

Geopolitics, Trade Policy and Social Identity in a Historical Perspective

Elise S. Brezis*

Abstract

The historical record of the international power structure over the past 350 years discloses cycles featuring periods of a dominant nation-state exercising leadership and alternating with 'struggle for power' phases when no single state holds dominance, and many nations share similar levels of power.

There are also periods in which countries opt for free trade, and periods in which countries opt for mercantilist policy.

This paper shows that the cyclical movement of the international system, between hegemonic leadership and balance-of-power rivalry, shapes the domestic political regimes of countries. It contends that these cycles in trade policy are intricately linked to shifts in geopolitics.

The aim of this paper is to establish the correlation between these two distinct cycles: In periods of hegemony, (1870-1910, and 1945-2010) more countries opt for free trade. The hegemon provides security guarantees, access to markets, and institutional linkages, which lower the risks of liberalization and increase the benefits of adopting free trade norms. However, in periods of balance of power, (1910-1945, 2010-) when rivalry between great powers dominates, countries tend to move toward nationalism and opt for protectionist policy.

This paper focuses on an explanation of this correlation, grounded in theories related to national sovereignty and it shows the dichotomy between the will of the elite and the choice of the people. I show that in the situation of a hegemonic country, all classes - the working class as well as the elite - opt for free trade. But, in a balance of power context, wherein no single actor on the international scene possesses hegemonic status, the working class will choose protectionism, and having a surplus, while the transnational elite will not. The empirical part of the paper shows that hegemonic periods are associated with free trade waves, while balance-of-power periods are linked to higher rates of tariffs.

Keywords: Balance of Power, Hegemony, National Sovereignty, Trade Policy, Social Identity.

JEL: B17, B27, E12, F30.

** Department of Economics, Bar-Ilan University.*

E-mail: elise.brezis@biu.ac.il

I. Introduction

This paper analyzes the optimality of protectionist policies in the context of the international political system. I show that in the situation of a hegemonic country, all classes - the working class as well as the elite - opt for free trade. But, in a balance of power context, wherein no single actor on the international scene possesses hegemonic status, the working class will choose protectionism, while the transnational elite will not.

Over centuries, the international system displays a pendulum movement over centuries. The historical record of the past 350 years shows cycles in which there are periods where a nation-state is dominant and has leadership, while there are periods of 'balance of power' in which there is no dominant state, and many nations are similar in their power.

An interesting fact is that while during periods of hegemony, all classes opt for free trade, during periods of balance of power, transnational elite and the working class differ about trade policy. This paper will develop a small paradigm in order to explain the main reasons for their agreements or differences on trade policy.

First this paper emphasizes the importance of social identity in the utility function of all classes. Following Metzl (2019), the main elements defining working-class identity are the symbols of nationalism, which alongside sovereignty, are always part of the identity of the working class. Thus national sovereignty and power influence the sense of well-being of the working class.

However, national identity is not a value assimilated across society in a one-size-fits-all manner. Within each nation-state, the various in-groups - especially the working class and the elite - do not share the same identity.

The literature on 20th century elites pinpoints the interconnection of all elites, and their transnational values. Weber (2008) showed that at the beginning of the 20th century, the elite of Germany and England had connections between them, and shared the same values despite the tensions between the countries, and acted to improve Anglo-German relations: "The British and German ruling elites tried to ease the tensions between the two empires." (p. 49). See also Ciampani and Tolomeo (2015).

Weber showed that militarist nationalism and European transnationalism were not mutually exclusive concepts: militarist nationalism appealed to the working class and transnationalism to the elites. He stressed that the elite of various countries feel related by their culture, and feel themselves to be part of the same group - the transnational elite of Europe. They emphasize humanistic, universal values and do not relate to values such as militarism, power and nationalism.

This is also the position of Lasch (1994). Globalization, according to Lasch, has turned elites into tourists in their own countries. The de-nationalization of society tends to produce a class who see themselves as "world citizens, but without accepting ... any of the obligations that citizenship in a polity normally implies". Their ties to an international culture of work, leisure, information - make many of them deeply indifferent to the prospect of national decline.

Therefore, we obtain a dual social identity. On the one hand, the working class of each country cares about national sovereignty and power. On the other, the elite in each country want a globalized economy with interdependence between countries. The transnational elite identity values internationalism, humanism, and universalism.

Incorporating these following elements: the social identity theory, the concept of national sovereignty for the working class, and the concept of humanism for the transnational elite, permits us to display a small model showing the relation between geopolitics and trade policy.

II. Hegemony, Balance of Power and Trade Policy

The historical record of the past 350 years shows cycles in which there are periods where a nation-state is dominant and has leadership, while there are periods of 'balance of power' in which there is no dominant state, and many nations are similar in their power.

The historical record of the past 350 years also shows cycles in which waves of protectionism alternate with periods of free trade, and these two cycles are correlated: Hegemony is related to periods of free trade while protectionism occurs in periods of balance of power. These facts are well documented. The Navigation Act of 1651 is widely held to have represented the end of effective Dutch commercial hegemony in Europe and to have marked the beginning of the British challenge.

By the end of the second decade of the 19th century, Britain had set about dismantling its own protectionist apparatus and had initiated an era of free trade which lasted as long as the *Pax Britannica* endured.¹

The rise in German power in the 1870s went hand in hand with protectionism driven by nationalistic fervor.² The rise of American power in the pre-World War II

¹ Gilpin (1975) writes that: "Britain's interest lay in universal free trade and the removal of all barriers to the exchange of goods." (p.84).

² Lawson (1983) summarizes the views of Gilpin and Krasner on this issues as follows: "Gilpin and Stephen Krasner suggest that after the 1870s Britain was no longer in a position to prevent Germany, France, and Italy from adopting protective tariffs and destroying an international order in which free trade had been the rule." (pp.317-339).

years was associated with a succession of protectionist measures, whereas the establishment of American hegemony after the war led to the pursuit of free-trade.³

The relationships between protectionist commercial policy, power, nationalism and balance of power have been explored at some length in the works of a number of contemporary political scientists. One of the most widely accepted paradigms linking the structure of the international political system with protectionism is the theory of hegemonic stability.⁴

Kindleberger (1973), following in the footsteps of Frohlich, Oppenheimer and Young (1971), argues that international security is a collective good. Since free trade can arise only in a climate of international security, it is only when some power is dominant enough to enforce security that a regime of free trade will arise. Given the inevitable tendency of weaker states to free-ride on the provision of the collective good by a hegemonic power, the absence of a hegemonic state leads to the erosion of free trade and to the growth of protectionism. Gilpin (1975) writes that "a liberal international economy cannot come into existence and be maintained unless it has behind it the most powerful state(s) in the system.... A liberal economic system is not self-sustaining, but is maintained only through the actions -- initiatives, bargaining, and sanctions of the dominant power(s)."⁵

A related literature, typified by Gallagher and Robinson (1953), considers the "imperialism of free trade."⁶ This process, which purports to explain the development of the world trading system in the presence of a hegemonic power, argues that "the hegemonic power is expected to extend its control -- and the open international trading order-- over local economies by informal or indirect means whenever possible, since this constitutes the cheapest way to create and maintain its predominant position in the world."

In conclusion, the literature relating trade policy to the international system is vast. But the idea of 'imperialism of free trade' and 'collective good' are too general statements. There is a need to pinpoint the essential elements which are the thread between trade policy and the international system. Some of the political scientists stress that in a period of balance of power, keeping with power necessitate to increase foreign reserves. Already Adam Smith laid out the reasons for increasing foreign reserves in periods of balance of power:

The real wealth or poverty of the country ... would depend altogether upon the abundance or scarcity of those consumable goods. But ... they

³ See, for example Calleo and Rowland (1973). Cline (1980) argues that tendencies toward what he calls "neomercantilism" were visible at the end of the seventies, which corresponds to the end of American hegemony in the world system; also see Malmgren (1970).

⁴ A precursor is Hirschman (1945); see also Kindleberger (1975), Whitman (1975), Krasner (1976), Keohane and Nye (1977), Gilpin (1977), MacEwan (1978), Keohane (1980), Wallerstein (1980), and Gilpin (1981).

⁵ Gilpin (1975), p.85. See also Coleman (1969), and Brezis (2003).

⁶ Also see MacDonagh (1962), Moore (1964), Mathew (1968), and Platt (1968, 1973).

are obliged to carry on foreign wars, and to maintain fleets and armies in distant countries. This, cannot be done, but by sending abroad money to pay them with; and a nation cannot send much money abroad, unless it has a good deal at home, Every such nation, therefore, must endeavour in time of peace to accumulate gold and silver, that when occasion requires, it may have wherewithal to carry on foreign wars.⁷

Wallerstein (1980) also emphasized the importance of foreign reserves: "control of an adequate bullion stock was. . . a crucial variable in the struggle between core powers."⁸ Colbert, much before, also claimed: "trade is the source of public finance and public finance is the vital nerve of war." With more foreign reserves available in the economy, the nation-state could increase its success at war, and even in 'balance of power' system refrain from war. Moreover, Kinder and Hilgemann (1964) note that "the duration of campaigns depended on finances."⁹

Today, foreign reserves continues to be an important factor of national sovereignty. As Lampton (2006) noted: "Most outside observers exaggerate China's strength as a seller and underestimate its capacities as a buyer, investor, and aid provider. This is partly because of China's dramatically rising global trade surplus. It holds \$1 trillion in foreign exchange reserves—a significant fraction in U.S. government debt instruments—and surpassed Japan as the holder of the most foreign exchange reserves" (p.121)

In this vein, this paper asserts that the main reason for asking for protectionism is the desire to increase net exports in periods of balance of power in order to increase 'national sovereignty' and thus national power.¹⁰ Requesting a trade surplus (or reparations after war) is one of these means in the hands of a nation to maintain its national sovereignty, especially when the other country is slightly more developed. In periods of hegemony, then, foreign reserves are not necessary, as countries can free-ride on the power of the hegemonic nation-state.

But why do individual citizens care so much about national sovereignty? This is the topic of the next section. We could of course posit that power and national sovereignty have a direct effect on individuals' utility. But to be consistent with the first two chapters of Keynes and with the import of "ideas' vs. 'vested interest', we introduce national sovereignty through 'social identity' as we now present.

⁷ Smith (1937), p. 399.

⁸ Wallerstein (1980), p. 277.

⁹ Kinder and Hilgemann (1964), p. 253.

¹⁰ And in periods of war, requesting reparations is one of these means in the hands of a nation to maintain its national sovereignty, especially when the other country is slightly more developed. In periods of hegemony, then, asking for reparations is not necessary, as countries can free-ride on the power of the hegemonic nation-state.

III. National Sovereignty and National Identity

One of the main shifts in the history of economic theory lay in the introduction of Behavioral Economics in mainstream theory, which opened the floodgates to many other innovative lines of thinking. In consequence, it not only became 'kosher' to speak of culture and psychology in the economic realm, it became 'in'.¹¹

Sociology also slowly penetrated the field of economic theory. In 2000, Akerloff and Kranton introduced 'identity' as an element affecting economic choices. In the field of social psychology, Tajfel developed the 'theory of social identity'. He contended that individuals have an inherent tendency to categorize themselves into one or more "in-groups", building a part of their identity based on membership in that group and enforcing boundaries with other groups.

The social identity theory posits the fact that a person's self-concept and self-esteem derive not only from personal identity and accomplishments, but from the status and accomplishment of the groups to which s/he belongs (Tajfel and Turner, 1979). In their experiments, they have shown that humans have a need for 'us/them' distinctions. Thus, social identity theory suggests that people identify with groups in such a way as to *maximize positive distinctiveness*.

They have shown that social identity leads to discrimination. When being divided into two groups, and asked to split budgets between the two groups, individuals had the choice between giving \$100 to each member of both groups, or receiving \$50 for each person in their group, but only \$10 to the other group. Most individuals chose the second option. Making the other group worse off is more important than making your group better.¹²

Recall that group selection was chosen almost randomly, and in some of the experiments, it was chosen completely randomly by tossing a coin. Yet, the results were significant. If these are the results for a random selection of groups, what happens when the group has some sort of common trait or culture, such as being white? Or being French?

Metzl (2019) discussed discrimination between whites and non-whites. He shows that individuals belonging to a given group can make decisions that are not "rationally" productive for them, just to feel part of the group and to separate themselves from the other group. An example he gives is that young white individuals belonging to the working class who were sick and in need of Medicare, chose "to be

¹¹ In reference to Temin (1997): "Is it Kosher to talk about Culture?"

¹² Moreover, it was shown that those who had been allowed to engage in intergroup discrimination had higher self-esteem than those who had not been given the opportunity to discriminate (Lemyre and Smith 1985, Oakes and Turner 1980).

broke, but not to let the other group get it for free".¹³ They are willing to make choices that harm themselves in order to maintain their class identity (see also Reicher, 2015).

Another clear grouping is the nation itself. One speaks today about the identity of being American: While "Being an American is an element of the self-concept of most Americans", it leads to discrimination and to in-group favoritism.

What are the 'markers' of national identity of the nation? Following Metzl (2019), the main elements defining working-class identity are the symbols of nationalism, which alongside sovereignty, is always part of the identity of the working class. Thus national sovereignty and power influence the sense of well-being of the working class.

However, national identity is not a value assimilated across society in a one-size-fits-all manner. Within each nation-state, the various in-groups - especially the working class and the elite - do not share the same identity.

The literature on 20th century elites pinpoints the interconnection of all elites, and their transnational values.¹⁴ Weber (2008) showed that at the beginning of the 20th century, the elite of Germany and England had connections between them, and shared the same values despite the tensions between the countries, and acted to improve Anglo-German relations: "The British and German ruling elites tried to ease the tensions between the two empires." (p. 49).¹⁵

Weber showed that militarist nationalism and European transnationalism were not mutually exclusive concepts: militarist nationalism appealed to the working class and transnationalism to the elites. He stressed that the elite of various countries feel related by their culture, and feel themselves to be part of the same group - the transnational elite of Europe. They emphasize humanistic, universal values and do not relate to values such as militarism, power and nationalism.

This is also the position of Lasch (1994). According to Lasch, the new elites, through globalization which allows total mobility of capital, no longer live in the same world as their fellow-citizens. In this, they oppose the old bourgeoisie of the nineteenth and twentieth centuries, which was constrained by its spatial stability to a minimum of rooting and civic obligations.

¹³ Medicare might improve life for all groups, but as it would improve the well-being of the non-white group more, working class 'white' Americans actively oppose it.

¹⁴ See Brezis and Temin (1999, 2008).

¹⁵ Indeed Weber brings Britain and Germany's preeminent universities and playgrounds for political and social elites back to life to reconsider whether any truth is left in the old contrast between British liberalism and German illiberalism.

Ciampani and Tolomeo (2015) follow a similar reasoning about the elite: "In effect, the research avenue that focuses on the meetings of the European elites aims to account for the progressive "amalgam" of the European elites' national groups, their coming together both to initiate the processes to form new generations of élites, and to broaden (or restrict) the means of access to decision-making" (pp. 10-11).

Globalization, according to Lasch, has turned elites into tourists in their own countries. The de-nationalization of society tends to produce a class who see themselves as "world citizens, but without accepting ... any of the obligations that citizenship in a polity normally implies". Their ties to an international culture of work, leisure, information - make many of them deeply indifferent to the prospect of national decline.

Therefore, we obtain a dual social identity.¹⁶ On the one hand, the working class of each country cares about national sovereignty and power. On the other, the elite in each country want a globalized economy with interdependence between countries. The transnational elite identity values internationalism, humanism, and universalism.

Let us now turn to the model that analyzes the effects of trade policy, incorporating these following elements: social identity theory, the concept of national sovereignty for the working class, and the concept of humanism for the transnational elite.

IV. The Model

4.1 Introduction

Since the model relates the decisions about trade policy to the international political system, we should first ask when in history did we face a balance of power situation. In 1919, at the time of the Treaty of Versailles, is the international system in a hegemonic or a 'balance of power' system?

The data are presented in Figures 1-8. From 1850 to 1910, there is *Pax Britannica*; the UK has leapfrogged the Dutch, and is the hegemonic power (see Figure 1). After 1945, we are in period of *Pax Americana*, and the US has leapfrogged the UK. From 1945 until 2008, the US is the hegemonic power of the world (see Figure 2).¹⁷

But, during the period 1910-19, the data display that GDP per capita among the main powers are very similar, (although Germany has higher GDP than France from 1900 and on). This is a pure 'balance of power' system which will be de facto until 1945, the end of World War II (see Figure 3).¹⁸

This model will show that in the context of a hegemonic country, all classes - the working class and the elite - opt for free trade and no increase in foreign reserves. However, in a balance-of-power situation, wherein no single actor on the international scene possesses hegemonic status, the working class will choose protectionism, while

¹⁶ See also Brezis and Hellier (2017).

¹⁷ Brezis, Krugman and Tsiddon (1993) present a model explaining endogenously the changes in hegemony, and about the data on the Balance of payments, see Brezis (1995).

¹⁸ The data on population emphasizes a very similar path among the three leaders of the world, but the US has a different path than the three other nations. Although, the demographic transition of France took place before the 19th century, so that the population increase of Germany was much higher. See Figures 1-2.

the elite will not. The model is based on the notions of hegemony, balance of power and social identity presented above. Let us start by modelling social identity.

4.2. The social identity of the elite and the working class

1. The basic framework

There are two social classes and as presented above, each class has its own identity, which has an impact on the individual's utility. One of the main elements defining the working class is its attachment to symbols of nationalism, as 'national sovereignty'.

In opposite, the elite of the various countries feel related by their culture, they are part of the same group --the transnational elite of Europe. They put the emphasis on humanistic values similar in all countries. They do not relate to values as army, power and nationalism.

How national sovereignty affects the utility of the working class? We could, of course, introduce national sovereignty directly into the utility function. In this paper, I try a more "subtle" line of modeling. Following the research presented above, I assume that the working class does not have utility from the size of national sovereignty per se, it is the comparison with the other country which affects utility. If national sovereignty is less than a required amount in competition with another country, then the utility is affected.

2. National Sovereignty for the working class

Let us develop what are the 'markers' of national sovereignty. It is what the theory of international relations denote as power. Power is the only means of maintaining one's sovereignty, of winning at war, or of deterring attack. Thus, I assume that the marker for national sovereignty is power.¹⁹

How to define power? The debates over the definition and measurement of power are endless. Despite the lack of consensus on precise definitions, most scholars of the "realist" school agree that economic and military factors are crucial. We thus begin with the premise that the national sovereignty, i.e. power of a nation depends both on its economic and on its military power. Mathematically, we express this assumption as:

$$NS_i = PW_i = F(EPW_i, MPW_i) \quad (1)$$

¹⁹ The national identity theory have shown that in time of frustration, there are more discrimination. In other words, during time of balance of power, the necessity of net exports surplus and reparations increases in each country.

where NS_i, PW_i, EPW_i, MPW_i are national sovereignty, total, economic and military power respectively. Without loss of generality, we take a Leontief form of relationship between both powers:²⁰

$$NS_i = PW_i = \text{Min} (EPW_i, MPW_i) \quad (2)$$

All suggested measures of economic power are intrinsically ad hoc. The proxy for economic power is total consumption – private and public. A priori, a more natural choice might be output. This choice has the inconvenience that in the case where a country decides to allocate its output to exports and leave very little for consumption, this country would be said to have economic power. Consumption is therefore a more appropriate proxy in the context of our model. Thus:

$$EPW_i = C_i + G_i = c_i \quad (3)$$

where c_i is the output allocated to consumption.

Military power is a function of the stock of military equipment and infrastructure of war owned by the country (planes, missiles, artillery, warships...), but also of the possibility of immediately financing new equipment, and ammunition. The stock of military equipment, as well as the stock of foreign reserves hoarded in the past, M_i is given exogenously at the start of the period and there is no depreciation of materials during periods of peace. The possibility of being ready for war is then a function of the stock of foreign reserves.

Therefore the increase in foreign reserves, denoted by O_i is a factor influencing the military power of a country. (Note that the accumulation of foreign reserves in the past is included in M_i).

We therefore have the specification

$$MPW_i = O_i + M_i \quad (4)$$

Therefore the power of a nation, PW_i is:

$$NS_i = PW_i = \text{Min} (c_i, O_i + M_i) \quad (5)$$

From the national income identity, we have that:²¹

$$Y_i = C_i + G_i + NX_i \quad (6)$$

²⁰ I choose this discontinuous functional form for convenience, and in order to ensure transparency of the results, but any functional form in the class of the CES function yields the same results.

²¹ Recall that investments are equal to the savings of the elite, a small group of size 0 not included in this part.

The flow of foreign reserves and the trade balance are linked by the simple expression:

$$O_i = R_i + NX_i \quad (7)$$

where O_i is the increase in foreign reserves, NX_i is the current account surplus, and R_i represents the foreign reserves paid by a foreign country (only a country having won a war can ask for foreign reserves).

In consequence we have:

$$NS_i = PW_i = \text{Min} (c_i, R_i + y_i - c_i) \quad (8)$$

where $y_i = Y_i + M_i$.

3. Objectives and Payoffs for the working class

There are two countries: Country 1 and Country 2. Let us define the country with slightly higher output as country 2. There is no hegemonic nation in the world. Each country is represented by an individual of the working class, and which faces the following payoffs:²²

$$V_1 = \begin{cases} c_1 & PW1 \geq PW2 \\ c_1 - K & PW1 < PW2 \end{cases}, \quad (9)$$

Equation (9) is presented for country 1. For country 2, it is the same equation, with the suffixes inverted. Equation (9) 'translates' the notion of social identity so that the French working class would feel 'insulted' by an equivalent quantity of size K when the power of Country 2 is greater than the one of Country 1. In equilibrium, the countries choose c and O as to maximize (9). They also choose the amount of foreign reserves, R (in case of war). Remember that we assume $y_2 \geq y_1$.

Lemma 1.

Given the possibility of asking for foreign reserves of size R , consumption which lead to maximum power is:

$$c_i^* = (y_i + R_i) / 2 \quad (10)$$

Proof.

Equate the two elements of equation (8). See also Figure 4.

²² If we want to describe history, let us say that France is country 1, and Germany country 2 after World War I, since as shown in Table 1, GDP of Germany is higher than that of France. Moreover, France could ask for reparations, since it was a winner at war.

Lemma 2

Given that $K \gg y_1/2$ then the optimal amount of foreign reserves is:

$$R_1^* = -R_2^* = (y_2 - y_1)/2 \quad (11)$$

And therefore we get:

$$c_1^* = c_2^* = (y_1 + y_2)/4 \quad (12)$$

$$NX_1^* = (3y_1 - y_2)/4 - M_1 \quad O_1^* = (y_1 + y_2)/4 - M_1 \quad (13)$$

$$NX_2^* = (3y_2 - y_1)/4 - M_2 \quad O_2^* = (y_1 + y_2)/4 - M_2 \quad (14)$$

Proof

The equilibrium is a perfect Nash equilibrium of a one period decision game. In the case of balance of power, which is defined such as $y_2 - y_1 \leq c_1$, then the Nash equilibrium necessitates that $PW_2 = PW_1$.

In consequence, given equation (10), we get the equations (11) to (14) and especially that $c_1^* = c_2^* = (y_1 + y_2)/4$. By substituting equations of power, we get equation (10).

QED

Let us then turn to Proposition 1.

Proposition 1

When countries are in a balance of power regime, with output quite similar, then in the unique equilibrium, the working class (and the politicians listening to the working class) will choose to increase their national power by hoarding foreign reserves until they attain maximum power.

The transnational elite who put the emphasis on humanism, i.e., consumption and economic growth of the world, choose not to hoard foreign reserves and to choose free trade.

Discussion

In case of will for foreign reserves, then, the optimal size of foreign reserves is:

$$R_1^* = -R_2^* = (y_2 - y_1)/2 \quad (11)$$

To conclude, in case of Balance of power, and when one takes into consideration the aspirations of the working class, then it is optimal to ask for harsh reparations. This was the point of view of Clemenceau, in the name of the "people of France". The optimal size of foreign reserves is given by equation (11). The transnational elite put the emphasis on humanism, i.e., consumption and economic growth of the world. Moreover, recall that the elite are the individuals who are investing as we present in the next section.

4.3 Objectives and Payoffs for the transnational elite

The transnational elite put the emphasis on humanism, i.e., consumption and economic growth of the world. Moreover, recall that the elite are the individuals who are investing. So their utility function is:

$$V_E = U(C_E, I) \quad (15)$$

where C_E is the consumption of the elite, and I are investments, since the savings of the elite finance the investment of the nation. In their utility, there is no national sovereignty so that foreign reserves are not important. And since we have:²³

$$S = I + NX \quad (16)$$

Then, they are better off, when hoarding foreign reserves are zero.

Proposition 2

In a balance of power system, the transnational elite choose not to hoard foreign reserves.

4.4. Hegemony

How do we define hegemony, in our framework? The intuitive answer is that the power of this country is so important that without hoarding foreign reserves, no country compares itself to this country, and no country think to start a war with her. In this case, for all countries under the influence of this hegemonic state, it is easy to show that we get the following proposition:

Proposition 3

In a hegemonic system, the goal of the working class, as well as the transnational elite is increasing consumption (and investments). Countries aim at free trade, and no foreign reserves; Countries will not squander resource in an attempt to increase reserves. Recall that indeed the facts presented in Section II show that periods of hegemony were correlated with periods of free trade.

Proof (next version)

V. Conclusion

This paper seeks to explain the disagreements between classes on trade policy. I show that the various in-groups' national identities between the working class and the

²³ Government expenditures are included in the maximization of the working class.

elite explain their opposing views on trade policy. For the working class, national sovereignty is essential, despite "the apparent inability of the intelligentsia to understand and appreciate power-problems". This difference in identity can explain why the optimal policy for the working elite differs from that of the elite.

This paper has shown that in the context of a hegemonic country, all classes, the working class and the elite opt for no foreign reserves. But, in a "balance of power" situation, wherein no single actor on the international scene possesses hegemonic status, the working class will choose foreign reserves, while the elite will not.

What, then, does this paper teach us? There are two main conclusions:

The first is that if we ask why 1945 is so different from 1918; and why the peace treaties after 1945 differ from those of the 1919 Treaty of Versailles, the answer is that in 1945, there was a hegemonic state - the US - while in 1919, the world was in a balance of power system. As this paper has shown, this fact changes countries' entire perspective on free trade. Under a hegemonic system, there is no "Clemenceau" to ask 'in the name of the people' for harsh reparations, in order to enhance national identity. In periods of hegemony, there is room for coordination, for the UN, for the GATT, for the Marshall plan; There is no room for tariffs, harsh reparations or hoarding foreign reserves.

The second main conclusion of this paper is that the small framework presented in the previous section helps us to understand the policy of Trump in the US. Trump is the outcome of a world of balance of power between the US and China.

Indeed, the hegemony of the US extended from 1945 until 2010 (Stiglitz told me that it was 2015). Since then, we are back in a balance of power between the US, China, Russia, Iran and maybe Turkey. From 2010-15 and on, the world has entered a new balance of power system. Therefore, this paper emphasizes why the working class starts embracing protectionist policies, while the elite are against this policy.

References

- Akerlof, G.A and R. Kranton. 2010. *Identity Economics*. Princeton University Press
- Akerlof, G.A and R. Kranton. 2000. "Economics and Identity". *The Quarterly Journal of Economics*. 115 (3):715-753.
- Bar-Siman Tov, Y. 2004. *From Conflict Resolution to Reconciliation* Oxford University Press.
- Binkley, 1929. "Ten Years of Peace Conference History" *The Journal of Modern History* 4: 607-29.
- Brezis, E.S. and J. Hellier. 2017. "Social Mobility at the top and the Higher Education System" *European Journal of Political Economy*, (52): 36-54.
- Brezis, E.S. and P. Temin. 2008 "Elites and Economic Outcomes" in S. Durlauf and L. Blume, eds. *New Palgrave Dictionary of Economics*.
- Brezis, E.S. 2003. "Mercantilism", *Oxford Encyclopedia of Economic History*.
- Brezis, E.S. and P. Temin. 1999. *Elites, Minorities and Economic Growth*, eds., North Holland, Elsevier
- Brezis, E.S. 1995. "Foreign Capital Flows in the Century of Britain's Industrial Revolution: New Estimates, Controlled Conjectures", *Economic History Review*, February, pp.46 67
- Brezis, E. S., Krugman P. and D. Tsiddon. 1993. "Leapfrogging in International Competition", *American Economic Review*, December, pp.1211-19.
- Brito, D., and Intriligator, M. 1976. "Strategic Weapons and the Allocation of International Rights," in John V. Gillespie and Dino A. Zinnes, *Mathematical Systems in International Relations Research* (New York: Praeger).
- Calleo, D. P. and Rowland, B. M. 1973. *America and the World Political Economy* Bloomington: Indiana UP.
- Ciampani, A. and R. Tolomeo. 2015. "The need for an interpretive framework in the history of European Élites." In *National Identities and Transnational European Élites*, edited by A. Ciampani and R.Tolomeo, 5-13. Soveria Mannelli: Rubbettino Editore.
- Cline, R.S. 1980. *World Power Trends and US Foreign Policy for the 1980s*. Routledge.
- Coleman, J. S. 1986. "Social Theory, Social Research and a Theory of Action," *American Journal of Sociology* 91(6), 1309-1335.
- Gallagher, J. and R. Robinson. 1953. "The Imperialism of Free Trade," *Economic History Review*, 6.
- Gilpin, R. 1975. *US Power and the Multinational Corporation*.
- Gilpin, R. 1977. "Economic Interdependence and National Security in Historical Perspective," in Klaus Knorr and Frank N. Trager, eds., *Economic Issues and National Security* (Lawrence: Regents Press of Kansas)
- Gilpin, R. 1981. *War and Change in World Politics* (New York: CUP)

- Heckscher, E. F. 1965. *Mercantilism* (2nd edition, ed. E. F. Söderlund).
- Hirschman, A. O. 1945. *National Power and the Structure of Foreign Trade* (Berkeley: University of CP).
- Katiforis, George. 2004. "Keynes as a Bourgeois Marxist." In *The Rise of the Market: Critical Essays on the Political Economy of Neo-liberalism*, edited by Philip Arestis and Malcolm C. Sawyer, 181-224. Northampton: Edward Elgar Publishing, Inc.
- Keohane, R. and Nye. 1977. *Power and Interdependence: World Politics in Transition* (Boston: Little Brown).
- Keohane, R. 1980. "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).
- Keynes, J. M. 1936. *The General Theory of Employment, Interest and Money*.
- Keynes, John M. 1931. *Essays in Persuasion*. London: Macmillan and Co. Limited.
- Keynes, J. M. 1919. *The Economic Consequences of the Peace*.
- Kinder, H., and Hilgemann, W. 1964. *The Anchor Atlas of World History* (New York: Anchor).
- Kindleberger, C. 1973. *The World in Depression, 1929-1939* (Berkeley: UCP).
- Kindleberger, C. 1975. "The Rise of Free Trade in Western Europe, 1820-1875," *Journal of Economic History*, XXXV, 20-55.
- Krasner, Stephen D. 1976. "State Power and the Structure of International Trade," *World Politics* 28.
- Lake, D.(1983), "International Economic Structures and American Foreign Economic Policy, 1887-1934," *World Politics*, 35: 517-543.
- Lampton, D. 2006. "The Faces of Chinese Power" *Foreign Affairs* 86(1)
- Lasch, C. 1994. *The Revolt of the Elites: And the Betrayal of Democracy*, W. W. Norton & Company.
- Lawson, Fred H. 1983, "Hegemony and the Structure of international trade reassessed: a view from Arabia," *International Organization*, vol. 37, p.317-339.
- Lemyre, L. and P. Smith. 1985. "Intergroup discrimination and self-esteem in the minimal group paradigm" *Journal of Personality and Social Psychology* 49: 660-670.
- MacDonagh, Oliver 1962, "The Anti-Imperialism of Free Trade," *Economic History Review*, 2d series, 14.
- MacEwan, A. 1978. "The Development of the Crisis in the World Economy," in B. Steinberg *et al*, eds., *US Capitalism in Crisis* New York: Union for Radical Political Economists.
- Malmgren, H. 1970. "Coming Trade Wars? Neo-Mercantilism and Foreign Policy," *Foreign Policy*, 115-143.

- Mantoux, E. 1946. *The Carthaginian Peace: or the Economic Consequences of Mr. Keynes*. New York: Oxford University Press
- Mathew, W. M. 1968. "The Imperialism of Free Trade: Peru, 1820-70," *Economic History Review*, 2d series, 21.
- Metzl J. 2019. *Dying of Whiteness: How the Politics of Racial Resentment is Killing America's Heartland*. Hachette
- Moore, R. J. 1964-5. "Imperialism and 'Free Trade' Policy in India, 1853-4," *Economic History Review*, 2d series, 17.
- Oakes, PJ and JC Turner. 1989. "Social Categorisation and Intergroup behavior" *European Journal of Social Psychology* 10: 295-301.
- Organsky, A. F. K., 1968. *World Politics* New York: Knopf.
- Platt, D. C. M. 1968. "The Imperialism of Free Trade: Some Reservations," *Economic History Review*, 2d series, 21.
- Platt, D. C. M. 1973. "Further Objections to an 'Imperialism of Free Trade,' 1830-1860," *Economic History Review*, 2d series, 26.
- Rowland, B.M. 1976. *Balance of Power or Hegemony: The Interwar Monetary System* - New York: New York University Press.
- Skidelsky, R. 2010. *Keynes: The Return of the Master*
- Skidelsky, Robert. 2003. *John Maynard Keynes 1883-1946, Economist, Philosopher, Statesman*, Macmillan, London
- Smith, A. 1937. *The Wealth of Nations* (New York: Modern Press).
- Tajfel, H. and J. Turner. 1979. "An Integrative theory of inter-group conflict" in WG Austin and S Worchel (eds), *The Social Psychology of Intergroup Relations*. Monterey, Brooks.
- Taussig, F. (1892). *The Tariff History of the United States* New York: Capricorn Books, 1964 edition.
- Temin, P. 1997. "Is it Kosher to Talk about Culture?" *The Journal of Economic History*, 57 (2): 267-287
- Trachtenberg, M. 1979. "Reparations at the Paris Peace Conference" *The Journal of Modern History* 51: 24-55.
- Veblen, T. 1899. *The Theory of the Leisure Class*. New York: Macmillan.
- Viner, J. 1930. "English Theories of Foreign Trade Before Adam Smith," *Journal of Political Economy*, XXXVIII, 239- 310 and 404-57.
- Viner, J. 1955. *Studies in the Theory of International Trade* (London: Allen and Unwin).
- Viotti, P. and Kauppi. M. 1987. *International Relations Theory* (New York: MacMillan).
- Wallerstein, I. 1980. *The Modern World System, vol.2: Mercantilism and the Consolidation of the European World Economy, 1670-1750* New York: Academic Press.

Weber, Thomas. 2008. *Our Friend "The Enemy": Elite Education in Britain and Germany before World War I*. Stanford: Stanford University Press.

Whitman, M. v. N. 1975. "Leadership without Hegemony," *Foreign Policy*, no. 20.

Wilson, C. 1949. "Treasure and Trade Balances: the Mercantilist Problem" *Economic History Review*, 2.

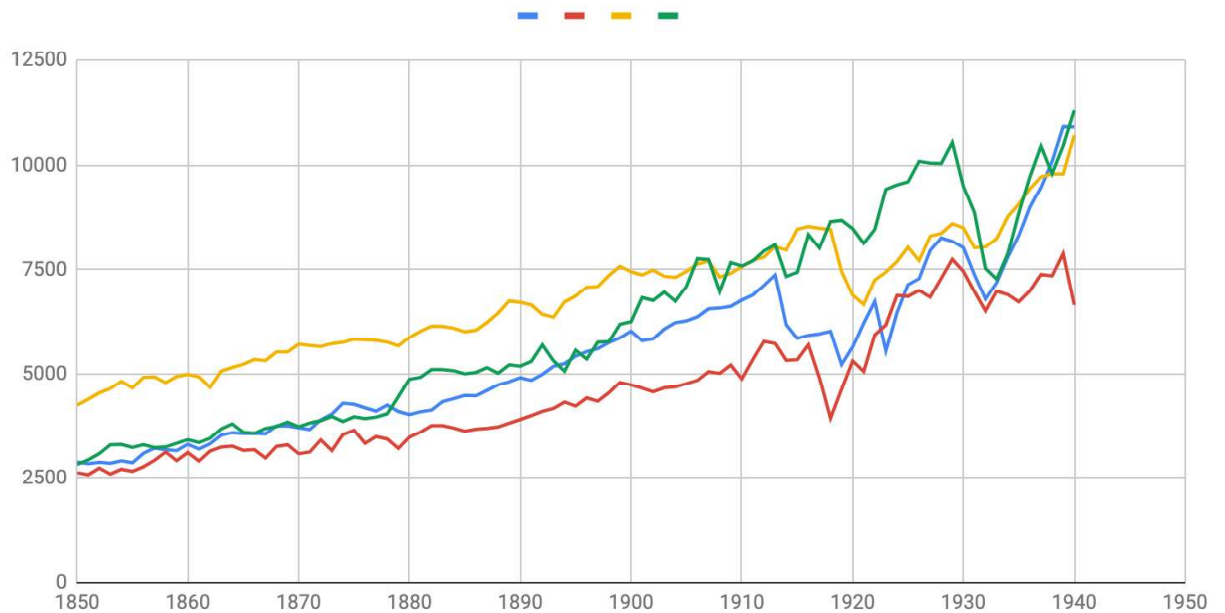
Table 1.

Year	Germany	France	United Kingdom	United States
GDP per capita in 2011 US\$				
1860	3312	3113	4988	3425
1870	3715	3086	5716	3736
1880	4023	3488	5879	4866
1890	4904	3909	6711	5184
1900	6029	4731	7446	6252
1910	6763	4878	7567	7586
1920	5647	5309	6881	8485
1930	8027	7455	8504	9490
1940	10914	6650	10716	11307
1950	7840	8531	10846	15241
Population, in thousands				
1850	33746	36350	27181	23580
1860	36049	37300	28888	31839
1870	39231	38440	31400	40241
1880	43500	39045	34623	50458
1890	47607	40014	37485	63302
1900	54388	40598	41155	76391
1910	62884	41224	44916	92767
1920	60894	39000	46821	106881
1930	65084	41610	45866	123668
1940	69835	41000	48226	132637
1950	68375	42518	50127	152271

Source: Maddison.

Figure 1: Hegemony of Britain: 1850-1910

Maddison data - GDP per capita - 1850-1940

**Figure 2: Hegemony of the US: 1945-2008.**

Maddison Data - GDP per capita, index set at 100 for 1850

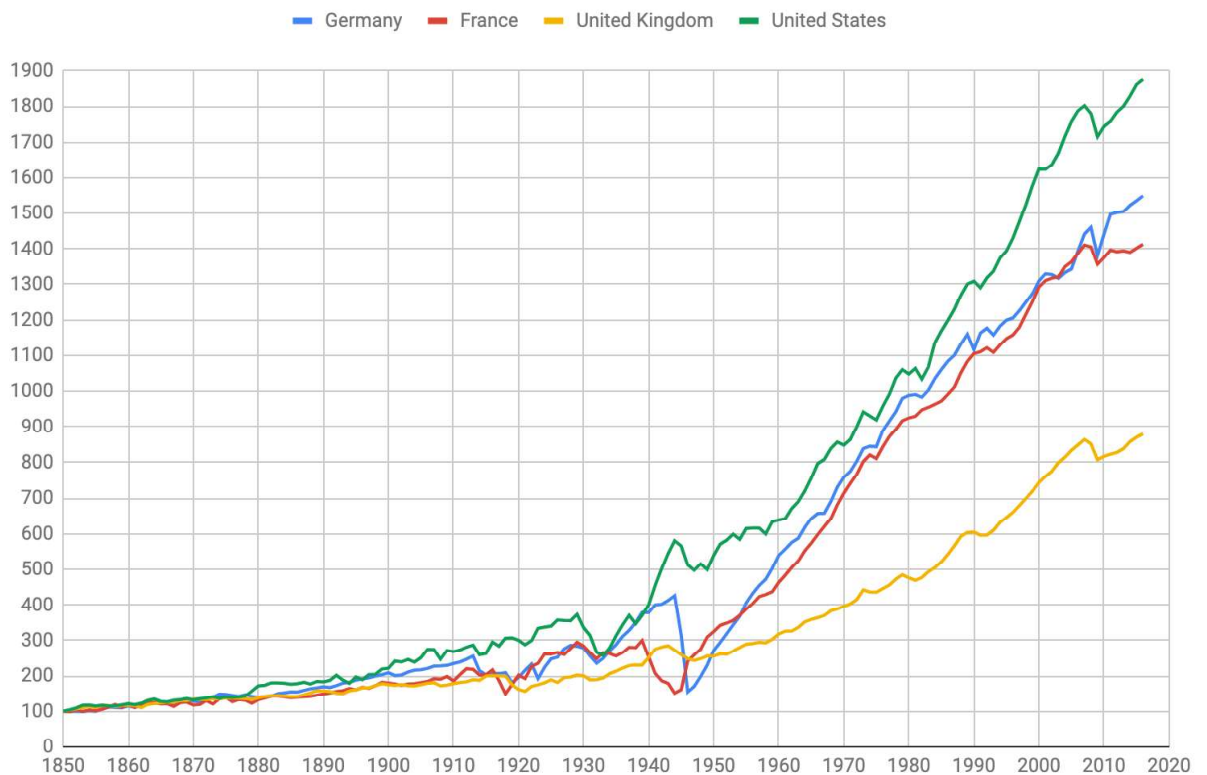


Figure 3. Balance of Power: 1910-1945.

Maddison data - 1910- 1960

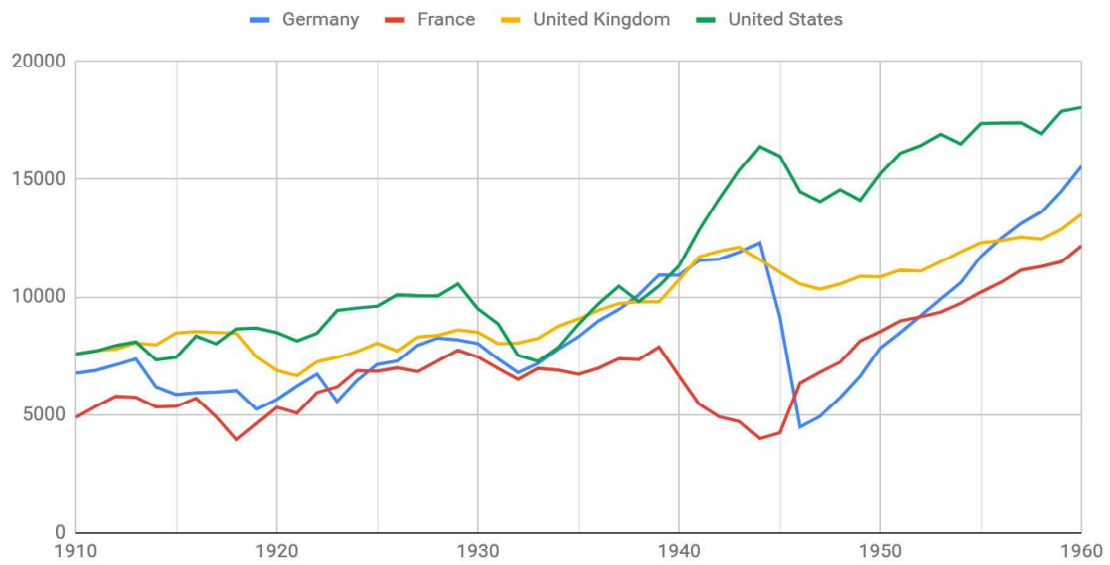


Figure 4 – Equilibrium

