoenix factor” is plain: major wars diminish the capabilities of potential challengers in the short term. Yet nation defeated on the battlefield will rise again within one generation and *can* challenge for supremacy again and again. Thus, it is not through war that political leaders restructure relations in world politics. Major changes are shaped by the economic and diplomatic policies implemented *after* war.

## ENDNOTES

<sup>1</sup> An extraordinary amount of new research has validated and extended the theory in the past two decades. The original basic statement of the power transition perspective is found in A.F.K. Organski's *World Politics* (1958), with extensions to the nuclear era in the second edition (1968). The fundamental test is found in Organski and Kugler's *The War Ledger* (1980). For an overview of recent work and extensions see Kugler and Lemke's *Parity and War* (1996).

<sup>2</sup> Lemke (1993, 1995, 1996) and Lemke and Werner (1996).

<sup>3</sup> Organski and Kugler (1980:19). See also Organski (1968).

<sup>4</sup> The preceding should not be interpreted to mean that being powerful but not the dominant power automatically means that a state will be dissatisfied. Furthermore, the act of growing more powerful, even more powerful than the dominant country itself does not automatically mean that the growing state will be satisfied. Were that the case, power transition theory would be internally logically inconsistent, because it would then be impossible for an overtaking by a dissatisfied state to occur. Power transition theory would then logically preclude the necessary condition for war from possibly occurring. A pair of recent articles (de Soysa, Oneal and Park 1997, Gartzke 1998) have misrepresented power transition theory by claiming that power or growth *causes* states to be satisfied with the status quo. Lemke and Reed (1998) point out the logical inconsistency associated with such claims, and demonstrate by a Granger causality analysis that there is no statistical relationship between power level or growth in power and evaluations of the status quo for all states over the 1816-1985 time period. The logic and intuition of Lemke and Reed's argument is simple to comprehend. Although it is clearly plausible to expect that growth or power would be associated with being satisfied with how the international system operates, it is not necessarily the case. It could well be that the powerful or growing state became powerful or has experienced growth *in spite of* an unfavorable international status quo or in the face of hostile opposition by the dominant state. Nazi Germany in the 1930s and the Soviet Union of the 1950s experienced dramatic growth in power but within very hostile international atmospheres. Becoming more powerful made neither state satisfied with the status quo. Although power and wealth may be generally satisfying in some broad sense, they do not guarantee that a state will be satisfied with the status quo. In fact, it is possible to conceive of an international system in which most of the great powers will be dissatisfied (in contrast to the shading in Figure 4). Imagine a "Robin Hood" dominant power that reallocated from the great powers, to the struggling Third World states. In such a system the proportion of satisfied states would *increase* as we moved lower in the international power pyramid but the support for such system would decrease as the large powers are taxed without their consent.

<sup>5</sup> For similar arguments about national growth from economics, see Solow (1962), Romer (1986), and Lucas (1988). For contrasting arguments see Barro and Sala-i-Martin (1996).

<sup>6</sup> Feng, Kugler and Zak (1999) show that politics may be a primary cause of countries falling into a low-income poverty trap. Indeed, an expectation of political instability increases the likelihood of a poverty trap because it adversely affects income and thus raises fertility. Similarly, governments with low political capacity will allocate low levels of taxes to increasingly generate output from the public sector and preserve high levels of fertility, thus allowing human capital to decrease over generations and causing reductions in future output.

<sup>7</sup> For more detailed arguments about extraction of resources by governments and the relationship between this and war, see Organski and Kugler (1980:chapter 2), Kugler and Domke (1986), and Ray and Vural (1986).

<sup>8</sup> Unlike advocates of realism who argue that security considerations are paramount (reflecting "high" politics) while economic considerations are secondary or "low" politics, power transition considers these as equivalent components. The power transition approach argues that dissatisfied nations will compete on security and economic interactions, attempting to foster competitive relationships despite the risk of war, while satisfied nations will approach similar issues utilizing cooperative relationships, minimizing the risk of conflict. For example, economic and security exchanges between Iran and the US are now shrouded in conflict as both utilize a competitive strategy with each other, while relations between Canada and the United States are cooperative.

<sup>9</sup> The literature on absolute and relative gains deals with similar issues. We loosely equate the notion of absolute gains with cooperative relations because participants are willing to engage in mutually beneficial interactions even when one side gains more than the other does. On the other hand, we relate relative gains with non-cooperative relations because the participants enter into interactions only when they see a direct unilateral advantage for the more powerful actor. For a discussion of this point see Grieco (1988), Powell (1991), Snidal (1991), Grieco, Powell, and Snidal (1993), and Huntington (1993). Morrow (1997) argues that relative gains do not imply purely

exclusionary behavior by showing that concern with relative gains does not prevent trade between rivals. Thus, our continuum suggests the opposite of cooperative is non-cooperative behavior—not exclusion or pure animosity.

<sup>10</sup> Bueno de Mesquita, Newman, and Rabushka (1985) elaborate this point to its extreme conclusion when they argue that all economic interactions are cooperative while political interactions are conflictual. They point out correctly that during a sale, the consumer can choose to pay the asking price and take the desired product or walk away with the money. In either case the outcome is cooperative. On the other hand, political interactions are typically conflictual. When a police officer is giving a ticket to a speeder that passed you on the road, a sense of relief follows because a dangerous individual is removed from the road. However, when a police officer stops you for the same offense, the transaction is not a cordial one. Every excuse is used to avoid payment, and frequently the parties seek judicial settlement. There is little cooperation when political rules—otherwise supported by third parties—are imposed on us.

<sup>11</sup> There is, as Tom Willett accurately points out, a time dimension to such interactions. Business practitioners may compete over market share using competitive strategies—as did Apple and Microsoft over operating systems following the introduction of personal computers (PC's) into the marketplace—and later revert a cooperative strategy—as reflected by Microsoft's loan to Apple to retain competition in that market. One possibility is that leaders select a competitive or cooperative strategy according to the situation. When threats to their market share are more extreme and immediate, they respond with a more competitive strategy. As Alsharabati (1997) argues, when power transitions are slower the dominant power has more time to deal with an emerging threat. In such circumstances it can adopt a more cooperative behavior. The victim of a successful competitive strategy must either discount his/her losses in the short term and agree to the new cooperative principles, or, more likely, he/she will maintain the competitive strategy until the outcome is clear and time erased competition (as was the case in the Apple-Microsoft dispute). It is further possible that elites mix competitive and cooperative strategies to maximize their advantage. Such strategies while conceptually plausible would be detected in the long run nullifying the advantage that could be gained from such mixed strategies

<sup>12</sup> The distinction between complex interdependence and pursuit of national sovereignty has divided our field for some time. On the complex interdependence side see Keohane and Nye (1977) and Keohane (1984). On the national sovereignty side see Krasner (1976) and Huntington (1997). Ineffective understanding of this continuum also divides practitioners who advocate an “internationalist” view and those who advocate a “national interest” first perspective (Organski 1990). Power transition incorporates these alternatives into a single perspective.

<sup>13</sup> The defender, or dominant power, is satisfied by definition in the international *status quo*. The dominant power defines the relations in the *status quo* by virtue of its preponderance.

<sup>14</sup> Dissatisfied-Dissatisfied interactions mirror the Satisfied-Dissatisfied patterns. The exception is collusion among dissatisfied nations to advance common goals. This possibility is rare and generally only applies to security matters. Thus, it is excluded from this discussion for simplicity.

<sup>15</sup> Adherence to a cooperative strategy does not resolve internal distribution problems. When such disputes fester and cannot be resolved, partners are likely to move to a competitive strategy. Note for example that successful companies that foster a cooperative relationship may over time diverge in aims because they cannot solve the distribution problems. A good example is the ongoing debate between members of Arthur Andersen where the Anderson Consultant group originally created from funds provided by Anderson because the former no longer agree about the distribution of profits among partners and are seeking a quite public separation. Problems of internal distribution when not resolved can move a relationship from cooperation to competition.

<sup>16</sup> See Huntington (1993), Krasner (1976), and Waltz (1979).

<sup>17</sup> See Snidal (1991), Grieco (1988), Grieco, Powell, and Snidal (1993), and Powell (1991).

<sup>18</sup> This behavior produced a large literature concerned with “free riding” principles suggesting that Europeans unduly took advantage of the United States by spending less for defense (Domke, Eichenberg, and Kelleher 1987). Some authors even argued that the United States could be endangered by this principle since members of the coalition would grow faster than the dominant nation that paid excessively for defense and would endanger the dominant nation itself (Keohane 1984). From the perspective of power transition such concerns are misplaced as even if an overtaking were created by such subsidies, the regime in place would continue as both nations would now defend the *status quo*. This is the case of the EU and Japan who support the *status quo* and are not a threat to the US.

<sup>19</sup> See Intriligator and Brito (1987) for a theoretical perspective on this issue. Military aid in the Middle East and Latin America followed similar principles, as in Organski (1990).

<sup>20</sup> This is a mistake frequently made by analysts who profess to follow the precepts of Realism. Such insights derive from the mistaken assumption of anarchy. From a realist perspective Waltz (1979) typically argues that the only deterrent to war is the fear of its consequences. Likewise, from a more liberal viewpoint Keohane (1986) still argues

that the hegemon could be challenged by members of its own coalition who previously benefit from security and economic transfers. Such arguments do not stand the test time. No long-term allies choose to fight simply because they have the opportunity to do so (Kugler and Organski 1989a and Russett 1993). Instead long term-allied nations reinforce each other and contribute to the preservation of common preferences, as they become stronger. For a formal treatment of such results see Bueno de Mesquita and Lalman (1992), Abdollahian (1996), and Alsharabati (1997).

<sup>21</sup> See Huntington (1993).

<sup>22</sup> See Kindelberger (1973).

<sup>23</sup> Feng (1994)

<sup>24</sup> See Hunt (1990).

<sup>25</sup> See Kindelberger (1973).

<sup>26</sup> See Cave and Jones (1977).

<sup>27</sup> See Rogowski (1989).

<sup>28</sup> Feng (1994).

<sup>29</sup> Implications of security externalities are elaborated by Mansfield and Bronson (1997), Mansfield (1994), Gowa (1983,1994), and Gowa and Mansfield (1993).

<sup>30</sup> Soviet MIG's for example relied on miniature tubes rather than integrated circuits because of the technological restrictions imposed during the Cold War. Willkins (1998) shows that sanctions restricted technical trade more than general trade. For alternate arguments see Pollins (1989a, 1989b) and Mansfield (1994). For assessment of sanctions see Morgan and Schwebach (1997).

<sup>31</sup> Given the size of China, India and Russia it is not possible for the United States to fundamentally alter their growth trajectories through trade sanctions. Moreover sanctions are effective only when applied universally.

<sup>32</sup> Recall that, Carter's efforts to restrictions on oil equipment transfers required to build an oil pipeline from the Soviet Union to Western Europe collapsed after sanctions were violated by EU members.

<sup>33</sup> The reliability of launchers was increased dramatically. Ten failures were reported prior to the technological transfer, while no failures related to guidance systems were reported afterwards. We note here the effects of security considerations. The government has thwarted Hughes Electronics in its efforts to export satellite technology to China.

<sup>34</sup> Power transition and democratic peace advocates converge on the issue of satisfied, like-kind nations preserving the peace. McNamara suggested three decades ago that high economic performance is associated with democracy. In turn the large literature on the democratic peace shows that democracies seldom challenge each other. Thus the common sense and empirical literature concur on the fact that economic growth accelerates democracy and that democracy enhances intentional stability. Feng (1997), Russett (1993), Bueno de Mesquita and Siverson (1995).

<sup>35</sup> US leadership and funding created international financial institutions including the International Bank for Reconstruction and Development (IBDR) later transformed into the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT). These institutions were established to stabilize currencies and economies and to foster economic recovery and development following World War II. The role of each has evolved, but all still work to foster similarity in economic interests and stability in economic systems. After Western Europe recovered, the focus of these organizations shifted to the developing world. Their objective has always been to secure growth of membership in and compliance with the *status quo*.

<sup>36</sup> See the discussion on the developmental path in Tammen et.al. (2000).

<sup>37</sup> For a formal model demonstrating this result with empirical support, see Feng and Zak (1999).

<sup>38</sup> Exceptions are found in the oil-producing nations such as Saudi Arabia or Kuwait rank among the richest in per capita income, where autocratic rule persists despite sustained economic growth. These discrepancies are the result of luck, as the wealth of these nations is based on resource endowments rather than productivity of populations.

<sup>39</sup> The literature supporting this claim is vast. For a sampling see Russett (1993), Ray (1995), Chan (1996), Rummel (1997).

<sup>40</sup> Indonesia has a relatively high per capita income and may be undergoing a process of democratic development. The Philippines is another anomaly that has adopted democratic structures with a market economy but has yet to produce sustained growth.

<sup>41</sup> See Chen, Dietrich, and Feng 1999.

<sup>42</sup> This is starting to change, as suggested by Buford-Efird (1999). In the long-run, increasing pressure from regional governments in China is likely to enhance the pressure on the central government to liberalize its political system along with its economic system.

<sup>43</sup> See Lemke and Reed.

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<sup>44</sup> For a broader discussion of this point see Keohane (1980) and Haas (1970).

<sup>45</sup> For example, Europe has had to take more and more responsibility for NATO, both in terms of the provision of forces and funding. Similarly, the trade balance terms of exports, has shifted more Europe's favor, as suggested by Kugler and Organski (1989a).

<sup>46</sup> A substantive argument revolves around the issue of whether integration is most effective among advanced nations, among nations that can complement each other's production functions, or among nations that are very underdeveloped and can gain market share. The integration of Europe suggests that complementary economies prompt integration among equals. However, EU has shown by the introduction of Spain, Portugal and Greece that economic parity is not a prerequisite for integration. Power transition suggests that integration can be successful at several levels depending on the political attitudes towards the *status quo* by partners that drive this effort.

<sup>47</sup> Stone (1995) shows that within CMEA patterns of interdependence evolved that were very similar to those noted by Keohane and Nye (1977) in the western context.

<sup>48</sup> See Organski and Kugler (1980).

<sup>49</sup> Integration enhances stability when the *status quo* is reinforced and threatens stability when opponents of the *status quo* coalesce around a challenger. In the dynamics of power transition, support by the *status quo* members of the hierarchy is essential for stability. A dominant nation has the opportunity to establish rules of behavior during periods of preponderance, and given the growth patterns, can preserve such rules by advancing economic and political integration. Under parity opportunities to affect acceptance of the *status quo* shift from the dominant nation to the challenger, who can now choose to participate in integration efforts. If differences remain and interactions are minimal, the structural conditions for conflict due to an overtaking by a dissatisfied nation materialize. The dominant nation can insure long term stability by pursuing proactive policy favoring economic engagement and integration during periods of preponderance. Such foreign policy actions are consistent with US policy in Europe regarding the EU, the economic and political support of Russia following the collapse of the USSR, and economic engagement of China. This is not only wise policy, but the only guarantee for stability in the nuclear age.