The Theoretical Evolution of International Political Economy
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The Theoretical Evolution of International Political Economy

A Reader

THIRD EDITION

EDITED BY DAREL E. PAUL and ABLA AMAWI
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It has been nearly twenty years since the second edition of this book was assembled. Much has changed in international political economy (IPE) since then, particularly its theoretical development. While the classics remain the classics, the field’s theoretical landscape has changed in response to the trials and tribulations of globalization since the mid-1990s as well as under the influence of theoretical trends across the social sciences more broadly. In a 2007 article expanded into a 2008 book, Jerry Cohen launched a vigorous debate throughout IPE with his observations of a theoretical divide between an “American school” and a “British school” counterpart, two approaches (as they say) separated by a common language. The argument generated numerous responses collected in special issues of Review of International Political Economy and New Political Economy, two of the field’s leading journals. Edited volumes were assembled to advance the debate. The robust theoretical heterogeneity of IPE was on full display.

This third edition of *The Theoretical Evolution of International Political Economy* is composed in the afterglow of that debate. The core of the reader remains as it has been since the first edition, dedicated to an explication of IPE’s three dominant traditions of liberalism, economic nationalism, and Marxism. The classical readings were expanded from the second edition to capture more of the richness of the pre–World War I inheritance but otherwise left mostly intact. Significant revision has been performed to the remainder of the text, however. Some changes were motivated by new directions in which the field has moved since the 1980s and 1990s. Other changes were spurred by a desire to include works that have since the mid-1990s proven themselves as “new classics” or had not yet been written. The biggest changes were the removal of two empirical topics of special interest to the American school of IPE—hegemonic power and stability, and international regimes—together with the addition of two new sections devoted to feminism and Green theory. Hopefully, these choices continue to fulfill the
classroom needs of scholars and teachers while simultaneously expanding the representation of the wealth of IPE theory across the transatlantic divide.

It must be admitted that the departure of George T. “Sam” Crane from this project has also influenced the revisions in this third edition. Sam has been a respected colleague at Williams College since my arrival there in 2001 and he brought me on to this project when it was in its infancy. As the undertaking stalled and restarted during the late 2000s, Sam heard a call from intellectual pastures new and decided to entrust his hard work and the reputation of this respected volume to Abla and me. We hope that we have met the challenge and served Sam’s legacy well. In addition, we thank Ann Towns, Helen Kinsella, and three anonymous reviewers for their helpful suggestions and comments along the way, as well as Tara Fischbach for her valuable research assistance. Darel dedicates this volume to Michael Paul, my own little Joseph and the consolation of my old age. Abla dedicates this volume to Tara Fischbach, my daughter and the light in my eyes, as well as to my family who have always supported me.

Darel E. Paul
Williamstown, MA
April 2013
The Theoretical Evolution of International Political Economy
Introduction

Theories of International Political Economy

What Is International Political Economy?

Edgar Fielder, former US assistant secretary of the treasury, once said, “Ask five economists and you’ll get five different answers—six if one went to Harvard.” Some version of this old joke applies to efforts to define international political economy (IPE) today. In particular, political economy as an academic field of research lives two radically separate lives giving rise to two radically different families of definitions. Within economics and a few political science departments strongly oriented toward quantitative research methods, the field is defined exclusively as “positive political economy”—rational choice, formal modeling, and neoclassical microeconomic theory. This is the kind of approach one encounters in the *Journal of Political Economy*, for example, one of the oldest and most prestigious academic journals in the world. A very different understanding of political economy animates the field in the other social sciences, especially political science and international relations. Here scholars largely eschew formal modeling in favor of case studies; embrace a rich methodological and theoretical diversity that includes structural approaches from realism to Marxism; and marginalizes the dominant research themes of positive political economy such as political business cycles, uncertainty, and institutional voting rules in favor of state power, structural change, and systemic outcomes.

Yet even within the field of IPE, political economy is understood in two rather different ways. The dominant approach is one that sees political economy lying at the crossroads of the study of politics and economics, defined as the mutual interaction of states and markets. This is the definition used by the most popular IPE textbooks written by the field’s most prominent scholars. For example, the

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1 “We can view international political economy as the intersection of the substantive area studied by economics—production and exchange of marketable means of want satisfaction—with the process by which power is exercised that is central to politics.” Robert O. Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984), 21. Robert Gilpin goes further when he states that IPE questions “how the state and its associated political processes affect the production and distribution of wealth and, in particular, how political decisions and interests influence the location of economic activities and the distribution of costs and benefits of these activities. Conversely, these questions also inquire about the effect of markets and economic forces on the distribution of power.
eternally popular reader *International Political Economy: Perspectives on Global Power and Wealth* edited by Jeffry Frieden, David Lake, and Lawrence Broz defines IPE as “the study of the interplay of economics and politics in the world arena” where economics is understood as “the laws of the marketplace” and politics as the processes that generate “government policy.” Benjamin Cohen, in the introduction to his authoritative four-volume edited collection of classic works in the field, likewise defines IPE as “a marriage of two disciplines, integrating market studies and political analysis into a single field of inquiry.” By this “states and markets” approach, IPE seeks to explain how political power shapes economic outcomes and how economic forces influence political action. Although divergent beliefs are held as to the direction and strength of the relationship between politics and economics, exploring their interconnection is the stuff of political economy.

There is a second conceptualization of IPE, less influential in the United States yet more so outside it, which moves away from states as the signal actors and markets as the foundational institution of the international political economy. Instead it shows a greater interest in global structures of political-economic power and a greater affinity with heterodox strains of economic thought that come together to define the object of study as “globalization” or even “capitalism.” Thus, the popular *Global Transformations Reader* by David Held and Anthony McGrew, presenting excerpts of a full fifty articles on globalization, takes as its object of study “world order” in toto, of which states and markets form but a part. Frank Lechner and John Boli, whose *Globalization Reader* has gone into a fourth edition, also speak of “a new global society, not just a world economy” driven by the expansion and development of capitalist social relations worldwide and insist that one must embed the latter in the former if one is to understand either. Not surprisingly, such an understanding of IPE is much more inclusive of the work of scholars outside the United States and outside the disciplines of political science and economics; surely not coincidentally, Held


and McGrew are both British international relations scholars while Lechner and Boli are American sociologists.

In a 2006 study of undergraduate IPE syllabi in departments of political science at both public and private universities and colleges throughout the United States, one finds that approximately two-thirds of the courses reflected the “states and markets” approach while only some 10 percent took the “globalization” approach. In the United Kingdom, on the other hand, IPE tends strongly toward the latter. While the “states and markets” approach privileges state behavior, system governance, and causal relationships between variables, the “globalization” approach treats states as but one of many important actors, adopts a critical social scientific orientation that seeks both to explain and to transform social structures, and rejects the possibility as well as the desirability of separating positive from normative questions.

Much of the difference between these two broad approaches is rooted in the varied pathways taken by scholars seeking to reunite what was separated at the end of the nineteenth century. Until the 1870s, everyone studying the production, consumption, and distribution of wealth studied “political economy” and the leading textbooks of the day—particularly David Ricardo’s *Principles of Political Economy and Taxation*, later superseded by John Stuart Mill’s *Principles of Political Economy*—reflected the name. Under the banner of the “marginal revolution,” however, political economists sought to become more mathematical, positive (as opposed to normative), individualist, and deductive, all toward the goal of becoming more “scientific.” Not only were power and questions of political theory removed from consideration. So, too, were law, culture, collective actors and social institutions beyond the market. In 1890 the leading textbook in the field became Alfred Marshall’s *Principles of Economics*, and political economy as a field of knowledge entered its eclipse. For decades afterward, only those working from a Marxist lineage continued to use the label.

That classical period of political economy was deeply interdisciplinary. Consider for starters the great classical political economists themselves. Adam Smith was a professor of moral philosophy; David Ricardo, an investment banker and British Member of Parliament; Thomas Malthus began his adult life as an Anglican priest; John Stuart Mill, a philosopher, colonial bureaucrat, and British MP; Friedrich List was a newspaper editor and diplomat; and Karl

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Marx, a philosopher, a founding father of sociology, and professional revolutionary. The field had to be interdisciplinary because it constituted an effort to understand the inner workings of a new kind of social order that emerged first in Britain in the late eighteenth century and then in parts of Western Europe and North America in the early nineteenth. Smith called it “commercial society” and Marx labeled it “bourgeois society.” Today we often refer to it broadly as capitalism, with political economy as the pursuit of understanding its inner workings. Where did the new wealth of the Industrial Revolution come from? How was it distributed? Why was this new opulence combined with such tremendous poverty? How did the state and powerful social interests shape these processes? How should they?

In the United States, political economy was reconstituted in the academic mainstream by international relations (IR) scholars rebelling against the sharp separation of the disciplines of political science and economics. In the 1970s, Robert Keohane and Joseph Nye led the rebellion against realism and its theoretical domination of IR, which they saw as overly focused on states and the role of military force. By that time, the international economist Richard Cooper had already popularized the idea of interdependence and its increasing limitation of the policy freedom of states.8 Likewise, the economist Raymond Vernon was writing on the growing role of transnational corporations actively limiting the ability of formally sovereign states to exercise power even within their own territorial boundaries.9 Keohane and Nye developed these earlier forays into concepts such as transnational relations and, especially, complex interdependence, which create not only new economic connections but new power configurations based upon asymmetrical dependencies between states in the international system. Shoving military power off its pinnacle, Keohane and Nye raised up economic forms of power such as control over natural resources, exploitation of asymmetrical trade dependencies, or the direction of international trade and capital flows by transnational corporations.10 Important early interlocutors such as Robert Gilpin and Stephen Krasner defended the continuing analytic centrality of both state power and state interests in the midst of the rise of new

economic issues to prominence. Certainly the hands of the state are constrained in novel ways by the processes highlighted by Keohane and Nye, they argued. Yet the structure of the international economy continued to be determined first and foremost, as it always must be, by state power and interstate relations.\(^\text{11}\)

What is important is less the theoretical and empirical clashes between nascent schools than the establishment of IPE in the United States as a dialog between them over the continuing centrality of the state to international economic relations. This became a lasting template for the field and explains why American IPE tends to appear as a fusion of international economics and international relations.\(^\text{12}\) Keohane in particular set the tone of IPE by his particular integration of liberal economics and international relations realism. Gilpin and Krasner certainly differed in important ways, but they, too, embraced the field as such a fusion. The relative weight assigned by any particular scholar thus served to place them in either the liberal or realist camp. Of course, in its early days liberal IPE was perhaps better understood (as Keohane himself did) as modified structural realism, further reinforcing IPE’s international relations patrimony. In a less charitable rendering, some see American IPE suffering from a “shackling” to international relations.\(^\text{13}\) The field certainly continues to exist, in the US at least, primarily as a “subdiscipline within political science.”\(^\text{14}\)

IPE’s very different historical emergence outside the United States establishes a rather different character of the field in the rest of the English-speaking world. The IR scholar Susan Strange played a central role in the founding of the field in Britain in the early 1970s, both intellectually and institutionally. Like Keohane and Nye around the same time, Strange noticed increasing interdependence, the rise of transnational relations, and the growing challenges of international cooperation, made all the more difficult to understand and address due to the “mutual neglect” that IR and international economics showed one another.\(^\text{15}\) As a response, in 1971 she helped establish the

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International Political Economy Group as a multidisciplinary research and policy network across the UK that still exists as a section within the British International Studies Association. In Canada, the IR scholar Robert W. Cox played a similar founding role. With professional roots in the International Labor Organization, Cox helped place social class and transnational social order, rather than simply the state, at the core of the globalization approach. Cox’s adoption of many ideas of the Italian Communist Antonio Gramsci regarding the interplay of ideas and material forces even established the foundation for what some call the neo-Gramscian school of IR and IPE.  

Of course, there is more to the origins of the globalization approach than its distinct founding fathers and mothers. The fact that political science has not been the parent discipline of IPE’s globalization approach has made it far broader than a fusion of politics and economics could render. In Britain, international relations is often a distinct academic field organized quite independently from departments of politics. Economic history has also been especially important to the globalization approach; while nearly defunct in the United States as a subfield of economics, whole departments dedicated to it continue to exist in the UK and strongly influenced the establishment of IPE there. Finally, heterodox economic approaches have long found much greater respect and influence outside the US and have thus found a place in IPE. In particular, a Marxist-influenced sense of structural, rather than individual, power animates the globalization approach.

Such differences between the states-and-markets and globalization approaches beg the question of whether enough overlap exists to establish a coherent field of knowledge, much less an academic discipline. One response is simply to praise the multiplicity of epistemological, ontological, and methodological premises as welcome contributors to a “rather open-ended and eclectic intellectual enterprise.” While some claim this diversity lays the foundation for a constructive “global conversation,” others see a gap between approaches.

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so vast that such conversation amounts to nothing more than a “dialogue of the deaf.” While we might all agree that an empirical terrain called the international political economy exists, does IPE? That is, does the intellectual enterprise add up to anything? And more to the point, does IPE as a coherent theoretical project exist, something that could experience and reflect—per the title of this book—theoretical evolution?

Back in the 1970s, IPE was built (or, in light of its historical antecedents, rebuilt) to wrestle with what Cohen has referred to as “the Really Big Question” of global systemic stability and transformation, with a special emphasis on the perennial liberal interest in international cooperation. The states-and-markets approach, which largely but not wholly enfolds liberalism and realism, continues in this pathway. The globalization approach, on the other hand, organizes IPE around what Helge Hveem has dubbed “the Other Big Question” of “the asymmetric distribution of power and of wealth, and its consequences,” what Susan Strange famously shorthanded as “Cui bono? Who benefits?” This is the animating force behind much, but certainly not all, Marxist and social constructivist work.

Seeing the two branches of IPE as organized around two somewhat different questions and purposes helps us grasp how the branches both maintain their separation while nonetheless remain connected to the same tree. It also suggests how and why different theoretical traditions speak (or not) to one another, and how theoretical pluralism defines theoretical evolution and progress over time.

**Political Economy Roots**

Without leaning toward either the states-and-markets or the globalization approach, this volume embraces Susan Strange’s description of IPE as “a vast, wide open range where anyone interested in the behavior of men and women in society could roam just as freely as the deer and the antelope…. no fences or

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boundary-posts. According to Strange, it was exactly this character of being the “one small corner of social science [which] is still open and unenclosed” that made it so attractive to her, and to so many scholars and students following in her wake. This was, of course, precisely the character of political economy when it was established as a field of inquiry in the eighteenth and nineteenth centuries. In the face of novel economic and social developments including the rise of markets, urbanization, industrialization, and colonialism, research then as now focused not only on how material plenty was produced, distributed, and consumed but also how social actors exercised power to order such processes toward their own ends. This makes questions of production and consumption inherently political as well as economic. Answers are social and thus collective far more than they are individual, implicating social institutions as expansive as global markets and imperial orders down through states and firms to families and the individual human body. Moreover, there are no power-free institutions in human society. Even those classical liberals who claim the market to be a free and spontaneous product of nature concede the necessity of the state to establish the legal parameters of property, contract, and the use of violence. Politics is always present, particularly formulated through and wielded by the state. In the view of Adam Smith, political economy is “a branch of the science of a statesman or legislator” directed toward both individual and social wealth. True to a classical understanding of the science of man, political economy was inevitably a study of justice and right as well. Karl Marx saw political economy’s concrete footings in political struggle and ethical choice. From abstract philosophy down to the most mundane of public policies, one way of life is chosen over another, one set of values placed above its rivals, one group of interests universalized for all. In Marx’s view, despite political economy’s “worldly and wanton appearance [it] is a true moral science, the most moral of all the sciences.”

The Rise and Fall of Mercantilism

The earliest systematic theorizing in political economy is that of the classical mercantilists stretching from the sixteenth to the nineteenth centuries, with their greatest prominence and development from the early seventeenth to mid-eighteenth centuries. Breaking with their scholastic predecessors in the medieval period, classical mercantilists abandoned the pursuit of universal good

under transnational Christendom in favor of national gain under the power of centralized states. In the words of the historian Perry Anderson, mercantilism is “a theory of the coherent intervention of the political State into the workings of the economy, in the joint interests of the prosperity of the one and the power of the other.”26 Not surprisingly, its greatest influence and theoretical development, such as it was, occurred in Britain and France, the first and most successful absolutist states to rise in early modern Europe. Mercantilist literature was dominated in the classical period by practical men of commerce (Britain) and state administration (France) keen to discern how power and wealth could be captured for their side and denied their rivals.

For early mercantilists, wealth inhered in bullion, processed gold and silver held in the public treasury. While crude “bullionist” forms of mercantilism equated wealth with the accumulation of bullion itself, more sophisticated writers saw national stores of precious metals as important reflections of national wealth. A larger money supply was thought to encourage trade, production, and employment. In an era prior to paper money and central banks, specie was also essential as a store of wealth and an efficient means to raise tax revenues. States could then spend such revenues on all manner of projects designed to increase their own power as well as the wealth of prospective taxpayers, including: transportation infrastructure to cultivate a unified national economy; state bureaucrats to staff centralized systems of justice and administration; and military forces to capture foreign economic resources and defeat the state-building projects of rival monarchs.

Over time, mercantilists focused less on retaining specie domestically and more on its international flow. Writers such as Thomas Mun argued that laws preventing the export of monetized gold and silver were actually harmful to Britain’s economy. Sometimes money needed to be spent (exported) today so that more could be made (imported) tomorrow. What really mattered was the accumulation of specie over time, a process governed by the national balance of payments. Thus rather than restrict the export of bullion, later mercantilists argued that better state policy was to encourage persistent trade surpluses, which would generate an associated specie inflow.

Despite their reputations as hostile opponents of international trade, it is too simplistic to say that classical mercantilists were protectionists. They favored particular trade flows that, in their view, contributed to domestic production and employment, and opposed those that undermined these components of national wealth and power. French jurist Jean Bodin outlined the ideal mercantilist trade policy as early as 1576: low tariffs on the import of raw materials and the export of manufactured goods; high tariffs or even legal prohibition on the

export of raw materials and the import of manufactured goods. Mercantilists saw international flows of goods, services, and capital in the context of geopolitics where a favorable balance of trade in the international economy serves as an important component of a favorable balance of power in the international states system. In such a context, trade just as much as military power is a zero-sum game in which a gain to Other is a loss to Self.

During an era of state-building by absolutist princes constantly embroiled in wars of both national unification and international conquest, classical mercantilism did make some sense of its world, even if as a comprehensive theory of political economy it barely rose above a “folk doctrine.” Theoretical shortcomings opened the door to numerous critiques, however. Two of the most influential were leveled by the towering Scottish Enlightenment figures David Hume and Adam Smith. Hume argued that the fundamental goal of mercantilist policy, the persistent trade surplus, was a practical impossibility due to an automatic adjustment of trade imbalances through international flows of money known as the price-specie flow mechanism. As specie flowed into a national economy experiencing a trade surplus, Hume argued that overall prices would rise, foreign goods would be automatically attracted (and exports discouraged), and the trade surplus would disappear. The most withering attack was presented by Adam Smith. In his famous *The Wealth of Nations*, Smith argued that state policy designed to control the flow of specie or cultivate a favorable balance of trade is ultimately fruitless. Criticizing Mun by name, Smith like Hume appealed to irresistible forces of supply and demand that no government could fundamentally alter. Moreover, Smith argued persuasively that mercantilist policy did not improve the productive capacity of the nation but instead harmed it by limiting the growth of the division of labor. Smith’s theorizing eventually informed Britain’s ideology of free trade, which, coupled with the country’s economic hegemony throughout much of the nineteenth century, seemed to invalidate mercantilist claims.

As a set of national policies designed to capture the gains from international exchange, however, mercantilism survived quite comfortably. The strategic usage of tariffs, quotas, and what we might anachronistically call “capital controls” remained prominent throughout the nineteenth and most of the twentieth centuries. As a body of social scientific thought, however, mercantilism progressed little beyond its scattered and ad hoc origins. Alexander Hamilton, the first secretary of the treasury of the new United States, made an innovation


in arguing for strategic trade policy toward the goal of economic development. Friedrich List recast Hamilton’s “infant industry” argument as part of a pointed critique of liberalism in general and Adam Smith in particular. However, while his fervent nationalism maintains the spirit of mercantilism, List ultimately accepted the logic of free trade, at least among equally developed countries. The connection between mercantilism and development was a theoretical seed that Hamilton and List planted but that failed to grow for more than a century until it was rediscovered after World War II and reintroduced to IPE.

The Origins of Liberal IPE

Eighteenth-century political economists did more than criticize classical mercantilism; they also founded a new “liberal” line of IPE theory. The theoretical foundations of this reaction can be seen in the critiques of Hume and Smith in particular who discover an arena of human behavior that operates automatically in regular law-like fashion without intentional manipulation by the state. In fact, the logic is so strong that it is too mild to say that the state not merely need not fundamentally alter it; the state cannot do so. Here are the theoretical origins of a divide between two distinct (if related) spheres of social life obeying their own distinct social logics: politics and the state on one hand, economics and the market on the other.

For Adam Smith, not only are the automatic operations of the market natural, they are also good. The famous invisible hand naturally ensures that the pursuit of self-interest, in and of itself, will lead to the public good. As long as they are free to obey their own nature, markets rather than states will maximize both private wealth and social prosperity. Contrary to mercantilists and their understanding of the violent origins of both states and national markets, Smith strongly downplays the role of force in accomplishing social cooperation. For him, the division of labor evolves naturally out of the historical development of human skills that themselves follow the natural inclinations of human beings to “truck, barter and exchange one thing for another” in peaceable fashion “by treaty, by barter and by purchase.”

Thus for good reason does the theologian John Milbank refer to classical liberal political economy as “a science of providence.”

Much of nineteenth century theorizing in political economy after Smith is taken up with the quintessentially liberal task of explicating the logic of self-regulating markets and demonstrating the social benefits of spontaneous cooperation through them. David Ricardo here holds an especially prominent place. In

29 Smith, Wealth of Nations, 17.
Smith’s argument, gains from international trade are largely based on absolute advantage. When foreigners can produce goods more cheaply than can domestic producers, it is beneficial to buy from abroad rather than to make such goods at home. Moving from an observation of advantage to a theoretical claim, Smith asserts that duties and prohibitions laid down by the state are the only impediments to such free exchange, and except for a few notable exceptions, the elimination of such restrictions should therefore become state policy. Ricardo takes the defense of free trade a step further. Even if a country has absolute advantage in all goods, i.e., it can produce everything more cheaply at home than can foreigners, that country can still derive advantage from trade. Ricardo’s famous example of England and Portugal demonstrates how trade based on comparative rather than absolute costs leads to mutual economic gains. He thus develops a point that Smith raises but does not fully explicate: specialization and free trade based on comparative advantage will increase efficiency and thus prosperity.

Ricardo also draws out some significant monetary implications from this argument. As market mechanisms are carried from the national to the world economy, a certain equilibrium will be established in international economic relations. Following Hume, Ricardo argues that the domestic prices of goods respond to international flows of money that will by natural forces balance a country’s payments and trade. Concerns over the price or quantity of money in a domestic economy are thus wholly misplaced. Introducing an argument developed much further by twentieth-century monetarists, Ricardo in fact treats money as a veil that has no effect at all on real productive activities or on real (as opposed to nominal) prices.

Over time, liberals became increasingly confident in drawing broad conclusions from the international operation of free markets. While primarily known today as a philosopher, John Stuart Mill was the most prominent political economist of the mid-nineteenth century and author of the field’s leading textbook of the day. It is with Mill that we see the broadest claims of classical liberal IPE theory, expanding on the “indirect effects” of international trade and economic integration. According to Mill, free trade develops the work and saving habits of persons newly familiar with the bounty of industrial production. By knitting together diverse cultures and societies, free trade spreads civilization to “barbarians.” Most importantly, it spurs international cooperation by demonstrating to all how the gains of others are the foundation of gains to oneself. To Mill, free trade is so powerful a mutual interest that it becomes “the principal guarantee of the peace of the world.” For early liberals, the positive causal arrow generally runs one way from economics (free markets) to politics (peace) while the

negative causal arrow runs the opposite direction from politics (tariffs, special interests) to economics (poverty). True to the tenets of laissez-faire, the best state is one that interferes least in the natural operation of markets.

Liberalism dramatically changed political economy as a field of study. Writers such as Hume, Smith, Ricardo, and Mill made political economy a far more scientifically rigorous and theoretically sophisticated discipline than the classical mercantilists had produced. They also explained more facts about the emerging capitalist international economy than could their rivals. Liberalism also contributed greatly to policy changes throughout the Western world and especially in Britain, its country of origin and of greatest influence. Liberal arguments in favor of free trade and free capital flows established the intellectual foundations for the repeal of restrictions on British gold exports in 1821 and of the famous Corn Laws in 1846. It also contributed to the spread of international free trade and the establishment of the international gold standard, in Karl Polanyi’s view two of the “three classical tenets” of economic liberalism and the pre–World War I international political-economic order. Critics influenced by mercantilist ideas still remained, of course. Friedrich List and members of the German Historical School of economics leveled numerous theoretical barrages upon liberalism, particularly its use of deductive methodologies, its emphasis on the individual as unit of analysis, and upon self-interest as a sufficient motive for securing the public good. However, their influence was minimal in political economy’s Anglo-American heartland and they largely failed to formulate a coherent alternative. The task of sustained theoretical critique and presentation of a clear alternative to liberalism, as a theory of political economy, a roadmap for state policy, and a model for the good society, fell instead to a rather different sort of German.

Marxism

Like the classical liberal political economists before him, Karl Marx was not only a theorist but an activist as well. He was a strenuous organizer of radical labor-based political parties, most prominently the International Workingmen’s Association (aka the First International), and by the early twentieth century most socialist parties in Europe were self-consciously Marxist. He was also a journalist, first in Germany before being exiled to France, then in France before being exiled to Britain, and finally in Britain for the majority of his adult life. From London he wrote his only regular column for an American audience in the New York Daily Tribune. Finally, Marx was also a skilled pamphleteer,

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generating significant ideas through works such as *The Communist Manifesto* and *The Eighteenth Brumaire of Louis Napoleon*.

Although Marx positioned his work against what he termed the “classical economics” of Smith, Ricardo, and Mill, Marx is also counted as the last great classical political economist of the nineteenth century. The influential Italo-British economist Piero Sraffa includes Marx in this great family because, like the classical liberals before him, they all founded their analyses on the concept of surplus. The broad emphasis of their work was on the production and distribution of wealth above and beyond subsistence, as well as on the reproduction of society’s existing capital stocks. This placed their interest in the continuous operation of an entire economy and inherently involved the political competition and struggle between social classes to shape that social order.\(^{33}\) The marginal revolution of the late nineteenth century marks the turning point of political economy’s transformation into simply economics. For half a century afterward, Marx and his followers became not only the most significant but nearly the only torch-bearers of the classical system of thought.

The core of Marx’s approach is an especially German one: human beings and their society are formed historically. This means not only that the people and social orders of today are formed from the elements of yesterday. It also puts the analytic focus on change over time rather than a search for universal and timeless relationships. For Marx, there is no such thing as a static human nature ordered constantly toward individual self-interest or any other concept. History instead gives rise to different kinds of human beings with different material needs, ideas, and ideals. At the macro level, varied historical conditions give rise to different property regimes, different states, different notions of politics, and different international orders, which need to be studied distinctly from one another.

To intellectually organize this evolutionary flux through time, Marx proposed for the Western world a succession of social orders he termed “modes of production.” The earliest is labeled “primitive communism,” characterized by the collective ownership of property and the absence of social classes. This era stretches back to the dawn of human history. The invention of private property gives rise to the slave societies of Ancient Greece and Rome, radically divided between the classes of slave owners and the slaves themselves. Next comes feudalism of the Middle Ages where land-tied serfs are exploited by a military aristocracy. This is followed by capitalism, the most dynamic stage, which dramatically expands both the productive capacities and globalized organization of humanity. This is not the end, however, for in Marx’s view capitalism is destined to be superseded first

Introduction

by socialism and finally by the ideal stage of communism, itself a materially and socially perfected version of where humanity began its story thousands of years before.

Marx was a caustic critic of capitalism and the liberal ideology that he saw as part and parcel of capitalist society, destined to fade away along with its mode of production. However, Marx is at the same time a child of the Enlightenment. His theory of history is a remarkably progressive one, headed toward the fulfillment of goals that liberals themselves embrace: liberty, individuality, full development of the capabilities of the species, and total human control over the vagaries of both human and non-human nature. But how are human beings propelled through history from primitive communism all the way to communism tout court? For Marx, the motor force of historical change is the division of labor through which human beings produce their material life itself, the “forces of production.” Atop this process sit social classes and their antagonistic struggles, the “relations of production.” Through a dialectical process, the expansion of the division of labor creates contradictions between the forces of production, the social order, and human consciousness (religion, philosophy, social theory). Eventually these contradictions ripen and revolutionary struggle overthrows one class and replaces it with another and its own institutions and ideas. This historical engine only ceases with the abolition of the division of labor itself under communism.

Although the collected works of Marx (together with his lifelong coauthor Friedrich Engels) in English span fifty volumes, Marx never wrote a sustained and systematic treatise on his view of the international political economy. That being said, he nonetheless wrote a great deal of scattered commentary. In Marx’s view, capitalists are compelled to expand throughout the entire world and transform every corner of it, “to nestle everywhere, settle everywhere, establish connections everywhere.”34 In turn, they make the division of labor and class struggle truly global and thus the world market and the relations between states become essential elements of Marxist analysis. From his vantage point at the center of the largest empire in world history, Marx saw how the power of British ruling elites and the sustainability of British capitalism were dependent upon the exploitation of imperial possessions such as India and Ireland as well as upon capital export to settler colonies such as the United States. These arguments were considerably developed by early twentieth century followers such as Rosa Luxemburg, Rudolf Hilferding, Nikolai Bukharin, and Vladimir Lenin. Each in their own distinct (and sometimes incompatible) way argued that capitalism in rich countries is shaped fundamentally through imperialist control over poor countries. As capitalists create larger and larger domestic monopolies, they use

34 Karl Marx and Friedrich Engels, The Communist Manifesto, in this volume.
the state as a tool to fight monopoly capitalists from other countries. Strategic
tariffs at home and the regular use of violence abroad are critical components in
creating foreign export markets for domestic surpluses and thus the success of
capitalism at home. World war itself bears a capitalist imprint.

Through these more comprehensive and rigorous Marxist theories, the con-
cept “imperialism” adds a new dimension to the field and one that remains the
fundamental lens through which Marxists theorize IPE. At the moment when
liberals invent a new stripped-down discipline of economics, it is Marxists who
retain a broad scope of analysis of political economy. Through their emphasis
on historical change, they also offer an explanatory dynamism that liberalism
lacks. Finally, Marxists adopt a self-consciously activist understanding of their
own role in theorizing IPE, following Marx’s dictum that “philosophers have
only interpreted the world, in various ways; the point, however, is to change it.”
While Marxism has had little impact on mainstream economists, it shifts the
research question and creates a new audience, a new political economy.

Contemporary Revisions

In his justly renowned 1987 book The Political Economy of International Relations,
Robert Gilpin organized the intellectual project of IPE around what he termed
“three ideologies of political economy”: liberalism, nationalism, and Marxism.
He chose these three due to their historical longevity as well as to their compre-
hensive qualities. Gilpin called them ideologies rather than theories because he
insisted on seeing these bodies of thought stretched beyond the boundaries and
goals of social science to become “total belief system[s]” that incorporate deep
sociological, anthropological, and ethical positions. He was comfortable even
referring to each broad system of intellectual commitments, concepts, and argu-
ments as paradigms after the usage of the philosopher of science Thomas Kuhn,
thus proposing liberalism, nationalism, and Marxism as IPE’s broadest rival tra-
ditions of theory-making and methodology that define scientific practice itself.

Kuhn argues that a paradigm is the “fundamental unit for the student of sci-
entific development.” The dominance of a single paradigm is “a sign of maturity”
in any given field, and the identification and solution of clearly defined puzzles
within the reigning paradigm is the essence of scientific progress. Yet progress
does not continue smoothly, for on occasion, revolutions occur that overthrow

one paradigm and replace it with another. Kuhn is careful to argue that scientific anomalies or “technical breakdown[s]” play an important role in defining a paradigm crisis, but so, too, do pressures from developments in technology, philosophy, and politics. The resolution of crises and the ultimate success (or failure) of a revolution turns even more on qualities of aesthetics, institutional prestige, social values, and the exercise of power within a bounded self-defined community of scholars.\(^{37}\)

If this is true of the natural sciences, it is all the more so in social sciences like IPE. Change in social science theory is not only guided by wrestling with observed anomalies but also through power and perceptions of the usefulness of theories for some social group or another. The Great Depression and World War II together posed just such a crisis and spur to new thinking in IPE. Prior to the 1930s, liberalism was dominant both politically and intellectually. Marxists did hold important positions in the German academy and the Marxist-inspired Social Democratic Party of Germany exercised occasional state power. Outside Germany, however, Marxism had little traction in either mass politics or the academy. A similar story fits nationalism as a theory of political economy. In the late nineteenth century, idealist theories of the state as the embodiment of the nation and its collective will or genius were imported from Germany and laid at the foundation of American political science. The experience of World War I sidelined such academic enthusiasm for German ideas in the United States.\(^{38}\)

However, the Depression brought both Marxists and economic nationalists back to prominence. The collapse of international trade and the gold standard, the rise of universalist welfare states, government planning of national economies throughout the Western world, the waning appeal of liberal democracy, and finally a second world war knocked classical liberalism firmly onto its back foot and reopened the way for a vigorous inter-paradigm debate.

John Maynard Keynes stands as the most influential intellectual figure of the era who in a sense saved liberalism by incorporating elements of nationalism and Marxism into its system of thought. For Keynes, the signal theoretical as well as empirical problem of the 1930s was persistent mass unemployment, which he took as definitive evidence that markets do not embody a natural tendency toward a socially beneficial equilibrium. While all governments throughout the early years of the Depression were increasingly organizing national markets through the very visible hand of state regulation and ownership, Keynes provided a theoretical justification for their behavior focused on the ability of the

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state to compensate for a private shortcoming of effective demand. In a stark break with liberal precedent, he prescribed state management of and participation in markets—especially financial markets—as not simply preferable but even necessary to break out of suboptimal equilibria. In the depths of the Great Depression, Keynes even turned against free trade. 39 Near the end of the Second World War, in his capacity as advisor to the British chancellor of the exchequer and then as chairman of the World Bank Commission, he helped reestablish an international political-economic order that retained and was even premised upon the autonomy of national states to pursue national political commitments to full employment.

Yet the mixture remained liberal at its core. Contrary to the nationalism of the 1930s, the postwar order was to be multilateral, especially in trade. Moreover, while the international monetary system was designed to protect domestic economic stability from capricious globalized capital flows, the domestic orders themselves were liberal. Despite the rise of social democracy in Europe, even Scandinavia retained an economy ordered primarily around the private ownership of the means of production, wage labor, and electoral democracy. In economics, Keynes's challenge to classical liberalism was domesticated and absorbed into a new mainstream dubbed the neoclassical synthesis. In international relations, the dominance of realism as the master theoretical paradigm after the war suggests a return to nationalist theory. However, all the prominent IR realists were liberals when it came to domestic politics. They occupy a position not unlike that of Friedrich List in a previous era, emphasizing the differences between two kinds of states or international orders, those that could fully embrace liberalism here and now versus those that are preliberal and thus not yet suited for the full-fledged exercise of liberal principles and analyses. 40 In fact, one could do worse than see IR realists as pessimistic liberals.

39 “I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national.” John Maynard Keynes, “National self-sufficiency,” in Keynes, The Collected Writings of John Maynard Keynes, vol. 21 (London: Macmillan, 1982), 233–246.

40 The notion of international relations as stuck in a “preliberal” stage can be found in Hans Morgenthau, Scientific Man vs. Power Politics (Chicago: University of Chicago Press, 1946), 50. Robert Gilpin reflects that “any reader of Hans Morgenthau, Hedley Bull, and other prominent realist writers would be fully aware that while these scholars were realists in their analysis of international affairs and their sober expectations regarding human possibilities, they were by no means nationalists.” Gilpin, too, describes himself as an IR realist yet philosophical and economic liberal. See Gilpin, Global Political Economy: Understanding the International Economic Order (Princeton: Princeton University Press, 2001), 15–16.
The intellectual stability of liberal compromises in both international economics and international relations began to waver, not surprisingly, just as the political-economic stability of the postwar international order began to sway. Setting aside the continued development of Marxist thought throughout the twentieth century (developed below), the early 1970s mark the emergence of IPE in its contemporary mold.\textsuperscript{41} International relations scholars including Robert Keohane, Joseph Nye, and Susan Strange, still under the sway of state-centric realism and its emphasis on military affairs, began chafing against the marginalized status within IR of both non-state actors and non-military relations between states. By the early 1980s the Bretton Woods fixed exchange rate system lay in ruins, the greatest global debt crisis in history had struck, management of international commodity markets was all but over, and the Single European Act was about to be signed. IPE was here to stay.

Contemporary Liberalism

In a concentrated period during the late 1960s and early 1970s, economists Richard Cooper, Charles Kindleberger, Raymond Vernon, and Albert Hirschman (the last in a timely reissue) all began definitively crossing the divide between international economics and international relations. Following Cooper’s language, economic “interdependence” between national economies was growing markedly. Such economic interconnectedness was having not only economic effects but increasingly noticeable and important political effects as well. The growing price sensitivity of national product markets to international trade, the rise of transnational corporations, and the return of international capital mobility all were more and more challenging the cherished autonomy of states to pursue their own national economic strategies, a feature built into the very foundations of the “embedded liberal” compromise after WWII.\textsuperscript{42}

From the international relations side, no scholars were more influential in establishing IPE than Robert Keohane and Joseph Nye. In their landmark work on interdependence theory, Keohane and Nye argued that the rise of transnational relations and global economic interdependence gives rise to a new kind of politics they dub “complex interdependence.”\textsuperscript{43} New power relations are established based on asymmetrical interdependencies. These interdependencies are refracted through international regimes, networks of rules, norms and decision-making procedures, some formalized in international organizations and some

\textsuperscript{41} Cohen, \textit{International Political Economy}, 1.
\textsuperscript{43} Keohane and Nye, \textit{Power and Interdependence}. 
not. The state-centric bias of international relations must give way in a world populated by powerful transnational corporations and international organizations. In such a world, military power is rendered effectively useless in an array of crucial political-economic arenas and the low politics of plenty is linked to the high politics of security in new and challenging ways.

Over time IR scholars labeled this approach neoliberalism, or neoliberal institutionalism, due to its contrast with realism over non-state actors, the importance of non-military international interactions, and the role of international law and institutions in molding state behavior. It is important to note that, despite the label, Keohane in particular did not fully reject realism. States still remain the most important, if not the only, actors in his analysis, and power rather than plenty remains the key value pursued by actors. Keohane does embrace a methodology of “rational choice analysis in the utilitarian social contract tradition,” following an important strand of liberal philosophical thought that lies at the foundation of liberal microeconomic theory. However, all this shows is once again the close relationship between liberal social theory and IR realism. Keohane’s methodology is the very same one used by structural or “neo-” realists. Moreover, neorealist doyen Kenneth Waltz explicitly built his theory of international politics through an analogy with ideal competitive markets lifted from liberal microeconomics. In this light, the neorealist-neoliberal debate of the 1980s and 1990s appears more as an intra-liberal family squabble—Hobbes versus Locke, perhaps—than as a vast inter-paradigm struggle.

The most distinctively liberal quality of neoliberal institutionalism, however, lies in its analytic emphasis on and normative commitment to international cooperation. The animating force of the liberal tradition in IR has always been solving the problem of cooperation, and the waning of American dominance in the 1970s caused this problem to once again be keenly felt—at least among American liberals grown accustomed to the ability of the United States to underwrite cooperation among the capitalist democracies. Consistent with liberal traditions and values, open markets are taken as the primary setting for the realization of the benefits of cooperation. Since Keynes such markets are no longer understood to be inherently self-regulating. Therefore, contemporary liberals appreciate much more the role of states in sustaining them and compensating for their failure. Liberals also emphasize the importance of state power, international institutions, and international law for maintaining an overall liberal international economic order.

Since the 1990s, a version of liberalism labeled “open economy politics (OEP)” has become the dominant theoretical approach within liberal IPE and therefore

within the American academy. At its center are, in the words of one of its most prominent advocates, “the assumptions of neoclassical economics and international trade theory.” In particular, the interests of actors are derived from extant neoclassical theory, and it is here that economic models credited to Hecksher and Ohlin, Ricardo and Viner, and Stolper and Samuelson perform significant theoretical work. Both domestic and international institutions aggregate and express these interests in important and distinct ways. Throughout the 1980s and early 1990s, the theme of hegemonic power and stability dominated liberal IPE, generating perhaps the field’s premier (some claim its only) theoretical contribution to the social sciences.

Not all contemporary versions of liberal IPE, however, are as heavily rationalist, individualist, and materialist as is OEP. Following the early interdependence literature, some liberals continue to take interest in the role of ideas, values, and beliefs. This “ideational” branch of liberalism emphasizes the importance of such non-material influences on the “collective social values or identities concerning the scope and nature of public goods provision.” Others carry on explicitly the liberal normative project of individual liberty, political-economic equality, and popular sovereignty under new and often threatening conditions of globalization. Here we see Gilpin’s full meaning of theories as ideologies in a positive sense. Liberal IPE continues as it has for centuries, committed to the investigation and realization of the “Kantian triangle” of republican government, international law and institutions, and open markets toward a world of comity and even perpetual peace.

Contemporary Economic Nationalism

Like liberalism, economic nationalism also experienced a revival in the 1970s. The breakdown of international cooperation both among Western democracies and between developed and developing countries provided the perfect opening for a revival of economic nationalist thinking. While liberals stressed the rise of non-state actors like transnational corporations and international organizations,

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50 Andrew Moravcsik, “Taking preferences seriously,” in this volume.
nationalists pointed to the centrality of state power that enabled firms such as ITT and organizations such as the World Bank to be so significant in the first place. While liberals looked to the decreasing ability of states to insulate domestic policies from the pressures of international markets, nationalists showed how states sought and often succeeded in mastering international markets for their own ends. While liberals spoke increasingly of fissiparous domestic politics, nationalists insisted on the continuing relevance of the national interest.

A number of economic nationalists were present at the founding of modern IPE. The most influential is surely Robert Gilpin, the “dean of realist international political economy in the United States.” While participating in many of the same projects with Keohane and Nye in the early 1970s and reading the same international economists they did, Gilpin came to rather different conclusions regarding the importance of interstate relations and the relative balance between power and plenty. Gilpin pushed back strongly against complex interdependence and reasserted both the state as the key unit of analysis and state power as the most fundamental determinant of economic outcomes. The interests of state elites in building state power through economic means is easiest to see in moments of structural change such as the unification of Germany in the 1870s or the establishment of the European Union after WWII. Reminiscent of the German Historical School, Gilpin argues that “political values and security interests are crucial determinants of international economic relations . . . transnational actors and processes are dependent upon peculiar patterns of interstate relations.”

Gilpin adopts a view of the state as a tool of the most powerful domestic elites. Stephen Krasner goes further in emphasizing the national interest as a foundational concept. In his analysis, the state is autonomous from the passing interests of particular dominant groups and pursues a unified societal good that persists over time and ranks above all rival goods. While state policies may benefit particular domestic interests such as big business or private investors, Krasner insists they first and foremost build state power and seek to secure both material and broad ideational ends that express national identity and purpose. Pushing back against liberal theorizing around the use of state power to solve coordination problems, Krasner emphasizes the continuing distributional issues at stake in every cooperative endeavor. He insists that “the nature of institutional arrangements is better explained by

53 Gilpin, “The politics of transnational economic relations.”
55 Krasner, *Defending the National Interest*. 
the distribution of national power capabilities than by efforts to solve problems of market failure." Economic nationalists have even refused the fundamental liberal premise of growing interdependence and the resultant rise of economic interests and behaviors. While recognizing the relative novelty of what we now call globalization in comparison to the immediate post-WWII period, nationalists point out that international economic integration has a long pedigree through which liberals repeatedly and falsely claim the supersession of politics by economics and of states by markets. While globalization may erode the power of some states, it has made others even more powerful by enabling the exercise of power not only through regulating markets but through controlling money, the very lifeblood of markets.

Despite these differences with liberal IPE, one should not overly dramatize the gulf between economic nationalism and liberalism. Like IR realism, contemporary economic nationalist IPE continues to incorporate many basic premises of liberal international economics. One can see this most clearly in views on economic policy. Whereas classical mercantilists as well as classical economic nationalists defended tariffs and quotas (at least for countries at a particular level of development), contemporary economic nationalists often reject both the policy prescriptions and the normative foundations of their precursors. For example, when describing his own position of “state-centric realism,” Gilpin cites Thucydides, Machiavelli, Hans Morgenthau, Hedley Bull, and Martin Wight as among his intellectual precursors; Alexander Hamilton and Friedrich List are nowhere to be found. Gilpin is in fact keen to note that “realism and nationalism are not identical. Nationalists may be realists, but realists are not necessarily nationalists.” Jonathan Kirshner describes contemporary economic nationalist IPE as more a “branching off, not chopping down” of the liberal tree. He sums up the relationship by stating “realist [i.e. economic nationalist] dissent is with liberal politics, not liberal economics.” Because of this liberal-nationalist fusion, IR-heavy versions of economic nationalist IPE often play the role of liberalism’s pragmatic conscience or pessimistic alter ego rather than as a robust paradigmatic alternative.

One can find a more robust version of economic nationalism drawing explicitly on the thought of Hamilton and List in studies of political-economic development. Liberal development strategies advanced by international development agencies emphasize free trade, free capital flows, floating currencies, market-clearing prices, and privatization, among other prescriptions. Economic nationalists point out that the most impressive development cases of the last half-century have been in countries that have flouted any number of these polices. Particularly in East Asia, state management of trade openness and foreign investment, state allocation of finance, strategic usage of state subsidies for production, and state facilitation of technology transfer have all been successful in advancing development. Since globalized markets do not on their own generate equal wealth—much less the possibilities for catch-up—the state is a most appropriate actor to force markets to perform. Yet economic nationalists go even further. Not only are liberal development strategies largely ineffective. They argue that the very prescription of liberal techniques to developing countries is actually a de facto political strategy of “kicking away the ladder” that actively prevents developmental catch-up. True to the methodology favored by List and the German Historical School, Ha-Joon Chang shows how the greatest proponents of a liberal global order, first the United Kingdom and later the United States, routinely used illiberal tactics to first ascend to the top of the heap and then when there, through more and more global liberalism, reap the lion’s share of the benefits of its status as the world’s most industrially advanced economy.60 After all, for these contemporary Listians the object of economic activity is not mere consumption but the accumulation of productive power. Only in this way can a nation truly avoid debt and underdevelopment to grow rich.

Contemporary Marxism

When political economy transformed itself into economics in the late nineteenth century, few apart from the intellectual heirs of Karl Marx kept the flame of political economy burning. The Marxist conceptualization of imperialism developed by Rudolf Hilferding, Rosa Luxemburg, Karl Kautsky, and Vladimir Lenin (as well as the radical liberal John A. Hobson) made the fusion of political and economic processes absolutely essential for meaningful social scientific analysis. A generation later, American Marxists Paul Baran and Paul Sweezy substantially revised prior work on imperialism and generated a new argument, claiming that the expansion of global capitalism does not generate capitalist

economic development generally but instead establishes a process of underdevelopment in a zone of the global economy labeled the periphery. By the 1960s a fruitful new wave of Marxist IPE work was being done around the concepts of underdevelopment and unequal exchange. Their voices were so prominent at the time that at least one historian of IPE attributes mainstream liberal economists’ abdication of the field to political scientists in part to its plethora of Marxists. Thus the 1970s were experienced by Marxists less as a revival of IPE so much as its newfound legitimation.

As among economic nationalists, the theme of development animates a considerable portion of contemporary Marxist work. With decolonization starting just after WWII combined with the creation of institutions including the International Development Association (part of the World Bank), several regional development banks throughout the Global South, the United Nations Development Programme, and national-level institutions such as USAID and Britain’s DFID, development quickly rose to the top of the list of international political-economic issues. The economic dimension of the Cold War and the attraction of both newly independent as well as long independent countries throughout the Third World to socialism made it a security issue as well. According to Marxists, global capitalism is not an arena of peace and plenty. Instead, it is a system of globalized relations of domination and dependency. Proponents of dependency theory argued at the time that, due to their structural location in the global economy as sites of raw material extraction and low technology commodity production, peripheral countries of the Global South are able to generate capital but unable to accumulate it. This capital is instead accumulated in the core countries of Western Europe and North America. A peripheral structural position is not merely one of being undeveloped, however, as if poor countries are trapped in some primitive economic state. Instead they are positively underdeveloped by core countries and supported by a wealthy comprador class of local elites to be poor, dependent, and exploited.

While dependency theory is typically cast as a distinctively Marxist approach to IPE, many heterodox non-Marxist scholars and practitioners have contributed to the tradition. For this reason, dependency theory and its descendants have always blurred theoretical boundaries. The most significant innovation to the perspective is offered by the American sociologist Immanuel Wallerstein.

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Rather than stress production, Wallerstein focuses on exchange. While the production of surplus is relevant, he claims its transfer through avenues of international trade is more important for understanding the international political economy, or in Wallerstein’s terminology, the “world-system.” Due to his emphasis on exchange via markets as the prime driver of social change, Wallerstein also blurs the particularity of capitalism as a mode of production. He defines capitalism as a system of “production for profit in a market” that owes more to the French Annales school historian Fernand Braudel than to Marx. Moreover, geographic territories rather than social classes stand as the primary units in Wallerstein’s world systems analysis, a reflection of the importance of structural position in a world system of exchange rather than in a mode of production. Regardless of its faithfulness to Marx, however, world systems theory (which absorbed dependency theory) stands as a leading neo-Marxist approach in IPE.

Another innovation on a Marxist theme closer to the founder himself is the work of Robert W. Cox and the broader Gramscian school of which he is the don. Along with Keohane and Gilpin, Cox was present at the founding of modern IPE, contributing a chapter on the labor movement as a transnational actor to the pioneering 1971 Keohane- and Nye-edited volume on transnational relations. His great theoretical splash, however, came in 1981 with a now-classic statement on the definition of critical theory and a defense of “historical materialism” as both a correction of and contribution to international relations and, more broadly, IPE. Unlike Wallerstein and the dependentistas, Cox was more self-consciously Marxist in his theorizing. Yet Cox was careful to pursue a form of Marxism open to historical knowledge and transformation, ethical and cultural motivations, and the autonomous contribution of social institutions to political-economic practices. Cox’s conceptualization of “world order” is especially significant, a particular historical conjunction of material capabilities, ideas, and institutions at the level of global society defining questions of war, peace, the organization of production, the international division of labor, forms of state, and ultimately hegemony. For Cox as for Gramsci, hegemony is not domination but leadership. Applied to IPE, it is organized not simply or even primarily through the states-system but rather through civil society. This Gramscian understanding of power is his most broadly influential contribution.

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to the field, even feeding back upon world systems theory. While agreeing with economic nationalists that conflict and struggle are the foundations of social analysis, a Gramscian version of Marxist theory does not so lightly dismiss the liberal interest in the ‘problem of cooperation.’ It does, however, give an account radically different from that of liberals as to how and why international cooperation exists, and whom it serves.

Beyond the Three Paradigms

Liberalism, economic nationalism, and Marxism constitute a “holy troika” of theoretical traditions in IPE. They dominate the field’s theoretical landscape because of their long pedigrees and broad shoulders. As far back as 1975, Robert Gilpin found it useful to organize the field around them, and this tripartite system continues to be a useful one today. Yet just as each tradition has experienced significant revision and development over the centuries, so, too, have new perspectives risen. Some constitute distinctive theories in their own right, many of recent vintage, which owe little to the holy troika or fit poorly within any one paradigm. Others are influential empirical terrains that act as meeting points for theoretical crossovers, innovations, and syntheses.

Any selection of IPE theories beyond liberalism, economic nationalism, and Marxism will reflect a degree of judgment. Earlier editions of this volume included readings from rational choice analysis and poststructuralism. Both are significant traditions across the social sciences retained here. A form of rational choice analysis in political economy travels under the name “positive political economy.” Although it can be seen as a variant of liberalism especially close to neoclassical economics, it does constitute a distinct family of scholars. Poststructuralism is its polar opposite, emphasizing the inescapability of language, culture, and meaning while calling into question the very possibility of objective scientific knowledge. Neither earlier edition of this volume included readings from feminist IPE, however, which struck some as “inexcusable.” This oversight has been remedied. Feminism is both a clarion call to the significant empirical question “where are the women?” as well


as a theoretical tradition in its own right, drawing from liberal, Marxist, and post-
structural streams. Previous editions included sections on two empirical areas of
particular theoretical interest in American IPE during the 1980s and 1990s, hege-
monic stability and international regimes, topics that feel dated today. In order
to draw attention to innovative and challenging approaches to the international
political economy done largely outside the confines of political science or politics
departments, whether in the US, UK, or elsewhere, we also include a new section
on Green IPE.

Positive Political Economy

While liberalism need not be wedded to an individualist ontology and rationalist
epistemology, most liberal scholarship in IPE is so. In such a framework, indi-
viduals are the primary actors (collective actors such as firms or international
organizations are imagined as individuals) having interests that are fixed and
assumed. Positive political economy works from such rational choice assump-
tions within liberalism and builds a rigorous theoretical structure around them.
Its methodology is that of mainstream economics, using “the main tools of anal-
alysis from economics, modeling policy choices as the equilibrium outcome of a
well-specified strategic interaction among rational individuals.”

What distinguishes positive political economy from economics, in the words of two of its
major practitioners, is the former’s “study of rational decisions in a context of
political and economic institutions.”

If liberal IPE is in many ways the child of John Maynard Keynes, positive
political economy is the offspring of Robert Lucas. This can be seen in the way
the latter takes particular interest in the microfoundations of analysis and adopts
the entire corpus of rationality assumptions, including rational expectations.

70 By the late 1980s, defenders of hegemonic stability theory (HST) felt the need to fend off
those who would write its “epitaph,” and in the early 1990s sought to honor it with the backhanded
compliment of “tattered monarch with potential” rather than a “naked emperor.” See Joanne Gowa,
“Rational hegemons, excludable goods, and small groups: An epitaph for hegemonic stability
international economy: Naked emperor or tattered monarch with potential?” International Studies
Quarterly 37 (1993): 459–489. By the late 2000s the field’s preeminent observer, Jerry Cohen, felt
confident enough to declare that HST had “fad[ed] into obscurity.” See Cohen, International Political
Economy, 67.

71 Henry Farrell and Martha Finnemore, “Ontology, methodology, and causation in the American

72 Torsten Persson and Guido Tabellini, Political Economics: Explaining Economic Policy (Cam-

73 James E. Alt and Kenneth A. Shepsle, “Editor’s introduction,” in Alt and Shepsle, eds., Perspectives
As in economics, the quality and availability of information becomes a central theoretical concern. In this way, positive political economy is particularly suited to modeling political-economic behavior within institutions (whether a market or a legislature) as games defined by the rules that establish and govern them. Of course, game theory has a long history in international relations theorizing, particularly around nuclear strategy and international diplomatic negotiations. Positive political economy goes well beyond these narrow and highly structured settings, however, to model all human behavior as strategic rational decision-making. Taking from public choice theory, positive political economy also emphasizes problems of cooperation such as free riding and the difficult production of public goods often beset by the rent-seeking behavior of special interests. Of significant political import, positive political economy also revives classical liberal skepticism around the efficacy of states and brings back considerable faith in markets as the best distributors of values and creators of order.

The theoretical strength of positive political economy comes from its abstract formalism. Peter Ordeshook characterizes the approach as capturing the intellectual advances of economics for the study of politics and speaks positively of microeconomics in particular for long ago “shedding many of the encumbrances reality places on theorizing.” At the same time, such abstraction limits any strongly rationalistic analysis in particularly important ways. Some outside the liberal tradition of IPE have accused all rational choice approaches of being so wedded to economic theory and reflecting so “vanishingly small and narrow [a] conception of politics” that they have turned IPE into “IpE.” Some IPE liberals agree, including Robert Keohane, who, despite contributing significantly to so much rationalist work in the field, now looks upon those who come in his wake “with a gnawing sense of dissatisfaction” for ignoring the formation of interests and overemphasizing materialism and egoism. Some of this dissent is also motivated by positive political economy’s engagement in Kuhnian “normal science,” where all the big questions have been resolved and research settles into a “drastically restricted vision… born from confidence in a paradigm.” To embrace positive political economy is to fence off Susan Strange’s open range of theoretical contestation and consign “the Really Big Question” of systemic transformation to the realm of nonscience.

75 Jonathan Kirshner, “The second crisis of IPE.”
77 Kuhn, Structure of Scientific Revolutions, 24.
78 “The Really Big Question” in IPE is framed by Cohen, International Political Economy, 66-94.
Poststructuralism

A notable backlash against rational choice versions of IPE theory has risen through a multitude of approaches partaking of a broadly constructivist theoretical sensibility. Rationalists take actor interests as given and thought processes as more or less uncomplicated by ideas. Even more so, they take the actors themselves as primitive pre-social units where no account of their origins is required. Constructivists insist to the contrary that all practices and even all interests that motivate practices are premised upon actor identities formed through social interaction. Roles, constitutive rules, cultural norms, collective belief systems, and language itself thus create not only actor identities but even the actors themselves. 79

Of all constructivisms, poststructuralism may be rationalism’s antipode. Born as a reaction against 1960s structuralism, poststructuralism strongly argues that all knowledge takes the form of representation. While there is a material world within which all human practices exist, we cannot grasp it independently of language. In fact, poststructuralists deny the very notion of objective existence outside the discursive construction of objects of knowledge. Thus, there are no foundations for knowledge, either scientific or moral, which are not subjective, historical, and most importantly, the products of power. Friedrich Nietzsche stands as the most influential figure in poststructural thought thanks to his attack on all transcendental values and insistence that all knowledge, all truth, is reflective of an imminent, situated, and temporary order.

Within IPE, poststructuralism emphatically denies the existence of material “brute facts” associated with rationalistic/economistic modes of analysis, insisting that the social world is one of ideas (or following Nietzsche more closely, desire) “all the way down.” 80 Marieke de Goede characterizes poststructuralist IPE as the only approach truly free of “the limits of economism.” 81 In her view the treatment of ideas in all IPE theories are premised upon material foundations that are taken to be objective and given. While very open to the historical construction of world orders through ideational factors such as culture and discourse, even the Gramscian school builds upon a foundation of social class as an objective pre-political material reality. Poststructuralism is never satisfied with any depiction of a natural object or relationship, such as Adam Smith’s view that objects have economic value because of their innate material qualities that


enable the satisfaction of (usually biological) sensory wants and needs. What
the poststructuralist objects to is precisely that in Smith’s theory “there is no
linguistic or cultural mediation between a person and the satisfaction of value.” 82

Consider poststructuralist arguments regarding financial accounting. The
productive basis of any capitalist economy is of course capital, that disparate
collectivity of physical goods, money, ownership claims, and exchanged prom-
ises that generates wealth. Yet rather than see capital as a physical object or rela-
tionship with an objective scientific definition, poststructuralists encourage an
understanding of capital as the product of discursive practices. Financial account-
ing calls capital into being by defining and quantifying it. This practice reduces
a wealth of diverse activities, processes, and objects to a single value that creates
social meanings (profit, loss, efficiency) fundamental to economic behavior: the
existence of the firm, the state’s manipulation of a national economy, every rel-
vant behavior and form of knowledge in IPE. For poststructuralists, discursive
practices are truly productive for they are acts of “interpretive imposition” on
the social world. 83 In this way they are not, from a more thoroughgoing mate-
rialist perspective, merely rhetorical. The discourse of modern finance theory
actually brought into existence modern financial derivatives markets and all the
political-economic instabilities associated with them. 84 A change in the method
of counting capital (say, from US Generally Accepted Accounting Principles to
International Accounting Standards, or from Basel II to Basel III) favors one
group of capitalists over another, one mode of national capitalism over another.
Narratives have material consequences and are themselves modes of power.

Much of the debate surrounding poststructuralism in IPE is over how far
researchers should take ideational analysis. Economic nationalists of an IR realist
bent have been especially resistant to allowing much importance at all to ideas,
seeing “big time violent death” as the sine qua non of the international system
and thus a materialist trump card. 85 From within liberalism, Robert Keohane
allows for “ideas partway down,” agreeing that ideas shape interests and are not
merely epiphenomenal “hooks” upon which material interests hang. Keohane
still holds on to the autonomy of material forces, material interests, and ratio-
nal (and thus idea-less?) thought, however. He does so particularly because it

82 Michael J. Shapiro, Reading “Adam Smith”: Desire, History and Value, rev. ed. (Lanham,
MD: Rowman and Littlefield, 2002), 64.

83 Shapiro, Reading “Adam Smith,” 64.

84 Donald MacKenzie, “Physics and finance: S-terms and modern finance as a topic for science
of scientific finance and the failure of Long-Term Capital Management,” New Political Economy 6

enables theory testing and thus makes IPE worthy of the label *science*, something poststructuralism is not. Contemporary Marxists of a critical historical materialist bent agree with poststructuralists that ideas should not be understood as independent causes but rather constitutive of social behavior. At the same time they insist on a material structure of ideas, finding particular fault with poststructuralism’s emphasis on the “how” of power to the neglect of the “why” and the “who.” Their critique is severe: within poststructuralism, human agency is suppressed, explanation of particular outcomes becomes impossible, and questions of “cui bono?” central to Susan Strange’s notion of IPE disappear.

**Feminist IPE**

Feminist IPE begins as one particular way of answering Strange’s question. Early academic feminists engaging IPE were unsatisfied with mainstream neglect of the sexually segmented nature of the international political economy. Their work was originally, and to some degree remains, animated by Cynthia Enloe’s foundational question, “where are the women?” By making women invisible, even if under the banner of being gender blind, most non-feminist studies make inequalities between men and women invisible and deeply misunderstand not only particular processes but also macro-level phenomena such as development and globalization. Much feminist work seeks to demonstrate the often unseen gendered consequences of standard political-economic phenomena such as export-led development, international migration, structural adjustment, and financial crisis. The goal is a conceptualization of political economy with gender at its center, a “gendered global political economy.”

Among the most influential contributions of feminist IPE has been incorporation of social reproduction and the non-market economy into political-economic analysis. All human societies (even gender-equal Sweden) reflect a gendered division of labor in which women are particularly prominent in reproductive activities such as child and elder care, education, and householding organized predominantly through the institution of the family. Sociologist Arlie Hochschild has taken this key feminist insight to the international scale

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89 V. Spike Peterson, “How (the meaning of) gender matters in political economy,” in this volume.
and made a significant theoretical contribution through her work on global care chains, networks of both marketized and non-market transnational care services. Through such care chains, both physical and emotional labor are performed, the latter having a distinct relationship not only to standard analysis of political-economic processes such as commodification and trade but to inequalities of gender, class, and ethnicity, which are core to critical approaches in the field. Through global care chain analysis, Hochschild has also developed her concept of emotional labor in a distinctly IPE direction, speaking of an unequal global exchange of “emotional surplus value” as well as a core “care gain” and a peripheral “care drain,” which could have significant purchase across the field. Development has also long been a focus of feminist IPE, with particular contributions to the commercialization and industrialization of the subsistence sector, which historically absorbed especially large percentages of female labor. Feminists are also well-positioned to see the gendered qualities of processes overlooked by most other scholars. For example, feminists have cast light on the international sex trade and argued that its neglect by mainstream scholars is a symptom of IPE’s inability to think across established dichotomies such as public/private, market/family, or institutional/individual.

In recent decades feminist work has become especially influenced by poststructuralism. In turn, women as objective referents are displaced in this literature by gender as an analytic discursive construct. With gender deployed as a “governing code that pervades language,” poststructuralist feminists argue that all manner of foundational concepts are not only socially constructed but also gendered. Those that are coded masculine become valued, those coded feminine devalued. The masculine/feminine binary and its valuation becomes ironically foundational for other binaries including work/home, public/private, global/local, economy/society, material/ideal, and rational/emotional. The rise of financial markets and their high normative valuation of risk-taking has been a notable empirical site of feminist theorizing. Scholars have noted not only the strong male dominance of the sector, but also its hyper-masculine ethos of gambling, wealth, egoism, and conquest. This

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gender code is constitutive of the collapse of financial institutions across the world in 2008 and of the global economic crisis that ensued.

Feminists continue to experience themselves largely as strangers relegated to the margins of IPE. Some of this is due to the strong poststructuralist quality of much recent feminist theorizing, which leads to the same critiques of feminism as of poststructuralism. The importance of quantitative methods in the field, particularly in liberal IPE, has also marginalized feminist work that generally embraces a critical/interpretive epistemology and derides empiricist methodologies that seek to uncover causal relationships. Finally, one of the most interesting and recent challenges to feminist scholarship in international studies is a sign of its success. Today one can find a growing collection of work on gender from the perspective of non-feminist gender theory. In IR especially, analyses of the gender aspects of violent conflict are increasingly done from a theoretical position not (primarily) animated by feminist values such as overcoming women’s oppression and establishing gender equality. Such work has had little influence yet in IPE, however, reflective of the comparatively weaker influence of feminist work here in comparison to IR.

Green IPE

Green political economy is another new tradition in IPE that is defined as much by its empirical and normative interests as it is by a particular theoretical orientation. Certainly the natural environment has been an issue of interest in IPE for some time. In 1972 concerns and conflicts involving pollution, natural resource sustainability, and a growing global environmental sensibility led to both the Stockholm Conference on the Human Environment and the Club of Rome’s famous report The Limits to Growth. The leading IPE journal in the US, International Organization, published a special issue the same year devoted to the global environment. Keohane and Nye noted the phenomenon of “ecological interdependence” and some work in IPE has treated the environment through


the lens of regime theory and governance. Two important lines of work on the environment and political economy from a Marxist perspective were established in the 1980s. Geographers working on the environmental aspects of development founded the field of political ecology as an intersection between structuralist political economy and ecology. They argue that social power rather than nature is the real determinant of the distribution of ecological outcomes such as famine, soil erosion, and pollution. Around the same time, Marxists associated with the monopoly capital school (which also influenced dependency theory) started up a new ecological Marxist tradition that links capitalism, imperialism, and environmental degradation. One can even identify an economic nationalist approach influenced strongly by the ideas of Thomas Malthus in the work of political scientist Thomas Homer-Dixon.

Within IPE, Eric Helleiner was the first to identify a distinctly Green school of IPE and compare it in a rigorous manner to the holy troika of liberalism, economic nationalism, and Marxism. For Greens, the structure of the international political economy can best be described as ‘industrialism.’ This does not refer merely to machine techniques of production or their particular reliance on fossil fuels, which are broadly destructive of ecological processes yet also capable of being superseded within a global industrial structure. Instead, industrialism is a mode of human control over both nature and society. Here Karl Polanyi stands as the most important intellectual influence upon Green IPE. His analysis of the international system begins with the Industrial Revolution and its simultaneous technological and institutional transformation of human society. Others have well noted the rise of the market at this time but have ignored the metamorphosis of tools from appendages of individuals or small groups of human beings.

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100 Eric Helleiner, “International political economy and the Greens,” in this volume.

into elaborate large-scale machines forming an expansive “factory system” beyond individual or small-group control. Industrial production is premised upon long-term investment in elaborate and specific machinery of tremendous expense and risk. Because of this, the factory system requires for its very existence a regular supply of all the inputs of production and a regular absorption of industrial output. Polanyi emphasizes the former. Through an historical account of eighteenth- and nineteenth-century Britain, he argues that the regularization of the supply of necessary inputs for industrial production was accomplished by turning them into commodities for sale in a market, none with more social consequence than the commodification of land, labor, and money. The idea of a self-regulating market that grew up with the factory system in Britain requires that nothing impinge the treatment of land, labor, and money as commodities. Otherwise the market cannot regulate itself and requires intervention from the state or other social actors. Yet since land and labor (we will ignore money here) are nothing other than nature and human beings, this amounts to treating things that exist for reasons outside the market as if they existed solely through and for the market. Allowed to operate according to its own logic, the self-regulating market as an expression of the factory system robs human beings “of the protective covering of cultural institutions…[they] would perish from the effects of social exposure” while “nature would be reduced to its elements.” Socialism, nationalism, environmentalism, localism, and other political movements for social protection from the late nineteenth century onward should be seen as reactions against the self-regulating market, part of a self-protecting “double movement” of society’s “human and natural substance…against the ravages of this satanic mill.”

Polanyi’s conceptualization of the factory system builds upon the concept of social metabolism developed first by Marx and Engels and used extensively in Green IPE. Just as every living organism engages in an exchange of physical material and energy with nature through biochemical processes contributing to both maintenance and growth of that organism, so, too, can one think of a society of organisms engaging in similar exchanges, organizing (or colonizing) nature and itself, resulting in societal growth and differentiation. Both qualitatively as well as quantitatively, different social metabolisms define different types of societies. From this perspective, industrial society is unique in human history. First, an industrial society carries out an extended metabolism that imports

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energy and matter from beyond its own biosphere including distant renewable resources (foodstuffs, wood, hydroelectricity, water) as well as both distant and local nonrenewable resources (fossil fuels, metals). Second, industrial society creates new forms of exports (manufactured goods, pollution, material waste, heat) at increased geographic scales and intensities that damage or destroy social and ecological organization.

Green IPE has a burgeoning research program analyzing these processes and draws significant inspiration from world systems theory. Core areas such as cities of the Global North are net importers of low-entropy high-order energy and matter, which they accumulate in the form of capital, the built environment, knowledge, and a complex highly-ordered society. In a net sense, the core is dependent upon this essential energy and matter from peripheral areas, whether sixteenth- and seventeenth-century New World silver mining zones, nineteenth-century Chile, or the twentieth-century Amazon. These peripheries in turn experience high-entropy low-order outcomes such as pollution, resource degradation, and a simplified disorganized society. The themes of underdevelopment and unequal exchange are clear. While various institutions have existed throughout history to facilitate this unequal exchange, Greens following Polanyi see the market as the central contemporary institution that core regions use to ensure the necessary flows of energy and matter. This ecological or thermodynamic theory of imperialism is a distinct and novel contribution to IPE.

Conclusion

Is there theoretical evolution in IPE? The title of this book strongly suggests the answer is yes. Yet we cannot understand the meaning of yes if the meaning of evolution remains obscure. At root, evolution is simply change over time. However, is this change a process of random directionless motion responding to equally random environmental stimuli, or is it instead a directional process of ever-increasing adaptiveness, and thus of evolutionary progress? Even evolutionary biologists cannot agree on an answer. In the realm of ideas, there is


certainly ample evidence of change over time. However, if theoretical change is
simply random and directionless response to a changing material environment,
as is Stephen Jay Gould’s notion of biological evolution, ideas become little more
than secondary phenomena and there is little to be gained in treating them as
interesting and worthwhile objects of study in their own right. Better instead
to study the history of human actions and leave the history of ideas to some
dustbin.

Save for poststructuralists, IPE scholars think of themselves as practitioners
of social science within which the concept of progress is inherent. As Thomas
Kuhn observes, “progress is a perquisite reserved almost exclusively for the
activities we call science.” 105 Indeed, much of the debate concerning the scien-
tific status of social sciences like IPE turns on the degree to which they can claim
an accumulation of knowledge in their fields. According to Kuhn, broad recogni-
tion of the existence of progress in knowledge depends on the dominance of a
single paradigm within which normal science takes place. In such a context, first
principles are no longer debated, allowing practitioners to focus on the prob-
lems and puzzles that the paradigm assigns and to “concentrate exclusively upon
the subtlest and most esoteric of the phenomenon which concern it.” 106 The
solution of said problems and puzzles thus is the definition of progress. As richly
demonstrated in this volume, IPE is not a field dominated by a single paradigm
but instead by three major paradigms and a host of theoretical rivals and chal-
lengers. In that theoretical pluralism seems to be the field’s permanent state, the
prospects of broadly recognized theoretical progress across IPE seem dim.

Nonetheless, there is good evidence that interesting and useful theoretical
innovations continue to occur across paradigms. The best evidence is the devel-
opment of explicitly inter-paradigmatic literatures such as world systems theory
or feminist IPE. While each is strongly influenced by one or another paradig-
matic approach, they exist as fruitful theoretical crossroads first and foremost.
Within the holy troika there is considerable evidence of theoretical revision and
change through engagement with other paradigms. Contemporary Marxism
is characterized by lively debate and partial synthesis with poststructuralism.
Economic nationalism had been remade from the remainders of classical mer-
cantilism together with liberal economic thought. Even liberalism had absorbed
ideas concerning the role of the state and the analytic importance of inequality
from its rivals.

If one is to find theoretical ‘progress’ in IPE, however, it will have to be
identified and defined primarily within paradigms rather than across the field
as a whole. For those wanting IPE to be a science, there is good news on this

105 Kuhn, Structure of Scientific Revolutions, 160.
106 Kuhn, Structure of Scientific Revolutions, 163–164.
front. Economic nationalists no longer obsess over bullion movements while List’s infant industry argument and the national bases of economic development continue to make significant contributions to both analysis and policy. Marxists spend little time quantifying surplus value any longer, but continue to make considerably valuable innovations to the study of imperialism and hierarchy in the international system. Within liberal IPE, open economy politics makes the strongest claim to theoretical progress within the context of normal science.\textsuperscript{107} The spread of OEP across the field’s leading journals and academic institutions since the end of the Cold War has even led some to declare an end to paradigmatic rivalry and the birth of a liberal consensus.\textsuperscript{108} That being said, one man’s “progress” and “consensus” is another man’s “loss of ambition” and shrinkage of the “horizons of scholarship.”\textsuperscript{109} Were the 1970s and 1980s not only the salad days of modern IPE but also its best? Or is it the purpose of science to move past really big questions and get on with the (perhaps boring) work of normal science? Of course, one can look to poststructural IPE for queries as to whether the field should strive for theoretical progress and status as science in the first place.

It seems that within IPE, the closer one stands to economics, the greater one experiences what Benjamin Cohen cheekily calls “peer-us envy.”\textsuperscript{110} Within the confines of the highest echelons of the American school of IPE—political science departments at elite American universities and first-tier American IPE journals—the threat (or blessing) of paradigmatic consensus under the reign of liberalism may be genuine. However, outside such walls there seems little reason to fear (or welcome) a Kuhnian scientific revolution in which one community decisively overthrows another and exiles its former rivals from the field. Robust theoretical pluralism is not only IPE’s past and present but surely its future as well.

\textsuperscript{108} Frieden and Martin, “International Political Economy.”
\textsuperscript{110} Cohen, “Are IPE journals becoming boring?,” 888.
Mercantilism is best thought of as a set of state policies first and a theory of international political economy second. Mercantilist practices were designed to serve the state-building projects of early modern absolutist monarchs, particularly in England and France, and flourished from the sixteenth through the eighteenth centuries. Typical mercantilist practices involved strategic tariffs and restrictions on the export of money. In every way they were opposed to what came to be known as free trade. As a body of thought, mercantilism is notoriously scattered and unsystematic. In fact, it was not even named until Adam Smith did so in the late eighteenth century so as to attack it. Mercantilist authors were primarily English merchants and French state officials, two groups who stood strongly to gain from the era's state-building policies. In a later period of German state-building, German political economists made notable contributions. Such authors had their ideas and their interests so tightly bound together, however, that mercantilist theory had trouble developing in a rigorous manner. Despite its intellectual muddle, one can say with confidence that mercantilist theory is premised upon the centrality of state power and the subordination of economic activity to service of that power.

Thomas Mun (1571–1641) was perhaps the most prominent and influential mercantilist writer in Britain during the theory's seventeenth-century heyday. He spent his life in international commerce, first with the Levant Company in the Eastern Mediterranean and then with the famous East India Company where he was a director. Such practical experience as an international merchant lies at the foundation of his writings. The following selection is from Mun's posthumously published classic work *England's Treasure by Forraign Trade*. The book was very popular in its day and went through six editions from its initial publication in 1664 to the sixth in 1755. It was so influential in fact that Adam Smith used it as the signature representative of the theory he sought to overthrow.

Mun here gives a classic statement on mercantilist attitudes toward trade. The purpose of international trade is to increase the "treasure" of a country. When Mun speaks of England's treasure he means gold and silver. From a mercantilist
perspective, its accumulation is the immediate goal of state policy. Mun does not believe that precious metals are themselves wealth, but he does believe that they are the most important representations of wealth and enablers of national production and employment that constitute the true foundation of national power and plenty. Because England is a country with no native gold or silver mines, the only effective means of accumulating treasure is by exporting more goods than the country imports. Thus, a positive trade balance becomes the signal object of state policy. Mun recommends a strategic trade policy to accomplish this trade surplus. Low or zero tariffs should be applied to manufactured exports while high tariffs should be applied to manufactured imports. Moreover, all English trade should be conducted by English ships so that English merchants are able to capture the profits yielded through freight charges, insurance, customs duties, and all the myriad costs of long-distance trade. In Mun’s view this would bolster domestic production and employment while also allowing for the accumulation of treasure.

Where Mun is most innovative is in his argument supporting the export of gold and silver. At first glance this seems to be exactly the opposite of what a country intent on accumulating treasure should allow. However, Mun strives to show how the export of bullion and specie for the financing of trade and production can actually increase England’s wealth. Clearly Mun’s private interests as a director of the East India Company are at work here, but he also makes a notable innovation in theory as well. First, the export of money so as to finance trade enables English merchants to profit from their role as middlemen between, for example, the East Indies and consumers in Turkey, Italy, and the like. Second, the export of money so as to finance trade allows England to import intermediate goods (e.g., silk yarn) that can be turned into finished goods (e.g., silk textiles) in England and then exported, rendering yet more treasure for the country. Finally, exporting money also allows foreigners to buy English manufactured goods, further spurring English production while contributing to national wealth. The export of gold and silver should not increase English consumption of foreign goods beyond the increase that it facilitates in exports, of course. The goal of international trade and state policy is always to maintain a trade surplus, “the true rule of our Treasure.”
Chapter 2
The Means to enrich this Kingdom, and to increase our Treasure.

Although a Kingdom may be enriched by gifts received, or by purchase taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by Foreign Trade, wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value...

...But first I will say something concerning those ways and means which will encrease our exportations and diminish our importations of wares; which being done, I will then set down some other arguments both affirmative and negative to strengthen that which is here declared, and thereby to shew that all the other means which are commonly supposed to enrich the Kingdom with Treasure are altogether insufficient and meer fallacies.

Chapter 3
The particular ways and means to encrease the exportation of our commodities, and to decrease our Consumption of foreign wares.

The revenue or stock of a Kingdom by which it is provided of foreign wares is either Natural or Artificial. The Natural wealth is so much only as can be spared from our own use and necessities to be exported unto strangers. The Artificial consists in our manufactures and industrious trading with foreign commodities,
concerning which I will set down such particulars as may serve for the cause we have in hand.

1. First, although this Realm be already exceeding rich by nature, yet might it be much encreased by laying the waste grounds (which are infinite) into such employments as should no way hinder the present revenues of other manufactured lands, but hereby to supply our selves and prevent the importations of Hemp, Flax, Cordage, Tobacco, and divers other things which now we fetch from strangers to our great impoverishing.

2. We may likewise diminish our importations, if we would soberly refrain from excessive consumption of forraign wares in our diet and rayment, with such often change of fashions as is used, so much the more to encrease the waste and charge; which vices at this present are more notorious amongst us than in former ages. Yet might they easily be amended by enforcing the observation of such good laws as are strictly practised in other Countries against the said excesses; where likewise by commanding their own manufactures to be used, they prevent the coming in of others, without prohibition, or offence to strangers in their mutual commerce.

3. In our exportations we must not only regard our own superfluities, but also we must consider our neighbours necessities, that so upon the wares which they cannot want, nor yet be furnished thereof elsewhere, we may (besides the vent of the Materials) gain so much of the manufacture as we can, and also endeavour to sell them dear, so far forth as the high price cause not a less vent in the quantity. But the superfluity of our commodities which strangers use, and may also have the same from other Nations, or may abate their vent by the use of some such like wares from other places, and with little inconvenience; we must in this case strive to sell as cheap as possible we can, rather than to lose the utterance of such wares. For we have found of late years by good experience, that being able to sell our Cloth cheap in Turkey, we have greatly encreased the vent thereof, and the Venetians have lost as much in the utterance of theirs in those Countreys, because it is dearer....But when by cheapness we drive them from this employment, and so in time obtain our dear price again, then do they also use their former remedy. So that by these alterations we learn, that it is in vain to expect a greater revenue of our wares than their condition will afford, but rather it concerns us to apply our endeavours to the times with care and diligence to help our selves the best we may, by making our cloth and other manufactures without deceit, which will encrease their estimation and use.

4. The value of our exportations likewise may be much advanced when we perform it our selves in our own Ships, for then we get only not the price of our
wares as they are worth here, but also the Merchants gains, the changes of
ensurance, and freight to carry them beyond the seas.

5. The frugal expending likewise of our own natural wealth might advance
much yearly to be exported unto strangers; and if in our rayment we will
be prodigal, yet let this be done with our own materials and manufactures,
as Cloth, Lace, Imbroderies, Cutworks and the like, where the excess of the
rich may be the employment of the poor, whose labours notwithstanding
of this kind, would be more profitable for the Commonwealth, if they were
done to the use of strangers.

8. Also wee ought to esteem and cherish those trades which we have in remote
or far Countreys, for besides the encrease of Shipping and Mariners thereby,
the wares also sent thither and receiv’d from thence are far more profitable
unto the kingdom than by our trades neer at hand: As for example; suppose
Pepper to be worth here two Shillings the pound constantly, if then it be
brought from the Dutch at Amsterdam, the Merchant may give there twenty
pence the pound, and gain well by the bargain; but if he fetch this Pepper
from the East-indies, he must not give above three pence the pound at the
most, which is a mighty advantage, not only in that part which serveth for
our own use, but also for that great quantity which (from hence) we trans-
port yearly unto divers other Nations to be sold at a higher price whereby
it is plain, that we make a far greater stock by gain upon these Indian
Commodities, than those Nations doe where they grow, and to whom they
properly appertain, being the natural wealth of their Countries. But for the
better understanding of this particular, we must ever distinguish between
the gain of the Kingdom, and the profit of the Merchant; for although the
Kingdom payeth no more for this Pepper than is before supposed, nor for any
other commodity bought in forraign parts more than the stranger receiveth
from us for the same, yet the Merchant payeth not only that price, but also
the freight, ensurance, customes and other charges which are exceeding
great in these long voyages. It may well stir up our utmost endeavours to
maintain and enlarge this great and noble business, so much importing the
Publique wealth, Strength, and Happiness. Neither is there less honour and
judgment by growing rich (in this manner) upon the stock of other Nations,
than by an industrious encrease of our own means, especially when this later
is advanced by the benefit of the former, as we have found in the East Indies
by sale of much of our Tin, Cloth, Lead and other Commodities, the vent
whereof doth daily encrease in those Countreys which formerly had no use
of our wares.

10. It were policie and profit for the State to suffer manufactures made of
forraign Materials to be exported custome-free, as Velvets and all other
wrought Silks, Fustians, thrown Silks and the like, it would empoy very many
poor people, and much encrease the value of our stock yearly issued into other Countreys, and it would (for this purpose) cause the more foraign Materials to be brought in, to the improvement of His Majesties Customes. I will here remember a notable increase in our manufacture of winding and twisting only of forraign raw Silk, which within 35 years to my knowledge did not employ more than 300 people in the City and suburbs of London, where at this present time it doth set on work above fourteen thousand souls, as upon diligent enquiry hath been credibly reported unto His Majesties Commissioners for Trade. and it is certain, that if the raid forraign Commodities might be exported from hence, free of custome, this manufactory would yet encrease very much, and decrease as fast in Italy and in the Netherlands. But if any man allege the Dutch proverb, Live and let others live; I answer, that the Dutchmen notwithstanding their own Proverb, doe not onely in these Kingdoms, encroach upon our livings, but also in other forraign parts of our trade (where they have power) they do hinder and destroy us in our lawful cours of living, hereby taking the bread out of our mouth, which we shall never prevent by plucking the pot from their nose, as of late years too many of us do practise to the great hurt and dishonour of this famous Nation; We ought rather to imitate former times in taking sober and worthy courses more pleasing to God and suitable to our ancient reputation.

11. It is needful also not to charge the native commodities with too great customes, lest by indearing them to the strangers use, it hinder their vent. And especially forraign wares brought in to be transported again should be favoured, for otherwise that manner of trading (so much importing the good of the Commonwealth) cannot prosper nor subsist. But the Consumption of such forraign wares in the Realm may be the more charged, which will turn to the profit of the kingdom in the Ballance of the Trade, and thereby also enable the King to lay up the more Treasure out of his yearly incomes. . . .

12. Lastly, in all things we must endeavour to make the most we can of our own, whether it be Natural or Artificial, And forasmuch as the people which live by the Arts are far more in number than they who are masters of the fruits, we ought the more carefully to maintain those endeavours of the multitude, in whom doth consist the greatest strength and riches both of the King and Kingdom: for where the people are many, and the arts good, there the traffique must be great, and the Countrey rich. . . .
Chapter 4

The Exportation of our Moneys in Trade of Merchandize is a means to encrease our Treasure.

This Position is so contrary to the common opinion, that it will require many and strong arguments to prove it before it can be accepted of the Multitude, who bitterly exclaim when they see any monies carried out of the Realm; affirming thereupon that wee have absolutely lost so much Treasure, and that this is an act directly against the long continued laws made and confirmed by the wisdom of this Kingdom in the High Court of Parliament, and that many places, nay Spain it self which is the Fountain of Mony, forbids the exportation thereof, some cases only excepted. . . .

First, I will take that for granted which no man of judgment will deny, that we have no other means to get Treasure but by forraign trade, for Mines we have none which do afford it, and how this mony is gotten in the managing of our said Trade I have already shewed, that it is done by making our commodities which are exported yearly to over ballance in value the forraign wares which we consume; so that it resteth only to shew how our monyes may be added to our commodi-
ties, and being jointly exported may so much the more encrease our Treasure. . . .

To this the answer is, that when wee have prepared our exportations of wares, and sent out as much of every thing as wee can spare or vent abroad: It is not there-
fore said that then we should add our money thereunto to fetch in the more mony immediately, but rather first to enlarge our trade by enabling us to bring in more forraign wares, which being sent out again will in due time much encrease our Treasure.

For although in this manner wee do yearly multiply our importation to the maintenance of more Shipping and Mariners, improvement of His Majesties Customs and other benefits: yet our consumption of those forraign wares is no more than it was before; so that all the said encrease of commodities brought in by the means of our ready mony sent out as is afore writt en, doth in the end become an exportation unto us of a far greater value than our said moneys. . . .

The answer is (keeping our first ground) that if our consumption of forraign wares be no more yearly than is already supposed, and that our exportations be so mightly encreased by this manner of Trading with ready money as is before declared: It is not then possible but that all the over-ballance or difference should return either in mony or in such wares as we must export again, which, as is already plainly shewed will be still a greater means to encrease our Treasure.

For it is in the stock of the Kingdom as in the estates of private men, who having store of wares, doe not therefore say that they will not venture out or trade with their mony (for this were ridiculous) but do also turn that into wares, whereby they multiply their Mony, and so by a continual and orderly change
Mercantilism

...It is not therefore the keeping of our mony in the Kingdom, but the necessity and use of our wares in foreign Countries, and our want of their commodities that causeth the vent and consumption on all sides, which makes a quick and ample Trade....And although this is a very hard lesson for some great landed men to learn, yet I am sure it is a true lesson for all the land to observe, lest when wee have gained some store of mony by trade, wee lose it again by not trading with our mony....

But on the contrary there are many Countreys which may yield us very profitable trade for our mony, which otherwise afford us no trade at all, because they have no use of our wares, as namely the East-Indies for one in the first beginning thereof, although since by industry in our commerce with those Nations we have brought them into the use of much of our Lead, Cloth, Tin, and other things, which is a good addition to the former vent of our commodities....

To this the answer is briefly, that if we have such a quantity of wares as doth fully provided us of all things needful from beyond the seas: why should we then doubt that our monys sent out in trade, must not necessarily come back again in treasure; together with the great gains which it may procure in such manner as is before set down?....

Chapter 21

This conclusion upon all hath been said concerning the Exportation or Importation of Treasure.

....Behold then the true form and worth of foreign Trade, which is, The great Revenue of the King, The honour of the Kingdom, The Noble profession of the Merchant, The School of our Arts, The supply of our wants, The employment of our poor, The improvement of our Lands, The Nurcery of our Mariners, The walls of the Kingdoms, The means of our Treasure, The Sinnews of our wars, The terror of our Enemies. For all which great and weighty reasons, do so many well governed States highly countenance the profession, and carefully cherish the action, not only with Policy to encrease it, but also with power to protect it from all foreign injuries: because they know it is a Principal in Reason of State to maintain and defend that which doth Support them and their estates.

Finis.
Liberalism was born as a philosophy of individual autonomy over against the power of the state. Mercantilism, of course, held that state power was both a signature means of wealth creation as well as one of the chief ends of economic activity. Such a theory stood out as a natural target for liberals set on fashioning a new approach to political economy. Classical liberalism emerged in particular through a novel understanding of, and appreciation for, markets. Captured by Adam Smith’s famous invisible hand analogy, liberals found in a market economy a social arena marked by spontaneous social order. No state was required to bring together buyer and seller, set prices and quantities, or spur investment and production. These were all motivated by natural human instincts that, as long as markets were free of power (i.e., “competitive”) and left to their own devices, benefited all. Classical liberals did not separate economics from politics, however. They emphasized how particular interests such as merchants or landlords sometimes used the power of the state to advance their own private good at the expense of the public good. Trade restrictions stood as prime examples. At the same time, classical liberals saw that states were still necessary for both the proper functioning of markets, such as defending property rights, and for the provision of goods and services that markets couldn’t produce, such as national defense. However, as much as possible, liberals urged states to let markets govern production, consumption, and exchange. This is a dramatic reversal of the mercantilist balance between state and market, and one that proved very successful both intellectually and politically over the course of the nineteenth century.

Adam Smith (1723–1790) led the way in attacking mercantilist orthodoxy and establishing a new approach to political economy. Although mercantilist theory was losing its vitality, it still dominated the economic policies of his day—and would continue to do so for a long time after. Smith therefore begins with a thoroughgoing critique of mercantilism’s understanding of wealth. He insists that the wealth of a country is not found in the accumulation of gold and silver but instead in the growth of the productive capacity of the national economy. In fact, precious metals are a wholly indifferent matter, for trade can be carried
on through barter if necessary or facilitated by means of paper money. Not only is the balance of trade unimportant as a policy goal. The international flow of money, obeying its own laws of movement rooted in the self-interest of rational economic actors, cannot be usefully regulated by the state anyway. Rather than restrain imports in order to accumulate treasure, Smith recommends the repeal of duties and prohibitions that will do far more to increase British production, wealth, and power.

Smith’s defense of free trade is based on its positive effects on production. The greatest benefit to society comes from the most efficient employment of the sum total of its capital. When individuals are allowed to invest their own capital according to their own interests, all benefit. According to Smith, no state can increase the amount of capital invested in society nor direct it toward the most effective uses. By attempting to protect the domestic market from foreign competition through trade regulations, however, this is precisely what the state attempts to do. Smith rejects the mercantilist claim that by means of trade restrictions the state can augment national wealth through development of a domestic industry that does not exist or through acceleration of the development of a nascent domestic industry. Save for a few well-specified exceptions, capital and industry should be allowed to find their “natural employments.” If placed in an unregulated international economy, each nation would discover a productive niche that best employs its capital and through trade contribute both to national prosperity as well as to the prosperity of all humanity.

David Ricardo (1772–1823) makes important contributions to the development of classical liberal theory, none more significant than his explanation of international trade on the basis of comparative advantage. Smith believed that trade between countries was governed by the absolute costs of the production of goods, the principal of absolute advantage. While Ricardo admitted the principal of absolute advantage in directing domestic trade, he endeavored to show that a very different principal governed international trade. Ricardo puts forward a simple two-by-two model of international trade, two countries (England and Portugal) trading two goods (wine and cloth). This example was hardly chosen out of thin air. Thanks to the highly successful (for the British, at least) joint military/commercial Methuen Treaty of 1703 with Portugal, this was a well-known case of the benefits of trade near and dear to the hearts of all Englishmen. Through the model, Ricardo demonstrated that a country lacking absolute advantage in both products still retained a comparative advantage in one. If each country concentrated its capital upon its comparative advantage and opened its national economy to trade, even the country with absolute advantage in both would benefit from specialization and international exchange.

Ricardo is careful to consider his argument in light of a country’s international balance of payments. Monetary forces, he finds, do not endanger comparative...
advantage because of the self-correcting price-specie flow mechanism introduced by David Hume nearly a century earlier. Like Smith before him, Ricardo finds little autonomous significance in money. The barter terms of trade determine prices and quantities, and money is simply a neutral medium of exchange. In other ways, however, Ricardo pushes liberal political economy in new directions. Adam Smith’s methodology is a blend of deductive analysis, history, narrative description, and normative concerns toward the broad goal of explaining the disparate wealth of nations. Ricardo sets a very different tone of abstract theorizing aimed toward uncovering the laws of political-economic behavior. States have the power to interfere with these laws, but neither to overturn them nor even to manipulate them toward substantive ends. Through the regulation of trade, states can change nominal values, but in Ricardo’s classical liberal view they have no ability to change real values. Ricardo also reintroduces the labor theory of value (rejected by Smith) as an explanation for the price of goods. In his model, England and Portugal trade because of different labor costs. This theory of value was eventually abandoned by liberals but embraced and developed by Marx and his followers decades later.

John Stuart Mill (1806–1873) both recapitulates Ricardian trade theory in an especially clear manner as well as makes his own innovations to classical liberal political economy. In particular, he moves away from Ricardo’s emphasis on immutable natural laws and instead finds that economic laws have social foundations that vary from society to society. This finds expression in Mill’s innovative argument regarding the “indirect” consequences of trade. While trade generates material advantages directly, those material advantages have political and moral effects. More trade means a greater division of labor that spurs economic development and the work ethic. Trade also spurs a cosmopolitan ethic of progress and cooperation. Presenting briefly a standard liberal claim, Mill finally asserts that trade is “the principal guarantee of the peace of the world.” In this way, Mill brings liberal political philosophy, liberal economic theory, and, it must be said, nineteenth-century British bourgeois values, together in a complete package.
Of the Principle of the Commercial or Mercantile System

Adam Smith

That wealth consists in money, or in gold and silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce, and as the measure of value. In consequence of its being the instrument of commerce, when we have money we can more readily obtain whatever else we have occasion for, than by means of any other commodity. The great affair, we always find, is to get money. When that is obtained, there is no difficulty in making any subsequent purchase. In consequence of its being the measure of value, we estimate that of all other commodities by the quantity of money which they will exchange for. We say of a rich man that he is worth a great deal, and of a poor man that he is worth very little money. A frugal man, or a man eager to be rich, is said to love money; and a careless, a generous, or a profuse man, is said to be indifferent about it. To grow rich is to get money; and wealth and money, in short, are, in common language, considered as in every respect synonymous.

A rich country, in the same manner as a rich man, is supposed to be a country abounding in money; and to heap up gold and silver in any country is supposed to be the readiest way to enrich it . . . .

Mr. Locke remarks a distinction between money and other moveable goods. All other moveable goods, he says, are of so consumable a nature that the wealth which consists in them cannot be much depended on, and a nation which abounds in them one year may, without any exportation, but merely by their own waste and extravagance, be in great want of them the next. Money, on the contrary, is a steady friend, which, though it may travel about from hand to hand, yet if it can be kept from going out of the country, is not very liable to be wasted and consumed. Gold and silver, therefore, are, according to him, the most solid and substantial part of the moveable wealth of a nation, and to multiply those metals ought, he thinks, upon that account, to be the great object of its political economy.

Others admit that if a nation could be separated from all the world, it would be of no consequence how much, or how little money circulated in it. The
consumable goods which were circulated by means of this money, would only be exchanged for a greater or a smaller number of pieces; but the real wealth or poverty of the country, they allow, would depend altogether upon the abundance or scarcity of those consumable goods. But it is otherwise, they think, with countries which have connections with foreign nations, and which are obliged to carry on foreign wars, and to maintain fleets and armies in distant countries. This, they say, 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.

In consequence of these popular notions, all the different nations of Europe have studied, though to little purpose, every possible means of accumulating gold and silver in their respective countries. Spain and Portugal, the proprietors of the principal mines which supply Europe with those metals, have either prohibited their exportation under the severest penalties, or subjected it to a considerable duty. The like prohibition seems anciently to have made a part of the policy of most other European nations.

When those countries became commercial, the merchants found this prohibition, upon many occasions, extremely inconvenient. They could frequently buy more advantageously with gold and silver than with any other commodity, the foreign goods which they wanted, either to import into their own, or to carry to some other foreign country. They remonstrated, therefore, against this prohibition as hurtful to trade.

They represented, first, that the exportation of gold and silver in order to purchase foreign goods, did not always diminish the quantity of those metals in the kingdom. That, on the contrary, it might frequently increase that quantity; because, if the consumption of foreign goods was not thereby increased in the country, those goods might be re-exported to foreign countries, and, being there sold for a large profit, might bring back much more treasure than was originally sent out to purchase them.

They represented, secondly, that this prohibition could not hinder the exportation of gold and silver, which, on account of the smallness of their bulk in proportion to their value, could easily be smuggled abroad. That this exportation could only be prevented by a proper attention to, what they called, the balance of trade. That when the country exported to a greater value than it imported, a balance became due to it from foreign nations, which was necessarily paid to it in gold and silver, and thereby increased the quantity of those metals in the kingdom. But that when it imported to a greater value than it exported, a contrary balance became due to foreign nations, which was necessarily paid to them in the same manner, and thereby diminished that quantity.
Those arguments were partly solid and partly sophistical. They were solid so far as they asserted that the exportation of gold and silver in trade might frequently be advantageous to the country. They were solid too, in asserting that no prohibition could prevent their exportation, when private people found any advantage in exporting them. But they were sophistical in supposing, that either to preserve or to augment the quantity of those metals required more the attention of government, than to preserve or to augment the quantity of any other useful commodities, which the freedom of trade, without any such attention, never fails to supply in the proper quantity. They were sophistical too, perhaps, in asserting that the high price of exchange necessarily increased, what they called, the unfavourable balance of trade, or occasioned the exportation of a greater quantity of gold and silver... The high price of exchange... would naturally dispose the merchants to endeavour to make their exports nearly balance their imports, in order that they might have this high exchange to pay upon as small a sum as possible. The high price of exchange, besides, must necessarily have operated as a tax, in raising the price of foreign goods, and thereby diminishing their consumption. It would tend, therefore, not to increase, but to diminish, what they called, the unfavourable balance of trade, and consequently the exportation of gold and silver.

Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants to parliaments, and to the councils of princes, to nobles, and to country gentlemen; by those who were supposed to understand trade, to those who were conscious to themselves that they knew nothing about the matter. That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen, as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country, was no part of their business. This subject never came into their consideration, but when they had occasion to apply to their country for some change in the laws relating to foreign trade. It then became necessary to say something about the beneficial effects of foreign trade, and the manner in which those effects were obstructed by the laws as they then stood. To the judges who were to decide the business, it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much as it otherwise would do. Those arguments therefore produced the wished-for effect... The attention of government was turned away from guarding against the exportation of gold and silver, to watch over the balance of trade, as the only cause which could occasion any augmentation or diminution of those metals. From one fruitless care it was turned away to another care much more intricate, much more embarrassing, and just equally fruitless....
A country that has no mines of its own must undoubtedly draw its gold and silver from foreign countries, in the same manner as one that has no vineyards of its own must draw its wines. It does not seem necessary, however, that the attention of government should be more turned towards the one than towards the other object. A country that has wherewithal to buy wine, will always get the wine which it has occasion for; and a country that has wherewithal to buy gold and silver, will never be in want of those metals.

They are to be bought for a certain price like all other commodities, and as they are the price of all other commodities, so all other commodities are the price of those metals. We trust with perfect security that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for: and we may trust with equal security that it will always supply us with all the gold and silver which we can afford to purchase or to employ, either in circulating our commodities, or in other uses.

The quantity of every commodity which human industry can either purchase or produce, naturally regulates itself in every country according to the effectual demand, or according to the demand of those who are willing to pay the whole rent, labour and profits which must be paid in order to prepare and bring it to market. But no commodities regulate themselves more easily or more exactly according to this effectual demand than gold and silver; because, on account of the small bulk and great value of those metals, no commodities can be more easily transported from one place to another, from the places where they are cheap, to those where they are dear, from the places where they exceed, to those where they fall short of this effectual demand...

When the quantity of gold and silver imported into any country exceeds the effectual demand, no vigilance of government can prevent their exportation... If, on the contrary, in any particular country their quantity fell short of the effectual demand, so as to raise their price above that of the neighboring countries, the government would have no occasion to take any pains to import them. If it were even to take pains to prevent their importation, it would not be able to effectuate it...

If, notwithstanding all this, gold and silver should at any time fall short in a country which has wherewithal to purchase them, there are more expedients for supplying their place, than that of almost any other commodity. If the materials of manufacture are wanted, industry must stop. If provisions are wanted, the people must starve. But if money is wanted, barter will supply its place, though with a good deal of inconveniency. Buying and selling upon credit, and the different dealers compensating their credits with one another, once a month or once a year, will supply it with less inconveniency. A well-regulated paper money will supply it, not only without any inconveniency, but, in some cases, with some advantages. Upon every account, therefore, the attention of government never
was so unnecessarily employed, as when directed to watch over the preservation or increase of the quantity of money in any country.

It would be too ridiculous to go about seriously to prove, that wealth does not consist in money, or in gold and silver; but in what money purchases, and is valuable only for purchasing. Money, no doubt, makes always a part of the national capital; but ... it generally makes but a small part, and always the most unprofitable part of it.

It is not because wealth consists more essentially in money than in goods, that the merchant finds it generally more easy to buy goods with money, than to buy money with goods; but because money is the known and established instrument of commerce, for which every thing is readily given in exchange, but which is not always with equal readiness to be got in exchange for every thing... Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money, therefore, necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys, does not always mean to sell again, but frequently to use or to consume; whereas he who sells, always means to buy again. The one may frequently have done the whole, but the other can never have done more than the one-half of his business. It is not for its own sake that men desire money, but for the sake of what they can purchase with it.

...Gold and silver, whether in the shape of coin or plate, are utensils, it must be remembered, as much as the furniture of the kitchen. Increase the use for them, increase the consumable commodities which are to be circulated, managed, and prepared by means of them, and you will infallibly increase the quantity; but if you attempt, by extraordinary means, to increase the quantity, you will as infallibly diminish the use and even the quantity too, which in those metals can never be greater than what the use requires. Were they ever to be accumulated beyond this quantity, their transportation is so easy, and the loss which attends their lying idle and unemployed so great, that no law could prevent their being immediately sent out of the country.

It is not always necessary to accumulate gold and silver, in order to enable a country to carry on foreign wars, and to maintain fleets and armies in distant countries. Fleets and armies are maintained, not with gold and silver, but with consumable goods. The nation which, from the annual produce of its domestic industry, from the annual revenue arising out of its lands, labour, and consumable stock, has wherewithal to purchase those consumable goods in distant countries, can maintain foreign wars there.

A nation may purchase the pay and provisions of an army in a distant country three different ways; by sending abroad either, first, some part of its accumulated gold and silver; or secondly, some part of the annual produce of its manufactures; or last of all, some part of its annual rude produce.
The gold and silver which can properly be considered as accumulated or stored up in any country, may be distinguished into three parts; first, the circulating money; secondly, the plate of private families; and last of all, the money which may have been collected by many years parsimony, and laid up in the treasury of the prince.

The funds which maintained the foreign wars of the present century, the most expensive perhaps which history records, seem to have had little dependency upon the exportation either of the circulating money, or of the plate of private families, or of the treasure of the prince.

The enormous expense of the late war, therefore, must have been chiefly defrayed, not by the exportation of gold and silver, but by that of British commodities of some kind or other.

The commodities most proper for being transported to distant countries, in order to purchase there, either the pay and provisions of an army, or some part of the money of the mercantile republic to be employed in purchasing them, seem to be the finer and more improved manufactures; such as contain a great value in a small bulk, and can, therefore, be exported to a great distance at little expense. A country whose industry produces a great annual surplus of such manufactures, which are usually exported to foreign countries, may carry on for many years a very expensive foreign war, without either exporting any considerable quantity of gold and silver, or even having any such quantity to export.

No foreign war of great expense or duration could conveniently be carried on by the exportation of the rude produce of the soil. The expense of sending such a quantity of it to a foreign country as might purchase the pay and provisions of an army, would be too great. Few countries too produce much more rude produce than what is sufficient for the subsistence of their own inhabitants. To send abroad any great quantity of it, therefore, would be to send abroad a part of the necessary subsistence of the people. It is otherwise with the exportation of manufactures. The maintenance of the people employed in them is kept at home, and only the surplus part of their work is exported.

The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. By means of it, the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption,
it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. These great and important services foreign trade is continually occupied in performing, to all the different countries between which it is carried on. They all derive great benefit from it, though that in which the merchant resides generally derives the greatest, as he is generally more employed in supplying the wants, and carrying out the superfluities of his own, than of any other particular country. To import the gold and silver which may be wanted, into the countries which have no mines, is, no doubt, a part of the business of foreign commerce. It is, however, a most insignificant part of it. A country which carried on foreign trade merely upon this account, could scarce have occasion to freight a ship in a century.

I thought it necessary, though at the hazard of being tedious, to examine at full length this popular notion that wealth consists in money, or in gold and silver. Money in common language, as I have already observed, frequently signifies wealth; and this ambiguity of expression has rendered this popular notion so familiar to us, that even they, who are convinced of its absurdity, are very apt to forget their own principles, and in the course of their reasonings to take it for granted as a certain and undeniable truth. Some of the best English writers upon commerce set out with observing, that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds. In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce.

The two principles being established, however, that wealth consisted in gold and silver, and that those metals could be brought into a country which had no mines only by the balance of trade, or by exporting to a greater value than it imported; it necessarily became the great object of political economy to diminish as much as possible the importation of foreign goods for home consumption, and to increase as much as possible the exportation of the produce of domestic industry. Its two great engines for enriching the country, therefore, were restraints upon importation, and encouragements to exportation.
Of Restraints Upon the Importation from Foreign Countries of Such Goods as Can Be Produced at Home

Adam Smith

By restraining, either by high duties, or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home market is more or less secured to the domestic industry employed in producing them....

That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labour and stock of the society than would otherwise have gone to it, cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident.

The general industry of the society never can exceed what the capital of the society can employ. As the number of workmen that can be kept in employment by any particular person must bear a certain proportion to his capital, so the number of those that can be continually employed by all the members of a great society, must bear a certain proportion to the whole capital of that society, and never can exceed that proportion. No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord.

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.

First, every individual endeavours to employ his capital as near home as he can, and consequently as much as he can in the support of domestic industry; provided always that he can thereby obtain the ordinary, or not a great deal less than the ordinary profits of stock.
Thus, upon equal or nearly equal profits, every wholesale merchant naturally prefers the home-trade to the foreign trade of consumption, and the foreign trade of consumption to the carrying trade. In the home-trade his capital is never so long out of his sight as it frequently is in the foreign trade of consumption. He can know better the character and situation of the persons whom he trusts, and if he should happen to be deceived, he knows better the laws of the country from which he must seek redress. In the carrying trade, the capital of the merchant is, as it were, divided between two foreign countries, and no part of it is ever necessarily brought home, or placed under his own immediate view and command ... But a capital employed in the home-trade, it has already been shown, necessarily puts into motion a greater quantity of domestic industry, and gives revenue and employment to a greater number of the inhabitants of the country, than an equal capital employed in the foreign trade of consumption: and one employed in the foreign trade of consumption has the same advantage over an equal capital employed in the carrying trade. Upon equal, or only nearly equal profits, therefore, every individual naturally inclines to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country.

Secondly, every individual who employs his capital in the support of domestic industry, necessarily endeavours so to direct that industry, that its produce may be of the greatest possible value.

The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavour to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it.
By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

To give the monopoly of the home-market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.

What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the above-mentioned artificers; but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage, when it is thus directed towards an object which it can buy cheaper than it can make. The value of its annual produce is certainly more or less diminished, when it is thus turned away from producing commodities evidently of more value than the commodity which it is directed to produce. According to the supposition, that commodity could be purchased from foreign
countries cheaper than it can be made at home. It could, therefore, have been purchased with a part only of the commodities, or, what is the same thing, with a part only of the price of the commodities, which the industry employed by an equal capital would have produced at home, had it been left to follow its natural course. The industry of the country, therefore, is thus turned away from a more, to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation.

By means of such regulations, indeed, a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country. But though the industry of the society may be thus carried with advantage into a particular channel sooner than it could have been otherwise, it will by no means follow that the sum total, either of its industry, or of its revenue, can ever be augmented by any such regulation. The industry of the society can augment only in proportion as its capital augments, and its capital can augment only in proportion to what can be gradually saved out of its revenue. But the immediate effect of every such regulation is to diminish its revenue, and what diminishes its revenue is certainly not very likely to augment its capital faster than it would have augmented of its own accord, had both capital and industry been left to find out their natural employments.

Though for want of such regulations the society should never acquire the proposed manufacture, it would not, upon that account, necessarily be the poorer in any one period of its duration. In every period of its duration its whole capital and industry might still have been employed, though upon different objects, in the manner that was most advantageous at the time. In every period its revenue might have been the greatest which its capital could afford, and both capital and revenue might have been augmented with the greatest possible rapidity.

The natural advantages which one country has over another in producing particular commodities are sometimes so great, that it is acknowledged by all the world to be in vain to struggle with them... Whether the advantages which one country has over another, be natural or acquired, is in this respect of no consequence. As long as the one country has those advantages, and the other wants them, it will always be more advantageous for the latter, rather to buy of the former than to make. It is an acquired advantage only, which one artificer has over his neighbour, who exercises another trade; and yet they both find it more advantageous to buy of one another, than to make what does not belong to their particular trades.

There seem, however, to be two cases in which it will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry.
The first is, when some particular sort of industry is necessary for the defence of the country. The defence of Great Britain, for example, depends very much upon the number of its sailors and shipping. The act of navigation, therefore, very properly endeavours to give the sailors and shipping of Great Britain the monopoly of the trade of their own country, in some cases, by absolute prohibitions, and in others by heavy burdens upon the shipping of foreign countries....

The act of navigation is not favourable to foreign commerce, or to the growth of that opulence which can arise from it. The interest of a nation in its commercial relations to foreign nations is, like that of a merchant with regard to the different people with whom he deals, to buy as cheap and to sell as dear as possible. But it will be most likely to buy cheap, when by the most perfect freedom of trade it encourages all nations to bring to it the goods which it has occasion to purchase; and, for the same reason, it will be most likely to sell dear, when its markets are thus filled with the greatest number of buyers. The act of navigation, it is true, lays no burden upon foreign ships that come to export the produce of British industry. Even the ancient aliens duty, which used to be paid upon all goods exported as well as imported, has, by several subsequent acts, been taken off from the greater part of the articles of exportation. But if foreigners, either by prohibitions or high duties, are hindered from coming to sell, they cannot always afford to come to buy; because coming without a cargo, they must lose the freight from their own country to Great Britain. By diminishing the number of sellers, therefore, we necessarily diminish that of buyers, and are thus likely not only to buy foreign goods dearer, but to sell our own cheaper, than if there was a more perfect freedom of trade. As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England.

The second case, in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry, is, when some tax is imposed at home upon the produce of the latter. In this case, it seems reasonable that an equal tax should be imposed upon the like produce of the former. This would not give the monopoly of the home market to domestic industry, nor turn towards a particular employment a greater share of the stock and labour of the country, than what would naturally go to it. It would only hinder any part of what would naturally go to it from being turned away by the tax, into a less natural direction, and would leave the competition between foreign and domestic industry, after the tax, as nearly as possible upon the same footing as before it....

This second limitation of the freedom of trade according to some people should, upon some occasions, be extended much farther than to the precise foreign commodities which could come into competition with those which had been taxed at home. When the necessaries of life have been taxed in any
country, it becomes proper, they pretend, to tax not only the like necessaries of life imported from other countries, but all sorts of foreign goods which can come into competition with any thing that is the produce of domestic industry. Subsistence, they say, becomes necessarily dearer in consequence of such taxes; and the price of labour must always rise with the price of the labourers’ subsistence. Every commodity, therefore, which is the produce of domestic industry, though not immediately taxed itself, becomes dearer in consequence of such taxes, because the labour which produces it becomes so. Such taxes, therefore, are really equivalent, they say, to a tax upon every particular commodity produced at home. In order to put domestic upon the same footing with foreign industry, therefore, it becomes necessary, they think, to lay some duty upon every foreign commodity, equal to this enhancement of the price of the home commodities with which it can come into competition.

Such taxes, when they have grown up to a certain height, are a curse equal to the barrenness of the earth and the inclemency of the heavens; and yet it is in the richest and most industrious countries that they have been most generally imposed. No other countries could support so great a disorder. As the strongest bodies only can live and enjoy health, under an unwholesome regimen; so the nations only, that in every sort of industry have the greatest natural and acquired advantages, can subsist and prosper under such taxes. Holland is the country in Europe in which they abound most, and which from peculiar circumstances continues to prosper, not by means of them, as has been most absurdly supposed, but in spite of them.

As there are two cases in which it will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry; so there are two others in which it may sometimes be a matter of deliberation; in the one, how far it is proper to continue the free importation of certain foreign goods; and in the other, how far, or in what manner, it may be proper to restore that free importation after it has been for some time interrupted.

The case in which it may sometimes be a matter of deliberation how far it is proper to continue the free importation of certain foreign goods, is, when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country. Revenge in this case naturally dictates retaliation, and that we should impose the like duties and prohibitions upon the importation of some or all of their manufactures into ours. Nations accordingly seldom fail to retaliate in this manner…..

There may be good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods… When there is no probability that any such repeal can be procured,
it seems a bad method of compensating the injury done to certain classes of our people, to do another injury ourselves, not only to those classes, but to almost all the other classes of them . . .

The case in which it may sometimes be a matter of deliberation, how far, or in what manner, it is proper to restore the free importation of foreign goods, after it has been for some time interrupted, is, when particular manufactures, by means of high duties or prohibitions upon all foreign goods which can come into competition with them, have been so far extended as to employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection. Were those high duties and prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market, as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable. It would in all probability, however, be much less than is commonly imagined . . .

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. Were the officers of the army to oppose with the same zeal and unanimity any reduction in the number of forces, with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; were the former to animate their soldiers, in the same manner as the latter enflame their workmen, to attack with violence and outrage the proposers of any such regulation; to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them, that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.
No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments. As the value of all foreign goods is measured by the quantity of the produce of our land and labour, which is given in exchange for them, we should have no greater value, if by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of ours...

It has indeed been contended, that the great profits which are sometimes made by particular merchants in foreign trade, will elevate the general rate of profits in the country, and that the abstraction of capital from other employments, to partake of the new and beneficial foreign commerce, will raise prices generally, and thereby increase profits. It has been said, by high authority, that less capital being necessarily devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c., while the demand continues the same, the price of these commodities will be so increased, that the farmer, hatter, clothier, and shoemaker, will have an increase of profits, as well as the foreign merchant.

They who hold this argument agree with me, that the profits of different employments have a tendency to conform to one another; to advance and recede together. Our variance consists in this: They contend that the equality of profits will be brought about by the general rise of profits; and I am of opinion, that the profits of the favoured trade will speedily subside to the general level.

For, first, I deny that less capital will necessarily be devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c., unless the demand for these commodities be diminished; and if so, their price will not rise. In the purchase of foreign commodities, either the same, a larger, or a less portion of the produce of the land and labour of England will be employed. If the same portion be so employed, then will the same demand exist for cloth, shoes, corn, and hats as before, and the same portion of capital will be devoted to their production. If, in consequence of the price of foreign commodities being
cheaper, a less portion of the annual produce of the land and labour of England is employed in the purchase of foreign commodities, more will remain for the purchase of other things. If there be a greater demand for hats, shoes, corn, &c., than before, which there may be, the consumers of foreign commodities having an additional portion of their revenue disposable, the capital is also disposable with which the greater value of foreign commodities was before purchased; so that with the increased demand for corn, shoes, &c., there exists also the means of procuring an increased supply, and therefore neither prices nor profits can permanently rise. If more of the produce of the land and labour of England be employed in the purchase of foreign commodities, less can be employed in the purchase of other things, and therefore fewer hats, shoes, &c., will be required. At the same time that capital is liberated from the production of shoes, hats, &c., more must be employed in manufacturing those commodities with which foreign commodities are purchased; and, consequently, in all cases the demand for foreign and home commodities together, as far as regards value, is limited by the revenue and capital of the country. If one increases the other must diminish. If the quantity of wine, imported in exchange for the same quantity of English commodities, be doubled, the people of England can either consume double the quantity of wine that they did before, or the same quantity of wine and a greater quantity of English commodities. If my revenue had been 1000£, with which I purchased annually one pipe of wine for 100£, and a certain quantity of English commodities for 900£; when wine fell to 50£ per pipe, I might buy out the 50£ saved, either in the purchase of an additional pipe of wine, or in the purchase of more English commodities. If I bought more wine, and every wine-drinker did the same, the foreign trade would not be in the least disturbed; the same quantity of English commodities would be exported in exchange for wine, and we should receive double the quantity, though not double the value of wine. But if I, and others, contented ourselves with the same quantity of wine as before, fewer English commodities would be exported, and the wine-drinkers might either consume the commodities which were before exported, or any others for which they had an inclination. The capital required for their production would be supplied by the capital liberated from the foreign trade.

It is not, therefore, in consequence of the extension of the market that the rate of profit is raised, although such extension may be equally efficacious in increasing the mass of commodities, and may thereby enable us to augment the funds destined for the maintenance of labour, and the materials on which labour may be employed. It is quite as important to the happiness of mankind, that our enjoyments should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate, and its other natural or artificial advantages, it is adapted, and by their exchanging
them for the commodities of other countries, as that they should be augmented by a rise in the rate of profits.

It has been my endeavour to show throughout this work, that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market, at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take place in the rate of profits. The rate of wages would not be affected, although wine, velvets, silks, and other expensive commodities should fall 50 per cent, and consequently profits would continue unaltered.

Foreign trade, then, though highly beneficial to a country, as it increases the amount and variety of the objects on which revenue may be expended, and affords, by the abundance and cheapness of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock, unless the commodities imported be of that description on which the wages of labour are expended.

The remarks which have been made respecting foreign trade, apply equally to home trade. The rate of profits is never increased by a better distribution of labour, by the invention of machinery, by the establishment of roads and canals, or by any means of abridging labour either in the manufacture or in the conveyance of goods. These are causes which operate on price, and never fail to be highly beneficial to consumers; since they enable them, with the same labour, or with the value of the produce of the same labour, to obtain in exchange a greater quantity of the commodity to which the improvement is applied; but they have no effect whatever on profit. On the other hand, every diminution in the wages of labour raises profits, but produces no effect on the price of commodities. One is advantageous to all classes, for all classes are consumers; the other is beneficial only to producers; they gain more, but every thing remains at its former price. In the first case they get the same as before; but every thing on which their gains are expended, is diminished in exchangeable value.

The same rule which regulates the relative value of commodities in one country, does not regulate the relative value of the commodities exchanged between two or more countries.
Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

In one and the same country, profits are, generally speaking, always on the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between different countries. If the profits of capital employed in Yorkshire, should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England, from the increase of capital and population, wages should rise, and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia, where profits might be higher.

If Portugal had no commercial connexion with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as quantity.

The quantity of wine which she shall give in exchange for the cloth of England, is not determined by the respective quantities of labour devoted to the production of each, as it would be, if both commodities were manufactured in England, or both in Portugal.

England may be so circumstanced, that to produce the cloth may require the labour of 100 men for one year; and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth.

To produce the wine in Portugal, might require only the labour of 80 men for one year, and to produce the cloth in the same country, might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with
the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.

Thus England would give the produce of the labour of 100 men, for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.

It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. In that case, the relative value of these commodities would be regulated by the same principle, as if one were the produce of Yorkshire, and the other of London: and in every other case, if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the real or labour price of commodities, than the additional quantity of labour required to convey them to the various markets where they were to be sold.

Experience, however, shows, that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself, with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.

Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world, as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter.

Thus, cloth cannot be imported into Portugal, unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot
be imported into England, unless it will sell for more there than it cost in Portugal. If the trade were purely a trade of barter, it could only continue whilst England could make cloth so cheap as to obtain a greater quantity of wine with a given quantity of labour, by manufacturing cloth than by growing vines; and also whilst the industry of Portugal were attended by the reverse effects. Now suppose England to discover a process for making wine, so that it should become her interest rather to grow it than import it; she would naturally divert a portion of her capital from the foreign trade to the home trade; she would cease to manufacture cloth for exportation, and would grow wine for herself. The money price of these commodities would be regulated accordingly; wine would fall here while cloth continued at its former price, and in Portugal no alteration would take place in the price of either commodity. Cloth would continue for some time to be exported from this country, because its price would continue to be higher in Portugal than here; but money instead of wine would be given in exchange for it, till the accumulation of money here, and its diminution abroad, should so operate on the relative value of cloth in the two countries, that it would cease to be profitable to export it. If the improvement in making wine were of a very important description, it might become profitable for the two countries to exchange employments; for England to make all the wine, and Portugal all the cloth consumed by them; but this could be effected only by a new distribution of the precious metals, which should raise the price of cloth in England, and lower it in Portugal. The relative price of wine would fall in England in consequence of the real advantage from the improvement of its manufacture; that is to say, its natural price would fall; the relative price of cloth would rise there from the accumulation of money.

But the diminution of money in one country, and its increase in another, do not operate on the price of one commodity only, but on the prices of all, and therefore the price of wine and cloth will be both raised in England, and both lowered in Portugal. . . .

It is thus that the money of each country is apportioned to it in such quantities only as may be necessary to regulate a profitable trade of barter. England exported cloth in exchange for wine, because, by so doing, her industry was rendered more productive to her; she had more cloth and wine than if she had manufactured both for herself; and Portugal imported cloth and exported wine, because the industry of Portugal could be more beneficially employed for both countries in producing wine. Let there be more difficulty in England in producing cloth, or in Portugal in producing wine, or let there be more facility in England in producing wine, or in Portugal in producing cloth, and the trade must immediately cease.
No change whatever takes place in the circumstances of Portugal; but England finds that she can employ her labour more productively in the manufacture of wine, and instantly the trade of barter between the two countries changes. Not only is the exportation of wine from Portugal stopped, but a new distribution of the precious metals takes place, and her importation of cloth is also prevented.

Both countries would probably find it their interest to make their own wine and their own cloth; but this singular result would take place: in England, though wine would be cheaper, cloth would be elevated in price, more would be paid for it by the consumer; while in Portugal the consumers, both of cloth and of wine, would be able to purchase those commodities cheaper. In the country where the improvement was made, prices would be enhanced; in that where no change had taken place, but where they had been deprived of a profitable branch of foreign trade, prices would fall.

This, however, is only a seeming advantage to Portugal, for the quantity of cloth and wine together produced in that country would be diminished, while the quantity produced in England would be increased. Money would in some degree have changed its value in the two countries; it would be lowered in England and raised in Portugal. Estimated in money, the whole revenue of Portugal would be diminished; estimated in the same medium, the whole revenue of England would be increased.

Thus, then, it appears that the improvement of a manufacture in any country tends to alter the distribution of the precious metals amongst the nations of the world: it tends to increase the quantity of commodities, at the same time that it raises general prices in the country where the improvement takes place.

To simplify the question, I have been supposing the trade between two countries to be confined to two commodities—to wine and cloth; but it is well known that many and various articles enter into the list of exports and imports. By the abstraction of money from one country, and the accumulation of it in another, all commodities are affected in price, and consequently encouragement is given to the exportation of many more commodities besides money, which will therefore prevent so great an effect from taking place on the value of money in the two countries as might otherwise be expected.

Beside the improvements in arts and machinery, there are various other causes which are constantly operating on the natural course of trade, and which interfere with the equilibrium, and the relative value of money. Bounties on exportation or importation, new taxes on commodities, sometimes by their direct, and at other times by their indirect operation, disturb the natural trade of barter, and produce a consequent necessity of importing or exporting money, in order that prices may be accommodated to the natural course of commerce; and
this effect is produced not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world.

This will in some measure account for the different value of money in different countries; it will explain to us why the prices of home commodities, and those of great bulk, though of comparatively small value, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be highest in that where the greater skill, and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.

Of these two countries, if one had the advantage in the manufacture of goods of one quality, and the other in the manufacture of goods of another quality, there would be no decided influx of the precious metals into either; but if the advantage very heavily preponderated in favour of either, that effect would be inevitable.

In the former part of this work, we have assumed, for the purpose of argument, that money always continued of the same value; we are now endeavouring to show that, besides the ordinary variations in the value of money, and those which are common to the whole commercial world, there are also partial variations to which money is subject in particular countries; and to the fact, that the value of money is never the same in any two countries, depending as it does on relative taxation, on manufacturing skill, on the advantages of climate, natural productions, and many other causes.

Although, however, money is subject to such perpetual variations, and consequently the prices of the commodities which are common to most countries, are also subject to considerable difference, yet no effect will be produced on the rate of profits, either from the influx or efflux of money. Capital will not be increased, because the circulating medium is augmented. If the rent paid by the farmer to his landlord, and the wages to his labourers, be 20 per cent higher in one country than another, and if at the same time the nominal value of the farmer’s capital be 20 per cent more, he will receive precisely the same rate of profits, although he should sell his raw produce 20 per cent higher.

Profits, it cannot be too often repeated, depend on wages; not on nominal, but real wages; not on the number of pounds that may be annually paid to the labourer, but on the number of days’ work necessary to obtain those pounds. Wages may therefore be precisely the same in two countries; they may bear, too, the same proportion to rent, and to the whole produce obtained from the land,
although in one of those countries the labourer should receive ten shillings per week, and in the other twelve.

In the early states of society, when manufactures have made little progress, and the produce of all countries is nearly similar, consisting of the bulky and most useful commodities, the value of money in different countries will be chiefly regulated by their distance from the mines which supply the precious metals; but as the arts and improvements of society advance, and different nations excel in particular manufactures, although distance will still enter into the calculation, the value of the precious metals will be chiefly regulated by the superiority of those manufactures.

Suppose all nations to produce corn, cattle, and coarse clothing only, and that it was by the exportation of such commodities that gold could be obtained from the countries which produced them, or from those who held them in subjection; gold would naturally be of greater exchangeable value in Poland than in England, on account of the greater expense of sending such a bulky commodity as corn the more distant voyage, and also the greater expense attending the conveying of gold to Poland.

This difference in the value of gold, or, which is the same thing, this difference in the price of corn in the two countries, would exist, although the facilities of producing corn in England should far exceed those of Poland, from the greater fertility of the land, and the superiority in the skill and implements of the labourer.

If, however, Poland should be the first to improve her manufactures, if she should succeed in making a commodity which was generally desirable, including great value in little bulk, or if she should be exclusively blessed with some natural production, generally desirable, and not possessed by other countries, she would obtain an additional quantity of gold in exchange for this commodity, which would operate on the price of her corn, cattle, and coarse clothing. The disadvantage of distance would probably be more than compensated by the advantage of having an exportable commodity of great value, and money would be permanently of lower value in Poland than in England. If, on the contrary, the advantage of skill and machinery were possessed by England, another reason would be added to that which before existed, why gold should be less valuable in England than in Poland, and why corn, cattle, and clothing, should be at a higher price in the former country.

These I believe to be the only two causes which regulate the comparative value of money in the different countries of the world; for although taxation occasions a disturbance of the equilibrium of money, it does so by depriving the country in which it is imposed of some of the advantages attending skill, industry, and climate.

It has been my endeavour carefully to distinguish between a low value of money, and a high value of corn, or any other commodity with which money
may be compared. These have been generally considered as meaning the same thing; but it is evident, that when corn rises from five to ten shillings a bushel, it may be owing either to a fall in the value of money, or to a rise in the value of corn. Thus we have seen, that from the necessity of having recourse successively to land of a worse and worse quality, in order to feed an increasing population, corn must rise in relative value to other things. If therefore money continue permanently of the same value, corn will exchange for more of such money, that is to say, it will rise in price. The same rise in the price of corn will be produced by such improvement of machinery in manufactures, as shall enable us to manufacture commodities with peculiar advantages: for the influx of money will be the consequence; it will fall in value, and therefore exchange for less corn. But the effects resulting from a high price of corn when produced by the rise in the value of corn, and when caused by a fall in the value of money, are totally different. In both cases the money price of wages will rise, but if it be in consequence of the fall in the value of money, not only wages and corn, but all other commodities will rise. If the manufacturer has more to pay for wages, he will receive more for his manufactured goods, and the rate of profits will remain unaffected. But when the rise in the price of corn is the effect of the difficulty of production, profits will fall; for the manufacturer will be obliged to pay more wages, and will not be able to remunerate himself by raising the price of his manufactured commodity.

Any improvement in the facility of working the mines, by which the precious metals may be produced with a less quantity of labour, will sink the value of money generally. It will then exchange for fewer commodities in all countries; but when any particular country excels in manufactures, so as to occasion an influx of money towards it, the value of money will be lower, and the prices of corn and labour will be relatively higher in that country than in any other. This higher value of money will not be indicated by the exchange; bills may continue to be negotiated at par, although the prices of corn and labour should be 10, 20, or 30 per cent higher in one country than another. Under the circumstances supposed, such a difference of prices is the natural order of things, and the exchange can only be at par, when a sufficient quantity of money is introduced into the country excelling in manufactures, so as to raise the price of its corn and labour. If foreign countries should prohibit the exportation of money, and could successfully enforce obedience to such a law, they might indeed prevent the rise in the prices of the corn and labour of the manufacturing country; for such rise can only take place after the influx of the precious metals, supposing paper money not to be used; but they could not prevent the exchange from being very unfavourable to them. If England were the manufacturing country, and it were possible to prevent the importation of money, the exchange with France, Holland, and Spain, might be 5, 10, or 20 per cent against those countries.
Whenever the current of money is forcibly stopped, and when money is prevented from settling at its just level, there are no limits to the possible variations of the exchange. The effects are similar to those which follow, when a paper money, not exchangeable for specie at the will of the holder, is forced into circulation. Such a currency is necessarily confined to the country where it is issued: it cannot, when too abundant, diffuse itself generally amongst other countries. The level of circulation is destroyed, and the exchange will inevitably be unfavourable to the country where it is excessive in quantity: just so would be the effects of a metallic circulation, if by forcible means, by laws which could not be evaded, money should be detained in a country, when the stream of trade gave it an impetus towards other countries.

When each country has precisely the quantity of money which it ought to have, money will not indeed be of the same value in each, for with respect to many commodities it may differ 5, 10, or even 20 per cent, but the exchange will be at par. One hundred pounds in England, or the silver which is in 100£, will purchase a bill of 100£, or an equal quantity of silver in France, Spain, or Holland.

In speaking of the exchange and the comparative value of money in different countries, we must not in the least refer to the value of money estimated in commodities, in either country. The exchange is never ascertained by estimating the comparative value of money in corn, cloth, or any commodity whatever, but by estimating the value of the currency of one country, in the currency of another. 

....How is it to be ascertained whether English money has fallen, or Hamburg money has risen? [T]here is no standard by which this can be determined. It is a plea which admits of no proof, and can neither be positively affirmed, nor positively contradicted. The nations of the world must have been early convinced, that there was no standard of value in nature, to which they might unerringly refer, and therefore chose a medium, which on the whole appeared to them less variable than any other commodity.

To this standard we must conform till the law is changed, and till some other commodity is discovered, by the use of which we shall obtain a more perfect standard than that which we have established. While gold is exclusively the standard in this country, money will be depreciated, when a pound sterling is not of equal value with 5 dwts. and 3 grs. of standard gold, and that, whether gold rises or falls in general value.
3. From this exposition we perceive in what consists the benefit of international exchange, or in other words, foreign commerce. Setting aside its enabling countries to obtain commodities which they could not themselves produce at all; its advantage consists in a more efficient employment of the productive forces of the world. If two countries which trade together attempted, as far as was physically possible, to produce for themselves what they now import from one another, the labour and capital of the two countries would not be so productive, the two together would not obtain from their industry so great a quantity of commodities, as when each employs itself in producing, both for itself and for the other, the things in which its labour is relatively most efficient. The addition thus made to the produce of the two combined, constitutes the advantage of the trade. It is possible that one of the two countries may be altogether inferior to the other in productive capacities, and that its labour and capital could be employed to greatest advantage by being removed bodily to the other. The labour and capital which have been sunk in rendering Holland habitable, would have produced a much greater return if transported to America or Ireland. The produce of the whole world would be greater, or the labour less, than it is, if everything were produced where there is the greatest absolute facility for its production. But nations do not, at least in modern times, emigrate en masse; and while the labour and capital of a country remain in the country, they are most beneficially employed in producing, for foreign markets as well as for its own, the things in which it lies under the least disadvantage, if there be none in which it possesses an advantage.

4. Before proceeding further, let us contrast this view of the benefits of international commerce with other theories which have prevailed, and which to a certain extent still prevail, on the same subject. According to the doctrine now stated, the only direct advantage of foreign commerce consists in the imports. A country obtains things which it either could not have produced at all, or which it must have produced at a greater expense of capital and labour than the cost of the things which it exports to pay for them. It thus obtains a more ample supply of the commodities it wants, for the same labour and capital; or the same supply, for less labour and capital, leaving the surplus disposable to produce other things. The vulgar theory disregards this benefit, and deems the advantage of
commerce to reside in the exports: as if not what a country obtains, but what it parts with, by its foreign trade, was supposed to constitute the gain to it. An extended market for its produce—an abundant consumption for its goods—a vent for its surplus—are the phrases by which it has been customary to designate the uses and recommendations of commerce with foreign countries. This notion is intelligible, when we consider that the authors and leaders of opinion on mercantile questions have always hitherto been the selling class. It is in truth a surviving relic of the Mercantile Theory, according to which, money being the only wealth, selling, or, in other words, exchanging goods for money, was (to countries without mines of their own) the only way of growing rich—and importation of goods, that is to say, parting with money, was so much subtracted from the benefit.

The notion that money alone is wealth, has been long defunct, but it has left many of its progeny behind it; and even its destroyer, Adam Smith, retained some opinions which it is impossible to trace to any other origin. Adam Smith's theory of the benefit of foreign trade, was that it afforded an outlet for the surplus produce of a country, and enabled a portion of the capital of the country to replace itself with a profit. These expressions suggest ideas inconsistent with a clear conception of the phenomena. The expression, surplus produce, seems to imply that a country is under some kind of necessity of producing the corn or cloth which it exports; so that the portion which it does not itself consume, if not wanted and consumed elsewhere, would either be produced in sheer waste, or, if it were not produced, the corresponding portion of capital would remain idle, and the mass of productions in the country would be diminished by so much. Either of these suppositions would be entirely erroneous. The country produces an exportable article in excess of its own wants from no inherent necessity, but as the cheapest mode of supplying itself with other things. If prevented from exporting this surplus, it would cease to produce it, and would no longer import anything, being unable to give an equivalent; but the labour and capital which had been employed in producing with a view to exportation, would find employment in producing those desirable objects which were previously brought from abroad: or, if some of them could not be produced, in producing substitutes for them. These articles would of course be produced at a greater cost than that of the things with which they had previously been purchased from foreign countries. But the value and price of the articles would rise in proportion; and the capital would just as much be replaced, with the ordinary profit from the returns, as it was when employed in producing for the foreign market. The only losers (after the temporary inconvenience of the change) would be the consumers of the heretofore imported articles; who would be obliged either to do without them, consuming in lieu of them something which they did not like as well, or to pay a higher price for them than before.
There is much misconception in the common notion of what commerce does for a country. When commerce is spoken of as a source of national wealth, the imagination fixes itself upon the large fortunes acquired by merchants, rather than upon the saving of price to consumers. But the gains of merchants, when they enjoy no exclusive privilege, are no greater than the profits obtained by the employment of capital in the country itself. If it be said that the capital now employed in foreign trade could not find employment in supplying the home market, I might reply, that this is the fallacy of general over-production, discussed in a former chapter . . . There would be employment created, equal to that which would be taken away. Exportation ceasing, importation to an equal value would cease also, and all that part of the income of the country which had been expended in imported commodities, would be ready to expend itself on the same things produced at home, or on others instead of them. Commerce is virtually a mode of cheapening production; and in all such cases the consumer is the person ultimately benefited; the dealer, in the end, is sure to get his profit, whether the buyer obtains much or little for his money. This is said without prejudice to the effect (already touched upon, and to be hereafter fully discussed) which the cheapening of commodities may have in raising profits; in the case when the commodity cheapened, being one of those consumed by labourers, enters into the cost of labour, by which the rate of profits is determined.

5. Such, then, is the direct economical advantage of foreign trade. But there are, besides, indirect effects, which must be counted as benefits of a high order. One is, the tendency of every extension of the market to improve the processes of production. A country which produces for a larger market than its own, can introduce a more extended division of labour, can make greater use of machinery, and is more likely to make inventions and improvements in the processes of production. Whatever causes a greater quantity of anything to be produced in the same place, tends to the general increase of the productive powers of the world. There is another consideration, principally applicable to an early stage of industrial advancement. A people may be in a quiescent, indolent, uncultivated state, with all their tastes either fully satisfied or entirely undeveloped, and they may fail to put forth the whole of their productive energies for want of any sufficient object of desire. The opening of a foreign trade, by making them acquainted with new objects, or tempting them by the easier acquisition of things which they had not previously thought attainable, sometimes works a sort of industrial revolution in a country whose resources were previously undeveloped for want of energy and ambition in the people: inducing those who were satisfied with scanty comforts and little work, to work harder for the gratification of their new tastes, and even to save, and accumulate capital, for the still more complete satisfaction of those tastes at a future time.
But the economical advantages of commerce are surpassed in importance by those of its effects which are intellectual and moral. It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. Commerce is now what war once was, the principal source of this contact. Commercial adventurers from more advanced countries have generally been the first civilizers of barbarians. And commerce is the purpose of the far greater part of the communication which takes place between civilized nations. Such communication has always been, and is peculiarly in the present age, one of the primary sources of progress. To human beings, who, as hitherto educated, can scarcely cultivate even a good quality without running it into a fault, it is indispensable to be perpetually comparing their own notions and customs with the experience and example of persons in different circumstances from themselves: and there is no nation which does not need to borrow from others, not merely particular arts or practices, but essential points of character in which its own type is inferior. Finally, commerce first taught nations to see with good will the wealth and prosperity of one another. Before, the patriot, unless sufficiently advanced in culture to feel the world his country, wished all countries weak, poor, and ill-governed, but his own: he now sees in their wealth and progress a direct source of wealth and progress to his own country. It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it. And it may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race.
Classical Economic Nationalism

Mercantilism was an economic theory attached to early modern state-building during the period of merchant capitalism. The classical period of mercantilist thought not coincidentally came to an end around the same time that England and France, the countries that produced mercantilist thought, became industrialized. Of course, most countries even in Europe were not industrialized by the mid-nineteenth century, yet all knew that industrialization was the only economic pathway to wealth and power. The question was how to get there. Classical economic nationalist thought took up exactly this challenge of understanding and effecting the transformation of an agricultural economy into an industrial economy, what today we would call “development.” Classical liberalism of course recommends free trade, limited government, and capital investment according to a country’s “natural” endowments as the pathway to wealth. The economic nationalist response critiques exactly this dimension of liberal theory.

Alexander Hamilton (1755–1804) was a statesman rather than a theorist. Like mercantilist writers before him, his interests are eminently practical and national in orientation. In his Report on Manufactures submitted to the United States Congress in 1791 in his capacity as United States secretary of the treasury, Hamilton analyzes the means by which the fledgling US federal government can best stimulate a national economy toward the goal not only of material welfare but also political autonomy and military security. Hamilton’s immediate target are Physiocrats such as François Quesnay, precursors to Adam Smith who argued that all economic wealth came from land and that therefore an agricultural economy is the best kind. At the same time, Hamilton implicitly rejects the core of classical economic liberalism as well, namely its insistence that states allow their economies to follow the “natural current” of their endowments. Hamilton’s goal is the development of a complex and more self-reliant economy, something manufacturing can help create. Industry boosts employment, attracts migrants, diversifies the national economy, and reduces dependence on foreign export markets. Like Mill, Hamilton also offers moral arguments in defense of
his position; industry makes better use of the diverse talents of the nation and stimulates the intellect of the people.

Hamilton argues that active state encouragement is not only desirable but necessary for the development of a manufacturing economy. Part of the reason results from a more realistic view of the individual compared to the idealized rational actor embraced by liberals. Hamilton observes that human beings are naturally conservative and slow to embrace new occupations and investments, “more tardy than might consist with the interest either of individuals or of Society.” Another more important reason is the actual, rather than ideal, practices of other states. Since it is common practice in the competitive international political economy to promote and protect one’s own industries, the US federal government must do the same. Liberal arguments for laissez-faire and free trade are founded upon wholly inaccurate descriptions of world realities. Hamilton, therefore, recommends a series of trade duties, prohibitions and bounties familiar from mercantilist theory. Yet his immediate policy goal differs notably from earlier mercantilist thought. Hamilton thinks a positive balance of trade and an inflow of specie are positive economic outcomes. However, they are not the objects of policy but instead the results of an internationally competitive manufacturing economy.

Friedrich List (1789–1846) contributes a more developed theoretical critique of liberalism. For List, the essence of political economy is the discovery of the means by which national economies grow and develop. Liberal political economy is misnamed according to List, constituting instead what he calls “cosmopolitical economy” dedicated to the analysis of the material improvement of the whole human race. The problem with cosmopolitical economy is that it situates its theories in a world “which has yet to come into existence” and thus ignores the realities of the international system and of economic development. According to List, “Between each individual and entire humanity…stands THE NATION,” a social, cultural, political and economic reality. In the international system the nation is always threatened by war, and thus has both a natural and just interest in self-preservation. Moreover, thanks to the state’s imposition of peace within its own boundaries, cultivation of the national market and of connections between domestic industries and agriculture is of far greater significance for national wealth than the cultivation of foreign markets through free trade. Here List strongly insists that economic union is a function of political union, not, as John Stuart Mill claims, vice versa.

List advances his arguments with support from history and contemporary experience more than from abstract reason. Considering the nearly universal economic experience of war, he observes that military conflict cuts off economic intercourse between nations, making room for new industries and new economic interests to develop. When war comes to an end, nations often find
the resumption of free trade not only politically impossible but economically undesirable. Industry has taken root to the benefit of the national economy. List also appeals to the history of England itself to show that its wealth and industrial development were secured not through free trade but through nurturance by the state which “artificially elevated” it. In the course of discussing English trade policies, List even insinuates that free trade is a mask for English competitive interests, through which it seeks to keep all other countries in a state of dependence. Nations which are yet to industrialize are developmentally constrained in an open, competitive world economy. Thus a “system of protection” is the necessary course for those countries interested in economic development.

Despite such critiques, however, neither Hamilton nor List attacks the core of liberalism’s theory of free trade. Both accept its benefits in the abstract and freely admit that the interests of all industrially developed economies are best served by a free trade regime. Both even look forward to a future world of peace and interdependence operating on “cosmopolitical” principles. Hamilton and List simply argue that our world is not yet there. They accept that the international political economy is not necessarily a zero-sum game even though the political divisions of the world and the reality of war unfortunately conspire to often make it so. Consistent with twentieth century IR realists, Hamilton and List suggest that the international system is not anti-liberal so much as it is pre-liberal. Until every nation in the world becomes equally developed, however, it is in this pre-liberal world which we will continue to live.
The expediency of encouraging manufactures in the United States, which was not long since deemed very questionable, appears at this time to be pretty generally admitted. The embarrassments, which have obstructed the progress of our external trade, have led to serious reflections on the necessity of enlarging the sphere of our domestic commerce: the restrictive regulations, which in foreign markets abridge the vent of the increasing surplus of our Agricultural produce, serve to beget an earnest desire, that a more extensive demand for that surplus may be created at home: And the complete success, which has rewarded manufacturing enterprise, in some valuable branches, conspiring with the promising symptoms, which attend some less mature essays, in others, justify a hope, that the obstacles to the growth of this species of industry are less formidable than they were apprehended to be, and that it is not difficult to find, in its further extension, a full indemnification for any external disadvantages, which are or may be experienced, as well as an accession of resources, favorable to national independence and safety.

There still are, nevertheless, respectable patrons of opinions, unfriendly to the encouragement of manufactures. The following are, substantially, the arguments by which these opinions are defended.

“In every country (say those who entertain them) Agriculture is the most beneficent and productive object of human industry. This position, generally, if not universally true, applies with peculiar emphasis to the United States, on account of their immense tracts of fertile territory, uninhabited and unimproved....

“To endeavor, by the extraordinary patronage of Government, to accelerate the growth of manufactures, is, in fact, to endeavor, by force and art, to transfer the natural current of industry from a more, to a less beneficial channel. Whatever has such a tendency must necessarily be unwise. Indeed it can hardly ever be wise in a government, to attempt to give a direction to the industry of its citizens. This, under the quick-sighted guidance of private interest, will, if left to

itself, infallibly find its own way to the most profitable employment: and it is by such employment, that the public prosperity will be most effectually promoted. To leave industry to itself, therefore, is, in almost every case, the soundest as well as the simplest policy.

“If contrary to the natural course of things, an unseasonable and premature spring can be given to certain fabrics, by heavy duties, prohibitions, bounties, or by other forced expedients; this will only be to sacrifice the interests of the community to those of particular classes. Besides the misdirection of labor, a virtual monopoly will be given to the persons employed on such fabrics; and an enhancement of price, the inevitable consequence of every monopoly, must be defrayed at the expense of the other parts of the society. It is far preferable, that those persons should be engaged in the cultivation of the earth, and that we should procure, in exchange for its productions, the commodities, with which foreigners are able to supply us in greater perfection, and upon better terms.”

It ought readily to be conceded that the cultivation of the earth—as the primary and most certain source of national supply—has intrinsically a strong claim to pre-eminence over every other kind of industry.

But, that it has a title to any thing like an exclusive predilection, in any country, ought to be admitted with great caution. That it is even more productive than every other branch of industry requires more evidence than has yet been given in support of the position. That its real interests, precious and important as without the help of exaggeration, they truly are, will be advanced, rather than injured by the due encouragement of manufactures, may, it is believed, be satisfactorily demonstrated. And it is also believed that the expediency of such encouragement in a general view may be shown to be recommended by the most cogent and persuasive motives of national policy.

The foregoing suggestions are not designed to inculcate an opinion that manufacturing industry is more productive than that of Agriculture. They are intended rather to show that the reverse of this proposition is not ascertained; that the general arguments which are brought to establish it are not satisfactory; and, consequently that a supposition of the superior productiveness of Tillage ought to be no obstacle to listening to any substantial inducements to the encouragement of manufactures, which may be otherwise perceived to exist, through an apprehension; that they may have a tendency to divert labour from a more to a less profitable employment.

…But without contending for the superior productiveness of Manufacturing Industry, it may conduce to a better judgment of the policy, which ought to be pursued respecting its encouragement, to contemplate the subject, under some additional aspects, tending not only to confirm the idea, that this kind of industry
has been improperly represented as unproductive in itself; but to evince in addition that the establishment and diffusion of manufactures have the effect of rendering the total mass of useful and productive labor, in a community, greater than it would otherwise be . . .

. . . .[M]anufacturing establishments not only occasion a positive augmentation of the Produce and Revenue of the Society, but . . . they contribute essentially to rendering them greater than they could possibly be, without such establishments. These circumstances are . . .

1 ) . . . .The Division Of Labour

It has justly been observed, that there is scarcely anything of greater moment in the economy of a nation than the proper division of labour. The separation of occupations causes each to be carried to a much greater perfection, than it could possibly acquire, if they were blended . . .

. . . .[T]he mere separation of the occupation of the cultivator, from that of the Artificer, has the effect of augmenting the productive powers of labour, and with them, the total mass of the produce or revenue of a Country. In this single view of the subject, therefore, the utility of Artificers of Manufacturers, towards promoting an increase of productive industry, is apparent.

2 ) . . . .An Extension Of The Use Of Machinery, A Point Which, Though Partly Anticipated Requires To Be Placed In One Or Two Additional Lights

The employment of Machinery forms an item of great importance in the general mass of national industry . . . . It shall be taken for granted, and the truth of the position referred to observation, that manufacturing pursuits are susceptible in a greater degree of the application of machinery, than those of Agriculture. If so all the difference is lost to a community, which, instead of manufacturing for itself, procures the fabrics requisite to its supply from other Countries. The substitution of foreign for domestic manufactures is a transfer to foreign nations of the advantages accruing from the employment of Machinery, in the modes in which it is capable of being employed, with most utility and to the greatest extent.

3 ) . . . .The Additional Employment Of Classes Of The Community, Not Originally Engaged In The Particular Business

This is not among the least valuable of the means, by which manufacturing institutions contribute to augment the general stock of industry and production. In places where those institutions prevail, besides the persons regularly engaged in them, they afford occasional and extra employment to industrious individuals and families, who are willing to devote the leisure resulting from the intermissions of their ordinary pursuits to collateral labours, as a resource for multiplying their acquisitions or their enjoyments . . .
...It is worthy of particular remark, that, in general, women and children are rendered more useful, and the latter more early useful by manufacturing establishments than they would otherwise be....

4) Promoting Of Emigration From Foreign Countries

If it be true then, that it is the interest of the United States to open every possible avenue to emigration from abroad, it affords a weighty argument for the encouragement of manufactures; which...will have the strongest tendency to multiply the inducements to it.

Here is perceived an important resource, not only for extending the population, and with it the useful and productive labour of the country, but likewise for the prosecution of manufactures, without deducting from the number of hands, which might otherwise be drawn to Tillage and even for the indemnification of Agriculture for such as might happen to be diverted from it....

5) Furnishing Greater Scope For The Diversity Of Talents And Dispositions, Which Discriminate Men From Each Other

This is a much more powerful means of augmenting the fund of national Industry than may at first sight appear. It is a just observation, that minds of the strongest and most active powers for their proper objects fall below mediocrity and labour without effect, if confined to uncongenial pursuits. And it is thence to be inferred, that the results of human exertion may be immensely increased by diversifying its objects. When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigour of his nature. And the community is benefitted by the services of its respective members, in the manner, in which each can serve it with most effect.

6) Affording A More Ample And Various Field For Enterprise

...To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expediens, by which the wealth of a nation may be promoted...The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded in proportion to the simplicity or variety of the occupations and productions, which are to be found in a Society. It must be less in a nation of mere cultivators, than in a nation of cultivators and merchants; less in a nation of cultivators and merchants, than in a nation of cultivators, artificers and merchants.

7) Creating, In Some Instances, A New, And Securing In All A More Certain And Steady Demand, For Surplus Produce Of This Soil

...It is evident, that the exertions of the husbandman will be steady or fluctuating, vigorous or feeble, in proportion to the steadiness or fluctuation, adequateness or inadequateness, of the markets on which he must depend, for the vent of the surplus, which may be produced by his labor; and that such
surplus in the ordinary course of things will be greater or less in the same proportion.

For the purpose of this vent, a domestic market is greatly to be preferred to a foreign one; because it is in the nature of things, far more to be relied upon.

To secure such a market, there is no other expedient, than to promote manufacturing establishments. Manufacturers who constitute the most numerous class, after the Cultivators of land, are for that reason the principal consumers of the surplus of their labour.

The foregoing consideration seem sufficient to establish, as general propositions, that it is the interest of nations to diversify the industrious pursuits of the individuals who compose them—that the establishment of manufactures is calculated not only to increase the general stock of useful and productive labour; but even to improve the state of Agriculture in particular, certainly to advance the interest of those who are engaged in it.

If the system of perfect liberty to industry and commerce were the prevailing system of nations, the arguments which dissuade a country, in the predicament of the United States, from the zealous pursuit of manufactures, would doubtless have great force. It will not be affirmed, that they might not be permitted, with few exceptions, to serve as a rule of national conduct. In such a state of things, each country would have the full benefit of its peculiar advantages to compensate for its deficiencies or disadvantages. If one nation were in a condition to supply manufactured articles on better terms than another, that other might find an abundant indemnification in a superior capacity to furnish the produce of the soil. And a free exchange, mutually beneficial, of the commodities, which each was able to supply, on the best terms, might be carried on between them, supporting in full vigour the industry of each.

But the system which has been mentioned, is far from characterising the general policy of Nations. The prevalent one has been regulated by an opposite spirit. The consequence of it is, that the United States are to a certain extent in the situation of a country precluded from foreign Commerce. They can indeed, without difficulty obtain from abroad the manufactured supplies, of which they are in want; but they experience numerous and very injurious impediments to the emission and vent of their own commodities. Nor is this the case in reference to a single foreign nation only. The regulations of several countries, with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States.

In such a position of things, the United States cannot exchange with Europe on equal terms; and the want of reciprocity would render them the victim of a system which should induce them to confine their views to Agriculture, and refrain from Manufactures. A constant and increasing necessity, on their part,
for the commodities of Europe, and only a partial and occasional demand for
their own, in return, could not but expose them to a state of impoverishment,
compared with the opulence to which their political and natural advantages
authorize them to aspire.

...It is for the United States to consider by what means they can render
themselves least dependent on the combinations, right or wrong, of foreign
policy.

...The remaining objections to a particular encouragement of manufacturers
in the United States now require to be examined.

One of these turns on the proposition, that Industry, if left to itself, will natu-
really find its way to the most useful and profitable employment: whence it is
inferred that manufactures without the aid of government will grow up as soon
and as fast, as the natural state of things and the interest of the community may
require.

Against the solidity of this hypothesis, in the full latitude of the terms, very
cogent reasons may be offered. These have relation to—the strong influ-
ence of habit and the spirit of imitation—the fear of want of success in untried
enterprises—the intrinsic difficulties incident to first essays towards a compe-
tition with those who have previously attained to perfection in the business to
be attempted—the bounties premiums and other artificial encouragements,
with which foreign nations second the exertions of their own Citizens in the
branches, in which they are to be rivalled.

Experience teaches, that men are often so much governed by what they are
accustomed to see and practice, that the simplest and most obvious improve-
ments, in the most ordinary occupations, are adopted with hesitation, reluc-
tance, and by slow gradations. The spontaneous transition to new pursuits, in a
community long habituated to different ones, may be expected to be attended
with proportionably greater difficulty. When former occupations ceased to
yield a profit adequate to the subsistence of their followers, or when there
was an absolute deficiency of employment in them, owing to the superabun-
dance of hands, changes would ensue; but these changes would be likely to be
more tardy than might consist with the interest either of individuals or of the
Society. In many cases they would not happen, while a bare support could be
insured by an adherence to ancient courses; though a resort to a more profit-
able employment might be practicable. To produce the desirable changes as
early as may be expedient, may therefore require the incitement and patronage
of government....

The superiority antecedently enjoyed by nations, who have preoccupied
and perfected a branch of industry, constitutes a more formidable obstacle,
than either of those, which have been mentioned, to the introduction of the
same branch into a country in which it did not before exist. To maintain
between the recent establishments of one country and the long matured establishments of another country, a competition upon equal terms, both as to quality and price, is in most cases impracticable. The disparity, in the one or in the other, or in both, must necessarily be so considerable as to forbid a successful rivalship, without the extraordinary aid and protection of government.

But the greatest obstacle of all to the successful prosecution of a new branch of industry in a country, in which it was before unknown, consists, as far as the instances apply, in the bounties premiums and other aids which are granted, in a variety of cases, by the nations, in which the establishments to be imitated are previously introduced. It is well known (and particular examples in the course of this report will be cited) that certain nations grant bounties on the exportation of particular commodities, to enable their own workmen to undersell and supplant all competitors in the countries to which those commodities are sent. Hence the undertakers of a new manufacture have to contend not only with the natural disadvantages of a new undertaking, but with the gratuities and remunerations which other governments bestow. To be enabled to contend with success, it is evident that the interference and aid of their own government are indispensable.

There remains to be noticed an objection to the encouragement of manufactures, of a nature different from those which question the probability of success. This is derived from its supposed tendency to give a monopoly of advantages to particular classes, at the expense of the rest of the community, who, it is affirmed, would be able to procure the requisite supplies of manufactured articles on better terms from foreigners, than from our own Citizens, and who, it is alleged, are reduced to the necessity of paying an enhanced price for whatever they want, by every measure, which obstructs the free competition of foreign commodities.

But though it were true, that the immediate and certain effect of regulations controlling the competition of foreign with domestic fabrics was an increase of Price, it is universally true, that the contrary is the ultimate effect with every successful manufacture. When a domestic manufacture has attained to perfection, and has engaged in the prosecution of it a competent number of Persons, it invariably becomes cheaper. Being free from the heavy charges which attend the importation of foreign commodities, it can be afforded, and accordingly seldom or never fails to be sold cheaper, in process of time, than was the foreign Article for which it is a substitute. The internal competition which takes place, soon does away [with] every thing like Monopoly, and by degrees reduces the price of the Article to the minimum of a reasonable profit on the Capital employed. This accords with the reason of the thing, and with experience.
Whence it follows, that it is the interest of a community, with a view to eventual and permanent economy, to encourage the growth of manufactures. In a national view, a temporary enhancement of price must always be well compensated by permanent reduction of it.

There seems to be a moral certainty, that the trade of a country which is both manufacturing and Agricultural will be more lucrative and prosperous than that of a Country, which is merely Agricultural.

One reason for this is found in that general effort of nations...to procure from their own soils, the articles of prime necessity requisite to their own consumption and use, and which serves to render their demand for a foreign supply of such articles, in a great degree occasional and contingent.

Another circumstance which gives a superiority of commercial advantages to states that manufacture as well as cultivate, consists in the more numerous attractions, which a more diversified market offers to foreign Customers, and in the greater scope which it affords to mercantile enterprise.

From these circumstances collectively—two important inferences are to be drawn, one, that there is always a higher probability of a favorable balance of Trade, in regard to countries in which manufactures founded on the basis of a thriving Agriculture flourish, than in regard to those, which are confined wholly or almost wholly to Agriculture; the other (which is also a consequence of the first), that countries of the former description are likely to possess more pecuniary wealth, or money, than those of the latter.

...[T]he uniform appearance of an abundance of specie, as the concomitant of a flourishing state of manufactures, and of the reverse, where they do not prevail, afford a strong presumption of their favorable operation upon the wealth of a Country.

Not only the wealth, but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavour to possess within itself all the essentials of national supply. These comprise the means of Subsistence, habitation, clothing, and defence.

The possession of these is necessary to the perfection of the body politic; to the safety as well as to the welfare of the society; the want of either is the want of an important Organ of political life and Motion; and in the various crises which await a state, it must severely feel the effects of any such deficiency. The extreme embarrassments of the United States during the late War, from an incapacity of supplying themselves, are still matter of keen recollection: A future war might be expected again to exemplify the mischiefs and dangers of a situation to which that incapacity is still in too great a degree applicable, unless changed by timely and vigorous exertion. To effect this change, as fast as shall be prudent, merits
all the attention and all the Zeal of our Public Councils; it is the next great work to be accomplished.

The want of a Navy, to protect our external commerce, as long as it shall Continue, must render it a peculiarly precarious reliance, for the supply of essential articles, and must serve to strengthen prodigiously the arguments in favour of manufactures....

In order to a better judgment of the Means proper to be resorted to by the United States, it will be of use to Advert to those which have been employed with success in other Countries. The principal of these are—

1 ) Protecting Duties—Or Duties On Those Foreign Articles Which Are The Rivals Of The Domestic Ones Intended To Be Encouraged

Duties of this nature evidently amount to a virtual bounty on the domestic fabrics since by enhancing the charges on foreign articles, they enable the National Manufacturers to undersell all their foreign Competitors....

2 ) Prohibitions Of Rival Articles, Or Duties Equivalent To Prohibitions

This is another and an efficacious mean of encouraging national manufactures but in general it is only fit to be employed when a manufacture, has made such progress and is in so many hands as to insure a due competition, and an adequate supply on reasonable terms....

3 ) Prohibitions Of The Exportation Of The Materials Of Manufactures

The desire of securing a cheap and plentiful supply for the national workmen, and where the article is either peculiar to the Country, or of peculiar quality there, the jealousy of enabling foreign workmen to rival those of the nation with its own Materials, are the leading motives to this species of regulation. It ought not to be affirmed, that it is in no instance proper, but it is, certainly one which ought to be adopted with great circumspection, and only in very plain Cases....

4 ) Pecuniary Bounties

This has been found one of the efficacious means of encouraging manufactures, and, is in some views, the best....

Bounties have not, like high protecting duties, a tendency to produce scarcity. An increase of price is not always the immediate, though, where the progress of a domestic Manufacture does not counteract a rise, it is commonly the ultimate effect of an additional duty. In the interval, between the laying of the duty and the proportional increase of price, it may discourage importation, by interfering with the profits to be expected from the sale of the article....

It cannot escape notice, that the duty upon the importation of an article can no otherwise aid the domestic production of it, than by giving the latter greater advantages in the home market. It can have no influence upon the advantageous
sale of the article produced in foreign markets; no tendency, therefore, to promote its exportation.

The true way to conciliate these two interests is to lay a duty on foreign manufactures of the material, the growth of which is desired to be encouraged, and to apply the produce of that duty, by way of bounty, either upon the production of the material itself or upon its manufacture at home, or upon both . . .

5) Premiums

These are of a nature allied to bounties, though distinguishable from them in some important features.

Bounties are applicable to the whole quantity of an article produced, or manufactured, or exported, and involve a correspondent expense. Premiums serve to reward some particular excellence or superiority, some extraordinary exertion or skill, and are dispensed only in a small number of cases . . .

6) The Exemption Of The Materials Of Manufactures From Duty

The policy of that Exemption as a general rule particularly in reference to new Establishments is obvious. It can hardly ever be advisable to add the obstructions of fiscal burthens to the difficulties which naturally embarrass a new manufacture; and where it is matured and in condition to become an object of revenue it is generally speaking better that the fabric than the Material should be the subject of Taxation . . .

7) Drawbacks Of The Duties Which Are Imposed On The Materials Of Manufactures

It has already been observed as a general rule that duties on those materials ought with certain exceptions, to be forborne. Of these exceptions, three cases occur, which may serve as examples—one, where the material is itself an object of general or extensive consumption, and a fit and productive source of revenue: Another, where a manufacture of a simpler kind, the competition of which with a like domestic article is desired to be restrained, partakes of the Nature of a raw material, from being capable, by a further process to be converted into a manufacture of a different kind, the introduction or growth of which is desired to be encouraged; a third where the Material itself is a production of the country, and in sufficient abundance to furnish a cheap and plentiful supply to the national Manufacturers . . .

8) The Encouragement Of New Inventions And Discoveries, At Home, And Of The Introduction Into The United States Of Such As May Have Been Made In Other Countries; Particularly Those Which Relate To Machinery

. . .The usual means of that encouragement are pecuniary rewards, and, for a time, exclusive privileges. The first must be employed according to the occasion, and the utility of the invention, or discovery. For the last, so far as respects “authors and inventors,” provision has been made by Law . . .
It is customary with manufacturing nations to prohibit, under severe penalties, the exportation of implements and machines, which they have either invented or improved. There are already objects for a similar regulation in the United States; and others may be expected to occur from time to time. The adoption of it seems to be dictated by the principle of reciprocity. Greater liberality, in such respects, might better comport with the general spirit of the country; but a selfish exclusive policy, in other quarters, will not always permit the free indulgence of a spirit which would place us upon an unequal footing. As far as prohibitions tend to prevent foreign competitors from deriving the benefit of the improvements made at home, they tend to increase the advantages of those by whom they may have been introduced, and operate as an encouragement to exertion.

9 ) Judicious Regulations For The Inspection Of Manufactured Commodities

….Contributing to prevent frauds upon consumers at home and exporters to foreign countries, to improve the quality & preserve the character of the national manufactures, it cannot fail to aid the expeditious and advantageous sale of them, and to serve as a guard against successful competition from other quarters….  

10 ) The Facilitating Of Pecuniary Remittances From Place To Place

—Is a point of considerable moment to trade in general, and to manufactures in particular; by rendering more easy the purchase of raw materials and provisions and the payment for manufactured supplies. A general circulation of Bank paper, which is to be expected from the institution lately established will be a most valuable mean to this end…. 

11 ) The Facilitating Of The Transportation Of Commodities

….The great copiousness of the subject of this Report has insensibly led to a more lengthy preliminary discussion than was originally contemplated, or intended. It appeared proper to investigate principles, to consider objections, and to endeavour to establish the utility of the thing proposed to be encouraged, previous to a specification of the objects which might occur, as meriting or requiring encouragement, and of the measures, which might be proper, in respect to each. The first purpose having been fulfilled, it remains to pursue the second.

In the selection of objects, five circumstances seem entitled to particular attention, the capacity of the Country to furnish the raw material—the degree in which the nature of the manufacture admits of a substitute for manual labour in machinery—the facility of execution—the extensiveness of the uses, to which the article can be applied—its subserviency to other interests, particularly the great one of national defence. There are however objects, to which these circumstances are little applicable, which for some special reasons, may have a claim to encouragement…. 
In countries where there is great private wealth, much may be effected by the voluntary contributions of patriotic individuals; but in a community situated like that of the United States, the public purse must supply the deficiency of private resource. In what can it be so useful, as in prompting and improving the efforts of industry?
Before Quesnay and the French economists there existed only a practice of political economy which was exercised by the State officials, administrators, and authors who wrote about matters of administration, occupied themselves exclusively with the agriculture, manufactures, commerce, and navigation of those countries to which they belonged, without analysing the causes of wealth, or taking at all into consideration the interests of the whole human race.

Quesnay (from whom the idea of universal free trade originated) was the first who extended his investigations to the whole human race, without taking into consideration the idea of the nation. He calls his work “Physiocratie, ou du Gouvernement le plus avantageux au Genre Humain” [Physiocracy, or of the most advantageous Government to Mankind], his demands being that we must imagine that the merchants of all nations formed one commercial republic. Quesnay undoubtedly speaks of cosmopolitical economy, i.e., of that science which teaches how the entire human race may attain prosperity; in opposition to political economy, or that science which limits its teaching to the inquiry how a given nation can obtain (under the existing conditions of the world) prosperity, civilisation, and power, by means of agriculture, industry, and commerce.

Adam Smith treats his doctrine in a similarly extended sense, by making it his task to indicate the cosmopolitical idea of the absolute freedom of the commerce of the whole world in spite of the gross mistakes made by the physiocrats against the very nature of things and against logic. Adam Smith concerned himself as little as Quesnay did with true political economy, i.e., that policy which each separate nation had to obey in order to make progress in its economical conditions. He entitles his work, “The Nature and Causes of the Wealth of Nations” (i.e., of all nations of the whole human race). He speaks of the various systems of political economy in a separate part of his work solely for the purpose of demonstrating their non-efficiency, and of proving that “political” or national economy must be replaced by “cosmopolitical or world-wide economy.” Although here and there he speaks of wars, this only occurs incidentally. The idea of a perpetual state of peace forms the foundation of all his arguments. Moreover... his investigations from the commencement are based upon the principle that “most of the

State regulations for the promotion of public prosperity are unnecessary, and a nation in order to be transformed from the lowest state of barbarism into a state of the highest possible prosperity needs nothing but bearable taxation, fair administration of justice, and peace."

J.B. Say openly demands that we should imagine the existence of a universal republic in order to comprehend the idea of general free trade. This writer, whose efforts were mainly restricted to the formation of a system out of the materials which Adam Smith had brought to light, says explicitly in the sixth volume (p. 288) of his "Economie politique pratique:" [Practical political economy] "We may take into our consideration the economical interests of the family with the father at its head; the principles and observations referring thereto will constitute private economy. Those principles, however, which have reference to the interests of whole nations, whether in themselves or in relation to other nations, from public economy (l’économie publique). Political Economy, lastly, relates to the interests of all nations, to human society in general."

It must be remarked here, that in the first place Say recognises the existence of a national economy or political economy, under the name "économie publique," but that he nowhere treats of the latter in his works; secondly, that he attributes the name political economy to a doctrine which is evidently of cosmopolitical nature; and that in this doctrine he invariably merely speaks of an economy which has for its sole object the interests of the whole human society, without regard to the separate interests of distinct nations.

This substitution of terms might be passed over if Say, after having explained what he calls political economy (which, however, is nothing else but cosmopolitical or world-wide economy, or economy of the whole human race), had acquainted us with the principles of the doctrine which he calls "économie publique," which however is, properly speaking, nothing else but the economy of given nations, or true political economy.

In defining and developing this doctrine he could scarcely forbear to proceed from the idea and the nature of the nation, and to show what material modifications the "economy of the whole human race" must undergo by the fact that at present that race is still separated into distinct nationalities each held together by common powers and interests, and distinct from other societies of the same kind which in the exercise of their natural liberty are opposed to one another. However, by giving his cosmopolitical economy the name political, he dispenses with this explanation, effects by means of a transposition of terms also a transposition of meaning, and thereby masks a series of the gravest theoretical errors.

All later writers have participated in this error. Sismondi also calls political economy explicitly, "La science qui se charge du bonheur de l’espèce humaine." Adam Smith and his followers teach us from this mainly nothing more than what Quesnay and his followers had taught us already, for the article of the "Revue
Méthodique” treating of the physiocratic school states, in almost the same words: “The well-being of the individual is dependent altogether on the well-being of the whole human race.”

The first of the North American advocates of free trade, as understood by Adam Smith—Thomas Cooper, President of Columbia College—denies even the existence of nationality; he calls the nation “a grammatical invention,” created only to save periphrases, a nonentity, which has no actual existence save in the heads of politicians. Cooper is moreover perfectly consistent with respect to this, in fact much more consistent than his predecessors and instructors, for it is evident that as soon as the existence of nations with their distinct nature and interests is recognised, it becomes necessary to modify the economy of human society in accordance with these special interests, and that if Cooper intended to represent these modifications as errors, it was very wise on his part from the beginning to disown the very existence of nations.

For our own part, we are far from rejecting the theory of cosmopolitan economy, as it has been perfected by the prevailing school; we are, however, of opinion that political economy, or as Say calls it “économie publique,” should also be developed scientifically, and that it is always better to call things by their proper names than to give them significations which stand opposed to the true import of words. If we wish to remain true to the laws of logic and of the nature of things, we must set the economy of individuals against the economy of societies, and discriminate in respect to the latter between true political or national economy (which, emanating from the idea and nature of the nation, teaches how a given nation in the present state of the world and its own special national relations can maintain and improve its economical conditions) and cosmopolitan economy, which originates in the assumption that all nations of the earth form but one society living in a perpetual state of peace.

If, as the prevailing school requires, we assume a universal union or confederation of all nations as the guarantee for an everlasting peace, the principle of international free trade seems to be perfectly justified. The less every individual is restrained in pursuing his own individual prosperity, the greater the number and wealth of those with whom he has free intercourse, the greater the area over which his individual activity can exercise itself, the easier it will be for him to utilise for the increase of his prosperity the properties given him by nature, the knowledge and talents which he has acquired, and the forces of nature placed at his disposal. As with separate individuals, so is it also the case with individual communities, provinces, and countries. A simpleton only could maintain that a union for free commercial intercourse between themselves is not as advantageous to the different states included in the United States of North America, to the various departments of France, and to the various German allied states, as would be their separation by internal provincial customs tariffs.
In the union of the three kingdoms of Great Britain and Ireland the world witnesses a great and irrefragable example of the immeasurable efficacy of free trade between united nations. Let us only suppose all other nations of the earth to be united in a similar manner, and the most vivid imagination will not be able to picture to itself the sum of prosperity and good fortune which the whole human race would thereby acquire.

A true principle, therefore, underlies the system of the popular school, but a principle which must be recognised and applied by science if its design to enlighten practice is to be fulfilled, an idea which practice cannot ignore without getting astray; only the school has omitted to take into consideration the nature of nationalities and their special interests and conditions, and to bring these into accord with the idea of universal union and an everlasting peace.

The popular school has assumed as being actually in existence a state of things which has yet to come into existence. It assumes the existence of a universal union and a state of perpetual peace, and deduces there from the great benefits of free trade. In this manner it confounds effects with causes. Among the provinces and states which are already politically united, there exists a state of perpetual peace; from this political union originates their commercial union, and it is in consequence of the perpetual peace thus maintained that the commercial union has become so beneficial to them. All examples which history can show are those in which the political union has led the way, and the commercial union has followed. Not a single instance can be adduced in which the latter has taken the lead, and the former has grown up from it. That, however, under the existing conditions of the world, the result of general free trade would not be a universal republic, but, on the contrary, a universal subjection of the less advanced nations to the supremacy of the predominant manufacturing, commercial, and naval power, is a conclusion for which the reasons are very strong and, according to our views, irrefragable. A universal republic (in the sense of Henry IV, and of the Abbé St. Pierre), i.e., a union of the nations of the earth whereby they recognise the same conditions of right among themselves and renounce self-redress, can only be realised if a large number of nationalities attain to as nearly the same degree as possible of industry and civilisation, political cultivation, and power. Only with the gradual formation of this union can free trade be developed, only as a result of this union can it confer on all nations the same great advantages which are now experienced by those provinces and states which are politically united. The system of protection, inasmuch as it forms the only means of placing those nations which are far behind in civilisation on equal terms with the one predominating nation (which, however, never received at the hands of Nature a perpetual right to a monopoly of manufacture, but which merely gained an advance over others in point of time), the system of protection regarded from this point of view appears to be the most efficient means of furthering the final
union of nations, and hence also of promoting true freedom of trade. And national economy appears from this point of view to be that science which, correctly appreciating the existing interests and the individual circumstances of nations, teaches how every separate nation can be raised to that stage of industrial development in which union with other nations equally well developed, and consequently freedom of trade, can become possible and useful to it.

The popular school, however, has mixed up both doctrines with one another; it has fallen into the grave error of judging of the conditions of nations according to purely cosmopolitical principles, and of ignoring from merely political reasons the cosmopolitical tendency of the productive powers.

Only by ignoring the cosmopolitical tendency of the productive powers could Malthus be led into the error of desiring to restrict the increase of population, or Chalmers and Torrens maintain more recently the strange idea that augmentation of capital and unrestricted production are evils the restriction of which the welfare of the community imperatively demands, or Sismondi declare that manufactures are things injurious to the community. Their theory in this case resembles Saturn, who devours his own children—the same theory which allows that from the increase of population, of capital and machinery, division of labour takes place, and explains from this the welfare of society, finally considers these forces as monsters which threaten the prosperity of nations, because it merely regards the present conditions of individual nations, and does not take into consideration the conditions of the whole globe and the future progress of mankind.

It is not true that population increases in a larger proportion than production of the means of subsistence; it is at least foolish to assume such disproportion, or to attempt to prove it by artificial calculations or sophistical arguments, so long as on the globe a mass of natural forces still lies inert by means of which ten times or perhaps a hundred times more people than are now living can be sustained. It is mere narrow-mindedness to consider the present extent of the productive forces as the test of how many persons could be supported on a given area of land… The culture of the potato and of food-yielding plants, and the more recent improvements made in agriculture generally, have increased tenfold the productive powers of the human race for the creation of the means of subsistence. In the Middle Ages the yield of wheat of an acre of land in England was fourfold, to-day it is ten to twenty fold, and in addition to that five times more land is cultivated. In many European countries (the soil of which possesses the same natural fertility as that of England) the yield at present does not exceed fourfold. Who will venture to set further limits to the discoveries, inventions, and improvements of the human race? Agricultural chemistry is still in its infancy; who can tell that to-morrow, by means of a new invention or discovery, the produce of the soil may not be increased five or ten fold? . . .
If in a nation the population increases more than the production of the means of subsistence, if capital accumulates at length to such an extent as no longer to find investment, if machinery throws a number of operatives out of work and manufactured goods accumulate to a large excess, this merely proves, that nature will not allow industry, civilisation, wealth, and power to fall exclusively to the lot of a single nation, or that a large portion of the globe suitable for cultivation should be merely inhabited by wild animals, and that the largest portion of the human race should remain sunk in savagery, ignorance, and poverty.

We have shown into what errors the school has fallen by judging the productive forces of the human race from a political point of view; we have now also to point out the mistakes which it has committed by regarding the separate interests of nations from a cosmopolitical point of view.

If a confederation of all nations existed in reality, as is the case with the separate states constituting the Union of North America, the excess of population, talents, skilled abilities, and material capital would flow over from England to the Continental states, in a similar manner to that in which it travels from the eastern states of the American Union to the western, provided that in the Continental states the same security for persons and property, the same constitution and general laws prevailed, and that the English Government was made subject to the united will of the universal confederation. Under these suppositions there would be no better way of raising all these countries to the same stage of wealth and cultivation as England than free trade. This is the argument of the school. But how would it tally with the actual operation of free trade under the existing conditions of the world?

The Britons as an independent and separate nation would henceforth take their national interest as the sole guide of their policy. The Englishman, from predilection for his language, for his laws, regulations, and habits, would wherever it was possible devote his powers and his capital to develop his own native industry, for which the system of free trade, by extending the market for English manufactures over all countries, would offer him sufficient opportunity; he would not readily take a fancy to establish manufactures in France or Germany. All excess of capital in England would be at once devoted to trading with foreign parts of the world. If the Englishman took it into his head to emigrate, or to invest his capital elsewhere than in England, he would as he now does prefer those more distant countries where he would find already existing his language, his laws, and regulations, rather than the benighted countries of the Continent. All England would thus be developed into one immense manufacturing city. Asia, Africa, and Australia would be civilised by England, and covered with new states modeled after the English fashion. In time a world of English states would be formed, under the presidency of the mother states, in which the European Continental nations would be lost as unimportant, unproductive races. By this
arrangement it would fall to the lot of France, together with Spain and Portugal, to supply this English world with the choicest wines, and to drink the bad ones herself: at most France might retain the manufacture of a little millinery. Germany would scarcely have more to supply this English world with than children’s toys, wooden clocks, and philological writings, and sometimes also an auxiliary corps, who might sacrifice themselves to pine away in the deserts of Asia or Africa, for the sake of extending the manufacturing and commercial supremacy, the literature and language of England. It would not require many centuries before people in this English world would think and speak of the Germans and French in the same tone as we speak at present of the Asiatic nations.

True political science, however, regards such a result of universal free trade as a very unnatural one; it will argue that had universal free trade been introduced at the time of the Hanseatic League, the German nationality instead of the English would have secured an advance in commerce and manufacture over all other countries.

It would be most unjust, even on cosmopolitan grounds, now to resign to the English all the wealth and power of the earth, merely because by them the political system of commerce was first established and the cosmopolitical principle for the most part ignored. In order to allow freedom of trade to operate naturally, the less advanced nations must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated. In order that, through that cosmopolitical tendency of the powers of production to which we have alluded, the more distant parts of the world may not be benefitted and enriched before the neighboring European countries, those nations which feel themselves to be capable, owing to their moral, intellectual, social, and political circumstances, of developing a manufacturing power of their own must adopt the system of protection as the most effectual means for this purpose. The effects of this system for the purpose in view are of two kinds; in the first place, by gradually excluding foreign manufactured articles from our markets, a surplus would be occasioned in foreign nations, of workmen, talents, and capital, which must seek employment abroad; and secondly, by the premium which our system of protection would offer to the immigration into our country of workmen, talents, and capital, that excess of productive power would be induced to find employment with us, instead of emigrating to distant parts of the world and to colonies. Political science refers to history, and inquires whether England has not in former times drawn from Germany, Italy, Holland, France, Spain, and Portugal by these means a mass of productive power. She asks: Why does the cosmopolitical school, when it pretends to weigh in the balance the advantages and the disadvantages of the system of protection, utterly ignore this great and remarkable instance of the results of that system?
The system of the [popular] school suffers...from three main defects: firstly, from boundless *cosmopolitanism*, which neither recognises the principle of nationality, nor takes into consideration the satisfaction of its interests; secondly, from a dead *materialism*, which everywhere regards chiefly the mere exchangeable value of things without taking into consideration the mental and political, the present and the future interests, and the productive powers of the nation; thirdly, from a *disorganising particularism* and *individualism*, which, ignoring the nature and character of social labour and the operation of the union of powers in their higher consequences, considers private industry only as it would develop itself under a state of free interchange with society (i.e. with the whole human race) were that race not divided into separate national societies.

Between each individual and entire humanity, however, stands THE NATION, with its special language and literature, with its peculiar origin and history, with its special manners and customs, laws and institutions, with the claims of all these for existence, independence, perfection, and continuance for the future, and with its separate territory; a society which, united by a thousand ties of mind and of interests, combines itself into one independent whole, which recognises the law of right for and within itself, and in its united character is still opposed to other societies of a similar kind in their national liberty, and consequently can only under the existing conditions of the world maintain self-existence and independence by its own power and resources. As the individual chiefly obtains by means of the nation and in the nation mental culture, power of production, security, and prosperity, so is the civilisation of the human race only conceivable and possible by means of the civilisation and development of the individual nations.

Meanwhile, however, an infinite difference exists in the condition and circumstances of the various nations: we observe among them giants and dwarfs, well-formed bodies and cripples, civilised, half-civilised, and barbarous nations; but in all of them, as in the individual human being, exists the impulse of self-preservation, the striving for improvement which is implanted by nature. It is the task of politics to civilise the barbarous nationalities, to make the small and weak ones great and strong, but, above all, to secure to them existence and continuance. It is the task of national economy to accomplish the economical development
of the nation, and to prepare it for admission into the universal society of the future.

A nation in its normal state possesses one common language and literature, a territory endowed with manifold natural resources, extensive, and with convenient frontiers and a numerous population. Agriculture, manufactures, commerce, and navigation must be all developed in it proportionately. Arts and sciences, educational establishments, and universal, cultivation must stand in it on an equal footing with material production. Its constitution, laws, and institutions must afford to those who belong to it a high degree of security and liberty, and must promote religion, morality, and prosperity; in a word, must have the well-being of its citizens as their object. It must possess sufficient power on land and at sea to defend its independence and to protect its foreign commerce . . . .

A large population, and an extensive territory endowed with manifold national resources, are essential requirements of the normal nationality; they are the fundamental conditions of mental cultivation as well as of material development and political power. A nation restricted in the number of its population and in territory, especially if it has a separate language, can only possess a crippled literature, crippled institutions for promoting art and science. A small State can never bring to complete perfection within its territory the various branches of production. In it all protection becomes mere private monopoly. Only through alliances with more powerful nations, by partly sacrificing the advantages of nationality, and by excessive energy, can it maintain with difficulty its independence.

A nation which possesses no coasts, mercantile marine, or naval power, or has not under its dominion and control the mouths of its rivers, is in its foreign commerce dependent on other countries; it can neither establish colonies of its own nor form new nations; all surplus population, mental and material means, which flows from such a nation to uncultivated countries, is lost to its own literature, civilisation and industry, and goes to the benefit of other nationalities.

A nation not bounded by seas and chains of mountains lies open to the attacks of foreign nations, and can only by great sacrifices, and in any case only very imperfectly, establish and maintain a separate tariff system of its own.

. . . .As respects their economy, nations have to pass through the following stages of development: original barbarism, pastoral condition, agricultural condition, agricultural-manufacturing condition, and agricultural-manufacturing-commercial condition.

The industrial history of nations, and of none more clearly than that of England, proves that the transition from the savage state to the pastoral one, from the pastoral to the agricultural, and from agriculture to the first beginnings in manufacture and navigation, is effected most speedily and advantageously by
means of free commerce with further advanced towns and countries, but that a perfectly developed manufacturing industry, an important mercantile marine, and foreign trade on a really large scale, can only be attained by means of the interposition of the power of the State.

The less any nation’s agriculture has been perfected, and the more its foreign trade is in want of opportunities of exchanging the excess of native agricultural products and raw materials for foreign manufactured goods, the deeper that the nation is still sunk in barbarism and fitted only for an absolute monarchical form of government and legislation, the more will free trade (i.e. the exportation of agricultural products and the importation of manufactured goods) promote its prosperity and civilisation.

...Solely in nations of the latter kind, namely, those which possess all the necessary mental and material conditions and means for establishing a manufacturing power of their own, and of thereby attaining the highest degree of civilisation, and development of material prosperity and political power, but which are retarded in their progress by the competition of a foreign manufacturing power which is already farther advanced than their own—only in such nations are commercial restrictions justifiable for the purpose of establishing and protecting their own manufacturing power; and even in them it is justifiable only until that manufacturing power is strong enough no longer to have any reason to fear foreign competition, and thenceforth only so far as may be necessary for protecting the inland manufacturing power in its very roots.

The system of protection would not merely be contrary to the principles of cosmopolitical economy, but also to the rightly understood advantage of the nation itself, were it to exclude foreign competition at once and altogether, and thus isolate from other nations the nation which is thus protected. If the manufacturing power to be protected be still in the first period of its development, the protective duties must be very moderate, they must only rise gradually with the increase of the mental and material capital, of the technical abilities and spirit of enterprise of the nation. Neither is it at all necessary that all branches of industry should be protected in the same degree. Only the most important branches require special protection, for the working of which much outlay of capital in building and management, much machinery, and therefore much technical knowledge, skill, and experience, and many workmen are required, and whose products belong to the category of the first necessaries of life, and consequently are of the greatest importance as regards their total value as well as regards national independence (as, for example, cotton, woollen and linen manufactories, &c.). If these main branches are suitably protected and developed, all other less important branches of manufacture will rise up around them under a less degree of protection. It will be to the advantage of nations in which wages are high, and whose population is
not yet great in proportion to the extent of their territory, e.g. in the United States of North America, to give less protection to manufactures in which machinery does not play an important part, than to those in which machinery does the greater part of the work, providing that those nations which supply them with similar goods allow in return free importation to their agricultural products.

The popular school betrays an utter misconception of the nature of national economical conditions if it believes that such nations can promote and further their civilisation, their prosperity, and especially their social progress, equally well by the exchange of agricultural products for manufactured goods, as by establishing a manufacturing power of their own. A mere agricultural nation can never develop to any considerable extent its home and foreign commerce ... A mere agricultural State is an infinitely less perfect institution than an agricultural manufacturing State. The former is always more or less economically and politically dependent on those foreign nations which take from it agricultural products in exchange for manufactured goods ... The purely agricultural nations are thus in the first place dependent for their power of effecting sales on the chances of a more or less plentiful harvest in the agricultural-manufacturing nations; in the next place they have to compete in these sales with other purely agricultural nations, whereby their power of sale, in itself very uncertain, thus becomes still more uncertain. Lastly, they are exposed to the danger of being totally ruined in their trading with foreign manufacturing nations by wars, or new foreign tariff regulations whereby they suffer the double disadvantage of finding no buyers for their surplus agricultural products, and of failing to obtain supplies of the manufactured goods which they require. An agricultural nation is, as we have already stated, an individual with one arm, who makes use of a foreign arm, but who cannot make sure of the use of it in all cases; an agricultural-manufacturing nation is an individual who has two arms of his own always at his disposal.

It is a fundamental error of the school when it represents the system of protection as a mere device of speculative politicians which is contrary to nature. History is there to prove that protective regulations originated either in the natural efforts of nations to attain to prosperity, independence, and power, or in consequence of wars and of the hostile commercial legislation of predominating manufacturing nations.

The idea of independence and power originates in the very idea of 'the nation.' The school never takes this into consideration, because it does not make the economy of the separate nation, but the economy of society generally, i.e. of the whole human race, the object of its investigations. If we imagine, for instance, that all nations were united by means of a universal confederation, their individual independence and power would cease to be an object of regard. The security
for the independence of every nation would in such a case rest on the legal provi-
sions of the universal society . . .

In proportion, however, as the principle of a universal confederation of
countries is reasonable, in just the same degree would a given nation act contrary
to reason if, in anticipation of the great advantages to be expected from such
a union, and from a state of universal and perpetual peace, it were to regulate
the principles of its national policy as though this universal confederation of
countries existed already. We ask, would not every sane person consider a govern-
ment to be insane which, in consideration of the benefits and the reasona-
ble-ness of a state of universal and perpetual peace, proposed to disband its armies,
destroy its fleet, and demolish its fortresses? But such a government would be
doing nothing different in principle from what the popular school requires from
governments when, because of the advantages which would be derivable from
general free trade, it urges that they should abandon the advantages derivable
from protection.

War has a ruinous effect on the reciprocal commercial relations between
nation and nation. The agriculturist living in one country is by it forcibly sepa-
rated from the manufacturer living in another country. While, however, the
manufacturer (especially if he belongs to a nation powerful at sea, and carrying
on extensive commerce) readily finds compensation from the agriculturists of
his own country, or from those of other accessible agricultural countries, the
inhabitant of the purely agricultural country suffers doubly through this inter-
ruption of intercourse . . .

If, however, one agricultural nation whose production and consumption are
thus diminished by war has already made considerable advances in population,
civilisation, and agriculture, manufactures and factories will spring up in it in
consequence of the interruption of international commerce by war. War acts
on it like a prohibitive tariff system. It thereby becomes acquainted with the
great advantages of a manufacturing power of its own, it becomes convinced
by practical experience that it has gained more than it has lost by the com-
cercial interruptions which war has occasioned. The conviction gains ground in
it, that it is called to pass from the condition of a mere agricultural State to the
condition of an agricultural-manufacturing State, and in consequence of this
transition, to attain to the highest degree of prosperity, Civilisation, and power.
But if after such a nation has already made considerable progress in the manu-
facturing career which was opened to it by war, peace is again established, and
should both nations then contemplate the resumption of their previously exist-
ing commercial intercourse, they will both find that during the war new inter-
est have been formed, which would be destroyed by re-establishing the former
commercial intercourse. The former agricultural nation will feel, that in order
to resume the sale of its agricultural products to the foreigner, it would have to
sacrifice its own manufacturing industry which has in the meanwhile been created; the manufacturing nation will feel that a portion of its home agricultural production, which has been formed during the war, would again be destroyed by free importation. Both, therefore, try to protect these interests by means of imposing duties on imports. This is the history of commercial politics during the last fifty years.

It is war that has called into existence the more recent systems of protection; and we do not hesitate to assert, that it would have been to the interest of the manufacturing nations of the second and third rank to retain a protective policy and further develop it... A war which leads to the change of the purely agricultural State into an agricultural-manufacturing State is therefore a blessing to a nation, just as the War of Independence of the United States of North America, in spite of the enormous sacrifices which it required, has become a blessing to all future generations. But a peace which throws back into a purely agricultural condition a nation which is fitted to develop a manufacturing power of its own, becomes a curse to it, and is incomparably more injurious to it than a war.

...In this manner the school would condemn the Continental nations for ever to be rolling the stone of Sisyphus, for ever to erect manufactories in time of war in order to allow them to fall to ruin in time of peace.

To results so absurd as these the school could never have arrived had it not (in spite of the name which it gives to the science which it professes) completely excluded politics from that science, had it not completely ignored the very existence of nationality, and left entirely out of consideration the effects of war on the commercial intercourse between separate nations.

How utterly different is the relation of the agriculturist to the manufacturer if both live in one and the same country, and are consequently really connected with one another by perpetual peace. Under those circumstances, every extension or improvement of an already existing manufactory increases the demand for agricultural products. This demand is no uncertain one; it is not dependent on foreign commercial regulations or foreign commercial fluctuations, on foreign political commotions or wars, on foreign inventions and improvements or on foreign harvests; the native agriculturist has not to share it with other nations, it is certain to him every year. However the crops of other nations may turn out, whatever misunderstandings may spring up in the political world, he can depend on the sale of his own produce, and on obtaining the manufactured goods which he needs at suitable and regular prices. On the other hand, every improvement of the native agriculture, every new method of culture, acts as a stimulant on the native manufacture, because every augmentation of native agricultural production must result in a proportionate augmentation of native manufacturing production. Thus, by means of this reciprocal action, progress is insured for all time to both these main sources of the nation’s strength and support.
Political power not merely secures to the nation the increase of its prosperity by foreign commerce and by colonies abroad, it also secures to it the possession of internal prosperity, and secures to it its own existence, which is far more important to it than mere material wealth. The school cannot deny that the internal market of a nation is ten times more important to it than its external one, even where the latter is in the most flourishing condition; but it has omitted to draw from this the conclusion, which is very obvious, that it is ten times more important to cultivate and secure the home market, than to seek for wealth abroad, and that only in those nations which have developed their internal industry to a high degree can foreign commerce attain importance.

With regard to this, it must further be remarked, that every nation which gains entire possession of its own home market for manufactures, gains in the course of time, by its home production and consumption of manufactured goods, infinitely more than the nation which has hitherto provided the former with manufactured goods loses by being excluded; because a nation which manufactures for itself, and which is perfectly developed in its economical conditions, becomes more than proportionately richer and more populous, consequently is enabled to consume infinitely more fabrics, than it could import while depending on a foreign manufacturing nation for its supply.

Lastly, it is evident that a world-manufacturing monopoly such as is at present established by the free competition of English manufactured goods on the European and American continents is not in the least more conducive to the welfare of the human race than the system of protection, which aims at developing the manufacturing power of the whole temperate zone, for the benefit of the agriculture of the whole torrid zone.

The advance which England has made in manufactures, navigation, and commerce, need therefore not discourage any other nation which is fitted for manufacturing production, by the possession of suitable territory, of national power and intelligence, from entering into the lists with England’s manufacturing supremacy. A future is approaching for manufactures, commerce, and navigation which will surpass the present as much as the present surpasses the past. Let us only have the courage to believe in a great national future, and in that belief to march onward. But above all things we must have enough national spirit at once to plant and protect the tree, which will yield its first richest fruits only to future generations. We must first gain possession of the home market of our own nation, at least as respects articles of general necessity, and try to procure the products of tropical countries direct from those countries which allow us to pay for them with our own manufactured goods.
Classical Marxism

Marxism is unusual as a theory in bearing the name of a single founder in its moniker. What is more unusual is that a single founder could inaugurate a tradition of political-economic theory that continues down to the present day. Yet despite Marx’s obvious genius and his massive corpus of writings, one cannot find any systematic treatment from him of international relations and international political economy. Marx left behind no developed theory of trade, capital exportation, or war. His observations on the international sphere are scattered and where they do exist are mostly directed toward popular audiences. Perhaps because Marx himself had so little to say about the international dimensions of political economy, he left the door wide open to an array of followers offering different and even incompatible theoretical developments. What all seemed to agree upon, however, is that the concept of imperialism offered the clearest lens through which Marxists could theorize and understand the international political economy.

Like all the classical political economists, Karl Marx (1818-1883) was interested first and foremost in the inner workings of capitalist society. He plumbed the depths of a political-economic matter so fundamental to the nineteenth century that it was simply referred to at the time as “the social question”: how and why did capitalism simultaneously generate such tremendous new wealth and such extreme poverty and human misery—and what should be done about it? Despite never dedicating himself to a sustained analysis of the international aspects of his theory, a few central themes can be gleaned from his work. In The Communist Manifesto, Marx, together with Friedrich Engels (1820-1895), asserts that capitalism is destined to be a worldwide social order due to a combination of the bourgeoisie’s “constantly revolutionizing the instruments of production” and its “need for a constantly expanding market for its products.” For Marx, globalization is part and parcel of capitalism. In their search for profits, capitalists draw together formerly distinct local or national economies into a single world market. In doing so they destroy old industries, old cultures, old ways of life. The cosmopolitan
bourgeoisie “compels all nations, on pain of extinction, to adopt the bourgeois mode of production . . . it creates a world after its own image.” In this way Marx strangely agrees with John Stuart Mill but without the sentimentality. Marx can even support free trade. This is not because he believes the liberal argument concerning mutual gains and comparative advantage, for in Marx’s view the freedom of free trade is nothing more than the “freedom of capital to crush the worker.” He endorses free trade instead because he believes it increases the concentration of capital, eliminates intermediate classes like small rentiers and the petty bourgeoisie, polarizes society even more into its two great antagonistic classes of bourgeoisie and proletariat, and ultimately hastens the self-destruction of capitalism itself.

One can clearly see, then, that despite his vigorous critiques of capitalism, Marx believes it to be historically progressive. In his view, communism is only possible after the forces of production had been sufficiently developed first by capitalism, and this progressive view of history colors Marx’s few writings on imperialism. His best-known reflections on the matter appear in two newspaper articles on India written during East India Company rule over the subcontinent. Here Marx argues that British capital investment in India is bringing about not merely a political revolution but more importantly a material one in which India’s very mode of production is changing for the first time in its long history. The indigenous “village system” composed of a powerful centralized state perched above, and largely autonomous from, an atomized collection of self-reliant agricultural towns is being destroyed by British railroads, British steam-power and British telegraph lines. Through imperialism, India will industrialize and its class relations will be restructured, “through blood and dirt, through misery and degradation.” It cannot resist the transforming power of capital. Yet interestingly, Marx’s writings on Ireland show a different and contrary view of the progressive nature of capitalism. There the concentration of capital and the transformation of agriculture through enclosures and mechanization does not generate an industrial proletariat but instead depopulation and an increasingly immiserated class of agricultural, yet ironically urbanized, wage-laborers. Because of the power of the English landed aristocracy over Ireland, the country is prevented from industrializing and kept in a state of dependence on agriculture “in order that she may fulfill her true destiny, to be an English sheepwalk and cattle pasture.” Marx never explored his contradictory observations on the nature of capitalism in India versus Ireland. They remain primarily as fragments of Marx’s broader thought.

It was not until the early twentieth century that explicit and sustained Marxist theorizing of imperialism appeared. By this time capitalism had changed dramatically from Marx’s day, and imperialism along with it. Small producers operating in competitive markets had been displaced by large producers operating
in monopolistic or oligopolistic markets. This process had gone particularly far in late industrializing countries like Germany. Rudolf Hilferding, the Social Democratic Party of Germany’s leading intellectual prior to the Nazi takeover, laid the theoretical foundations in his magisterial work *Finance Capital*. There he argued that a fusion between financial and industrial capital accomplished through the rise of the joint stock corporation leads to the cartelization of entire national economies. These national cartels (or “trusts” in American parlance) capture their respective states and use trade restrictions to control the domestic market and thereby raise domestic prices and profits. A simultaneous result is the limitation on expansion of the home market and thus increasing pressure for capital export to keep profit rates up. In Hilferding’s view, international relations become a contest less between states than between national blocs of monopoly capital to secure investment opportunities abroad. Imperialism stands as the means of creating such profitable openings.

Vladimir Ilyich Lenin’s (1870-1924) primary contribution is popularizing Hilferding’s analysis, summing up the argument with the phrase “imperialism is the monopoly stage of capitalism.” Writing in 1916, Lenin also links the analysis to then-current events. He advances the claim that the competition between rival national monopoly capitals for spheres of influence and colonial annexations is the proximate cause of World War I—“a war for deciding whether the British or German group of financial marauders is to receive the lion’s share.” Lenin’s intellectual sparring partner over the Marxist theorization of imperialism is Karl Kautsky (1854-1938), so prominent a Marxist intellectual prior to the First World War that socialist detractors referred to him as the “Pope of Marxism.” Kautsky draws a very different conclusion from the relationship between monopoly capital and imperialism. Whereas Lenin sees a combination of capitals into national monopolies and an “actual division of the world,” Kautsky foresees an inter- or transnationalization of capital and the “joint exploitation” of the world by a compact of European financial capitalists. For Lenin, imperialism is a system of competition between European national capitals leading all the way to world war. Yet Kautsky holds out the possibility of ultra-imperialism as “a holy alliance of the imperialists” against both colonized peoples and their own working classes. Lenin’s argument became Marxist orthodoxy through the experiences of the two world wars, but Kautsky’s alternative seems increasingly plausible from a post-1989 vantage point. Their debate reveals within Marxist thought two different historically mediated tendencies in global capitalism, in which rival capitalist states either unite behind a program of “peaceful” collective exploitation of the world or descend into great power war.
The Communist Manifesto

Karl Marx and Friedrich Engels

I. Bourgeois and Proletarians

The history of all hitherto existing society is the history of class struggles... The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature: it has simplified the class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat.

From the serfs of the Middle Ages sprang the chartered burgheers of the earliest towns. From these burgesses the first elements of the bourgeoisie were developed.

The discovery of America, the rounding of the Cape, opened up fresh ground for the rising bourgeoisie. The East-Indian and Chinese markets, the colonisation of America, trade with the colonies, the increase in the means of exchange and in commodities generally, gave to commerce, to navigation, to industry, an impulse never before known, and thereby, to the revolutionary element in the tottering feudal society, a rapid development.

The feudal system of industry, in which industrial production was monopolised by closed guilds, now no longer sufficed for the growing wants of the new markets. The manufacturing system took its place. The guild-masters were pushed on one side by the manufacturing middle class; division of labour between the different corporate guilds vanished in the face of division of labour in each single workshop.

Meantime the markets kept ever growing, the demand ever rising. Even manufacture no longer sufficed. Thereupon, steam and machinery revolutionised industrial production. The place of manufacture was taken by the giant, Modern Industry, the place of the industrial middle class, by industrial millionaires, the leaders of whole industrial armies, the modern bourgeois.

Modern industry has established the world market, for which the discovery of America paved the way. This market has given an immense development to commerce, to navigation, to communication by land. This development has, in its turn, reacted on the extension of industry; and in proportion as industry, commerce, navigation, railways extended, in the same proportion the bourgeoisie developed, increased its capital, and pushed into the background every class handed down from the Middle Ages.

We see, therefore, how the modern bourgeoisie is itself the product of a long course of development, of a series of revolutions in the modes of production and of exchange.

Each step in the development of the bourgeoisie was accompanied by a corresponding political advance of that class. An oppressed class under the sway of the feudal nobility, an armed and self-governing association in the medieval commune; here independent urban republic (as in Italy and Germany), there taxable “third estate” of the monarchy (as in France), afterwards, in the period of manufacture proper, serving either the semi-feudal or the absolute monarchy as a counterpoise against the nobility, and, in fact, cornerstone of the great monarchies in general, the bourgeoisie has at last, since the establishment of Modern Industry and of the world market, conquered for itself, in the modern representative State, exclusive political sway. The executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie.

The bourgeoisie, historically, has played a most revolutionary part.

The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn asunder the motley feudal ties that bound man to his “natural superiors,” and has left remaining no other nexus between man and man than naked self-interest, than callous “cash payment.” It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single, inconscionable freedom—Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation.…

The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen
relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere.

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature.

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians’ intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In a word, it creates a world after its own image.

The bourgeoisie has subjected the country to the rule of the towns. It has created enormous cities, has greatly increased the urban population as compared with the rural, and has thus rescued a considerable part of the population from the idiocy of rural life. Just as it has made the country dependent on the towns, so it has made barbarian and semi-barbarian countries dependent on the civilised ones, nations of peasants on nations of bourgeois, the East on the West.
The bourgeoisie keeps more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralised means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralisation. Independent, or but loosely connected provinces with separate interests, laws, governments and systems of taxation, became lumped together into one nation, with one government, one code of laws, one national class-interest, one frontier and one customs tariff.
Gentlemen,—The Repeal of the Corn Laws in England is the greatest triumph of Free Trade in the nineteenth century. In every country where manufacturers discuss Free Trade, they have in mind chiefly Free Trade in corn and raw material generally. To burden foreign corn with protective duties is infamous, it is to speculate on the hunger of the people.

Cheap food, high wages, for this alone the English Free Traders have spent millions, and their enthusiasm has already infected their Continental brethren. And, generally speaking, all those who advocate Free Trade do so in the interests of the working class.

But, strange to say, the people for whom cheap food is to be procured at all costs are very ungrateful. Cheap food is as ill reputed in England as is cheap government in France. The people see in these self-sacrificing gentlemen, in Bowring, Bright & Co., their worst enemies and the most shameless hypocrites . . . .

Dr. Bowring conferred upon all these arguments the consecration of religion, by exclaiming at a public meeting, “Jesus Christ is Free Trade, and Free Trade is Jesus Christ.”

…You see, gentlemen, this private legislation is enacted for the especial purpose of creating such infractions, and infractions are manufactured for the purpose of making money. Thus the manufacturer uses every means of reducing the nominal wage, and even profiting by accidents over which the workers have no control.

And these manufacturers are the same philanthropists who have tried to persuade the workers that they were capable of going to immense expense for the sole and express purpose of improving the condition of these same workingmen! On the one hand they nibble at the workers’ wages in the pettiest way, by means of factory legislation, and, on the other, they are prepared to make the greatest sacrifices to raise those wages by means of the Anti-Corn Law League . . . .

The English workingmen have appreciated to the fullest extent the significance of the struggle between the lords of the land and of capital. They know

very well that the price of bread was to be reduced in order to reduce wages, and
that the profit of capital would rise by as much as rent fell.

Ricardo, the apostle of the English Free Traders, the leading economist of our
century, entirely agrees with the workers upon this point.

In his celebrated work upon Political Economy he says:

If instead of growing our own corn . . . we discover a new market from
which we can supply ourselves . . . at a cheaper price, wages will fall and
profits rise. The fall in the price of agricultural produce reduces the
wages, not only of the laborer employed in cultivating the soil, but also
of all those employed in commerce or manufacture . . . .

The English workingmen have shown the English Free Traders that they are not
the dupes of their illusions or of their lies; and if, in spite of this, the workers
have made common cause with the manufacturers against the landlords, it is for
the purpose of destroying the last remnant of feudalism, that henceforth they
may have only one enemy to deal with. The workers have not miscalculated,
for the landlords, in order to revenge themselves upon the manufacturers, have
made common cause with the workers to carry the Ten-Hours Bill, which the
latter had been vainly demanding for thirty years, and which was passed imme-
diately after the repeal of the Corn Laws. When Dr. Bowring, at the Congress
of Economists, drew from his pocket a long list to show how many head of cat-
tle, how much ham, bacon, poultry, etc., is imported into England, to be con-
sumed—as he asserted—by the workers, he forgot to state that at the time the
workers of Manchester and other factory towns were thrown out of work by the
beginning of the crisis. As a matter of principle in Political Economy, the figures
of a single year must never be taken as the basis for formulating general laws. We
must always take the average of from six to seven years, a period during which
modern industry passes through the successive phases of prosperity, overpro-
duction, crisis, thus completing the inevitable cycle.

Doubtless, if the price of all commodities falls,—and this is the necessary
consequence of Free Trade—I can buy far more for a franc than before. And the
workingman’s franc is as good as any other man’s. Therefore, Free Trade must
be advantageous to the workingman. There is only one little difficulty in this,
namely, that the workman, before he exchanges his franc for other commodities,
has first exchanged his labor for the money of the capitalist. If in this exchange
he always received the said franc while the price of all other commodities fell, he
would always be the gainer by such a bargain. The difficulty does not lie in prov-
ing that, the price of all commodities falling, more commodities can be bought
for the same sum of money.
Economists always take the price of labor at the moment of its exchange with other commodities, and altogether ignore the moment at which labor accomplishes its own exchange with capital. When it costs less to set in motion the machinery which produces commodities, then the things necessary for the maintenance of this machine, called workman, will also cost less. If all commodities are cheaper, labor, which is a commodity too, will also fall in price, and we shall see later that this commodity, labor, will fall far lower in proportion than all other commodities. If the workingman still pins his faith to the arguments of the economists, he will find, one fine morning, that the franc has dwindled in his pocket, and that he has only five sous left.

Thereupon the economists will tell you,—

We admit that competition among the workers will certainly not be lessened under Free Trade, and will very soon bring wages into harmony with the low price of commodities. But, on the other hand, the low price of commodities will increase consumption, the larger consumption will increase production, which will in turn necessitate a larger demand for labor and this larger demand will be followed by a rise in wages.

The whole line of argument amounts to this: Free Trade increases productive forces. When manufactures keep advancing, when wealth, when the productive forces, when, in a word, productive capital increases, the demand for the labor, the price of labor, and consequently the rate of wages, rises also.

The most favorable condition for the workingman is the growth of capital. This must be admitted: when capital remains stationary, commerce and manufacture are not merely stationary but decline, and in this case the workman is the first victim. He goes to the wall before the capitalist. And in the case of the growth of capital, under the circumstances, which, as we have said, are the best for the workingman, what will be his lot? He will go to the wall just the same. The growth of capital implies the accumulation and the concentration of capital. This centralization involves a greater division of labor and a greater use of machinery. The greater division of labor destroys the especial skill of the laborer; and by putting in the place of this skilled work labor which any one can perform it increase competition among the workers.

This competition becomes more fierce as the division of labor enables a single man to do the work of three. Machinery accomplishes the same result on a much larger scale. The accumulation of productive capital forces the industrial capitalist to work with constantly increasing means of production, ruins the small manufacturer, and drives him into the proletariat. Then, the rate of interest falling in proportion as capital accumulates, the little rentiers and retired
tradespeople, who can no longer live upon their small incomes, will be forced to look out for some business again and ultimately to swell the number of proletarians. Finally, the more productive capital grows, the more it is compelled to produce for a market whose requirements it does not know,—the more supply tries to force demand, and consequently crises increase in frequency and in intensity. But every crisis in turn hastens the concentration of capital, adds to the proletariat. Thus, as productive capital grows, competition among the workers grows too, and grows in a far greater proportion. The reward of labor is less for all, and the burden of labor is increased for some at least.

What influence will the adoption of Free Trade have upon the condition of the working class? All the laws formulated by the political economists from Quesnay to Ricardo, have been based upon the hypothesis that the trammels which still interfere with commercial freedom have disappeared. These laws are confirmed in proportion as Free Trade is adopted. The first of these laws is that competition reduces the price of every commodity to the minimum cost of production. Thus the minimum of wages is the natural price of labor. And what is the minimum of wages? Just so much as is required for production of the articles absolutely necessary for the maintenance of the worker, for the continuation, by hook or by crook, of his own existence and that of his class.

But do not imagine that the worker receives only this minimum wage, and still less that he always receives it. No, according to this law, the working class will sometimes be more fortunate, will sometimes receive something above the minimum, but this surplus will merely make up for the deficit which they will have received below the minimum in times of industrial depression. That is to say that within a given time which recurs periodically, in other words, in the cycle which commerce and industry describe while passing through the successive phases of prosperity, overproduction, stagnation, and crisis, when reckoning all that the working class has above and below mere necessities, we shall see that, after all, they have received neither more nor less than the minimum; i.e., the working class will have maintained itself as a class after enduring any amount of misery and misfortune, and after leaving many corpses upon the industrial battle-field. But what of that? The class will still exist; nay, more, it will have increased.

... This law of commodity labor, of the minimum of wages will be confirmed in proportion as the supposition of the economists, Free Trade, becomes an actual fact. Thus, of two things one: either we must reject all political economy based on the assumption of Free Trade, or we must admit that under this same Free Trade the whole severity of the economic laws will fall upon the workers.

To sum up, what is Free Trade under the present condition of society? Freedom of Capital. When you have torn down the few national barriers which still restrict
the free development of capital, you will merely have given it complete freedom of action. So long as you let the relation of wages-labor to capital exist, no matter how favorable the conditions under which you accomplish the exchange of commodities, there will always be a class which exploits and a class which is exploited. It is really difficult to understand the presumption of the Free Traders who imagine that the more advantageous application of capital will abolish the antagonism between industrial capitalists and wage-workers. On the contrary. The only result will be that the antagonism of these two classes will stand out more clearly 

Gentlemen! Do not be deluded by the abstract word Freedom! whose freedom? Not the freedom of one individual in relation to another, but freedom of Capital to crush the worker.

Why should you desire farther to sanction unlimited competition with this idea of freedom, when the idea of freedom itself is only the product of a social condition based upon Free Competition?

We have shown what sort of fraternity Free Trade begets between the different classes of one and the same nation. The fraternity which Free Trade would establish between the nations of the earth would not be more real, to call cosmopolitan exploitation universal brotherhood is an idea that could only be engendered in the brain of the bourgeoisie. Every one of the destructive phenomena to which unlimited competition gives rise within any one nation is reproduced in more gigantic proportions in the market of the world 

For instance, we are told that Free Trade would create an international division of labor, and thereby give to each country those branches of production most in harmony with its natural advantages.

You believe perhaps, gentlemen, that the production of coffee and sugar is the natural destiny of the West Indies.

Two centuries ago, nature, which does not trouble itself about commerce, had planted neither sugar-cane nor coffee trees there. And it may be that in less than half a century you will find there neither coffee nor sugar, for the East Indies, by means of cheaper production, have already successfully broken down this so-called natural destiny of the West Indies.

And the West Indies, with their natural wealth, are as heavy a burden for England as the weavers of Dacca, who also were destined from the beginning of time to weave by hand.

One other circumstance must not be forgotten, namely that, just as everything has become a monopoly, there are also nowadays some branches of industry which prevail over all others, and secure to the nations which especially foster them the command of the market of the world. Thus in the commerce of the world cotton alone has much greater commercial importance than all the other raw materials used in the manufacture of clothing. It is truly ridiculous for the Free Traders to refer to the few specialties in each branch of industry, throwing them into the
balance against the product used in everyday consumption, and produced most cheaply in those countries in which manufacture is most highly developed.

If the Free Traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how in the same country one class can enrich itself at the expense of another.

Do not imagine, gentlemen, that in criticising freedom of commerce we have the least intention of defending Protection.

One may be opposed to constitutionalism without being in favor of absolutism.

Moreover, the Protective system is nothing but a means of establishing manufacture upon a large-scale in any given country, that is to say, of making it dependent upon the market of the world; and from the moment that dependence upon the market of the world is established, there is more or less dependence upon Free Trade too. Besides this, the Protective system helps to develop free competition within a nation. Hence we see that in countries where the bourgeoisie is beginning to make itself felt as a class, in Germany for example, it makes great efforts to obtain Protective duties. They serve the bourgeoisie as weapons against feudalism and absolute monarchy, as a means for the concentration of its own powers and for the realization of Free Trade within the same country.

But, generally speaking, the Protective system in these days is conservative, while the Free Trade system works destructively. It breaks up old nationalities and carries antagonism of proletariat and bourgeoisie to the uttermost point. In a word, the Free Trade system hastens the Social Revolution. In this revolutionary sense alone, gentlemen, I am in favor of Free Trade.
The British Rule in India

Karl Marx

Hindostan is an Italy of Asiatic dimensions, the Himalayas for the Alps, the Plains of Bengal for the Plains of Lombardy, the Deccan for the Appenines, and the Isle of Ceylon for the Island of Sicily. The same rich variety in the products of the soil, and the same dismemberment in the political configuration. Just as Italy has, from time to time, been compressed by the conquerors sword into different national masses, so do we find Hindostan, when not under the pressure of the Mohammedan, or the Mogul, or the Briton, dissolved into as many independent and conflicting States as it numbered towns, or even villages. Yet, in a social point of view, Hindostan is not the Italy, but the Ireland of the East. And this strange combination of Italy and of Ireland, of a world of voluptuousness and of a world of woes, is anticipated in the ancient traditions of the religion of Hindostan. That religion is at once a religion of sensualist exuberance, and a religion of self-torturing asceticism....

There cannot, however, remain any doubt but that the misery inflicted by the British on Hindostan is of an essentially different and infinitely more intensive kind than all Hindostan had to suffer before....

All the civil wars, invasions, revolutions, conquests, famines, strangely complex, rapid and destructive as the successive action in Hindostan may appear, did not go deeper than its surface. England had broken down the entire framework of Indian society, without any symptoms of reconstitution yet appearing. This loss of his old world, with no gain of a new one, imparts a particular kind of melancholy to the present misery of the Hindoo, and separates Hindostan, ruled by Britain, from all its ancient traditions, and from the whole of its past history.

There have been in Asia, generally from immemorial times, but three departments of Government: that of Finance, or the plunder of the interior; that of War, or the plunder of the exterior; and finally, the department of Public Works. Climate and territorial conditions, especially the vast tracts of desert, extending from the Sahara, through Arabia, Persia, India and Tartary, to the most elevated Asiatic highlands, constituted artificial irrigation by canals and waterworks the basis of Oriental agriculture. As in Egypt and India, inundations are used for fertilising the soil of Mesopotamia, Persia, etc; advantage is taken of a high level for feeding irrigative
canals. This prime necessity of an economical and common use of water, which, in the Occident, drove private enterprise to voluntary association, as in Flanders and Italy, necessitated in the Orient where civilization was too low and the territorial extent too vast to call into life voluntary association, the interference of the centralizing power of Government. Hence an economical function devolved upon all Asiatic Governments the function of providing public works. This artificial fertilisation of the soil, dependent on a Central Government, and immediately decaying with the neglect of irrigation and drainage, explains the otherwise strange fact that we now find whole territories barren and desert that were once brilliantly cultivated, as Palmyra, Petra, the ruins in Yemen, and large provinces of Egypt, Persia and Hindostan; it also explains how a single war of devastation has been able to depopulate a country for centuries, and to strip it of all its civilisation.

Now, the British in East India accepted from their predecessors the department of finance and of war, but they have neglected entirely that of public works. Hence the deterioration of an agriculture which is not capable of being conducted on the British principle of free competition, of laissez-faire and laissez-aller. But in Asiatic empires we are quite accustomed to see agriculture deteriorating under one government and reviving again under some other government. There the harvests correspond to good or bad government, as they change in Europe with good or bad seasons. Thus the oppression and neglect of agriculture, bad as it is, could not be looked upon as the final blow dealt to Indian society by the British intruder, had it not been attended by a circumstance of quite different importance, a novelty in the annals of the whole Asiatic world. However changing the political aspect of India's past must appear, its social condition has remained unaltered since its remotest antiquity, until the first decennium of the 19th century. The hand-loom and the spinning-wheel, producing their regular myriads of spinners and weavers, were the pivots of the structure of that society. From immemorial times, Europe received the admirable textures of Indian labour, sending in return for them her precious metals, and furnishing thereby his material to the goldsmith, that indispensable member of Indian society, whose love of finery is so great that even the lowest class, those who go about nearly naked, have commonly a pair of golden ear-rings and a gold ornament of some kind hung round their necks. Rings on the fingers and toes have also been common. Women as well as children frequently wore massive bracelets and anklets of gold or silver, and statuettes of divinities in gold and silver were met with in the households. It was the British intruder who broke up the Indian hand-loom and destroyed the spinning wheel. England began with driving the Indian cottons for the European market; it then introduced twist into Hindostan and in the end inundated the very mother country of cotton with cottons. From 1818 to 1836 the export of twist from Great Britain to India rose in the proportion of 1 to 5,200. In 1824 the export of British muslins to India hardly amounted to 1,000,000 yards while in 1837 surpassed 64,000,000 yards. But at the same time the population of
Decca decreased from 150,000 inhabitants to 20,000. This decline of Indian towns celebrated for their fabrics was by no means the worst consequence. British steam and science uprooted, over the whole surface of Hindostan, the union between agricultural and manufacturing industry.

These two circumstances—the Hindoo, on the one hand, leaving like all Oriental peoples, to the central government the care of the great public works, the prime condition of his agriculture and commerce, dispersed, on the other hand over the surface of the country, and agglomerated in small centers by the domestic union of agricultural and manufacturing pursuits—these two circumstances had brought about, since the remotest times, a social system of particular features—the so-called *village system*, which gave to each of these small unions their independent organisation and distinct life.

These small stereotype forms of social organism have been to the greater part dissolved, and are disappearing, not so much through the brutal interference of the British tax-gatherer and the British soldier, as to the working of English steam and English free trade. Those family-communities were based on domestic industry, in that peculiar combination of hand-weaving, hand-spinning and hand-tilling agriculture which gave them self-supporting power. English interference having placed the spinner in Lancashire and the weaver in Bengal, or sweeping away both Hindoo spinner and weaver, dissolved these small semi-barbarian, semi-civilised communities, by blowing up their economical basis, and thus produced the greatest, and, to speak the truth, the only social revolution ever heard of in Asia.

Now, sickening as it must be to human feeling to witness those myriads of industrious patriarchal and inoffensive social organisations disorganized and dissolved into their units, thrown into a sea of woes, and their individual members losing at the same time their ancient form of civilisation, and their hereditary means of subsistence, we must not forget that these idyllic village communities, inoffensive through they may appear, had always been the solid foundation of Oriental despotism, that they restrained the human mind within the smallest possible compass, making it the unsurpassing tool of superstition, enslaving it beneath traditional rules, depriving it of all grandeur and historical energies. We must not forget the barbarian egotism which, concentrating on some miserable patch of land, had quietly witnessed the ruin of empires, the perpetration of unspeakable cruelties, the massacre of the population of large towns, with no other consideration bestowed upon them than on natural events, itself the helpless prey of any aggressor who deigned to notice it at all. We must not forget that this undignified, stagnant, and vegetative life, that this passive sort of existence evoked on the other part, in contradistinction, wild, aimless, unbounded forces of destruction and rendered murder itself a religious rite in Hindostan. We must not forget that these little communities were contaminated by distinctions of
caste and by slavery, that they subjugated man to external circumstances instead of elevating man to be the sovereign of circumstances, that they transformed a self-developing social state into never changing natural destiny, and thus brought about a brutalizing worship of nature, exhibiting its degradation in the fact that man, the sovereign of nature, fell down on his knees in adoration of Kanuman, the monkey, and Sabbala, the cow.

England, it is true, in causing a social revolution in Hindostan, was actuated only by the vilest interests, and was stupid in her manner of enforcing them. But that is not the question. The question is, can mankind fulfill its destiny without a fundamental revolution in the social state of Asia? If not, whatever may have been the crimes of England she was the unconscious tool of history in bringing about that revolution.
The Future Results of British Rule in India

Karl Marx

How came it that English supremacy was established in India? The paramount power of the Great Mogul was broken by the Mogul Viceroy. The power of the Viceroy was broken by the Mahrattas. The power of the Mahrattas was broken by the Afghans, and while all were struggling against all, the Briton rushed in and was enabled to subdue them all. A country not only divided between Mahommedan and Hindoo, but between tribe and tribe, between caste and caste; a society whose framework was based on a sort of equilibrium, resulting from a general repulsion and constitutional exclusiveness between all its members. Such a country and such a society, were they not the predestined prey of conquest? If we knew nothing of the past history of Hindostan, would there not be the one great and incontestable fact, that even at this moment India is held in English thraldom by an Indian army maintained at the cost of India? India, then, could not escape the fate of being conquered, and the whole of her past history, if it be anything, is the history of the successive conquests she has undergone. Indian society has no history at all, at least no known history. What we call its history, is but the history of the successive intruders who founded their empires on the passive basis of that unresisting and unchanging society. The question, therefore, is not whether the English had a right to conquer India, but whether we are to prefer India conquered by the Turk, by the Persian, by the Russian, to India conquered by the Briton. England has to fulfill a double mission in India: one destructive, the other regenerating the annihilation of old Asiatic society, and the laying the material foundations of Western society in Asia. Arabs, Turks, Tartars, Moguls, who had successively overrun India, soon became Hindooized, the barbarian conquerors being, by an eternal law of history, conquered themselves by the superior civilization of their subjects. The British were the first conquerors superior, and therefore, inaccessible to Hindoo civilization. They destroyed it by breaking up the native communities, by uprooting the native industry, and by levelling all that was great and elevated in the native society. The historic pages of their rule in India report hardly anything beyond...
that destruction. The work of regeneration hardly transpires through a heap of ruins. Nevertheless it has begun.

The political unity of India, more consolidated, and extending farther than it ever did under the Great Moguls, was the first condition of its regeneration. That unity, imposed by the British sword, will now be strengthened and perpetuated by the electric telegraph. The native army, organized and trained by the British drill-sergeant, was the sine qua non of Indian self-emancipation, and of India ceasing to be the prey of the first foreign intruder. The free press, introduced for the first time into Asiatic society, and managed principally by the common offspring of Hindoos and Europeans, is a new and powerful agent of reconstruction. The Zemindari and Ryotwar themselves, abominable as they are, involve two distinct forms of private property in land—the great desideratum of Asiatic society. From the Indian natives, reluctantly and sparingly educated at Calcutta, under English superintendence, a fresh class is springing up, endowed with the requirements for government and imbued with European science. Steam has brought India into regular and rapid communication with Europe, has connected its chief ports with those of the whole south-eastern ocean, and has reinvigorated it from the isolated position which was the prime law of its stagnation. The day is not far distant when, by a combination of railways and steam-vessels, the distance between England and India, measured by time, will be shortened to eight days, and when that once fabulous country will thus be actually annexed to the Western world.

The ruling classes of Great Britain have had, till now, but an accidental, transitory and exceptional interest in the progress of India. The aristocracy wanted to conquer it, the moneyocracy to plunder it, and the millocracy to undersell it. But now the tables are turned. The millocracy have discovered that the transformation of India into a reproductive country has become of vital importance to them, and that, to that end, it is necessary, above all, to gift her with means of irrigation and of internal communication. They intend now drawing a net of railroads over India. And they will do it. The results must be inappreciable.

It is notorious that the productive powers of India are paralysed by the utter want of means for conveying and exchanging its various produce. Nowhere, more than in India, do we meet with social destitution in the midst of natural plenty, for want of the means of exchange . . .

We know that the municipal organization and the economical basis of the village communities has been broken up, but their worst feature, the dissolution of society into stereotype and disconnected atoms, has survived their vitality. The village isolation produced the absence of roads in India, and the absence of roads perpetuated the village isolation. On this plan a community existed with a given scale of low conveniences, almost without intercourse with other villages, without the desires and efforts indispensable to social advance. The British having
broken up this self-sufficient inertia of the villages, railways will provide the new want of communication and intercourse.

I know that the English millocracy intend to endow India with railways with the exclusive view of extracting at diminished expenses the cotton and other raw materials for their manufactures. But when you have once introduced machinery into the locomotion of a country, which possesses iron and coals, you are unable to withhold it from its fabrication. You cannot maintain a net of railways over an immense country without introducing all those industrial processes necessary to meet the immediate and current wants of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with railways. The railway-system will therefore become, in India, truly the forerunner of modern industry. This is the more certain as the Hindoos are allowed by British authorities themselves to possess particular aptitude for accommodating themselves to entirely new labor, and acquiring the requisite knowledge of machinery. Ample proof of this fact is afforded by the capacities and expertness of the native engineers in the Calcutta mint, where they have been for years employed in working the steam machinery, by the natives attached to the several steam engines in the Hurdwar coal districts, and by other instances.

Modern industry, resulting from the railway system, will dissolve the hereditary divisions of labor, upon which rest the Indian castes, those decisive impediments to Indian progress and Indian power.

All the English bourgeoisie may be forced to do will neither emancipate nor materially mend the social condition of the mass of the people, depending not only on the development of the productive powers, but on their appropriation by the people. But what they will not fail to do is to lay down the material premises for both. Has the bourgeoisie ever done more? Has it ever effected a progress without dragging individuals and people through blood and dirt, through misery and degradation?

The Indians will not reap the fruits of the new elements of society scattered among them by the British bourgeoisie, till in Great Britain itself the now ruling classes shall have been supplanted by the industrial proletariat, or till the Hindoos themselves shall have grown strong enough to throw off the English yoke altogether... I cannot part with the subject of India without some concluding remarks.

The profound hypocrisy and inherent barbarism of bourgeois civilization lies unveiled before our eyes, turning from its home, where it assumes respectable forms, to the colonies, where it goes naked. They are the defenders of property, but did any revolutionary party ever originate agrarian revolutions like those in Bengal, in Madras, and in Bombay? Did they not, in India, to borrow an expression of that great robber, Lord Clive himself, resort to atrocious extortion, when
simple corruption could not keep pace with their rapacity? While they parted in Europe about the inviolable sanctity of the national debt, did they not confiscate in India the dividends of the rayahs, who had invested their private savings in the Company’s own funds? While they combated the French revolution under the pretext of defending “our holy religion,” did they not forbid, at the same time, Christianity to be propagated in India, and did they not, in order to make money out of the pilgrims streaming to the temples of Orissa and Bengal, take up the trade in the murder and prostitution perpetrated in the temple of Juggernaut? These are the men of “Property, Order, Family, and Religion.”

The devastating effects of English industry, when contemplated with regard to India, a country as vast as Europe, and containing 150 millions of acres, are palpable and confounding. But we must not forget that they are only the organic results of the whole system of production as it is now constituted. That production rests on the supreme rule of capital. The centralization of capital is essential to the existence of capital as an independent power. The destructive influence of that centralization upon the markets of the world does but reveal, in the most gigantic dimensions, the inherent organic laws of political economy now at work in every civilized town. The bourgeois period of history has to create the material basis of the new world—on the one hand universal intercourse founded upon the mutual dependency of mankind, and the means of that intercourse; on the other hand the development of the productive powers of man and the transformation of material production into a scientific domination of natural agencies. Bourgeois industry and commerce create these material conditions of a new world in the same way as geological revolutions have created the surface of the earth. When a great social revolution shall have mastered the results of the bourgeois epoch, the market of the world and the modern powers of production, and subjected them to the common control of the most advanced peoples, then only will human progress cease to resemble that hideous, pagan idol, who would not drink the nectar but from the skulls of the slain.
The population of Ireland had, by 1841, grown to 8,222,664. In 1851 it had dwindled to 6,623,985; in 1861, to 5,850,309; and in 1866, to 5½ millions, approximately its level in 1801. The decrease in population began with the famine year of 1846, so that Ireland has lost more than 6/16 of its people in less than twenty years. Total emigration from May 1851 to July 1865 numbered 1,591,487. During the years between 1861 and 1865 the emigration was more than half a million. The number of inhabited houses fell, from 1851 to 1861, by 52,990. From 1851 to 1861 the number of holdings of from 15 to 30 acres increased by 61,000, that of holdings of over 30 acres by 109,000, while the total number of all farms fell by 120,000. This fall was therefore solely due to the suppression of farms of less than 15 acres, in other words it was due to their centralization.

England, a pre-eminently industrial country with fully developed capitalist production, would have bled to death under such a population drain as Ireland has suffered. But Ireland is at present merely an agricultural district of England which happens to be divided by a wide stretch of water from the country for which it provides corn, wool, cattle and industrial and military recruits.

The depopulation of Ireland has thrown much of the land out of cultivation, greatly diminished the produce of the soil, and in spite of the greater area devoted to cattle breeding, brought about an absolute decline in some of its branches, and in others an advance scarcely worth mentioning, and constantly interrupted by retrogressions. Nevertheless, the rents of the land and the profits of the farmers increased along with the fall in the population, though not so steadily as the latter. The reason for this will easily be understood. On the one hand, with the throwing together of smallholdings and the change from arable to pasture land, a larger part of the total product was transformed into a surplus product. The surplus product increased although there was a decrease in the total product of which the surplus product formed a fraction. On the other hand, the monetary value of this surplus product increased still more rapidly than its actual quantity,
owing to the rise in the price of meat, wool, etc. on the English market during the last twenty years, and especially during the last ten.

The scattered means of production that serve the producers themselves as means of employment and subsistence, without valorizing themselves through the incorporation of the labour of others, are no more capital than a product consumed by its producer is a commodity. If the mass of the means of production employed in agriculture diminished along with the mass of the population, the mass of the capital employed in agriculture increased, because a part of the means of production that were formerly scattered was turned into capital.

The total capital of Ireland outside agriculture, employed in industry and trade, accumulated only slowly during the last two decades, and with great and constantly recurring fluctuations. So much the more rapidly did the concentration of its individual constituents develop. And, however small its absolute increase, its relative growth in proportion to the diminishing population was tremendous.

Here then, under our own eyes, and on a large scale, there emerges a process which perfectly corresponds to the requirements of orthodox economies for the confirmation of its dogma, the dogma that misery springs from an absolute surplus of population, and that equilibrium is reestablished by depopulation. This is a far more important experiment than the mid-fourteenth-century plague so celebrated by the Malthusians. Let us remark in passing: if it required the naiveté of a schoolmaster to apply the standard of the fourteenth century to the relations of production prevailing in the nineteenth century, and the corresponding relations of population, the error was compounded by overlooking the difference between its consequences in England and in France. On this side of the Channel, the plague and the decimation that accompanied it was followed by the enfranchisement and enrichment of the agricultural population; whereas on the other side, in France, it was followed by a greater degree of enslavement and an increase in misery.

The Irish famine of 1846 killed more than 1,000,000 people, but it killed poor devils only. It did not do the slightest damage to the wealth of the country. The exodus of the next twenty years, an exodus which still continues to increase, did not, as for instance the Thirty Years’ War did, decimate the means of production along with the human beings. The Irish genius discovered an altogether new way of spiriting a poor people thousands of miles away from the scene of its misery. The exiles transplanted to the United States send sums of money home every year as travelling expenses for those left behind. Every troop that emigrates one year draws another after it the next. Thus, instead of costing Ireland anything, emigration forms one of the most lucrative branches of its export trade. Finally, it is a systematic process, which does not simply make a passing gap in the population, but sucks out of it every year more people
than are replaced by births, so that the absolute level of the population falls year by year.

What were the consequences for the Irish labourers left behind and freed from the surplus population? These: the relative surplus population is as great today as it was before 1846; wages are just as low; the oppression of the labourers has increased; misery is forcing the country towards a new crisis. The reasons are simple. The revolution in agriculture has kept pace with emigration. The production of a relative surplus population has more than kept pace with the absolute depopulation... In England the cultivation of green crops increases with the breeding of cattle; in Ireland, it decreases. While a large number of acres that were formerly tilled lie idle or are tamed permanently into grass land, a great part of the waste land and peat bogs that were formerly unused becomes of service for the extension of cattle-breeding... The one great industry of Ireland, the manufacture of linen, requires relatively few adult men, and only employs altogether, in spite of its expansion since the price of cotton increased in the years from 1861 to 1866, a comparatively insignificant portion of the population. Like all other large-scale industries, it constantly produces, owing to its incessant fluctuations, a relative surplus population within its own sphere, despite the absolute increase in the mass of human beings absorbed by it. The misery of the agricultural population forms the pedestal for gigantic shirt-factories, whose armies of workers are, for the most part, scattered over the country. Here we again encounter the system of ‘domestic industry’ already described, which possesses its own systematic means of rendering workers ‘redundant’ in the form of under-payment and over-work. Finally, although the depopulation does not have such destructive consequences as would result in a country where capitalist production is fully developed, it does not proceed without constantly reacting back onto the home market. The gap caused by emigration limits not only the local demand for labour, but also the incomes of small shop-keepers, artisans and tradesmen in general....

The first act of the agricultural revolution was to sweep away the huts situated at the place of work. This was done on the largest scale, and as if in obedience to a command from on high. Thus many labourers were compelled to seek shelter in villages and towns. There they were thrown like refuse into garrets, holes, cellars and corners, in the worst slum districts. Thousands of Irish families who, even on the testimony of the English, blinded as the latter are by nationalistic prejudices, are notable for their rare attachment to the domestic hearth, for the gaiety and the purity of their home life, suddenly found themselves transplanted into hot-beds of vice. The men are now obliged to seek work from the neighbouring farmers, and are only hired by the day, and therefore under the most precarious form of wage. Hence ‘they sometimes have long distances to go to and from
work, often get wet and suffer much hardship, not infrequently ending in sickness, disease and want.'

'The towns have had to receive from year to year what was deemed to be the surplus-labour of the rural division' and then people still wonder that 'there is still a surplus of labour in the towns and villages, and either a scarcity or, a threatened scarcity in some of the country divisions.' The truth is that this scarcity only becomes perceptible 'in harvest-time, or during spring, or at such times as agricultural operations are carried on with activity; at other periods of the year many hands are idle'; that 'from the digging out of the main crop of potatoes in October until the early spring following...there is no employment for them'; and further, that during the active times they 'are subject to broken days and to all kinds of interruptions.' These results of the agricultural revolution—i.e. the change of arable into pasture land, the use of machinery, the most rigorous economy of labour, etc.—are still further aggravated by the model landlords, who, instead of spending their rents in other countries, condescend to live in Ireland on their demesnes. In order that the law of supply and demand may not be infringed, these gentlemen draw their 'labour-supply...chiefly from their small tenants, who are obliged to attend when required to do the landlords' work, at rates of wages, in many instances, considerably under the current rates paid to ordinary labourers, and without regard to the inconvenience or loss to the tenant of being abused to neglect his own business at critical periods of sowing or reaping'.

The uncertainty and irregularity of employment, the constant return and long duration of gluts of labour, are all symptoms of a relative surplus population, and they therefore figure in the reports of the Poor Law inspectors as so many hardships suffered by the Irish agricultural proletariat. It will be recalled that we met with similar phenomena among the English agricultural proletariat. But the difference is that in England, an industrial country, the industrial reserve is recruited from the countryside, whereas in Ireland, an agricultural country, the agricultural reserve is recruited from the towns, the places of refuge of the agricultural labourers who have been driven from the land. In England, the surplus rural labourers are transformed into factory workers; in Ireland, those forced into the towns remain agricultural labourers even while they exert a downward pressure on urban wages, and are constantly sent back to the countryside in search of work.

The official inspectors sum up the material condition of the agricultural labourer as follows: 'Though living with the strictest frugality, his own wages are barely sufficient to provide food for an ordinary family and pay his rent, and he depends upon other sources for the means of clothing himself, his wife, and his children...The atmosphere of these cabins, combined with the other privations they are subjected to, has made this class particularly susceptible to typhus and consumption.' In view of this, it is no wonder that, according to the unanimous
testimony of the inspectors, a sombre discontent runs through the ranks of this class, that they long for the return of the past, loathe the present, despair of the future, give themselves up ‘to the evil influence of agitators’, and have only one fixed idea, to emigrate to America. This is the land of Cockaigne, into which depopulation, the great Malthusian panacea, has transformed green Erin!

…the lion’s share of the yearly national rental which an inconceivably small number of land magnates in England, Scotland and Ireland swallow up is so monstrous that English statesmanship finds it inappropriate to afford the same statistical materials about the distribution of rents as about the distribution of profits. Lord Dufferin is one of those land magnates. That rent-falls and profits can ever be ‘excessive’, or that the plethora of rent-rolls and profits is in any way connected with the plethora of popular miseries, is, of course, an idea as ‘disreputable’ as it is ‘unsound’. Dufferin keeps to the facts. The fact is that, as the Irish population diminishes, the Irish rent-rolls swell; that depopulation benefits the landlords, thus also benefits the soil and therefore the people, that mere accessory of the soil. He declares, therefore, that Ireland is still over-populated, and the stream of emigration still flows too sluggishly. To be perfectly happy, Ireland must get rid of at least one-third of a million working men. Let no one imagine that this lord, who is also a poet, is a physician of the school of Sangrado, who, if he failed to find an improvement in the condition of his patient, ordered blood-letting after blood-letting, until the patient lost his sickness when he had lost his blood. Lord Dufferin demands a new blood-letting of one third of a million only, instead of about two millions; but in fact, unless these two millions are got rid of, the millennium cannot come to pass in Erin….

…And, as appetite grows with eating, Rent Roll’s eyes will soon discover that Ireland with 3 ½ millions, still continues to be miserable, miserable because she is overpopulated. Therefore her depopulation must go still further, in order that she may fulfill her true destiny, to be an English sheep-walk and cattle pasture.

Like all good things in the world, this profitable mode of proceeding has its drawbacks. The accumulation of the Irish in America keeps pace with the accumulation of rents in Ireland. The Irishman banished by the sheep and the ox re-appears on the other side of the ocean as a Fenian. And there a young but gigantic republic rises, more and more threateningly, to face the old queen of the waves….
Under the old capitalism, when free competition prevailed, the export of goods was the most typical feature. Under modern capitalism, when monopolies prevail, the export of capital has become the typical feature.

Capitalism is commodity production at the highest stage of development, when labour power itself becomes a commodity. The growth of internal exchange, and particularly of international exchange, is the characteristic distinguishing feature of capitalism. The uneven and spasmodic character of the development of individual enterprises, of individual branches of industry and individual countries, is inevitable under the capitalist system. England became a capitalist country before any other, and in the middle of the nineteenth century, having adopted free trade, claimed to be the “workshop of the world,” the great purveyor of manufactured goods to all countries, which in exchange were to keep her supplied with raw materials. But in the last quarter of the nineteenth century, this monopoly was already undermined. Other countries, protecting themselves by tariff walls, had developed into independent capitalist states. On the threshold of the twentieth century, we see a new type of monopoly coming into existence. Firstly, there are monopolist capitalist combines in all advanced capitalist countries; secondly, a few rich countries, in which the accumulation of capital reaches gigantic proportions, occupy a monopolist position. An enormous “superabundance of capital” has accumulated in the advanced countries.

It goes without saying that if capitalism could develop agriculture, which today lags far behind industry everywhere, if it could raise the standard of living of the masses, who are everywhere still poverty-stricken and underfed, in spite of the amazing advance in technical knowledge, there could be no talk of a superabundance of capital. This “argument” the petty-bourgeois critics of capitalism advance on every occasion. But if capitalism did these things it could not be capitalism; for uneven development and wretched conditions of the masses are fundamental and inevitable conditions and premises of this mode of production. As long as capitalism remains what it is, surplus capital will never be utilised for the purpose of raising the standard of living of the masses in a given country, for this would mean a decline in profits for the capitalist; it will be used for the purpose of increasing those profits by exporting capital abroad to the backward countries. In these backward countries profits are usually high, for capital is scarce, the price of land is relatively low, wages are low, raw materials are cheap. The
possibility of exporting capital is created by the fact that numerous backward countries have been drawn into international capitalist intercourse; main railways have either been built or are being built there; the elementary conditions for industrial development have been created, etc. The necessity for exporting capital arises from the fact that in a few countries capitalism has become “over-ripe” and (owing to the backward state of agriculture and the impoverished state of the masses) capital cannot find “profitable” investment.

The export of capital greatly affects and accelerates the development of capitalism in those countries to which it is exported. While, therefore, the export of capital may tend to a certain extent to arrest development in the countries exporting capital, it can only do so by expanding and deepening the further development of capitalism throughout the world.

The countries which export capital are nearly always able to obtain “advantages,” the character of which throws light on the peculiarities of the epoch of finance capital and monopoly.

Finance capital has created the epoch of monopolies, and monopolies introduce everywhere monopolist methods: the utilisation of “connections” for profitable transactions takes the place of competition on the open market. The most usual thing is to stipulate that part of the loan that is granted shall be spent on purchases in the country of issue, particularly on orders for war materials, or for ships, etc. In the course of the last two decades (1890-1910), France often resorted to this method. The export of capital abroad thus becomes a means for encouraging the export of commodities. In these circumstances transactions between particularly big firms assume a form “bordering on corruption,” as Schilder “delicately” puts it. Krupp in Germany, Schneider in France, Armstrong in England are instances of firms which have close connections with powerful banks and governments and cannot be “ignored” when arranging a loan.

Thus, finance capital, almost literally, one might say, spreads its net over all countries of the world. Banks founded in the colonies or their branches, play an important part in these operations. German imperialists look with envy on the “old” colonising nations which are “well established” in this respect. In 1904, Great Britain had 50 colonial banks with 2,279 branches (in 1910 there were 72 banks with 5,449 branches); France had 20 with 136 branches; Holland 16 with 68 branches; and Germany had a “mere” 13 with 70 branches. The American capitalists, in their turn, are jealous of the English and German: “In South America,” they complained in 1915, “five German banks have forty branches and five English banks have seventy branches… England and Germany have invested in Argentina, Brazil, and Uruguay in the last twenty-five years approximately four thousand million dollars, and as a result enjoy together 46 per cent of the total trade of these three countries.”

The capital exporting countries have divided the world among themselves in the figurative sense of the term. But finance capital has also led to the actual division of the world.
We must now try to sum up and put together what has been said above on the subject of imperialism. Imperialism emerged as the development and direct continuation of the fundamental attributes of capitalism in general. But capitalism only became capitalist imperialism at a definite and very high stage of its development when certain of its fundamental attributes began to be transformed into their opposites, when the features of a period of transition from capitalism to a higher social and economic system began to take shape and reveal themselves all along the line. Economically, the main thing in this process is the substitution of capitalist monopolies for capitalist free competition. Free competition is the fundamental attribute of capitalism, and of commodity production generally. Monopoly is exactly the opposite of free competition; but we have seen the latter being transformed into monopoly before our very eyes, creating large-scale industry and eliminating small industry, replacing large-scale industry by still larger-scale industry, finally leading to such a concentration of production and capital that monopoly has been and is the result: cartels, syndicates and trusts, and merging with them, the capital of a dozen or so banks manipulating thousands of millions. At the same time monopoly, which has grown out of free competition, does not abolish the latter, but exists over it and alongside of it, and thereby gives rise to a number of very acute, intense antagonisms, friction and conflicts. Monopoly is the transition from capitalism to a higher system.

If it were necessary to give the briefest possible definition of imperialism we should have to say that imperialism is the monopoly stage of capitalism. Such a definition would include what is most important, for, on the one hand, finance capital is the bank capital of a few big monopolist banks, merged with the capital of the monopolist combines of manufacturers; and, on the other hand, the division of the world is the transition from a colonial policy which has extended without hindrance to territories unoccupied by any capitalist power, to a colonial policy of monopolistic possession of the territory of the world which has been completely divided up.

But very brief definitions, although convenient, for they sum up the main points, are nevertheless inadequate, because very important features of the phenomenon that has to be defined have to be especially deduced. And so, without forgetting the conditional and relative value of all definitions, which can never include all the concatenations of a phenomenon in its complete development,
we must give a definition of imperialism that will embrace the following five essential features:

1 ) The concentration of production and capital developed to such a high stage that it created monopolies which play a decisive role in economic life.
2 ) The merging of bank capital with industrial capital, and the creation, on the basis of this “finance capital,” of a “financial oligarchy.”
3 ) The export of capital, which has become extremely important, as distinguished from the export of commodities.
4 ) The formation of international capitalist monopolies which share the world among themselves.
5 ) The territorial division of the whole world among the greatest capitalist powers is completed.

Imperialism is capitalism in that stage of development in which the dominance of monopolies and finance capital has established itself; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun; in which the division of all territories of the globe among the great capitalist powers has been completed.

In this matter of defining imperialism, however, we have to enter into controversy, primarily, with K. Kautsky, the principal Marxian theoretician of the epoch of the so-called Second International—that is, of the twenty-five years between 1889 and 1914. Kautsky, in 1915 and even in November 1914, very emphatically attacked the fundamental ideas expressed in our definition of imperialism. Kautsky said that imperialism must not be regarded as a “phase” or stage of economy, but as a policy; a definite policy “preferred” by finance capital; that imperialism cannot be “identified” with “contemporary capitalism”; that if imperialism is to be understood to mean “all the phenomena of contemporary capitalism”—cartels, protection, the domination of the financiers and colonial policy—then the question as to whether imperialism is necessary to capitalism becomes reduced to the “flattest tautology”; because, in that case, “imperialism is naturally a vital necessity for capitalism,” and so on. The best way to present Kautsky’s ideas is to quote his own definition of imperialism, which is diametrically opposed to the substance of the ideas which we have set forth . . . .

Kautsky’s definition is as follows:

Imperialism is a product of highly developed industrial capitalism. It consists in the striving of every industrial capitalist nation to bring under its control and to annex increasingly big agrarian (Kautsky’s italics) regions irrespective of what nation inhabit those regions.
This definition is utterly worthless because it one-sidedly, i.e., arbitrarily, brings out the national question alone (although this is extremely important in itself as well as in its relation to imperialism), it arbitrarily and inaccurately relates this question only to industrial capital in the countries which annex other nations, and in an equally arbitrary and inaccurate manner brings out the annexation of agrarian regions.

Imperialism is a striving for annexations—this is what the political part of Kautsky’s definition amounts to. It is correct, but very incomplete, for politically, imperialism is, in general, a striving towards violence and reaction. For the moment, however, we are interested in the economic aspect of the question, which Kautsky himself introduced into his definition. The inaccuracy of Kautsky’s definition is strikingly obvious. The characteristic feature of imperialism is not industrial capital, but finance capital. It is not an accident that in France it was precisely the extraordinarily rapid development of finance capital, and the weakening of industrial capital, that, from 1880 onwards, gave rise to the extreme extension of annexationist (colonial) policy. The characteristic feature of imperialism is precisely that it strives to annex not only agricultural regions, but even highly industrialised regions (German appetite for Belgium; French appetite for Lorraine), because 1) the fact that the world is already divided up obliges those contemplating a new division to reach out for any kind of territory, and 2) because an essential feature of imperialism is the rivalry between a number of great powers in the striving for hegemony, i.e., for the conquest of territory, not so much directly for themselves as to weaken the adversary and undermine his hegemony. (Belgium is chiefly necessary to Germany as a base for operations against England; England needs Bagdad as a base for operations against Germany, etc.)

Kautsky refers especially—and repeatedly—to English writers who, he alleges, have given a purely political meaning to the word “imperialism” in the sense that Kautsky understands it. We take up the work by the Englishman Hobson, Imperialism, which appeared in 1902, and therein we read:

The new imperialism differs from the older, first, in substituting for the ambition of a single growing empire the theory and the practice of competing empires, each motivated by similar lusts of political aggrandisement and commercial gain; secondly, in the dominance of financial or investing over mercantile interests.

We see, therefore, that Kautsky is absolutely wrong in referring to English writers generally (unless he meant the vulgar English imperialist writers, or the avowed apologists for imperialism). We see that Kautsky, while claiming that he continues to defend Marxism, as a matter of fact takes a step backward compared with the social-liberal Hobson, who more correctly takes into account two “historically
concrete” (Kautsky’s definition is a mockery of historical concreteness) features of modern imperialism: 1) the competition between several imperialisms, and 2) the predominance of the financier over the merchant. If it were chiefly a question of the annexation of agrarian countries by industrial countries, the role of the merchant would be predominant. Kautsky’s definition is not only wrong and un-Marxian. It serves as a basis for a whole system of views which run counter to Marxian theory and Marxian practice all along the line. We shall refer to this again later. The argument about words which Kautsky raises as to whether the modern stage of capitalism should be called “imperialism” or “the stage of finance capital” is of no importance. Call it what you will, it matters little. The fact of the matter is that Kautsky detaches the politics of imperialism from its economics, speaks of annexations as being a policy “preferred” by finance capital, and opposes to it another bourgeois policy which, he alleges, is possible on this very basis of finance capital. According to his argument, monopolies in economics are compatible with non-monopolistic, non-violent, non-annexationist methods in politics. According to his argument, the territorial division of the world, which was completed precisely during the period of finance capital, and which constitutes the basis of the present peculiar forms of rivalry between the biggest capitalist states, is compatible with a non-imperialist policy. The result is a slurring-over and a blunting of the most profound contradictions of the latest stage of capitalism, instead of an exposure of their depth; the result is bourgeois reformism instead of Marxism.

Kautsky writes: “from the purely economic point of view it is not impossible that capitalism will yet go through a new phase: that of the extension of the policy of the cartels to foreign policy, the phase of ultra-imperialism,” i.e., of a super-imperialism, a union of world imperialisms and not struggles among imperialisms: a phase when wars shall cease under capitalism, a phase of “the joint exploitation of the world by internationally combined finance capital.”

We shall have to deal with this “theory of ultra-imperialism” later on in order to show in detail how definitely and utterly it departs from Marxism. In keeping with the plan of the present work, we shall examine the exact economic data on this question. Is “ultra-imperialism” possible “from the purely economic point of view” or is it ultra-nonsense?

If, by purely economic point of view a “pure” abstraction is meant, then all that can be said reduces itself to the following proposition: evolution is proceeding towards monopoly; therefore the trend is towards a single world monopoly, to a universal trust. This is indisputable, but it is also as completely meaningless as is the statement that “evolution is proceeding” towards the manufacture of foodstuffs in laboratories. In this sense the “theory” of ultra-imperialism is no less absurd than a “theory of ultra-agriculture” would be.
If, on the other hand, we are discussing the “purely economic” conditions of the epoch of finance capital as an historically concrete epoch which opened at the beginning of the twentieth century, then the best reply that one can make to the lifeless abstractions of “ultra-imperialism”...is to contrast them with the concrete economic realities of present-day world economy. Kautsky’s utterly meaningless talk about ultra-imperialism encourages, among other things, that profoundly mistaken idea which only brings grist to the mill of the apologists of imperialism, viz., that the rule of finance capital lessens the unevenness and contradictions inherent in world economy, whereas in reality it increases them.

R. Calwer, in his little book, An Introduction to World Economics, attempted to compile the main, purely economic, data required to understand in a concrete way the internal relations of world economy at the end of the nineteenth and beginning of the twentieth centuries. He divides the world into five “main economic area,” as follows: 1) Central Europe (the whole of Europe with the exception of Russia and Great Britain); 2) Great Britain; 3) Russia; 4) Eastern Asia; 5) America; he includes the colonies in the “areas” of the state to which they belong and “leaves out” a few countries not distributed according to areas, such as Persia, Afghanistan and Arabia in Asia; Morocco and Abyssinia in Africa, etc.

We notice three areas of highly developed capitalism with a high development of means of transport, of trade and of industry, the Central European, the British and the American areas. Among these are three states which dominate the world: Germany, Great Britain, the United States. Imperialist rivalry and the struggle between these countries have become very keen because Germany has only a restricted area and few colonies (the creation of “Central Europe” is still a matter for the future; it is being born in the midst of desperate struggles). For the moment the distinctive feature of Europe is political disintegration. In the British and American areas, on the other hand, political concentration is very highly developed, but there is a tremendous disparity between the immense colonies of the one and the insignificant colonies of the other. In the colonies, capitalism is only beginning to develop. The struggle for South America is becoming more and more acute.

There are two areas where capitalism is not strongly developed: Russia and Eastern Asia. In the former, the density of population is very low, in the latter it is very high; in the former political concentration is very high, in the latter it does not exist. The partition of China is only beginning, and the struggle between Japan, U.S.A., etc., in connection therewith is continually gaining in intensity.

Compare this reality, the vast diversity of economic and political conditions, the extreme disparity in the rate of development of the various countries, etc., and the violent struggles of the imperialist states, with Kautsky’s silly little fable about “peaceful” ultra-imperialism. Is this not the reactionary attempt of a
frightened philistine to hide from stern reality? Are not the international cartels which Kautsky imagines are the embryos of “ultra-imperialism” ... an example of the division and the redivision of the world, the transition from peaceful division to non-peaceful division and vice versa? Is not American and other finance capital, which divided the whole world peacefully, with Germany’s participation, for example, in the international rail syndicate, or in the international mercantile shipping trust, now engaged in redividing the world on the basis of a new relation of forces, which has been changed by methods by no means peaceful?

Finance capital and the trusts are increasing instead of diminishing the differences in the rate of development of the various parts of world economy. When the relation of forces is changed, how else, under capitalism, can the solution of contradictions be found, except by resorting to violence? Railway statistics provide remarkably exact data on the different rates of development of capitalism and finance capital in world economy....

....[T]he development of railways has been more rapid in the colonies and in the independent (and semi-dependent) states of Asia and America. Here, as we know, the finance capital of the four or five biggest capitalist states reigns undisputed. Two hundred thousand kilometers of new railways in the colonies and in the other countries of Asia and America represent more than 40,000,000,000 marks in capital, newly invested on particularly advantageous terms, with special guarantees of a good return and with profitable orders for steel works, etc., etc.

Capitalism is growing with the greatest rapidity in the colonies and in overseas countries. Among the latter, new imperialist powers are emerging (e.g., Japan). The struggle of world imperialism is becoming more acute. The tribute levied by finance capital on the most profitable colonial and overseas enterprises is increasing. In sharing out this “booty,” an exceptionally large part goes to countries which, as far as the development of productive forces is concerned, do not always stand at the top of the list....

....[A]bout 80 per cent of the total existing railways are concentrated in the hands of the five Great Powers. But the concentration of the ownership of these railways, of finance capital is much greater still: French and English millionaires, for example, own an enormous amount of stocks and bonds in American, Russian and other railways.

Thanks to her colonies, Great Britain has increased the length of “her” railways by 100,000 kilometers, four times as much as Germany. And yet, it is well known that the development of productive forces in Germany, and especially the development of the coal and iron industries, has been much more rapid during this period than in England—not to mention France and Russia. In 1892, Germany produced 4,900,000 tons of pig iron and Great Britain produced 6,800,000 tons; in 1912, Germany produced 17,600,000 tons and Great Britain
9,000,000 tons. Germany, therefore, had an overwhelming superiority over
England in this respect. We ask, is there under capitalism any means of removing
the disparity between the development of productive forces and the accumu-
lation of capital on the one side, and the division of colonies and “spheres of
influence” for finance capital on the other side—other than by resorting to war?
Ultra-Imperialism

Karl Kautsky

We have seen that the undisturbed advance of the process of production presupposes that the different branches of production all produce in the correct proportion. Yet it is also evident that within the capitalist mode of production there is a constant drive towards the violation of this proportion, because within a specific zone the capitalist mode of production tends to develop much more quickly in the industrial than in the agricultural sector. On the one hand, this is an important reason for the periodic crises which constantly grip the industrial sector, and which thereby restore the correct proportion between the different branches of production. On the other hand, the growing ability of capitalist industry to expand constantly increases the pressure to extend the agricultural zone that provides industry not only with foodstuffs and raw materials, but also with customers. Since the importance of the agrarian zones to industry is a dual one, the disproportion between industry and agriculture may also be expressed in two ways. Firstly, the outlets for industrial products in the agrarian zones may not grow so fast as industrial production; this appears as overproduction. Secondly, agriculture may not provide the quantities of foodstuffs and raw materials needed for the rapid growth of industrial production; this takes the form of dearth. These two phenomena may seem mutually exclusive, but in fact they are closely inter-related insofar as they derive from the disproportion between industrial and agricultural production, and not from other causes such as fluctuations in gold output or changes in the power situation of producers vis-à-vis consumers through cartels, commercial policies or fiscal policies. One of the two phenomena, dearth or overproduction, may easily pass over into the other, because they both derive from the disproportion in question. An increase in prices always foreshadows the beginning of a crisis, although this emerges as overproduction and brings with it a price collapse.

On the other hand, the constant drive of the industrialized capitalist countries to extend the agricultural zones involved in trade relations with them, takes the most varied forms. Given that this drive is one of the very conditions of the

existence of capitalism, it is still far from proven that any one of these forms is an indispensable necessity for the capitalist mode of production.

From Free Trade to Imperialism

One particular form of this tendency is imperialism. Another form preceded it: free trade. Half a century ago, free trade was seen as the last word of capitalism, just as imperialism is today. Free trade came to dominate because of the superiority of England’s capitalist industry. Great Britain’s aim was that she should become the workshop of the world, and hence that the world should become an agrarian zone which would buy England’s industrial products and provide her with foodstuffs and raw materials in exchange. Free trade was the most important means whereby this agricultural zone could be expanded continuously in accordance with the needs of English industry, and all sides were supposed to profit therefrom. In fact, the landowners of the countries which exported their products to England were as inveterate free traders as England’s industrialists.

But this sweet dream of international harmony quickly came to an end. As a rule, industrial zones overmaster and dominate agrarian zones. This was true earlier of the city vis-à-vis the countryside, and it is now true of the industrial State vis-à-vis an agrarian State. A State which remains agrarian decays politically and usually economically, too, and loses its autonomy in both respects. Hence efforts to maintain or win national independence or autonomy necessarily generate within the overall cycle of international capitalist circulation the struggle for an autonomous heavy industry, which must under present conditions be a capitalist one. The development of outlets for foreign industrial products in the agrarian State itself creates a series of preconditions for this. It destroys the internal pre-capitalist industry, thereby releasing a large quantity of labour power which is at the disposal of capital as wage labour. These workers emigrate to other States with growing industry if they can find no employment in their home country, but would prefer to remain at home if the construction of a capitalist industry allowed them to. Foreign capital itself flows into the agrarian country, first to open it by building railways, and then in order to develop its raw-materials production, which includes not only agriculture, but also extractive industries—mining. The possibility of adding other capitalist enterprises to these grows. It then depends primarily on the political power of the State whether an autonomous capitalist industry develops.

At first it was the areas of Western Europe and the Eastern USA which developed from agrarian States into industrial States, in opposition to English industry. They imposed protective tariffs against English free trade; and instead of the world division of labour between the English industrial workshop and the agricultural production of all other zones which was England’s aim, they proposed
that the great industrial States divide those zones of the world that still remained free, as long as the latter could not resist them. England reacted to this. This was the beginning of imperialism.

Imperialism was particularly encouraged by the system of capital export to the agrarian zones which emerged at the same time. The growth of industry in the capitalist States today is so fast that a sufficient expansion of the market can no longer be achieved by the methods that had been employed up to the 1870’s. Till then, the primitive means of transport which existed in the agrarian zones sufficed, particularly the waterways which had hitherto been the only possible form of large-scale transport of foodstuffs and raw materials. For railways had been constructed almost exclusively in highly industrialized and heavily populated zones. Now, however, they became the way to open up thinly populated agrarian zones, making it possible to take their products to the market, but also to increase their population and production.

But these zones did not possess the means to plan railways themselves. The capital necessary for this and the directing labour force were provided by the industrial nations. They advanced the capital, thereby raising their exports of railway materials and increasing the ability of the newly opened areas to buy the industrial products of the capitalist nations with foodstuffs and raw materials. Thus the material interchange between agriculture and industry greatly increased.

But if a railway in the wilderness is to be a profitable business, if it is even to be possible, if it is to obtain the labour power necessary for its construction and the security necessary for its operational demands, there must be a State authority strong and ruthless enough to defend the interests of the foreign capitalists and even to yield blindly to their interests. Naturally, this is best supplied by the State power of these capitalists themselves. The same is true of bids for the possibility of mining richer ores or raising the production of commercial crops such as cotton by the construction of vast irrigation works—undertakings which are also made possible only by the export of capital from the capitalist countries. Hence as the drive for increasing capital export from the industrial States to the agrarian zones of the world grows, so too does the tendency to subjugate these zones under their State power. In an agrarian State with the strength to protect its autonomy, the capital it imports will be used not only for the construction of railways, but also for the development of its own industries—as in the USA or Russia. In such circumstances capital exports from the old capitalist States only further the latter’s own industrial exports temporarily. Ultimately they cripple them, simply by fostering strong economic competition in the agrarian zone. The desire to hinder this is another motive for the capitalist states to subject the agrarian zones, directly—as colonies—or indirectly—as spheres of influence, in order to prevent them from
developing their own industry and to force them to restrict themselves entirely to agricultural production.

The Colonial Danger and the Arms Burden

These are the principal roots of imperialism, which has replaced free trade. Does it represent the last possible phenomenal form of capitalist world policy, or is another still possible? In other words, does imperialism offer the only remaining possible form in which to expand the exchange between industry and agriculture within capitalism? This is the basic question.

There can be no doubt that the construction of railways, the exploitation of mines, the increased production of raw materials and foodstuffs in the agrarian countries has become a life-necessity for capitalism. The capitalist class is as little likely to commit suicide as to renounce it, and the same is true of all the bourgeois parties. Rule over the agrarian zones and the reduction of their populations to slaves with no rights is too closely bound up with this tendency for any of the bourgeois parties to sincerely oppose these things. The subjugation of these zones will only come to an end when either their populations or the proletariat of the industrialized capitalist countries have grown strong enough to throw off the capitalist yoke. This side of imperialism can only be overcome by socialism.

But imperialism has another side. The tendency towards the occupation and subjugation of the agrarian zones has produced sharp contradictions between the industrialized capitalist States, with the result that the arms race which was previously only a race for land armaments has now also become naval arms race, and that the long prophesied World War has now become a fact. Is this side of imperialism, too, a necessity for the continued existence of capitalism, one that can only be overcome with capitalism itself?

There is no economic necessity for continuing the arms race after the World War, even from the standpoint of the capitalist class itself, with the exception of at most certain armaments interests. On the contrary, the capitalist economy is seriously threatened precisely by the contradictions between its States. Every far-sighted capitalist today must call on his fellows: capitalists of all countries, unite! For, first of all, there is the growing opposition of the more developed of the agrarian zones, which threatens not just one or other of the imperialist States, but all of them together. This is true of the awakening of Eastern Asia and India as well as of the Pan-Islamic movement in the Near East and North Africa...
The Next Phase: Ultra-Imperialism

What Marx said of capitalism can also be applied to imperialism: monopoly creates competition and competition monopoly. The frantic competition of giant firms, giant banks and multi-millionaires obliged the great financial groups, who were absorbing the small ones, to think up the notion of the cartel. In the same way, the result of the World War between the great imperialist powers may be a federation of the strongest, who renounce their arms race.

Hence from the purely economic standpoint it is not impossible that capitalism may still live through another phase, the translation of cartelization into foreign policy: a phase of ultra-imperialism, which of course we must struggle against as energetically as we do against imperialism, but whose perils lie in another direction, not in that of the arms race and the threat to world peace.

Of course, this policy could only have such unexpected and vast consequences because of the contradictions and discord which imperialism has created between the other Great Powers. All the consequences ripening in the womb of the present World War have not yet seen the light. Its outcome may still be that the imperialist tendencies and the arms race accelerate at first—in which case, the subsequent peace will be no more than a short armistice. From the purely economic standpoint, however, there is nothing further to prevent this violent explosion finally replacing imperialism by a holy alliance of the imperialists. The longer the War lasts, the more it exhausts all the participants and makes them recoil from an early repetition of armed conflict, the nearer we come to this last solution, however unlikely it may seem at the moment.
The marginal revolution of the 1870s within liberal political economy played a decisive role in splitting the discipline in half. For the next century, liberal international economics and liberal international relations went their separate ways. Economists mostly abandoned analyses of states and power in favor of abstract microeconomic theory. Many liberals in IR maintained the intellectual connections of the classical liberal tradition between free markets, economic integration, and peace. However, the experiences of the World Wars severely damaged their theoretical credibility. Realists such as E. H. Carr and Hans Morgenthau leveled vigorous attacks upon what they saw as liberal rationalism, economism, and moralism, especially in contributing to the outbreak of WWII. This led to the marginalization of liberalism within IR and deepened the divide between international economics and international relations. Only with the rise of the interdependence theorists of the 1960s and 1970s did liberals return explicitly to theorizing the international political economy. Scholars from both sides of the disciplinary divide saw the first waves of globalization beginning to erode the postwar Keynesian system. In their capacities as social scientists, they sought to understand these changes, particularly those undermining the economic policy autonomy of states. In their capacities as public intellectuals and policy advisors, they sought to maintain the patterns of international cooperation and exchange that formed the foundation of the liberal international order.

Robert O. Keohane (b. 1941) stands as the leading figure in the reconstitution of liberal IPE. Along with Joseph S. Nye, Jr., he coauthored the definitive statement of interdependence theory in 1977, *Power and Interdependence*. According to Keohane and Nye, “complex interdependence” is the condition of the international political economy characterized by diverse social connections between and across states, an array of relatively autonomous issue areas, and the decline of the centrality and efficacy of military force. In such a world, the question of international order is a significant one. Governance of this complex and anarchic realm is accomplished through what Keohane and Nye call “international regimes,” and they place such networks of rules, norms and decision-making procedures at the
very heart of their analysis. The work of economic historian Charles Kindleberger offered an influential avenue for theorizing the creation and maintenance of these regimes. Kindleberger claimed it was essential that a single hegemonic state—“one stabilizer”—provide the public good of an open liberal international economy. A burgeoning literature on “hegemonic stability” quickly rose across multiple traditions in IPE to debate the nature of hegemony, its functions, and whether economic openness could survive the diminution of American power and authority.

This is necessary background for situating Koehane’s influential After Hegemony. The task of the book is to theorize cooperation between states around common political-economic interests yet without a hegemon to organize them. As in Power and Interdependence, Keohane’s primary foil is IR realism’s claim that international cooperation is both highly unlikely and, when on rare occasion accomplished, merely a function of the international balance of power. In rejecting realist conclusions, Keohane crafts a theory of IPE with numerous similarities to the neorealism of Kenneth Waltz. Keohane’s international political economy is one dominated by states. He presents a structural theory in which actors’ interests are assumed. His agents are egoistic and rationalistic. He derives significant inspiration from liberal microeconomic theory on market failure. Most importantly, Keohane explains international cooperation in the absence of a hegemon as a function of international regimes providing low-cost, high-content information to members that enables cooperation in the presence of shared mutual interests. In many ways one can read After Hegemony as a notable retreat from the innovations of Power and Interdependence. At the same time, the animating spirit of Keohane’s later work is eminently liberal: how can the problem of cooperation be solved and mutual gains realized in the international political economy without resort to the use of force? In the wake of the Great Depression and the rise of Keynesian economic theory, the classical liberal answer of self-regulating free markets was no longer plausible. Keohane’s effort to show how international regimes overcome the barriers to cooperation and enable the realization of common interests is thus a significant contribution to liberal IPE.

Andrew Moravcsik (b. 1957) enters the conversation as a critic of not only IR realism but also of Keohane’s contribution to liberal IPE. For Moravcsik, regime analysis in the mold of After Hegemony takes on so many of the core assumptions of IR realism that it should not be considered liberal at all. Instead of focusing on information and institutions, Moravcsik orients liberal theory around the concept of state preferences, “the fundamental social purposes underlying the strategic calculations of governments.” In this way he rejects a structural approach that treats agents’ interests as deductive assumptions read off their relative position within the structure. Instead, he speaks of states having “variations in ends” generated from their own domestic political processes although limited by the strictures of international interdependence. Moravcsik thus recenters analysis
on the point where classic liberals first placed it, individuals and their groups. This is an important methodological shift toward making liberalism a much more social theory of the international political economy. In fact, Moravcsik says that one need not even call his theory “liberal” but may prefer to understand it as a “societal” or “state-society” theory.

Moravcsik emphatically seeks to recapture the broad history of liberal social theory for contemporary liberal IPE. Toward this end, he identifies and synthesizes three distinct strands of thought within the tradition: ideational liberalism, commercial liberalism, and republican liberalism. In each variant, social preferences and their impact on states are conceived differently. For ideational liberalism, preferences express collective social identities and visions of legitimate social order, such as the definition of the nation or support for Keynesian welfare capitalism. Commercial liberalism hews closely to classical liberal IPE, emphasizing preferences around the material consequences of international economic exchange and integration, such as support for free trade or protectionism. Republican liberalism is concerned with the manner in which state institutions aggregate and express preferences, providing better or worse access for some groups as opposed to others. By uniting these different liberal traditions under a single theoretical structure focused on preferences, Moravcsik hopes to construct a theory superior to all others.

Moravcsik claims he offers a broad theory of the international system that is “nonideological and nonutopian.” Yet despite trying to divorce liberalism from its traditional normative interests, one can still see liberal ideology (in Gilpin’s sense) at work in his theorizing. In Moravcsik’s liberalism, rational and risk-averse individuals are the starting point of analysis. Free trade is the general interest and trade restrictions are a manifestation of rent-seeking and a “rejection of aggregate gains.” The expansion of global markets is the material context for the advance of democratic self-government and continuing economic integration. Moravcsik’s theory is both a contribution to contemporary liberal IPE as well as to the classical liberal project.
After Hegemony: Cooperation and Discord in the World Political Economy

Robert O. Keohane

International cooperation among the advanced industrialized countries since the end of World War II has probably been more extensive than international cooperation among major states during any period of comparable length in history. Certainly the extent and complexity of efforts to coordinate state economic policies have been greater than they were between the two world wars, or in the century before 1914. Yet cooperation remains scarce relative to discord because the rapid growth of international economic interdependence since 1945, and the increasing involvement of governments in the operation of modern capitalist economies, have created more points of potential friction. Interdependence can transmit bad influences as well as good ones: unemployment or inflation can be exported as well as growth and prosperity.

Interdependence leads democratic governments to expand state activity in order to protect their citizens from fluctuations in the world economy. When this state activity takes the form of seeking to force the costs of adjustment onto foreigners, international discord results. Thus even a rising absolute level of cooperation may be overwhelmed by discord, as increased interdependence and governmental intervention create more opportunities for policy conflict.

The theory that I develop takes the existence of mutual interests as given and examines the conditions under which they will lead to cooperation. I begin with the premise that even where common interests exist, cooperation often fails. My purpose is to diagnose the reasons for such failure, and for the occasional successes, in the hope of improving our ability to prescribe remedies.

Because I begin with acknowledged common interests, my study focuses on relations among the advanced market-economy countries, where such interests are manifold. These countries hold views about the proper operation of their economies that are relatively similar—at least in comparison with the differences that exist between them and less developed countries, or the nonmarket planned economies. They are engaged in extensive relationships of interdependence with

one another; in general, their governments’ policies reflect the belief that they benefit from these ties. Furthermore, they are on friendly political terms; thus political-military conflicts between them complicate the politics of economic transactions less than they do in East-West relations . . .

Realism, Institutionalism, and Cooperation

Impressed with the difficulties of cooperation, observers have often compared world politics to a “state of war.” In this conception, international politics is “a competition of units in the kind of state of nature that knows no restraints other than those which the changing necessities of the game and the shallow conveniences of the players impose”. It is anarchic in the sense that it lacks an authoritative government that can enact and enforce rules of behavior. States must rely on “the means they can generate and the arrangements they can make for themselves”. Conflict and war result, since each state is judge in its own cause and can use force to carry out its judgments. The discord that prevails is accounted for by fundamental conflicts of interest.

Were this portrayal of world politics correct, any cooperation that occurs would be derivative from overall patterns of conflict. Alliance cooperation would be easy to explain as a result of the operation of a balance of power, but system-wide patterns of cooperation that benefit many countries without being tied to an alliance system directed against an adversary would not. If international politics were a state of war, institutionalized patterns of cooperation on the basis of shared purposes should not exist except as part of a larger struggle for power. The extensive patterns of international agreement that we observe on issues as diverse as trade, financial relations, health, telecommunications, and environmental protection would be absent.

At the other extreme from these “Realists” are writers who see cooperation as essential in a world of economic interdependence, and who argue that shared economic interests create a demand for international institutions and rules. Such an approach, which I refer to as “Institutionalist” because of its adherents’ emphasis on the functions performed by international institutions, runs the risk of being naive about power and conflict. Too often its proponents incorporate in their theories excessively optimistic assumptions about the role of ideals in world politics, or about the ability of statesmen to learn what the theorist considers the “right lessons.” But sophisticated students of institutions and rules have a good deal to teach us. They view institutions not simply as formal organizations with headquarters buildings and specialized staffs, but more broadly as “recognized patterns of practice around which expectations converge”. They regard these patterns of practice as significant because they affect state behavior. Sophisticated institutionalists do not expect cooperation always to prevail, but
they are aware of the malleability of interests and they argue that interdependence creates interests in cooperation.

During the first twenty years or so after World War II, these views, though very different in their intellectual origins and their broader implications about human society, made similar predictions about the world political economy, and particularly about...the political economy of the advanced market-economy countries. Institutionalists expected successful cooperation in one field to “spill over” into others. Realists anticipated a relatively stable international economic order as a result of the dominance of the United States. Neither set of observers was surprised by what happened, although they interpreted events differently.

Institutionalists could interpret the liberal international arrangements for trade and international finance as responses to the need for policy coordination created by the fact of interdependence. These arrangements, which we will call “international regimes,” contained rules, norms, principles, and decision making procedures. Realists could reply that these regimes were constructed on the basis of principles espoused by the United States, and that American power was essential for their construction and maintenance. For Realists, in other words, the early postwar regimes rested on the political hegemony of the United States. Thus Realists and Institutionalists could both regard early postwar developments as supporting their theories.

After the mid-1960s, however, U.S dominance in the world political economy was challenged by the economic recovery and increasing unity of Europe and by the rapid economic growth of Japan. Yet economic interdependence continued to grow, and the pace of increased U.S. involvement in the world economy even accelerated after 1970. At this point, therefore, the Institutionalist and Realist predictions began to diverge. From a strict Institutionalist standpoint, the increasing need for coordination of policy, created by interdependence, should have led to more cooperation. From a Realist perspective, by contrast, the diffusion of power should have undermined the ability of anyone to create order.

On the surface, the Realists would seem to have made the better forecast. Since the late 1960s there have been signs of decline in the extent and efficacy of efforts to cooperate in the world political economy. As American power eroded, so did international regimes. The erosion of these regimes after World War II certainly refutes a naive version of the Institutionalist faith in interdependence as a solvent of conflict and a creator of cooperation. But it does not prove that only the Realist emphasis on power as a creator of order is valid. It might be possible, after the decline of hegemonic regimes, for more symmetrical patterns of cooperation to evolve after a transitional period of discord. Indeed, the persistence of attempts at cooperation during the 1970s suggests that the decline of hegemony does not necessarily sound cooperation’s death knell.
International cooperation and discord thus remain puzzling. Under what conditions can independent countries cooperate in the world political economy? In particular, can cooperation take place without hegemony and, if so, how? I begin with Realist insights about the role of power and the effects of hegemony. But my central arguments draw more on the Institutionalist tradition, arguing that cooperation can under some conditions develop on the basis of complementary interests, and that institutions, broadly defined, affect the patterns of cooperation that emerge.

Hegemonic leadership is unlikely to be revived in this century for the United States or any other country. Hegemonic powers have historically only emerged after world wars; during peacetime, weaker countries have tended to gain on the hegemon rather than vice versa. It is difficult to believe that world civilization, much less a complex international economy, would survive such a war in the nuclear age. Certainly no prosperous hegemonic power is likely to emerge from such a cataclysm. As long as a world political economy persists, therefore, its central political dilemma will be how to organize cooperation without hegemony.

Systemic Analysis of International Politics

Wealth and power are sought by a variety of actors in world politics, including nonstate organizations such as multinational business corporations. But states are crucial actors, not only seeking wealth and power directly but striving to construct frameworks of rules and practices that will enable them to secure these objectives, among others, in the future. Our analysis of international cooperation and regimes therefore focuses principally on states.

State behavior can be studied from the “inside-out” or from the “outside-in.” “Inside-out,” or unit-level, explanations locate the sources of behavior within the actor—for instance, in a country’s political or economic system, the attributes of its leaders, or its domestic political culture. “Outside-in,” or systemic explanations account for state behavior on the basis of attributes of the system as a whole. Any theory will, of course, take into account the distinctive characteristics of actors as well as of the system itself. But a systemic theory regards these internal attributes as constants rather than as variables. The variables of a systemic theory are situational: they refer to the location of each actor relative to others. Systemic analysis of the international political economy begins by locating actors along the dimension of relative power on the one hand and wealth on the other.

...I focus on the effects of system characteristics because I believe that the behavior of states, as well as of other actors, is strongly affected by the constraints and incentives provided by the international environment. When the international system changes, so will incentives and behavior. My “outside-in” perspective is therefore similar to that of systemic forms of Realist theory, or
“structural Realism”. What distinguishes my argument from structural Realism is my emphasis on the effects of international institutions and practices on state behavior. The distribution of power, stressed by Realists, is surely important. So is the distribution of wealth. But human activity at the international level also exerts significant effects. International regimes alter the information available to governments and the opportunities open to them; commitments made to support such institutions can only be broken at a cost to reputation. International regimes therefore change the calculations of advantage that governments make. To try to understand state behavior simply by combining the structural Realist theory based on distribution of power and wealth with the foreign policy analyst’s stress on choice, without understanding international regimes, would be like trying to account for competition and collusion among oligopolistic business firms without bothering to ascertain whether their leaders met together regularly, whether they belonged to the same trade associations, or whether they had developed informal means of coordinating behavior without direct communication. International regimes not only deserve systematic study; they virtually cry out for it . . .

Limitations of Systemic Analysis

My choice of systemic theory as a place to begin analysis does not imply that I regard it as completely satisfactory even as a “first cut.” Before going on to the systemic analysis of Part II, therefore, it is necessary to indicate some of its limitations.

The prevailing model for systemic analysis in politics comes from economics—in particular, from microeconomic theory. Such theory posits the existence of firms, with given utility functions (such as profit maximization), and attempts to explain their behavior on the basis of environmental factors such as the competitiveness of markets. It is systemic rather than unit-level theory because its propositions depend on variations in attributes of the system, not of the units. Firms are assumed to act as rational egoists. Rationality means that they have consistent, ordered preferences, and that they calculate costs and benefits of alternative courses of action in order to maximize their utility in view of those preferences. Egoism means that their utility functions are independent of one another: they do not gain or lose utility simply because of the gains or losses of others. Making these assumptions means that rationality and conceptions of self-interest are constants rather than variables in systemic theory. Variations in firms’ behavior are accounted for not by variations in their values, or in the efficiency of their internal organizational arrangements, but by variations in characteristics of the economic system—for instance, whether its market structure is competitive, oligopolistic, or monopolistic. Without the assumptions of egoism and rationality, variations in firms’ behavior might have to be accounted for
by differences in values or in their calculating, choice-making abilities. In that case, analysis would revert to the unit level, and the parsimony of systemic theory—resting on only a small number of variables—would be lost.

Systemic theories based on rational-egoist assumptions work best when there is one uniquely superior course of action. Arnold Wolfers pointed out this feature of such theories long ago, in arguing that they provide the best predictions when there is extreme “compulsion,” as in the case of a fire breaking out in a house that has only one exit. For such a situation, “decision-making analysis would be useful only in regard to individuals who decided to remain where they were rather than join the general and expected rush.” Spiro J. Latsis has more recently argued, in similar terms, that microeconomic theory based on rational choice assumptions performs best when applied to “single-exit” situations. Under these conditions, what Latsis calls the research program of “situational determinism” works very well. We do not need to understand the idiosyncrasies of the actors to explain their behavior, since the situation they face mandates that they must act in a particular way. They will do so if they are rational; if they fail to do so, they may (if the environmental conditions are stringent) cease to exist.

This research program has had great success in situations of pure competition or pure monopoly—and, by extension, in situations that approximate these ideal types. Situational determinism works under these circumstances because there is no power competition in pure competition or pure monopoly. Either economic actors adjust their behavior to signals from an impersonal market (in competition), or they dominate the market (in monopoly). In neither case do they have to react to the actions of others. As Latsis puts it:

Under perfect competition entrepreneurs do not really compete with each other. The situation may be compared to that of a player in an \( n \)-person game where \( n \) is very large. Such games are reducible to one-person games against nature where the opponent has no objectives and no known strategy. The “nature” of perfect competition is unusually strict in allowing a choice between following a single strategy or going under. Pure monopoly, usually regarded as the exact opposite of perfect competition is in fact its heuristic twin…. The monopolist maximizes on the basis of his knowledge of the market conditions and the application of the simple optimizing rule. As with perfect competition, so with monopoly the “rational” decision-maker will arrive at the uniquely determined optimal decision by a simple calculation.

Difficulties arise for this research program under conditions of oligopoly, or “monopolistic competition.” Under these conditions, the situation can be treated
as a variable-sum game, played repeatedly over an indefinite period of time, with a small number of players. This type of game does not have a determinate solution for any actor, independent of the behavior of others. It is a “multiple-exit” situation and arbitrary assumptions are required to reach unique solutions to it. Rational egoist calculations of whether to cooperate with one another under these conditions will depend heavily on the expectations of actors about others’ behavior—and therefore on the nature of institutions. Microeconomic theory does not generate precise, accurate predictions about behavior in situations of strategic interdependence…And as we have seen, strategic interdependence, which bedevils only part of economics, afflicts the entire study of international politics.

A Functional Theory of International Regimes

…The principal significance of international regimes does not lie in their formal legal status, since any patterns of legal liability and property rights established in world politics are subject to being overturned by the actions of sovereign states. International regimes are more like the “quasi-agreements” that William Fellner discusses when analyzing the behavior of oligopolistic firms than they are like governments. These quasi-agreements are legally unenforceable but, like contracts, help to organize relationships in mutually beneficial ways. Regimes also resemble conventions: practices, regarded as common knowledge in a community, that actors conform to not because they are uniquely best, but because others conform to them as well. What these arrangements have in common is that they are designed not to implement centralized enforcement of agreements, but rather to establish stable mutual expectations about others’ patterns of behavior and to develop working relationships that will allow the parties to adapt their practices to new situations. Contracts, conventions, and quasi-agreements provide information and generate patterns of transaction costs: costs of reneging on commitments are increased, and the costs of operating within these frameworks are reduced.

…Under the provisions of the General Agreement on Tariffs and Trade (GATT), for instance, it is not permitted to make discriminatory trade arrangements except under specific conditions. Since there is no centralized government, states can nevertheless implement such actions, but their lack of legitimacy means that such measures are likely to be costly. Under GATT rules, for instance, retaliation against such behavior is justified. By elevating injunctions to the level of principles and rules, furthermore, regimes construct linkages between issues. No longer does a specific discriminatory agreement constitute merely a particular act without general significance; on the contrary, it becomes a “violation of GATT” with serious implications for a large number of other issues. In the terms
of Prisoners’ Dilemma, the situation has been transformed from a single-play to an iterated game. In market-failure terms, the transaction costs of certain possible bargains have been increased, while the costs of others have been reduced. In either case, the result is the same: incentives to violate regime principles are reduced: international regimes reduce transaction costs of legitimate bargains and increase them for illegitimate ones.

In view of the benefits of economies of scale, it is not surprising that specific agreements tend to be “nested” within regimes. For instance, agreement by the United States, Japan, and the European community in the Multilateral Trade Negotiations to reduce a particular tariff will be affected by the rules and principles of GATT—that is, by the trade regime.

The nesting patterns of international regimes affect transaction costs by making it easier or more difficult to link particular issues and to arrange side-payments, giving someone something on one issue in return for her help on another. Clustering of issues under a regime facilitates side-payments among these issues: more potential *quids* are available for the *quo*. Without international regimes linking clusters of issues to one another, side-payments and linkages would be difficult to arrange in world politics; in the absence of a price system for the exchange of favors, institutional barriers would hinder the construction of mutually beneficial bargains.

Insofar as issues are dealt with separately from one another on the international level, it is often hard, in simply bureaucratic terms, to arrange for them to be considered together. There are bound to be difficulties in coordinating policies of different international organizations—GATT, the IMF, and the IEA all have different memberships and different operating styles—in addition to the resistance that will appear to such a move within member governments. Within regimes, by contrast, side-payments are facilitated by the fact that regimes bring together negotiators to consider sets of issues that may well lie within the negotiators’ bureaucratic bailiwicks at home. From the perspective of market-failure theories, the informational functions of regimes are the most important of all.

The literature on market failure elaborates on its most fundamental contention—that, in the absence of appropriate institutions, some mutually advantageous bargains will not be made because of uncertainty—by pointing to three particularly important sources of difficulty: *asymmetrical information*; *moral hazard*; and *irresponsibility*.

Asymmetrical Information

Some actors may know more about a situation than others. Expecting that the resulting bargains would be unfair, “outsiders” will be reluctant to make
agreements with “insiders.” This is essentially the problem of “quality uncertainty” as discussed by Akerlof. Recall that this is a problem not merely of insufficient information, but rather of systematically biased patterns of information, which are recognized in advance of any agreement both by the holder of more information (the seller of the used car) and by its less well-informed prospective partner (the potential buyer of the “lemon” or “creampuff,” as the case may be). Awareness that others have greater knowledge than oneself, and are therefore capable of manipulating a relationship or even engaging successful deception and double-cross, is a barrier to making agreements. When this suspicion is unfounded—that is, the agreement would be mutually beneficial—it is an obstacle to improving welfare through cooperation.

This problem of asymmetrical information only appears when dishonest behavior is possible. In a society of saints, communication would be open and no one would take advantage of superior information. In our imperfect world, however, asymmetries of information are not rectified simply by communication. Not all communication reduces uncertainty, since communication may lead to asymmetrical or unfair bargaining outcomes as a result of deception. Effective communication is not measured well by the amount of talking that used cars salespersons do to customers or that governmental officials do to one another in negotiating international regimes! The information that is required in entering into an international regime is not merely information about other governments’ resources and formal negotiating positions, but also accurate knowledge of their future positions. In part, this is a matter of estimating whether they will keep their commitment. As the “market for lemons” example suggests, and as we will see in more detail below, a government’s reputation therefore becomes an important asset in persuading others to enter into agreements with it. International regimes help governments to assess others’ reputations by providing standards of behavior against which performance can be measured, by linking these standards to specific issues, and by providing forums, often through international organizations, in which these evaluations can be made. Regimes may also include international organizations whose secretariats act not only as mediators but as providers of unbiased information that is made available more or less equally to all members. By reducing asymmetries of information through a process of upgrading the general level of available information, international regimes reduce uncertainty. Agreements based on misapprehension and deception may be avoided; mutually beneficial agreements are more likely to be made.

…..As the principles and rules of a regime reduce the range of expected behavior, uncertainty declines, and as information becomes more widely available, the asymmetry of its distribution is likely to lessen. Arrangements within regimes to monitor actors’ behavior mitigate problems of moral hazard. Linkages among
particular issues within the context of regimes raise the costs of deception and irresponsibility, since the consequences of such behavior are likely to extend beyond the issue on which they are manifested. Close ties among officials involved in managing international regimes increase the ability of governments to make mutually beneficial agreements, because intergovernmental relationships characterized by ongoing communication among working-level officials, informal as well as formal, are inherently more conducive to exchange of information than are traditional relationships between closed bureaucracies. In general, regimes make it more sensible to cooperate by lowering the likelihood of being double-crossed. Whether we view this problem through the lens of game theory or that of market failure, the central conclusion is the same: international regimes can facilitate cooperation by reducing uncertainty. Like international law, broadly defined, their function is “to make human actions conform to predictable patterns so that contemplated actions can go forward with some hope of achieving a rational relationship between means and ends.”

Thus international regimes are useful to governments. Far from being threats to governments (in which case it would be hard to understand why they exist at all), they permit governments to attain objectives that would otherwise be unattainable. They do so in part by facilitating intergovernmental agreements. Regimes facilitate agreements by raising the anticipated costs of violating others’ property rights, by altering transaction costs through the clustering of issues, and by providing reliable information to members. Regimes are relatively efficient institutions, compared with the alternative of having a myriad of unrelated agreements, since their principles, rules, and institutions create linkages among issues that give actors incentives to reach mutually beneficial agreements. They thrive in situations where states have common as well as conflicting interests on multiple, overlapping issues and where externalities are difficult but not impossible to deal with through bargaining. Where these conditions exist, international regimes can be of value to states.

We have seen that it does not follow from this argument that regimes necessarily increase global welfare. They can be used to pursue particularistic and parochial interests as well as more widely shared objectives. Nor should we conclude that all potentially valuable regimes will necessarily be instituted. As we have seen, even regimes that promise substantial overall benefits may be difficult to invent.

Compliance with International Regimes

International regimes are decentralized institutions. Decentralization does not imply an absence of mechanisms for compliance, but it does mean that any sanctions for violation of regime principles or rules have to be enacted by the individual
members. The regime provides procedures and rules through which such sanctions can be coordinated. Decentralized enforcement of regime rules and principles is neither swift nor certain. Yet, in many instances, rules are obeyed. Indeed, Louis Henkin goes so far as to say that “almost all nations observe almost all principles of international law and almost all of their obligations almost all of the time.”

The puzzle of compliance is why governments, seeking to promote their own interests, ever comply with the rules of international regimes when they view these rules as in conflict with what I will call their “myopic self-interest.” Myopic self-interest refers to governments’ perception of the relative costs and benefits to them of alternative courses of action with regard to a particular issue, when that issue is considered in isolation from others. An action is in a government’s myopic self-interest if it has the highest expected value of any alternative, apart from the indirect effects that actions on the specific issue in question would have on other issues. That governments often comply with rules that conflict with their myopic self-interest poses a potential anomaly for theories, such as Realism or the functional theory developed in this chapter, that assume rational, egoistic action in world politics. Why should an egoistic actor behave, on a given issue, in a way that is inconsistent with its self-interest on that issue? If we observe compliance with the rules of international regimes, is this not inconsistent with the assumption of egoism?

The murky language of national interests allows some Realists, such as Hans J. Morgenthau, to avoid this issue. Morgenthau notes the existence of functional organizations such as the specialized agencies of the United Nations system, but contents himself with the observation that when there is a conflict between the national interest and the operation of such agencies, “the national interest wins out over the international objective.” This begs the question of whether the national interest is defined myopically, without regard to the effects of one’s actions on other issues or other values, or in a more farsighted way, taking into account the impact of violating international rules and norms on other state objectives. Yet the crucial issues are precisely those of how interests are defined, and how institutions affect states’ definitions of their own interests. An understanding of the puzzle of compliance requires an examination of how international regimes affect the calculations of self-interest in which rational, egoistic governments engage.

Such an exploration is pursued below through two distinct but related lines of argument. The first looks at a given regime in isolation, examining its value to governments as opposed to the feasible alternatives. This explanation of the puzzle of compliance emphasizes the difficulty of establishing international regimes in the first place. Because regimes are difficult to construct, it may be rational to obey their rules if the alternative is their breakdown, since even an imperfect regime may be superior to any politically feasible replacement.
second line of argument sets regimes in the context of other regimes in world politics. We view each issue and each regime as part of a larger network of issues and regimes. Much as iterated Prisoners’ Dilemma leads to very different results from the single-play version of the game, so does an analysis of a given regime in the context of others produce a different structure of incentives than considering each regime in isolation.

The Value of Existing Regimes

We have seen that it is difficult even for perfectly rational individuals to make agreements with one another in the absence of provisions for central enforcement of contracts. In world politics, international regimes help to facilitate the making of agreements by reducing barriers created by high transaction costs and uncertainty. But these very difficulties make it hard to create the regimes themselves in the first place. The importance of transaction costs and uncertainty means that regimes are easier to maintain than they are to create. Complementary interests are necessary but not sufficient conditions for their emergence. The construction of international regimes may require active efforts by a hegemonic state, as the IMF and GATT did after World War II; or regime-creation in the absence of hegemony may be spurred on by the pressures of a sudden and severe crisis, such that which led to the IEA. Even with complementary interests, it is difficult to overcome problems of transaction costs and uncertainty.

Once an international regime has been established, however, it begins to benefit from the relatively high and symmetrical level of information that it generates, and from the ways in which it makes regime-supporting bargains easier to consummate… Viewing international regimes as information-providing and transaction cost-reducing entities rather than as quasi-governmental rule-makers helps us to understand such persistence. Effective international regimes facilitate informal contact and communication among officials. Indeed, they may lead to “transgovernmental” networks of acquaintance and friendship: supposedly confidential documents of one government may be seen by officials of another; informal coalitions of like-minded officials develop to achieve common purposes; and critical discussions by professionals probe the assumptions and assertions of state policies. These transgovernmental relationships may increase opportunities for cooperation in world politics by providing policymakers with high-quality information about what their counterparts are likely to do.

Appreciating the significance of these information-producing patterns of action that become embedded in international regimes helps us to understand further why the erosion of American hegemony during the 1970s was not accompanied by an immediate collapse of cooperation, as the crude theory of hegemonic stability would have predicted. Since the level of institutionalization
of postwar regimes was extremely high by historical standards, with intricate and extensive networks of communication among working-level officials, we should expect the lag between the decline of American hegemony and the disruption of international regimes to be quite long and the “inertia” of the existing regimes relatively great.

This argument about the role of information in maintaining regimes can be reinforced by examining some work on oligopolistic cooperation and competition that has similar analytic concerns. Oliver Williamson argues on the basis of organization theory that communication among members of a group tends to increase cooperation, or what he calls “adherence to group goals.” Cooperation among oligopolists will also be fostered by a record of past cooperation. Using these assumptions, Williamson constructs a model that has two points of equilibrium, one at high levels and one at low levels of cooperation. Once a given equilibrium has been reached, substantial changes in the environment are necessary to alter it:

If the system is operating at a low level of adherence and communication (i.e., the competitive solution), a substantial improvement in the environment will be necessary before the system will shift to a high level of adherence and communication. Indeed, the condition of the environment required to drive the system to the collusive solution is much higher than the level required to maintain it once it has achieved this position. Similarly, a much more unfavorable condition of the environment is required to move the system from a high to a low level equilibrium than is required to maintain it there....

Networks of Issues and Regimes

In thinking about compliance, we should recall the previous discussion of how regimes facilitate the making of agreements. To some extent, it is governments’ anticipation that international regimes will increase compliance that accounts for their willingness to enter into these arrangements in the first place. Insofar as regimes create incentives for compliance, they also make it more attractive for conscientious potential members to join them. We saw that, by linking issues to one another, regimes create situations that are more like iterated, open-ended Prisoners’ Dilemma, in which cooperation may be rational, than like single-play Prisoners’ Dilemma, in which it is not. Violation of one’s commitments on a given issue, in pursuit of myopic self-interest, will affect others’ actions on other questions. Pursuit of its farsighted self-interest may therefore lead a government to eschew its myopic self-interest.
As the Prisoners’ Dilemma example suggests, social pressure, exercised through linkages among issues, provides the most compelling set of reasons for governments to comply with their commitments. That is, egoistic governments may comply with rules because if they fail to do so, other governments will observe their behavior, evaluate it negatively, and perhaps take retaliatory action. . . .

Yet sometimes governments may find that the regimes to which they belong are no longer beneficial to them. What happens to incentives for compliance when the regime as a whole seems malign?

If there were only one regime in world politics, or each regime existed in isolation, the egoistic government would rationally cease to comply with its rules. Regimes would be abandoned when governments calculated that the opportunity costs of belonging to a regime were higher than those of some feasible alternative course of action. In the contemporary world political economy, however, there are multiple issues and multiple contacts among governments; thus governments belong to many regimes. Disturbing one regime does not merely affect behavior in the issue-area regulated by it, but is likely to affect other regimes in the network as well. For a government rationally to break the rules of a regime, the net benefits of doing so must outweigh the net costs of the effects of this action on other international regimes. Insofar as its partners retaliate in those domains for its actions against the first regime, it may find that it is inhibited from pursuing its myopic self-interest.

All of these incentives for compliance rest on the prospects of retaliatory linkage: as in Axelrod’s simulation of Prisoners’ Dilemma, “tit for tat” is a more effective strategy to induce cooperation than submissiveness. We have seen that GATT contains provisions for retaliation; and the Bretton Woods Agreement of 1944 furnishes another relevant example. Under Article VII (the “scarce currency clause”), a surplus country that declined to replenish the IMF’s depleted holdings of its currency could find its exports discriminated against with the sanction of the IMF itself. Yet retaliation for specific violations is not a reliable way to maintain international regimes; indeed, the GATT provisions for retaliation have been invoked only once, and then ineffectively. Individual governments find it costly to retaliate. Familiar problems of collective action arise: if a given state’s violation of a particular rule does not have a large effect on any one country, retaliation is unlikely to be severe, even if the aggregate effect of the violation is large. If international regimes depended entirely for compliance on specific retaliations against transgressors, they would be weak indeed.

In the absence of specific retaliation, governments may still have incentives to comply with regime rules and principles if they are concerned about precedent or believe that their reputations are at stake. Governments worry about
establi
shing bad precedents because they fear that their own rule-violations will promote rule-violations by others, even if no specific penalty is imposed on themselves. That is, breaking rules may create an individual benefit, but it produces a "collective bad." The effect of the collective bad on the utility of the individual government may under certain circumstances outweigh the benefit.

Our analysis of uncertainty earlier in this chapter suggests how important reputation can be even to governments not concerned with personal honor and self-respect. Under conditions of uncertainty and decentralization, governments will decide whom to make agreements with, and on what terms, largely on the basis of their expectations about their partners’ willingness and ability to keep their commitments. A good reputation makes it easier for a government to enter into advantageous international agreements; tarnishing that reputation imposes costs by making agreements more difficult to reach.

For reasons of reputation, as well as fear of retaliation and concern about the effects of precedents, egoistic governments may follow the rules and principles of international regimes even when myopic self-interest counsels them not to. As we have seen in this section, they could do so strictly on the basis of calculations of costs and benefits. Each time that they seem to have incentives to violate the provisions of regimes, they could calculate whether the benefits of doing so outweigh the costs, taking into account the effects on their reputations as well as the probability of retaliation and the effects of rule-violation on the system as a whole. They might often decide, in light of this cost-benefit calculation, to conform to the rules. Rational egoism can lead governments not only to make agreements, but to keep them even when they turn out poorly.
Taking Preferences Seriously: A Liberal Theory of International Politics

Andrew Moravcsik

This article reformulates liberal international relations (IR) theory in a nonideological and nonutopian form appropriate to empirical social science. Liberal IR theory elaborates the insight that state-society relations—the relationship of states to the domestic and transnational social context in which they are embedded—have a fundamental impact on state behavior in world politics. Societal ideas, interests, and institutions influence state behavior by shaping state preferences, that is, the fundamental social purposes underlying the strategic calculations of governments. For liberals, the configuration of state preferences matters most in world politics—not, as realists argue, the configuration of capabilities and not, as institutionalists (that is, functional regime theorists) maintain, the configuration of information and institutions. This article codifies this basic liberal insight in the form of three core theoretical assumptions, derives from them three variants of liberal theory, and demonstrates that the existence of a coherent liberal theory has significant theoretical, methodological, and empirical implications. Restated in this way, liberal theory deserves to be treated as a paradigmatic alternative empirically coequal with and analytically more fundamental than the two dominant theories in contemporary IR scholarship: realism and institutionalism.

Grounding liberal theory in a set of core social scientific assumptions helps overcome a disjuncture between contemporary empirical research on world politics and the language employed by scholars to describe IR as a field. Liberal hypotheses stressing variation in state preferences play an increasingly central role in IR scholarship. These include explanations stressing the causal importance of state-society relations as shaped by domestic institutions (for example, the “democratic peace”), by economic interdependence (for example, endogenous tariff theory), and by ideas about national, political, and socioeconomic public goods provision (for example, theories about the relationship between nationalism and conflict). Liberal hypotheses do not include, for reasons

clarified later, functional regime theory. Yet the conceptual language of IR theory has not caught up with contemporary research. IR theorists continue to speak as if the dominant theoretical cleavage in the field were the dichotomy between realism and (“neoliberal”) institutionalism. The result: liberal IR theory of the kind outlined earlier is generally ignored as a major paradigmatic alternative.

Worse, its lack of paradigmatic status has permitted critics to caricature liberal theory as a normative, even utopian, ideology. Postwar realist critics such as Hans Morgenthau and E. H. Carr took rhetorical advantage of liberalism’s historical role as an ideology to contrast its purported altruism (“idealism,” “legalism,” “moralism,” or “utopianism”) with realism’s “theoretical concern with human nature as it actually is [and] historical processes as they actually take place.” Forty years later, little has changed. Robert Gilpin’s influential typology in international political economy juxtaposes a positive mercantilist view (“politics determines economics”) against a narrower and conspicuously normative liberal one (“economics should determine politics”). Kenneth Waltz, a realist critic, asserts that “if the aims . . . of states become matters of . . . central concern, then we are forced back to the descriptive level; and from simple descriptions no valid generalizations can be drawn.”

Liberals have responded to such criticisms not by proposing a unified set of positive social scientific assumptions on which a nonideological and nonutopian liberal theory can be based, as has been done with considerable success for realism and institutionalism, but by conceding its theoretical incoherence and turning instead to intellectual history. It is widely accepted that any nontautological social scientific theory must be grounded in a set of positive assumptions from which arguments, explanations, and predictions can be derived. Yet surveys of liberal IR theory either collect disparate views held by “classical” liberal publicists or define liberal theory teleologically, that is, according to its purported optimism concerning the potential for peace, cooperation, and international institutions in world history. Such studies offer an indispensable source of theoretical and normative inspiration. Judged by the more narrowly social scientific criteria adopted here, however, they do not justify reference to a distinct “liberal” IR theory.

Leading liberal IR theorists freely concede the absence of coherent microfounded assumptions but conclude therefrom that a liberal IR theory in the social scientific sense cannot exist. Robert Keohane, an institutionalist sympathetic to liberalism, maintains that “in contrast to Marxism and Realism, Liberalism is not committed to ambitious and parsimonious structural theory.” Michael Doyle, a pioneer in analyzing the “democratic peace,” observes that liberal IR theory, unlike others, lacks “canonical” foundations. Mark Zacher and Richard Matthew, sympathetic liberals, assert that liberalism should be considered an “approach,”
not a theory, since “its propositions cannot be . . . deduced from its assumptions.” Accurate though this may be as a characterization of intellectual history and current theory, it is second-best social science.

I seek to move beyond this unsatisfactory situation by proposing a set of core assumptions on which a general restatement of positive liberal IR theory can be grounded. In the first section of the article I argue that the basic liberal insight about the centrality of state-society relations to world politics can be restated in terms of three positive assumptions, concerning, respectively, the nature of fundamental social actors, the state, and the international system.

Drawing on these assumptions, I then elaborate three major variants of liberal theory—each grounded in a distinctive causal mechanism linking social preferences and state behavior. Ideational liberalism stresses the impact on state behavior of conflict and compatibility among collective social values or identities concerning the scope and nature of public goods provision. Commercial liberalism stresses the impact on state behavior of gains and losses to individuals and groups in society from transnational economic interchange. Republican liberalism stresses the impact on state behavior of varying forms of domestic representation and the resulting incentives for social groups to engage in rent seeking.

Finally, I demonstrate that the identification of coherent theoretical assumptions is not simply an abstract and semantic matter. It has significant methodological, theoretical, and empirical implications.

Core Assumptions of Liberal IR Theory

Liberal IR theory’s fundamental premise—that the relationship between states and the surrounding domestic and transnational society in which they are embedded critically shapes state behavior by influencing the social purposes underlying state preferences—can be restated in terms of three core assumptions. These assumptions are appropriate foundations of any social theory of IR: they specify the nature of societal actors, the state, and the international system.

Assumption 1: The Primacy of Societal Actors

The fundamental actors in international politics are individuals and private groups, who are on the average rational and risk-averse and who organize exchange and collective action to promote differentiated interests under constraints imposed by material scarcity, conflicting values, and variations in societal influence.

Liberal theory rests on a “bottom-up” view of politics in which the demands of individuals and societal groups are treated as analytically prior to politics.
Political action is embedded in domestic and transnational civil society, understood as an aggregation of boundedly rational individuals with differentiated tastes, social commitments, and resource endowments. Socially differentiated individuals define their material and ideational interests independently of politics and then advance those interests through political exchange and collective action. Individuals and groups are assumed to act rationally in pursuit of material and ideal welfare.

For liberals, the definition of the interests of societal actors is theoretically central. Liberal theory rejects the utopian notion that an automatic harmony of interest exists among individuals and groups in society; scarcity and differentiation introduce an inevitable measure of competition. Where social incentives for exchange and collective action are perceived to exist, individuals and groups exploit them: the greater the expected benefits, the stronger the incentive to act. In pursuing these goals, individuals are on the average risk-averse; that is, they strongly defend existing investments but remain more cautious about assuming cost and risk in pursuit of new gains. What is true about people on the average, however, is not necessarily true in every case: some individuals in any given society may be risk-acceptant or irrational.

Liberal theory seeks to generalize about the social conditions under which the behavior of self-interested actors converges toward cooperation or conflict. Conflictual societal demands and the willingness to employ coercion in pursuit of them are associated with a number of factors, three of which are relevant to this discussion: divergent fundamental beliefs, conflict over scarce material goods, and inequalities in political power. Deep, irreconcilable differences in beliefs about the provision of public goods, such as borders, culture, fundamental political institutions, and local social practices, promote conflict, whereas complementary beliefs promote harmony and cooperation. Extreme scarcity tends to exacerbate conflict over resources by increasing the willingness of social actors to assume cost and risk to obtain them. Relative abundance, by contrast, lowers the propensity for conflict by providing the opportunity to satisfy wants without inevitable conflict and giving certain individuals and groups more to defend. Finally, where inequalities in societal influence are large, conflict is more likely. Where social power is equitably distributed, the costs and benefits of actions are more likely to be internalized to individuals—for example, through the existence of complex, cross-cutting patterns of mutually beneficial interaction or strong and legitimate domestic political institutions—and the incentive for selective or arbitrary coercion is dampened. By contrast, where power asymmetries permit groups to evade the costs of redistributing goods, incentives arise for exploitative, rent-seeking behavior, even if the result is inefficient for society as a whole.
States (or other political institutions) represent some subset of domestic society, on the basis of whose interests state officials define state preferences and act purposively in world politics.

In the liberal conception of domestic politics, the state is not an actor but a representative institution constantly subject to capture and recapture, construction and reconstruction by coalitions of social actors. Representative institutions and practices constitute the critical “transmission belt” by which the preferences and social power of individuals and groups are translated into state policy. Individuals turn to the state to achieve goals that private behavior is unable to achieve efficiently. Government policy is therefore constrained by the underlying identities, interests, and power of individuals and groups (inside and outside the state apparatus) who constantly pressure the central decision makers to pursue policies consistent with their preferences.

This is not to adopt a narrowly pluralist view of domestic politics in which all individuals and groups have equal influence on state policy, nor one in which the structure of state institutions is irrelevant. No government rests on universal or unbiased political representation; every government represents some individuals and groups more fully than others. In an extreme hypothetical case, representation might empower a narrow bureaucratic class or even a single tyrannical individual, such as an ideal-typical Pol Pot or Josef Stalin. Between theoretical extremes of tyranny and democracy, many representative institutions and practices exist, each of which privileges particular demands; hence the nature of state institutions, alongside societal interests themselves, is a key determinant of what states do internationally.

Representation, in the liberal view, is not simply a formal attribute of state institutions but includes other stable characteristics of the political process, formal or informal, that privilege particular societal interests. Clientalistic authoritarian regimes may distinguish those with familial, bureaucratic, or economic ties to the governing elite from those without. Even where government institutions are formally fair and open, a relatively inequalitarian distribution of property, risk, information, or organizational capabilities may create social or economic monopolies able to dominate policy. Similarly, the way in which a state recognizes individual rights may shape opportunities for voice. Certain domestic representational processes may tend to select as leaders individuals, groups, and bureaucracies socialized with particular attitudes toward information, risk, and loss. Finally, cost-effective exit options, such as emigration, noncompliance, or the transfer of assets to new jurisdictions or uses, insofar as they constrain governments, may be thought of as substitutes for formal representation.
Taken together, assumptions 1 and 2 imply that states do not automatically maximize fixed, homogeneous conceptions of security, sovereignty, or wealth per se, as realists and institutionalists tend to assume. Instead they are, in Waltzian terms, “functionally differentiated”; that is, they pursue particular interpretations and combinations of security, welfare, and sovereignty preferred by powerful domestic groups enfranchised by representative institutions and practices. As Arnold Wolfers, John Ruggie, and others have observed, the nature and intensity of national support for any state purpose—even apparently fundamental concerns like the defense of political and legal sovereignty, territorial integrity, national security, or economic welfare—varies decisively with the social context. It is not uncommon for states knowingly to surrender sovereignty, compromise security, or reduce aggregate economic welfare. In the liberal view, trade-offs among such goals, as well as cross-national differences in their definition, are inevitable, highly varied, and causally consequential.

Assumption 3: Interdependence and the International System

The configuration of interdependent state preferences determines state behavior.

For liberals, state behavior reflects varying patterns of state preferences. States require a “purpose,” a perceived underlying stake in the matter at hand, in order to provoke conflict, propose cooperation, or take any other significant foreign policy action. The precise nature of these stakes drives policy. This is not to assert that each state simply pursues its ideal policy, oblivious of others; instead, each state seeks to realize its distinctive preferences under varying constraints imposed by the preferences of other states. Thus liberal theory rejects not just the realist assumption that state preferences must be treated as if naturally conflictual, but equally the institutionalist assumption that they should be treated as if they were partially convergent, compromising a collective action problem. To the contrary, liberals causally privilege variation in the configuration of state preferences, while treating configurations of capabilities and information as if they were either fixed constraints or endogenous to state preferences.

The critical theoretical link between state preferences, on the one hand, and the behavior of one or more states, on the other, is provided by the concept of policy interdependence. Policy interdependence is defined here as the set of costs and benefits created for foreign societies when dominant social groups in a society seek to realize their preferences, that is, the pattern of transnational externalities resulting from attempts to pursue national distinctive purposes. Liberal theory assumes that the pattern of interdependent state preferences imposes a binding constraint on state behavior.

...For liberals, the form, substance, and depth of cooperation depends directly on the nature of these patterns of preferences. Hence where
“Pareto-inefficient” outcomes are observed—trade protection is a commonly
cited example—liberals turn first to countervailing social preferences and unre-
solved domestic and transnational distributional conflicts, whereas institution-
alists and realists, respectively, turn to uncertainty and particular configurations
of interstate power.

...Variation in ends, not means, matters most. Realists and institutionalists,
as well as formal theorists who seek to integrate the two, criticize this core lib-
eral assumption because it appears at first glance to rest on what Waltz terms
a “reductionist” rather than a “systemic” understanding of IR. In other words,
liberalism appears to be a purely “domestic” or “unit-level” theory that ignores
the international environment. In particular, realists are skeptical of this view
because it appears at first glance to be grounded in the utopian expectation that
every state can do as it pleases. This commonplace criticism is erroneous for two
important reasons.

First, state preferences may reflect patterns of transnational societal inter-
action. While state preferences are (by definition) invariant in response to
changing inter-state political and strategic circumstances, they may well vary in
response to a changing transnational social context. In the political economy for
foreign economic policy, for example, social demands are derived not simply
from “domestic” economic assets and endowments, but from the relative posi-
tion of those assets and endowments in global markets. Similarly, the position
of particular values in a transnational cultural discourse may help define their
meaning in each society. In this regard, liberalism does not draw a strict line
between domestic and transnational levels of analysis.

A second and more Waltzian reason why the charge of “reductionism” is errone-
ous is that according to liberal theory the expected behavior of any single state—
the strategies it selects and the systemic constraints to which it adjusts—reflect not
simply its own preferences, but the configuration of preferences of all states linked
by patterns of significant policy interdependence. National leaders must always
think systemically about their position within a structure composed of the prefer-
ences of other states. Since the pattern of and interdependence among state prefer-
ences, like the distribution of capabilities and the distribution of information and
ideas, lies outside the control of any single state, it conforms to Waltz’s own defi-
nition of systemic theory, whereby interstate interactions are explained by reference
to “how [states] stand in relation to one another.” Hence the causal preeminence of
state preferences does not imply that states always get what they want ...
because they do not specify precise sources of state preferences. Instead they support three separate variants of liberal theory, termed here ideational, commercial, and republican liberalism. Each rests on a distinctive specification of the central elements of liberal theory: social demands, the causal mechanisms whereby they are transformed into state preferences, and the resulting patterns of national preferences in world politics. Ideational liberalism focuses on the compatibility of social preferences across fundamental collective goods like national unity, legitimate political institutions, and socio-economic regulation. Commercial liberalism focuses on incentives created by opportunities for transborder economic transactions. Republican liberalism focuses on the nature of domestic representation and the resulting possibilities for rent-seeking behavior.

Ideational Liberalism: Identity and Legitimate Social Order

Drawing on a liberal tradition dating back to John Stuart Mill, Giuseppe Mazzini, and Woodrow Wilson, ideational liberalism views the configuration of domestic social identities and values as a basic determinant of state preferences and, therefore, of interstate conflict and cooperation. “Social identity” is defined as the set of preferences shared by individuals concerning the proper scope and nature of public goods provision, which in turn specifies the nature of legitimate domestic order by stipulating which social actors belong to the polity and what is owed them. Liberals take no distinctive position on the origins of social identities, which may result from historical accretion or be constructed through conscious collective or state action, nor on the question of whether they ultimately reflect ideational or material factors.

Three essential elements of domestic public order often shaped by social identities are geographical borders, political decision-making processes, and socioeconomic regulation. Each can be thought of as a public or club good; the effectiveness of each typically requires that it be legislated universally across a jurisdiction. Recall that for liberals, even the defense of (or, less obvious but no less common, the willing compromise of) territorial integrity, political sovereignty, or national security is not an end in itself, but a means of realizing underlying preferences defined by the demands of societal groups. According to assumption 2, social actors provide support to the government in exchange for institutions that accord with their identity-based preferences; such institutions are thereby “legitimate.” Foreign policy will thus be motivated in part by an effort to realize social views about legitimate borders, political institutions, and modes of socioeconomic regulation.

The consequences of identity-based preferences for IR depend, according to assumption 3, on the nature of transnational externalities created by attempts to realize them. Where national conceptions of legitimate borders, political
institutions, and socioeconomic equality are compatible, thus generating positive or negligible externalities, harmony is likely. Where national claims can be made more compatible by reciprocal policy adjustment, cooperation is likely. Where social identities are incompatible and create significant negative externalities, tension and zero-sum conflict is more likely. Parallel predictions about international politics follow from each of the three essential sources of ideational preferences: national, political, and socioeconomic identity.

A third fundamental type of social identity central to foreign policy is the nature of legitimate socioeconomic regulation and redistribution. Modern liberal theory (as opposed to the laissez faire libertarianism sometimes invoked by critics as quintessentially “liberal”) has long recognized that societal preferences concerning the nature and level of regulation impose legitimate limits on markets. In a Polanyian vein, Ruggie recently reminds us that domestic and international markets are embedded in local social compromises concerning the provision of regulatory public goods. Such compromises underlie varying national regulations on immigration, social welfare, taxation, religious freedom, families, health and safety, environmental and consumer protection, cultural promotion, and many other public goods increasingly discussed in international economic negotiations.

In the liberal view, state preferences concerning legitimate socioeconomic practices shape interstate behavior when their realization imposes significant transborder externalities. Evidence from the European Community (EC) suggests that substantial prior convergence of underlying values is a necessary prerequisite for cooperation in regulatory issue areas like environmental and consumer protection, many tax and social policies, immigration, and foreign policy, as well as for significant surrenders of sovereign decision making to supranational courts and bureaucracies. Regulatory pluralism limits international cooperation, in particular economic liberalization. Courts, executives, and parliaments mutually recognize “legitimate differences” of policy in foreign jurisdictions. Concerns about the proper balance between policy coordination and legitimate domestic regulation are giving rise to even more complex forms of cooperation. Hence regulatory issues play an increasingly important role in international economic negotiations such as the 1992 initiative of the EC, the Uruguay Round of GATT, NAFTA, and the U.S.-Japan Structural Impediments Initiative.

Commercial Liberalism: Economic Assets and Cross-Border Transactions

Commercial liberalism explains the individual and collective behavior of states based on the patterns of market incentives facing domestic and transnational economic actors. At its simplest, the commercial liberal argument is broadly functionalist: Changes in the structure of the domestic and global economy alter
the costs and benefits of transnational economic exchange, creating pressure on domestic governments to facilitate or block such exchanges through appropriate foreign economic and security policies.

It is tempting, particularly for critics, to associate commercial liberal theory with ideological support for free trade. Yet as theory rather than ideology, commercial liberalism does not predict that economic incentives automatically generate universal free trade and peace—utopian position critics who treat liberalism as an ideology often wrongly attribute to it—but instead stresses the interaction between aggregate incentives for certain policies and obstacles posed by domestic and transnational distributional conflict. The greater the economic benefits for powerful private actors, the greater their incentive, other things being equal, to press governments to facilitate such transactions; the more costly the adjustment imposed by economic interchange, the more opposition is likely to arise. Rather than assuming that market structure always creates incentives for cooperation among social actors as well as states, or focusing exclusively on those issue areas where it does, as do some liberal ideologies, liberal IR theory focuses on market structure as a variable creating incentives for both openness and closure.

Accordingly, many commercial liberal analyses start with aggregate welfare gains from trade resulting from specialization and functional differentiation, then seek to explain divergences from foreign economic and security policies that would maximize those gains. To explain the rejection of aggregate gains, commercial liberals from Adam Smith to contemporary “endogenous” tariff theorists look to domestic and international distributional conflicts. The resulting commercial liberal explanation of relative-gains seeking in foreign economic policy is quite distinct from that of realism, which emphasizes security externalities and relative (hegemonic) power, or that of institutionalism, which stresses informational and institutional constraints on interstate collective action.

One source of pressure for protection is domestic distributional conflict, which arises when the costs and benefits of national policies are not internalized to the same actors, thus encouraging rent-seeking efforts to seek personal benefit at the expense of aggregate welfare. In this view, uncompetitive, monopolistic, or undiversified sectors or factors lose the most from liberalization and have an incentive to oppose it, inducing a systematic divergence from laissez faire policies. Smith himself reminds us that “the contrivers of [mercantilism are] the producers, whose interest has been so carefully attended to . . . our merchants and manufacturers”—a view echoed by many liberals since . . .

Commercial liberalism has important implications for security affairs as well. Trade is generally a less costly means of accumulating wealth than war, sanctions, or other coercive means, not least due to the minimization of collateral damage. Yet governments sometimes have an incentive to employ coercive means
to create and control international markets. To explain this variation, domestic distributional issues and the structure of global markets are again critical. Commercial liberals argue that the more diversified and complex the existing transnational commercial ties and production structures, the less cost-effective coercion is likely to be... Yet economic development tends to increase the material stake of social actors in existing investments, thereby reducing their willingness to assume the cost and risk of coercion through war or sanctions... the advent of modern industrial networks, particularly those based on postindustrial informational exchange, has increased the opportunity costs of coercive tactics ranging from military aggression to coercive nationalization.

Republican Liberalism: Representation and Rent Seeking

While ideational and commercial liberal theory, respectively, stress demands resulting from particular patterns of underlying societal identities and economic interests, republican liberal theory emphasizes the ways in which domestic institutions and practices aggregate those demands, transforming them into state policy. The key variable in republican liberalism is the mode of domestic political representation, which determines whose social preferences are institutionally privileged. When political representation is biased in favor of particularistic groups, they tend to “capture” government institutions and employ them for their ends alone, systematically passing on the costs and risks to others. The precise policy of governments depends on which domestic groups are represented. The simplest resulting prediction is that policy is biased in favor of the governing coalition or powerful domestic groups.

A more sophisticated extension of this reasoning focuses on rent seeking. When particularistic groups are able to formulate policy without necessarily providing off-setting gains for society as a whole, the result is likely to be inefficient, suboptimal policies from the aggregate perspective—one form of which may be costly international conflict. While many liberal arguments are concerned with the seizure of state institutions by administrators (rulers, armies, and bureaucracies), similar arguments apply to privileged societal groups that “capture” the state, according to assumption 2, or simply act independently of it. If, following assumption 1, most individuals and groups in society, while acquisitive, tend also to be risk-averse (at least where they have something to lose), the more unbiased the range of domestic groups represented, the less likely they will support policies that impose high net costs or risks on a broad range of social actors. Thus aggressive behavior—the voluntary recourse to costly or risky foreign policy—is most likely in undemocratic or inegalitarian polities where privileged individuals can easily pass costs on to others...
Scholars also often overlook precise analogs to the “democratic peace” in matters of political economy. The liberal explanation for the persistence of illiberal commercial policies, such as protection, monetary instability, and sectoral subsidization, where such policies manifestly undermine the general welfare of the population, is pressure from powerful domestic groups. Thus in the liberal view the creation and maintenance of regimes assuring free trade and monetary stability result not primarily from common threats to national security or appropriate international institutions, but from the ability of states to overcome domestic distributional conflicts in a way supportive of international cooperation. This may ultimately reflect the economic benefits of doing so, as commercial liberal theory suggests, but it can also be decisively helped or hindered by biases in representative institutions. Where such biases favor sheltered groups, and substantial misrepresentation of this type is seen as endemic to most contemporary representative institutions, rent-seeking groups are likely to gain protection through tariffs, subsidies, favorable regulation, or competitive devaluation. Where policymakers are insulated from such pressures, which may involve less democratic but more representative institutions, or where free trade interests dominate policy, open policies are more viable.

Broader Implications of Liberal Theory

Do labels matter? I have explored three variants of liberal theory that share a set of assumptions. What is gained by subsuming them under a single rubric, as proposed here?

…[I]ts three variants—ideational, commercial, and republican liberalism—are stronger taken together than separately. Not only do they share assumptions and causal mechanisms, but their empirical implications aggregate in interesting ways. It is widely accepted, for example, that economic development has a strong influence on the viability of democratic governance, with its pacific implications; liberal democratic governments tend in turn to support commerce, which promotes economic development. Karl Deutsch, Ernst Haas, and Nye, among many others, have explored how economic interaction can lead to transnational communication and the dissemination of scientific information, which may in turn promote secularizing cognitive and ideological change.

Liberal theories can be analytically reinforcing even where they do not make parallel predictions. Anomalies within one variant of liberal theory may be resolved by considering other variants. Positive movement along one liberal dimension—pattern of national identity, democratic participation, or transnational economic transactions—may condone or exacerbate the negative distortions along another liberal dimension. Norman Angell, whose commercial liberal claims are often parodied by secondhand critics, maintained that his
well-known “unprofitability of war” thesis in no way implies “the impossibility of war,” a doctrine he dismissed for republican liberal reasons as a “ridiculous myth.” Where representative bias permits rent seeking groups to control policy, aggregate incentives for welfare—improving trade are likely to have less effect. Indeed, recent studies reveal that the correlation between economic interdependence and peace holds only (or most strongly) among liberal states. Conversely, where democratization heightens socioeconomic inequality, nationalist cleavages, uneven patterns of gains, and losses due to interdependence or extreme heterogeneity of interests—as may have occurred in the former Yugoslavia—it may exacerbate international economic and political conflict.

Liberal theory also illuminates at least three major phenomena for which realism and institutionalism offer few, if any, predictions—another indicator of greater parsimony. First, liberal theory provides a plausible theoretical explanation for variation in the substantive content of foreign policy. Neither realism nor institutionalism explains the changing substantive goals and purposes over which states conflict and cooperate; both focus instead on formal causes, such as relative power or issue density, and formal consequences, such as conflict and cooperation per se. By contrast, liberal theory provides a plausible explanation not just for conflict and cooperation, but for the substantive content of foreign policy. Major elements of international order emphasized, but not explained, in recent criticisms of realism and institutionalism include the difference between Anglo-American, Nazi, and Soviet plans for the post-World War II world; U.S. concern about a few North Korean, Iraqi, or Chinese nuclear weapons, rather than the greater arsenals held by Great Britain, Israel, and France; the substantial differences between the compromise of “embedded liberalism” underlying Bretton Woods and arrangements under the Gold Standard; divergences between economic cooperation under the EC and the Council for Mutual Economic Assistance; and the greater protectionism of the Organization for Economic Cooperation and Development’s agricultural policy, as compared to its industrial trade policy. Liberal IR theory offers plausible, parsimonious hypotheses to explain each of these phenomena.

Second, liberal theory offers a plausible explanation for historical change in the international system. The static quality of both realist and institutionalist theory—their lack of an explanation for fundamental long-term change in the nature of international politics—is a recognized weakness. In particular, global economic development over the past five hundred years has been closely related to greater per capita wealth, democratization, education systems that reinforce new collective identities, and greater incentives for transborder economic transactions. Realist theory accords these changes no theoretical importance. Theorists like Waltz, Gilpin, and Paul Kennedy limit realism to the analysis of unchanging patterns of state behavior or the cyclical rise and decline of great powers. Liberal
theory, by contrast, forges a direct causal link between economic, political, and social change and state behavior in world politics. Hence, over the modern period the principles of international order have been decreasingly linked to dynastic legitimacy and increasingly tied to factors directly drawn from the three variants of liberal theory: national self-determination and social citizenship, the increasing complexity of economic integration, and liberal democratic governance.

Third, liberal theory offers a plausible explanation for the distinctiveness of modern international politics. Among advanced industrial democracies, a stable form of interstate politics has emerged, grounded in reliable expectations of peaceful change, domestic rule of law, stable international institutions, and intensive societal interaction. This is the condition Deutsch terms a “pluralistic security community” and Keohane and Nye term “complex interdependence.”

Whereas realists (and constructivists) offer no general explanation for the emergence of this distinctive mode of international politics, liberal theory argues that the emergence of a large and expanding bloc of pacific, interdependent, normatively satisfied states has been a precondition for such politics. Consider, for example, the current state of Europe. Unlike realism, liberal theory explains the utter lack of competitive alliance formation among the leading democratic powers today. For example, the absence of serious conflict among Western powers over Yugoslavia—the “World War I scenario”—reflects in large part a shared perception that the geopolitical stakes among democratic governments are low. Similarly, liberalism makes more sense of the sudden reversal of East-West relations, a shift made possible by the widespread view among Russian officials (so interview data reveal) that Germany is ethnically satisfied, politically democratic, and commercially inclined.

The Conceptual Limits of Liberalism: Why Functional Regime Theory Is Not Liberal

….Those who choose to define liberal theory in terms of its intellectual history naturally conflate the belief in institutions with a concern about the societal sources of state preferences. Liberalism as an ideology and partisan movement has often been associated in the popular mind with advocacy of international law and organization, despite the views of many leading liberals. Others link these two arguments ideologically: Both seem to suggest an optimistic, ameliorative trend in modern world politics. Whatever the reason, contemporary “functional” theories of international regimes are often referred to as forms of “neoliberal institutionalism,” though it is fair to note that Keohane, originator of “functional regime theory,” has abandoned the term.
...[C]ontemporary regime theory ought more properly to be termed “modified structural realism” (as it was initially) or “institutionalism” (as some now prefer), rather than “neoliberal institutionalism.” ... This is not to imply, however, that liberal theory is of no utility in analyzing international regimes. To the contrary, it contributes to such analysis in at least two distinctive ways. First, liberal theory explains when and why the configuration of state preferences assumed by institutionalists—a mixed-motive collective action problem that can be overcome by the centralized manipulation of information through common rules—is likely to emerge. Since, moreover, particular institutional structures solve specific collective action problems, the configuration of preferences permits us to predict detailed characteristics of international regimes.

Second, liberal theory deepens the institutionalist account of regime stability. Realists argue that regime stability and expansion are functions of enduring hegemonic power; institutionalists maintain that the high interstate transaction costs of regime creation or renegotiation explain regime stability, even if patterns of functional benefits would recommend renegotiation. Liberal theory suggests an alternative hypothesis: namely that international regimes are stable when societal individuals and groups adjust so as to make domestic policy reversal (or even stagnation) costly—as neoliberalist regional integration theorists have long argued. This account is consistent with the transaction cost foundations of institutionalist reasoning but grounded in societal “lock in” effects and the resulting stability of state preferences, not the costs of interstate bargaining, monitoring, and sanctioning. Such “social embeddedness” may take the form of fixed investments by private firms, ideological commitments by political parties concerned about their reputation, costly institutional adaptation by domestic bureaucracies, or government investment in military defense.

The liberal view of regimes as “socially embedded” can be extended to suggest endogenous causes of regime change over time. International regimes that induce greater societal demands for cooperation are more likely to deepen or expand over time, whereas those that do not are likely to be fragile. One example is the liberal account of international law, which suggests that international rules and norms are most effectively implemented as “horizontal commitments” enforced by national courts and parliaments, not “vertical commitments” enforced by supranational actors, and that such horizontal commitments can generate self-sustaining momentum over time by empowering particular domestic groups.

... A final word to those readers who object to using the term liberal to distinguish this restatement. Such potential critics fall into two groups. One group is likely to find this formulation of liberal theory too narrow, the other too broad.

The first group of critics will protest that this restatement fails to acknowledge the full richness of the intellectual history and, in particular, the normative implications of liberalism. This criticism is correct, but the omission is deliberate. This
article does not aim to provide a comprehensive intellectual history of classical liberal international thought, nor a self-sufficient guide to the normative evaluation of policy, but to distill a coherent core of social scientific assumptions for the narrower purpose of explaining international politics. The project is best judged on its own terms—the four criteria outlined in the preceding section—not its fidelity to prior usage.

The second group of critics will complain that liberalism has too many definitions as it stands, most too vague to be useful. Some reject altogether the use of “isms” to designate foundational theoretical positions in IR. This criticism is semantic rather than substantive. In contrast to other fundamental divisions—for example, those between domestic and systemic “levels of analysis,” optimistic and pessimistic prognoses, or realist, liberal, and Marxist ideologies—the tripartite division among realism, liberalism, and institutionalism is fully consistent with the foundation of rationalist social theory, which divides the determinants of social behavior into three categories: interests, resources, and institutions or information. Those who view state behavior as the result of a process of constrained choice would do well to champion rather than criticize efforts to impose greater theoretical coherence and consistency on theories of rational state behavior.

Either type of critic may nonetheless prefer to call liberal theory a “societal,” “state-society,” “social purpose,” or “preference-based” theory. The central claims of this article, however, remain intact. First, major IR theories should be divided into those that stress the pattern of state preferences, the distribution of resources, and the institutional provision of information. Second, greater priority should be given to the further development of the first category. This development need not proceed ad hoc, but can be achieved by grounding such efforts in the common assumptions and causal processes proposed here. Only further research can reveal their full empirical power; yet existing studies—from explanations of the democratic peace to endogenous tariff theory to theories relating domestic institutions and ideas to foreign policy—suggest considerable promise. Third, a liberal theory of state preferences is the most fundamental type of IR theory. Hypotheses that endogenize changes in state preferences deserve equal treatment in monocausal explanations and analytical priority in multi-causal ones, because liberal theory defines the theoretical and empirical domains in which it is appropriate even to consider realist and institutionalist claims. Thus those who ignore liberal theory do not simply sacrifice comprehensiveness; they undermine valid empirical evaluation of their own theories. Only by building on these three conclusions can liberals and their critics supplant debates over labels with debates over data.
Contemporary economic nationalist theories of IPE have two distinct yet overlapping lineages. The first is IR realism established by scholars such as Robert Gilpin at the foundation of modern IPE in the 1970s. Realists emphasized the importance of the political and security interests of states in shaping economic outcomes. In this way they stood as interdependence theory’s original detractors, seeing not only state power in general but even state military power as a sphere of activity both autonomous from and conflicting with economic logic while also being the primary determinant of “the framework of economic activity.” The second is the wave of scholarship beginning in the 1980s dedicated to “bringing the state back in” to social analysis. States as explicit objects of study faded from political science and other social sciences in the 1950s and 1960s under the dominant influence of society-centric social theories, first liberalism and later Marxism. The neglected scholarly tradition of Max Weber and Continental European work more generally invigorated research, which started seeing states as uniquely powerful bureaucratic actors pursuing interests of their own. Much of comparative politics and comparative political economy in particular came to embrace the state’s return to prominence, although IPE also felt its influence. Both lineages share a common foundation in turning liberalism on its head and making politics the premise of economics.

Robert Wade (b. 1944) came to IPE via development studies and comparative political economy, and his work shows itself well placed within the economic nationalist tradition pioneered by Alexander Hamilton and Friedrich List. Wade argues not only against liberal IR theory but liberal economic theory as well. His argument in *Governing the Market* is a direct attack on neoliberal Washington consensus policies advanced by international development institutions during the 1980s and 1990s. Liberals argued that economic development needed to be guided by adherence to the fundamental principles of the market, often summed up as “getting prices right.” Wade set out to show instead that the most successful
economic development cases in the world—the newly industrializing countries of East Asia—were supported and even led by strong autonomous states who intentionally set out at times to “get prices wrong.”

Wade refers to his approach as a “governed market” theory of development, distinct both from classical liberal “free market” as well as revised liberal “simulated free market” theories in which states help markets to get prices right. In such a theory, economic development stands as an overarching political-economic policy objective advanced by an autonomous and centralized state bureaucracy. Consistent with Hamilton and List, Wade argues that the principal engine of economic growth is rapid capital accumulation. To accomplish this, the state manipulates markets and firms to increase corporate profits, which become the capital investments of the future, and to increase employment, which supports domestic consumer markets as well as the political popularity of the government. In the governed market theory, development occurs far more rapidly than it would under laissez faire, thanks to exceptionally high levels of capital investment, state investment targeting, and managed exposure to foreign competition. Yet not only do developmental states significantly aid capitalists in doing what they would have done anyway. These states also lead capitalists to new industries and investments they would not have pursued on their own.

The excerpt here focuses on Taiwan’s experience after WWII. Wade finds that the governed market theory best explains the country’s economic development. Echoing classical Marxism, Wade argues that monopolistic and oligopolistic global markets are impediments to development in poor countries. Yet he shows that the developmental state can help national firms break into such markets. For example, the Taiwanese state successfully led Taiwanese capitalists into new technology- and/or capital-intensive industries in the 1950s and 1960s including steel, petrochemicals, and semiconductors. In addition, the state used controls on foreign capital investment to force linkages with domestic producers that would not have occurred otherwise. Strategic use of non-tariff trade barriers also aided development. Wade is careful to admit that liberals are not wholly wrong. The free market has been important in advancing Taiwanese development, and the state does not have to or even want to guide every market. However, state guidance of the large-scale sector is the most important part of the story.

Benjamin J. Cohen (b. 1937) is a representative of the IR realist branch of contemporary economic nationalist IPE, best seen in his analytic fusion of liberal economics and state power. The foundation of Cohen’s theorizing is standard macroeconomics. Since international trade (and investment) is not barter but accomplished through money, countries whose imports and exports are not equal face international payments imbalances. Within a perfectly competitive market economy, these imbalances tend to cancel each other out through the kinds of processes that David Hume highlighted as far back as the eighteenth
Contemporary Economic Nationalist Theories

century. Yet contrary to Hume, Cohen observes that international payments imbalances are not governed by ineluctable economic laws. While imbalances may have tendencies toward resolution, they also persist far longer than pure economic theory would suggest and often show little sign of following what economists call “the fundamentals.” Instead, Cohen argues that payments imbalances can be policy objects in their own right, manipulated by states through what he calls “monetary power.”

National economies that are far from balance face “costs of adjustment.” For countries facing payments deficits, adjustment involves a permanent reduction in consumption (of imports). While certainly no mercantilist, Cohen gives support to the classical mercantilists’ sensitivity to balance of payments deficits and the political benefits of being in surplus. For both deficit and surplus countries, adjustment also involves politically challenging and often painful reallocations of productive resources through changes in exchange rates, inflation rates, and unemployment rates, as well as state responses in the form of fiscal and monetary policy. For these reasons, states have an interest in both delaying adjustment as well as deflecting its costs onto others.

Cohen’s question is the central economic nationalist question: “who pays?” Countries in surplus face the potential costs of unwanted economic stimulus and inflation. Countries in deficit face the potential costs of unwanted economic austerity, unemployment and perhaps even outright deflation. What determines the distribution of these costs is states’ “power to delay” and “power to deflect” exercised as a function of the international prominence of their currency. Countries that produce influential currencies can delay through their ability to borrow more money more cheaply in international capital markets. Those with deep domestic financial markets are also able to attract greater international financial flows. Finally, states with large foreign exchange reserves reduce their vulnerability to the vagaries of global credit markets. Cohen argues that the power to deflect is mainly a function of the structural position of the national economy in the international political economy. A small open economy is more sensitive to the international value of its currency, while one with a large domestic market is more able to force costs onto its trading partners. The contribution of economic wealth to state power goes far beyond merely enabling military spending. Money itself is a vehicle of state power.
The Free Market (FM) Theory of East Asian Success

An abundant literature attributes the industrial success of the five NICs [newly industrialized countries] Japan, Taiwan, Korea, Hong Kong, and Singapore to their reliance on free markets...Referring to the five, Edward Chen asserts that “state intervention is largely absent. What the state provided is simply a suitable environment for the entrepreneurs to perform their functions.” Such practices as “directing resources to the desired channels by state intervention” are part of central planning and have no part in the development of the East Asian five...Milton and Rose Friedman, in Free to Choose, make the same point on a still grander scale: “Malaysia, Singapore, Korea, Taiwan, Hong Kong and Japan—relying extensively on private market—are thriving...By contrast, India, Indonesia, and Communist China, all relying heavily on central planning, have experienced economic stagnation.”

According to this “free market” (FM) theory, East Asia does better than other newly industrializing countries because the East Asian state interferes hardly at all in the working of the market. The other countries have been held back from the development they would have achieved in the “normal” course of events by excessive state intervention, especially in foreign trade.

The Simulated Free Market (SM) Theory of East Asian Success

Some neoclassical economists conclude that the governments of East Asia did more than just liberalize markets and lower distortions. In their view the governments also intervened more positively to offset other distortions, both those caused by other policies (e.g., import controls) and those remaining from government failure to change distortion inducing institutions directly (e.g., segmented financial markets). Frederick Berger states the argument as follows: “I believe that the crux of the Korean example is that the active interventionist attitude of the State has been aimed at applying moderate incentives which are very close
to the relative prices of products and factors that would prevail in a situation of free trade... It is as though the government were 'simulating' a free market.”

This is similar to Gary Saxonhouse’s argument that Japan’s peculiar institutional features are merely the functional equivalent of different arrangements in other countries. Its industrial policy, for example, is but a substitute for information which is provided by better developed capital markets in the West.

Jagdish Bhagwati endorses a further type of government intervention in support of what he calls the “export promotion” (EP) strategy. An EP strategy is a set of policies which results in the average effective exchange rate for importables being approximately equal to that for exportables. The most important thing the government of an underdeveloped country can do to promote growth, he implies, is to maintain an EP strategy, and this requires government intervention. “The Far Eastern economies (with the exception of Hong Kong) and others that have come close to the EP strategy have been characterized by considerable government activity in the economic system. In my judgment, such intervention can be of great value, and almost certainly has been so, in making the EP strategy work successfully.” However, Bhagwati’s desirable interventions are restricted to those which increase producers’ confidence in the government’s commitment to the EP strategy. “By publicly supporting the outward oriented strategy, by even bending in some cases towards ultra-export promotion, and by gearing the credit institutions to supporting export activities in an overt fashion, governments in these [Far Eastern] countries appear to have established the necessary confidence that their commitment to the EP strategy is serious, thus inducing firms to undertake costly investments and programs to take advantage of the EP strategy.” He mentions in passing that the EP strategy does not preclude import substitution in selected sectors but gives no attention to this combination.

This “simulated free market” (SM) theory differs from the FM theory in terms of the distinction between a free (or liberal) trade regime and a neutral trade regime. The former is one with no or few impediments to imports; the latter is one where any incentive for domestic producers to sell on the domestic market rather than export, because of protection, is offset by export subsidies. This means that, overall, a U.S. dollar of exports fetches, in local currency, the same as a U.S. dollar of imports, when all export subsidies and tax credits and all import premia resulting from quantitative restrictions and tariffs are included. So a neutral trade regime may go with some government intervention, including protection of the domestic market. The important point, according to this theory, is that the incentive effect of such protection in biasing sales toward the domestic market should be offset, in aggregate, by export promotion measures. The Far Eastern countries have managed to do this, according to Bhagwati, which is a large part of the reason why they have been so successful compared to others which have not.

However, the proponents of the SM view have shown little interest in analyzing the nature of government intervention in East Asia, though they recognize
its existence. And they also place primary causal weight on the character of the trade regime for explaining economic performance. For both reasons, the SM theory can be considered a variant of the core neoclassical theory, which links economic success to self-adjusting markets.

The Governed Market (GM) Theory of East Asian Success

Over the past decade or so, another stream of literature has emphasized the directive role of the state in East Asia...

Chalmers Johnson has sketched a model of the “capitalist developmental state,” based on the institutional arrangements common to the high-growth East Asian capitalist countries. These arrangements are characterized, he says, by the following features:

1. The top priority of state action, consistently maintained, is economic development, defined for policy purposes in terms of growth, productivity, and competitiveness rather than in terms of welfare. The substance of growth/competitiveness goals is derived from comparisons with external reference economies which provide the state managers with models for emulation.

2. The state is committed to private property and the market and limits its interventions to conform with this commitment.

3. The state guides the market with instruments formulated by an elite economic bureaucracy, led by a pilot agency or “economic general staff.”

4. The state is engaged in numerous institutions for consultation and coordination with the private sector, and these consultations are an essential part of the process of policy formulation and implementation.

5. While state bureaucrats “rule,” politicians “reign.” Their function is not to make policy but to create space for the bureaucracy to maneuver in while also acting as a “safety valve” by forcing the bureaucrats to respond to the needs of groups upon which the stability of the system rests: that is, to maintain the relative autonomy of the state while preserving political stability. This separation of “ruling” and “reigning” goes with a “soft authoritarianism” when it comes to maintaining the needs of economic development vis-a-vis other claims, and with a virtual monopoly of political power in a single political party or institution over a long period of time.

This picture of a centralized state interacting with the private sector from a position of preeminence so as to secure development objectives has been
called the “developmental state” theory of East Asian industrial success. It is not, however, much of a theory. Its specification of institutional arrangements is descriptive rather than comparative analytic, so what the developmental state is contrasted with is not clear. It also says little about the nature of policies and their impact on industrial performance. Indeed, Johnson’s institutional arrangements are for the most part as consistent with simulated free market policies as with more directive ones. I now propose a “governed market” theory which builds on both the idea of the developmental state and on the older development economics’ understanding of the nature of the development problem.

The governed market (GM) theory says that the superiority of East Asian economic performance is due in large measure to a combination of: (1) very high levels of productive investment, making for fast transfer of newer techniques into actual production; (2) more investment in certain key industries than would have occurred in the absence of government intervention; and (3) exposure of many industries to international competition, in foreign markets if not at home. These are the proximate causes. At a second level of causation, they are themselves the result, in important degree, of a set of government economic policies. Using incentives, controls, and mechanisms to spread risk, these policies enabled the government to guide—or govern—market processes of resource allocation so as to produce different production and investment outcomes than would have occurred with either free market or simulated free market policies. At the third level of explanation, the policies have been permitted or supported by a certain kind of organization of the state and the private sector. Let us specify the policies and the organizational arrangements in more detail.

Johnson’s picture of the developmental state can be recast to fit with concepts developed elsewhere in political science for comparing political regimes. The relevant distinctions are “democratic versus authoritarian” and “pluralist vs. corporatist.” The first refers to the rules by which rulers are chosen. In democratic regimes the rulers are chosen by a process much influenced by popular preferences, while in authoritarian regimes they are selected by methods which give relatively little scope for the expression of popular sentiment. The second distinction refers to relations between interest groups and the state. In pluralist regimes, interest groups are voluntary associations, free to organize and gain influence over state policy corresponding to their economic or political resources. The process of government consists of the competition between interest groups, with government bureaucracies playing an important but not generally dominant role. In corporatist systems the state charters or creates a small number of interest groups, giving them a monopoly of representation of occupational interests in return for which it claims the right to monitor them in order to discourage the expression of “narrow,” conflictful demands. The state is
therefore able to shape the demands that are made upon it, and hence in intention maximize compliance and cooperation.

The corporatist and authoritarian political arrangements of East Asia have provided the basis for market guidance. Market guidance was effected by augmenting the supply of investible resources, spreading or “socializing” the risks attached to long-term investment, and steering the allocation of investment by methods which combine government and entrepreneurial preferences. In particular, the governments guided the market by: (1) redistributing agricultural land in the early postwar period; (2) controlling the financial system and making private financial capital subordinate to industrial capital; (3) maintaining stability in some of the main economic parameters that affect the viability of long-term investment, especially the exchange rate, the interest rate, and the general price level; (4) modulating the impact of foreign competition in the domestic economy and prioritizing the use of scarce foreign exchange; (5) promoting exports; (6) promoting technology acquisition from multinational companies and building a national technology system; and (7) assisting particular industries. (For Japan post-1970/73 we would also have to include industry-specific policies to ease decline. Throughout the reference is to Japan before this time.)

I am especially interested in the policies to assist particular industries. This is not because I think that industry-specific policies were causally more important than the others. But they were important enough, and yet have been almost completely ignored in most of the economics literature about the Taiwanese and Korean “economic miracles.” Neglect of these policies matters particularly because it is in the histories of specific industries that one can most clearly see the government in action.

However, the existence of sectoral policies does not in itself mean that they produced significantly different outcomes from free market or simulated free market policies. They might merely put the government’s seal of approval on some private sector projects by way of mild assistance for something that private firms would have done anyway in response to price signals alone. In that case we could dismiss sectoral policies as mere “hand-waving” or “window-dressing.”

To clarify the issue, let us distinguish between leading the market and following the market. Sectoral policies lead the market when the government takes initiatives about what products or technologies should be encouraged, and puts public resources or public influence behind these initiatives. A clear case is where the government proposes a project to private firms, the private firms decline, and the government goes ahead through a public enterprise. On the other hand, sectoral policies follow the market when the government adopts the proposals of private firms about new products and new technologies. If private firms propose to make the quantum jump from fabrication of
I6K to 64K DRAM chips and ask for government assistance, then government assistance follows the market.

Leading and following should be qualified by the degree of additionality. When government helps firms to do what they would have done anyway, this is—with apologies to the English language—"small followership." When government assists firms significantly to extend the margin of their investments, this is "big followership." We can use "big leadership" to refer to government initiatives on a large enough scale to make a real difference to investment and production patterns in an industry, and "small leadership" to refer to government initiatives which on their own carry too few resources or too little influence to make a difference.

The FM and SM theories of East Asian industrial success can accommodate the fact of sectoral policies by saying or implying that they constitute merely "small followership." The GM theory says that the governments’ industry-specific policies went beyond "small followership," to either or both "big leadership" and "big followership." Interventions of these types suggest that the production and investment outcomes were different from what would have occurred with free market or simulated free market policies, the difference being greater for big leadership than for big followership. The fact of a difference does not in itself imply that the difference helped or hindered development. Whether it helped or hindered has to be established independently.

Let us now summarize the main differences between the GM theory and the other two. The FM and SM theories emphasize efficient resource allocation as the principal general force for growth, and therefore interpret superior East Asian performance as the result of more efficient resource allocation than in other LDCs or NICs. This more efficient resource allocation comes from more freely functioning markets, including closer integration of domestic product markets into international markets. Hence these countries show the virtues of "getting the prices right," where "right" means domestic prices in line with international prices. The GM theory, on the other hand, emphasizes capital accumulation as the principal general force for growth, and interprets superior East Asian performance as the result of a level and composition of investment different from what FM or SM policies would have produced, and different, too, from what the "interventionist" economic policies pursued by many other LDCs would have produced. Government policies deliberately got some prices “wrong,” so as to change the signals to which decentralized market agents responded, and also used non-price means to alter the behavior of market agents. The resulting high level of investment generated fast turnover of machinery, and hence fast transfer of newer technology into actual production.

The FM and SM theories are silent on the political arrangements needed to support their policies. The GM theory emphasizes the developmental virtues of
a hard or soft authoritarian state in corporatist relations with the private sector, able to confer enough autonomy on a centralized bureaucracy for it to influence resource allocation in line with a long-term national interest which sometimes conflicts with short-run profit maximizing. The state’s steering of resource allocation is the economic counterpart to its political restrictions on “free trade” in interest groups.

Taiwan—Reprise

To test these theories, we need to establish to what extent their postulated causes have been present in East Asia. For Taiwan, we have seen much evidence consistent with the FM or SM variants… For example, export producers have enjoyed near (but not complete) free trade conditions, thanks to the duty drawback scheme and an accompanying easing of nontariff barriers. The labor market is free, being little affected by trade unions, minimum wage legislation, public sector pay policy, multinational companies, or employers’ associations. The unregulated or “curb” market for finance also fits the FM theory, and it is quite substantial, accounting for roughly 30 percent of loans processed through the whole financial system over the 1970s. The myriad small firms also operate in fairly free domestic market conditions, untrammeled by government controls and little affected by government incentives schemes until their transactions involve the international economy. Recall, however, that the 96 percent of firms with under one hundred employees produce only about a quarter of manufacturing output and value-added. Finally, one should include here the government’s provision of a range of public goods. These include macroeconomic stability (as seen in low inflation and a stable real effective exchange rate), and heavy investment in education and infrastructure.

The simulated free market (SM) theory also receives support from several policy areas. Figures from 1969 suggest that in that year export subsidies offset the incentive bias of protection, resulting in no overall discrimination in favor of importables and against exports. So in that year and quite possibly in subsequent years too, the trade regime was on average neutral, or in Bhagwati’s terminology, export promoting. Also, overall incentives toward agriculture and industry were in the same year approximately neutral between them. (But as we have seen and will see again, methodological weaknesses lower our confidence in the picture of overall neutrality derived from the 1969 figures.) The market for bank credit fits the SM theory insofar as interest rates, though set by government, have been high compared to other countries (notably Korea and Japan), though still well below the curb market rate. The government’s functional industrial policies—to subsidize vocational education, improve the access of small and medium businesses to credit, and subsidize industrial research and development—could be
taken to support the SM theory. Although government expenditure to GNP has not been low in relation to other countries at roughly the same income level, the government budget has been in overall surplus in most years, providing a cap on the government’s interventions in the market and specifically on its ability to “distort” prices by tax subsidy measures. The large public enterprise sector has been a net contributor to government revenues (though some individual public enterprises consistently suffer losses) . . .

However, the main point is that plenty of evidence from Taiwan fits the FM and SM theories. The issue is how to weigh it against that which better fits the GM theory. There are two central questions: (1) To what extent have the government’s interventions changed the pattern of investment from what free market prices would have generated, so as to carry out a planned pattern of sectoral growth? (2) To what extent have the government’s interventions made for faster economic growth than otherwise? Or to put the questions another way, how much economic liberalization has occurred, and how important was that degree of liberalization to the result?

How nice to be able to construct a megalomaniacal multisectoral model of the economy with all macro and industrial policies represented. One would calculate second- and third-round effects, and then draw conclusions about both the net bias of incentives between industries and the effects of those incentives on output and investment. A neoclassical economist would hope to find that assistance given to one industry is cancelled out by assistance given to others, so that the result of all those industry specific efforts is, in the end, neutrality. The conclusion would probably be drawn that the entire array of industry measures could be withdrawn at a stroke, leaving relative prices and resource allocations unchanged. For it is commonly assumed in neoclassical analysis that the allocation of resources in an economy where neutrality is being contrived by policy measures is much the same as where there is no government intervention.

But the assumption rests on faith. My argument for Taiwan is more modest. I accept that much investment has been undertaken in response to relatively uninhibited price formation. From that point on I make a whole series of qualifications. First, the process of relatively uninhibited price formation reflects the underlying “social structure of investment.” The government has acted to alter this structure profoundly, making it more conducive to industrial investment. The land reform is a clear example, which removed the possibility of future wealth accumulation in the form of large land holdings, Filipino-style.

The financial system controls are another clear example, which limited the possibility of future wealth accumulation through money-lending. In short, by preventing nonindustrial classes from acquiring wealth and political power the government helped to form a class of industrial capitalists and assure that its interests dominated those of the private owners of land, real estate, and financial
assets. These government efforts to shape the social structure of investment indirectly affected the pattern of even the freely formed prices.

Second, the government has affected relative prices in such a way as to enhance industrialists’ profits and thereby encourage more investment. It fixed low agricultural prices in the 1950s and 1960s (compensating farmers by low input costs and by socializing risks), which allowed industrial wages to be lower and industrial profits and investment to be higher. It measured that labor costs were not driven up by union power. It has protected some domestic industries, allowing higher prices. It used fiscal investment incentives and concessional credit to lower costs of production and thereby drive investment first in heavy and chemical industries, more recently in electronics and machinery. It lowered the costs of export production by subsidies, duty-drawbacks, and the like.

Third, the government has used a number of more direct methods to shape the investment pattern. This is clearest in the case of the public enterprise sector, one of the biggest in the noncommunist world. Controls on incoming and outgoing direct foreign investment are another case in point. Also, the government has exerted a direct influence over the sectoral distribution of investment funds by means of its ownership of the banking system and its control of foreign exchange.

Almost certainly some of Taiwan’s industries and some of its exports would not have been initially profitable without state encouragement. That they were profitable after the event reflects the use of the price mechanism to validate investment decisions taken on grounds other than current efficiency. The government pushed and pulled the structure of relative prices to secure a pattern of growth which it mapped out in advance in rolling plans.

Admittedly there is not much “hard” quantitative evidence for this interpretation, any more than there is for the FM and SM theories. But ironically, some supporting quantitative evidence comes from the same data as others use to say that Taiwan has a neutral trade regime. We saw that this conclusion is questionable on methodological grounds. The methodological difficulties aside, we find, taking the figures at face value, that different manufacturing industries have different policy-induced incentives. The dispersion of effective subsidy rates with respect to domestic market sale in 1969 was not far short of Argentina’s; and for two important manufacturing sectors, consumer durables and intermediate goods of higher levels of fabrication, Taiwan had the second highest effective subsidy levels in the six-country study. Since the dispersion is around a low average, it is likely that the differential resource pulling effect is greater than the same dispersion around the high Latin American averages. And it is also likely that the dispersion results from intended differences between industries rather than from accidental causes. Furthermore, government policies make for much variation between manufacturing sectors in their incentives to sell abroad or on
the domestic market. There is an “incentives twist” between export-oriented industries and import-competing industries, the former having net incentives to sell abroad and the latter having net incentives to sell domestically. By contrast, policy incentives in developing countries commonly give net disincentives even to export-oriented industries (by comprehensive protection and perhaps by export taxes). In this respect Taiwan is on the side of neoclassical virtue. But its anti-export bias for the import-competing industries (achieved in large part through protection) is against neoclassical precepts. Recall, however, that these figures, being for one year only, do not allow us to test a crucial proposition of the GM argument, that the incentives for industries classified at one point in time as import-competing subsequently are reversed so as to remove the earlier antiexport (pro-domestic market) bias. Finally, it must be remembered that surprisingly little information is available on how the level of protection in Taiwan compares with other countries.

Still another kind of evidence refers to the timing of events. The period 1968-70 marked the end of “surplus labor” and can therefore be taken as a rough indicator of a basic change in Taiwan’s comparative advantage. If investments in heavy and chemical industries were determined as a response to changes in comparative advantages—a response to changes in market signals—one would expect to find high investment and rates of growth following the end of labor surplus. But if government was the principal influence on investment in heavy and chemical industries and if it acted to anticipate changes in comparative advantage, one would expect to find high investment and rates of growth prior to the end of labor surplus. This, in fact, is what we find.

This evidence suggests that the government “led” rather than “followed” the preferences of private market agents in the heavy and chemical industries during the 1950s and 1960s. Our examination of sectoral histories provides more evidence of leadership. Cotton textiles, synthetic fibers, plastics, other petrochemicals, basic metals, shipbuilding, machine tools, automobiles, and industrial electronics show that the government has frequently initiated new capacities in important industries, often using public enterprises linked to multinational corporations. Broadly speaking, government intervention of a leadership kind has focused on industries or projects which are capital intensive (e.g., steel, petrochemicals), or which use technology that must be imported from a small number of potential suppliers (e.g., semiconductors), and also industries with an intimate relationship to national security (e.g., shipping). Leadership is concentrated on industries that are expected to become internationally competitive but have not yet become so, and on industries which, though losing competitiveness, the government considers important for the economy’s future growth. It is absent in industries or projects without these various characteristics (e.g., wigs, wallets, and most nondurable consumer goods). Within “high
intervention” industries, leadership episodes are concentrated at the stage of creating distinctly new capacities (whether in new or existing industries), especially when the creation faces large indivisibilities or other entry barriers. So in any one industry, and in the industrial sector as a whole, we can distinguish episodes of leadership, followership, and laissez-faire. Sometimes the episodes begin with leadership and then move to followership (as in some of the heavy and chemical industries); sometimes they begin with laissez-faire or followership and then move to leadership (as in machine tools, where the government saw that without more assistance most of Taiwan’s machine tool makers would not succeed in making the jump to computer controlled machine tools).

As well as the sectoral histories, we examined policy instruments directly, and found that the government has a powerful enough register of instruments to exercise market leadership… For example, the apparatus of trade management could be used to give the government powerful leverage, because of the importance of trade for the whole economy. Public enterprises could be used to undertake big pushes in important industries. They tend to be concentrated in upstream sectors, from where they can create incentives and pressures for growth in downstream industries. And they tend to be strong in industries that would otherwise be dominated by multinational companies. The rules governing entry of direct foreign investments—as to industry, technology transfer, local content, and exports—enable the government to use direct foreign investment as another way, in addition to public enterprises, of creating incentives and pressures for further growth of domestic firms and industries the government wishes to encourage. Evidence shows the government to have been fairly successful in directing foreign investment into industries with high potential linkages.

The organizational arrangements for formulating and implementing industrial policies are such as to make plausible the claim that the government led the market in a coherent rather than ad hoc way… Until recently the policy network hardly included representatives of private business, and the government retained a striking degree of autonomy in setting the directions and details of policy. This reflects the leaders’ suspicion of big Chinese capitalists, a suspicion formed during the mainland period and nurtured within the National Resources Commission, where many of those who formed Taiwan’s industrial policies were trained. But a few policy instruments do grant private producers some influence. Nontariff barriers, for example, are set through procedures which give private actors somewhat more influence than is the case for tariffs and fiscal investment incentives. And as we saw, interest group variables do in fact yield a little more quantitative explanation of non-tariff barriers than of tariffs—though even non-tariff barriers are explained mostly by national policy variables.

However, most businesspeople would scoff at the idea that government led the market in a coherent way. They are quick to voice an ineradicable gloom
about the government’s ability to do anything right. They treat agencies like the Industrial Development Bureau and CETRA as a joke—for which they pay with their taxes. The case of CETRA is telling. Although businesspeople often claim it is useless, a study of the trade promotion offices of five developing countries in New York showed the CETRA office to be the most effective. Computer firms which complain about the incompetence of ERSO, the national R&D laboratory for electronics, nevertheless join ERSO’s R&D consortia not once, but several times over. The reason why many Taiwan businesspeople deny that government helps business has to do with basic political facts. Most businesspeople are native Taiwanese, facing a government that they still tend to identify as mainland-dominated and therefore different, if not still alien. And many senior industrial policy-makers have not altogether concealed their distaste for private businessmen, in deeds if not in words. These two factors help to explain the “culture of pessimism” about the government to be found in native Taiwanese business circles.

In short, several kinds of evidence suggest that the Taiwan government has exercised a significant amount of big leadership in some industries some of the time, meaning government initiatives on a large enough scale to make a sizable difference in investment and production patterns in the industry. We can also be fairly sure it has exercised a significant amount of big followership, even though it is difficult to judge case by case whether firms would have undertaken the investment without the assistance. In terms of the confrontation with the FM or SM theories, what matters is that the Taiwan government has gone well beyond small followership in its sectoral industrial policies, while small followership is the only interpretation of East Asian sectoral industrial policies which those theories can comfortably accommodate.

The fact of big leadership or big followership does not mean that government intervention has been effective in promoting economic growth; it only means that government intervention cannot be dismissed as having made a negligible difference to outcomes. But the balance of presumption must be that government industrial policies, including sectoral ones, helped more than they hindered. To argue otherwise is to suggest that economic performance would have been still more exceptional with less intervention, which is simply less plausible than the converse. Beyond presumption, we can be sure that the nonprice and distorted-price squeeze on agriculture in the 1950s and 1960s helped overall growth; for Taiwan was already near the productivity ceiling for rice-based agriculture, which was much below the possibilities in industry. For particular industries, all we can be sure of is that vigorous assistance has not impeded their international competitiveness (e.g., in steel, petrochemical, large-capacity chips).

Yet to repeat, plenty of evidence from Taiwan is consistent with the FM/SM theories. In a sense, the Taiwan economy can be thought of as containing both
the Hong Kong paradigm and the Korean or Japanese paradigm. Those who say that Taiwan’s success is due to free markets tend to assume that the small-scale segment constitutes the whole economy. Those who emphasize the developmental state or governed market aspects may overlook the extent to which most firms, in terms of numbers, have had relatively untrammeled freedoms. However, while the government’s direct role in the small-scale sector resembles the Hong Kong approach, the sector works rather differently from Hong Kong’s. The large-scale sector provides an envelope for its activities through interdependence on both the demand and the supply sides. Large amounts of credit, technical assistance, and skilled labor come to small firms directly from large firms. By setting directions for the large-scale sector, the government influences the configuration of risks and profit opportunities for small-scale firms. Indirectly, through its effect on investment within the large-scale sector, the government influences broad trends with the small-scale sector as well.

Conclusions

The key question is what has determined the level and composition of investment in these countries. There are plenty of facts about Taiwan, Korea, and Japan which better fit the neoclassical FM and SM theories and the political economy of GM theory. But it is clear both that less economic liberalization occurred in the 1960s and 1970s than neoclassical accounts suggest, and that much government intervention has gone beyond the limits of “good” neoclassical interventions. Government resources and influence have prompted investments to be undertaken which would not have been undertaken in strictly FM or SM conditions, thereby generating production and investment outcomes different from what would have happened if government had not intervened in this way.

Indeed, the central economic mechanism of the capitalist developmental state is the use of state power to raise the economy’s investible surplus; insure that a high portion is invested in productive capacity within the national territory; guide investment into industries that are important for the economy’s ability to sustain higher wages in the future; and expose the investment projects to international competitive pressure whether directly or indirectly. The resulting intense cycle of investment within the national territory leads to rapid rises in labor demand, and hence to increases in labor incomes and wide distribution of the material benefits of growth (even in the absence of collective labor organization).

The balance of presumption must be that economic liberalization matters less in an explanation of East Asian success than neoclassical accounts suggest, and that actual performance was better than it would have been with FM or SM policies alone. We can grant Adam Smith his point about the efficacy of
eighteenth-century English government: “Though the profusion of government must, undoubtedly, have retarded the natural progress of England towards wealth and improvement, it has not been able to stop it”… It is less plausible to say that the three countries with arguably the best development performance on record would have had still better performance had their governments intervened less, than to say that interventions made with the clear intention of accelerating development and formulated by a coherent organization did indeed have the intended effect. Those who deny this are claiming extraordinary ability to forecast historically unprecedented performance. The resumption is strengthened by the weaknesses in arguments which claim that the selective industrial policies of one or other countries on balance had either no effect or an adverse effect….

But the difference between what happened in East Asia and experience elsewhere does not lie in the discovery of industrial policy instruments not known elsewhere. Many other nations have at one time or another tried most of the policy tools used in East Asia. What differentiates their efforts, above all, are a consistent and coordinated attentiveness to the problems and opportunities of particular industries, in the context of a long-term perspective on the economy’s evolution, and a state which is hard enough not only to produce sizable effects on the economy but also to control the direction of the effects, which is a more demanding achievement.

These efforts have been on too big a scale to be brushed aside as something which is small in relation to phenomena that are well handled by neoclassical theory. Nor can they be treated as a simple add on to neoclassical actions as though the governments first met some of the neoclassical growth conditions and then went a step beyond. Rather, they probably helped those conditions to be realized and sustained. The way remains open for a reasonable person to believe that governing the market is too important to ignore in even a parsimonious explanation of East Asian success. Conversely, one should not project backwards the real economic liberalization which has occurred in Taiwan and Korea over the 1980s and Japan during the 1970s and assume they reached their present affluence by an economy as guided by free market prices as today. A less-than-bracing conclusion, maybe, but a serious challenge to economic theory nonetheless.

But the very success of these arrangements in Taiwan and Korea is causing fundamental changes in the relationship of the states to the society, as it did in Japan in the early 1970s. Rising affluence and education make for large middle classes, which demand democracy. Stronger private firms are better able to resist government direction. Government industrial policies are more conditioned by negotiations with private firms and industry associations. All this has occurred in the context of a diminished external security threat, which weakens the justification for tight government controls.
The interesting question for the future is how this more democratic and social corporatist political system will handle the growing tension between the interests of the owners and managers of internationally mobile capital, on the one hand, and those who depend on domestic industry for their incomes, on the other. From the standpoint of the former, the rapid rise of labor incomes within Taiwan and Korea—a primary indicator of national economic success—constitutes a problem: it means a rise in cost, which eats into profits. Whereas in the past, when they were less internationally mobile, they saw the economic nationalism of the developmental state as supportive of their interests, they may now, as they become more mobile, see it as an impediment to their worldwide search for profits—and be better able in the new political conditions to secure changes in public policies in line with their new interests. Their internal pressure is being reinforced by external pressure from the U.S. government, which is urging them to “open their markets” to U.S. goods and services, if not to others, and to stop their “export extravaganza.” For these and other reasons many of the policy instruments of the developmental state—protection, export promotion, foreign investment controls, foreign exchange controls, and others—are being marginalized; while at the same time the huge balance-of-payments surpluses have eroded the government’s ability to channel financial assets into productive investment in industry. The net result may be that it becomes harder than before for the government to take the long-term measures which would allow wages to continue to rise fast while not impairing the competitiveness of Taiwan or Korean industry. As the earlier more direct policies of industry assistance are scaled back, these long-term measures should focus on building up technological capacity within the national boundaries. But big, internationally mobile firms may become unwilling to make such long-term investments in technological capacity at home themselves, and unwilling to support government efforts to do the same. For insofar as they define their interests globally, it matters less to them what happens to development within any specific territory, including their own home base. As wages in Taiwan and Korea rise, they can simply relocate their assets to where short-term profits are higher, whether to textile factories in Thailand or to real estate in California. Most of the population, however, cannot relocate. It is a matter of vital importance to them that the government and firms take long-term investment decisions which expand technological capacity within Taiwan or Korea rather than elsewhere and keep domestic demand for labor rising. Both governments may, therefore, for this among other reasons, attempt to incorporate previously excluded “labor” into the governance process, so as to build a constituency of support for long-term and nationally focused measures in order to counterbalance opposition from some owners and managers of internationally mobile capital. This would begin to shift these developmental states toward an East Asian form of social democratic capitalism.
The Macrofoundations of Monetary Power

Benjamin J. Cohen

What are the foundations of monetary power? David Andrews ... distinguishes between two pathways for the exercise of monetary power: the macro-level, linked to the problem of balance-of-payments disequilibrium; and the micro-level, working through the capacity of money to alter actor interests and identities. The purpose of this chapter is to promote a clearer understanding of the sources of power at the macro-level pathway—what we may call the macrofoundations of monetary power. Building in good part on earlier contributions of my own, I argue that the central issue at the macro-level is the distribution of the burden of adjustment to external imbalance. The macro-level dimension of monetary power consists, first and foremost, of a capacity to avoid payments adjustment costs, either by delaying adjustment or by deflecting the burden of adjustment on to others. Ceteris paribus, the greater is a state’s capacity to avoid adjustment costs, relative to that of other states, the greater is its power at the macro-level.

The devil, of course, is in the details. What do we mean by adjustments costs? What are the sources of the capacity to avoid adjustment costs—the macrofoundations of monetary power? And what are the limits of that capacity? The first of these questions is addressed in first three sections of this chapter . . . .

The Burden of Adjustment

Analysis at the macro-level, I submit, must begin by focusing on the distribution of the burden of adjustment to external imbalance. The underlying source of power at this level is a state’s relative capacity to avoid adjustment costs, either by delaying the adjustment process or by deflecting the burden of adjustment to others.

Autonomy and Influence

At the most general level, power in international relations is defined as the ability to control, or at least influence, the outcome of events. In operational terms, this
naturally equates with a capacity to control the behavior of actors—“letting others have your way,” as diplomacy has jokingly been defined. A state, in this sense, is powerful to the extent that it can effectively pressure or coerce outsiders, in short, to the extent that it can exercise leverage or enforce compliance. As Andrews points out… a common synonym for this meaning of power is, simply, influence.

But influence is not the only relevant meaning of power. There is also a vital second meaning, corresponding to the dictionary definition of power as a capacity for action. A state is also powerful to the extent that it is able to exercise policy independence—to act freely, insulated from outside pressure in policy formulation and implementation. In this sense, power does not mean influencing others; rather, it means not allowing others to influence you—others letting you have your way. A useful synonym for this meaning of power is autonomy.

The distinction between the two meanings is critical. Influence and autonomy may be understood as two distinct dimensions of power, which we may label, respectively, the external dimension and internal dimension. Both are based in social relationships and can be observed in behavioral terms. Both are also unavoidably interrelated. They are not, however, of equal importance. Logically, power begins with autonomy, the internal dimension. Influence, the external dimension, is best thought of as functionally derivative—inconceivable in practical terms without first attaining and sustaining a relatively high degree of policy independence at home. As the saying goes in American football, the best offense starts with a good defense. It is possible to think of autonomy without influence; it is impossible to think of influence without at least some degree of autonomy.

This does not mean that autonomy must be enjoyed in all aspects of international affairs or in all geographic relationships in order to be able to exercise influence in any aspect or relationship. Neither domain nor scope needs to be universal for power to be effective. States can successfully apply leverage in selected issue areas or relationships even while themselves being subject to pressure or coercion in others. But it does mean that in a given issue area or geographic relationship, power begins at home. First and foremost, policy makers must be free (or at least relatively free) to pursue national objectives in the specific issue area or relationship without outside constraint, to avoid compromises or sacrifices to accommodate the interests of others. Only then will a state be in a position, in addition, to enforce compliance elsewhere. Autonomy, the internal dimension, may not be sufficient to ensure a degree of foreign influence. But it is manifestly necessary—the essential precondition of influence.

The Core of Monetary Power

Autonomy, of course, is prized by governments in every aspect of international relations. Its salience, however, is most evident in economic relations, which by
definition create a condition of interdependence with other states that is both active and ongoing. Economic relations involve transactional linkages, creating a web of mutual dependencies. Mutual dependencies, however—as Robert Keohane and Joseph Nye long ago reminded us in their classic *Power and Interdependence*, first published in 1977—are rarely symmetrical. Opportunities are created, therefore, for an exercise of influence by those who are less dependent—in short, by those with relatively greater autonomy. The lower the degree of a state's dependence on a relationship, relative to others, the greater will be its ability to manage existing connections to its own advantage.

And in no area of economic relations is the salience of autonomy more evident than in the realm of monetary affairs, where states are inescapably linked through the balance of payments. The risk of unsustainable payments disequilibrium represents a constant threat to policy independence. Excessive imbalances automatically generate mutual pressures to adjust, to help move the balance of payments back toward equilibrium. But adjustment can be inconvenient or even costly in both economic and political terms. No government likes being forced to compromise key policy goals for the sake of restoring external balance. All, if given a choice, would prefer to see others make the necessary sacrifices. At the macro-level of monetary affairs, therefore, monetary power consists of the capacity to avoid the burden of adjustment required by payments imbalance.

The core importance of autonomy in this regard has not always been fully appreciated in the scholarly literature. Indeed, most students of monetary power...prefer to stress the external dimension—the capacity to control the behavior of others in one way or another—rather than the internal dimension. But we cannot ignore the functionally derivative nature of the external dimension. In practice, power in a given issue area such as monetary relations logically begins with autonomy—the preservation of key policy goals at home. That is the necessary condition. Only if a state is actually able to avoid the burden of adjustment domestically will it be in a position, in turn, to exert influence elsewhere. Hence, if we are interested in getting to the very core of power at the macro-level, we must go first to the internal dimension, as I propose here. Above all, what matters for the exercise of power abroad is practical freedom of action at home.

*The Two Modes of Influence*

But we cannot ignore the external dimension entirely. Because monetary relations are inherently reciprocal, a potential for influence, in a real sense, is created automatically whenever practical policy independence is achieved. By definition, a capacity to avoid adjustment costs implies that if payments equilibrium is to be restored, others must adjust instead—at least part of the burden will be diverted elsewhere. Hence, a measure of influence is necessarily generated as an inescapable corollary of the process. That too matters for analytical purposes.
But it is also important to keep the matter in perspective. The influence that derives automatically from a capacity to avoid adjustment costs represents at best a contingent aspect of power because it can be said to exist at all only because of the core dimension of autonomy. Moreover, the impacts involved are diffuse and undirected. That is very different from what is conventionally meant by the external dimension of power, which most often is understood to imply some degree of direct focus or deliberate intent—what Andrews ... calls a “purposeful act.” From a political economy point of view, the difference is critical.

Essentially, the difference goes to the contrast between what Scott James and David Lake label the first and second faces of hegemony (or power): the first face of direct government-to-government influence, which is exercised through positive or negative sanctions; and the second face of market leverage, which favorably alters incentive structures. Correspondingly, we may think in terms of two modes in the exercise of influence: passive and active. The influence generated as a corollary of the adjustment process is exercised passively, even unpremeditatedly, and is best understood simply as the alter ego of autonomy. Alternatively, influence may be exercised actively, targeted at specific countries and applied with self-conscious purpose—in the language of Andrews, a deliberate “influence attempt.” Both modes of influence begin with autonomy as a basic and necessary condition, and in both cases other states may feel compelled to adjust. But, whereas in the passive mode the pressures exerted on others are market-driven, operating through hegemony’s second face, in the active mode the pressures are exerted directly by government, hegemony’s first face.

In a sense, passive influence in the adjustment process is relatively uncontroversial, broadly accepted as an unavoidable, if regrettable, consequence of inequality—a veritable fact of life. Active influence attempts, by contrast, are apt to become far more politicized because they are both elective and purposeful. The active mode seeks to compel others to bear the burden of adjustment, taking us well beyond the notion of influence as simply an incidental by-product of autonomy. The active mode, in effect, aims to translate passive influence into practical control through the instrumental use of power. That is a very big difference, indeed.

The Two Hands of Monetary Power

The bottom line is clear. Whereas payments disequilibria are necessarily shared—one nation’s deficit is someone else’s surplus—the costs of adjustment need not be shared at all. Governments thus have every incentive, ceteris paribus, to maximize their capacity to avoid adjustment costs—their autonomy—relative to others. The greater the relative capacity to avoid adjustment costs, the greater is a state’s monetary power ....
To help promote a fuller understanding, I propose to resurrect a distinction that I first outlined in a much earlier attempt to explore the concept of adjustment costs. Specifically, I distinguish between two distinctly different kinds of adjustment cost—one continuing, the other transitional. Corresponding to each of the two kinds of adjustment cost is a very different kind of monetary power, which we may call the two “hands” of power. At the macro-level, monetary power is fundamentally dual in nature. On the one hand, states have the Power to Delay; on the other hand, they have the Power to Deflect. A two-fisted government prefers both.

The continuing cost of adjustment, we shall see, may be defined as the cost of the new payments equilibrium prevailing after all change has occurred. The Power to Delay is the capacity to avoid the continuing cost of adjustment by postponing the process of adjustment.

The transitional cost of adjustment, by contrast, may be defined as the cost of the change itself. When the process of adjustment cannot be put off, the Power to Deflect represents the capacity to avoid the transitional cost of adjustment by diverting as much as possible of that cost to others.

The Continuing Cost of Adjustment

To understand the Power to Delay, we must begin with the concept of adjustment. By definition, adjustment imposes on deficit countries a real economic loss that will persist indefinitely once the process is complete. This is the continuing cost of adjustment. Nothing suits the interest of deficit countries more than a capacity to postpone adjustment for as long as possible.

Payments Adjustment

The standard measure of balance in the balance of payments is the current account, which comprises all transactions relating to a country’s current national income and expenditures—imports and exports of goods (merchandise trade) and services (“invisibles”) plus unilateral transfers. Adjustment, correspondingly, is the process by which imbalances in the current account—surpluses or deficits—are reduced or eliminated. Import and/or export volumes adjust to restore payments equilibrium. Countries with deficits experience a decline: of imports of goods and services relative to exports; countries with surpluses experience the reverse.

Not all imbalances need to be eliminated, of course. Standard economic theory teaches that many current-account imbalances are simply the result of what may be regarded as a kind of rational intertemporal trade—deficit countries
borrowing resources from the rest of the world for productive investment at home and surplus countries investing savings abroad today to support greater domestic consumption tomorrow. Such imbalances, in principle, are sustainable indefinitely and require no adjustment at all. In practice, however, many imbalances go well beyond what can be readily sustained for all kinds of reasons—for example, because borrowed funds are not invested productively or because of financial-market limitations. In such instances, which are all too frequent in the real world, adjustments of trade volumes are indeed required.

Adjustments of trade volumes, however, are impossible, without a corresponding reallocation of productive resources; and in a market setting, resource reallocations will not occur without the stimulus of a change of prices or income. The required price and income changes may be promoted directly by means of so-called expenditure—changing policies that aim to alter the overall level of spending, such as monetary and fiscal policy; or they may be promoted more indirectly via a change of the exchange rate—which in the traditional economics literature is referred to as an expenditure-switching policy, promoting adjustment via an altered ratio of prices between tradable and non-tradable production. Formally, adjustment may be defined as “a marginal reallocation of productive resources and exchanges of goods and services under the influence of changes in relative prices, incomes, and exchange rates.” This is the classical concept of “real” adjustment, the basic tool of open-economy macroeconomics.

Redistributing the Pie

However, although the process of adjustment is necessarily shared, the same need not be true of the burden of adjustment. In fact, once equilibrium is restored, the deficit country will unavoidably suffer a real economic loss, which will persist indefinitely. This is the continuing cost of adjustment, which is always borne wholly by deficit countries.

To comprehend why, assume a simple two-country model of payments imbalance. For the deficit country, adjustment requires a reduction of imports relative to exports, which is possible only if its real national absorption of goods and services, the sum total of spending by all domestic residents, is reduced relative to that of the surplus country. At the new payments equilibrium, therefore, the deficit country must be worse off than the surplus country, in the sense that it will now receive a smaller proportion of the combined output of the two economies. That is what I mean by the continuing cost of adjustment. I label it a continuing cost because it is open-ended—the ongoing sacrifice imposed by the new equilibrium that prevails after all change has occurred.
Deficit countries, therefore, have every incentive to put off the process of adjustment for as long as possible. Delay pays. As long as there is no change in the status quo, there will be no redistribution of the pie—hence no new burden. The scale of a state’s Power to Delay is indicated by its capacity, in relative terms, to effectively postpone the payments adjustment process.

The Transitional Cost of Adjustment

But that is only one hand of monetary power. The continuing cost of adjustment involves an ongoing sacrifice imposed by the new equilibrium prevailing after all change has occurred, that is, after the adjustment process is concluded. But the process itself also imposes a sacrifice—the cost that must be incurred to make the necessary change. Each adjustment implies transition, a once-for-all phenomenon; and each transition has its own cost, separate and quite distinct from the presumed burden of the new equilibrium obtaining after the transition is complete. That is what I call the transitional cost of adjustment—in effect, the price of getting from here to there. Governments have every incentive to avoid this cost, too. No country wants to make more sacrifices than absolutely necessary.

The Adjustment Process

….The question is, who pays? … Recall that the process of balance-of-payments adjustment necessarily involves a realignment of relative prices, incomes, or exchange rates sufficient to generate the required reallocation of resources at the margin. The greater the changes of prices, incomes, or exchange rates required, the greater is the transitional cost of adjustment. In principle, payments equilibrium can be restored either by real depreciation—policies of monetary deflation or nominal currency devaluation/depreciation—in deficit countries or by real appreciation—monetary inflation or nominal currency revaluation/appreciation—in surplus countries…. 

Fixed versus Floating Exchange Rates

The circumstances under which this transition takes place matter, of course… Suppose some exchange-rate movements do occur as part of the adjustment process. Who bears the onus of responsibility? A realignment of rates may be the result of deliberate policy decisions (formal devaluation/ revaluation) or may be essentially market driven (nominal depreciation/ appreciation). Either way, governments may be held accountable for triggering or tolerating changes in a currency’s nominal value…. 
Essentially, this is a political issue. Exchange-rate changes are difficult to ignore. An exchange rate is like the eye of a needle through which prices of all domestic goods and services are linked and compared with the prices of foreign output. Because this role makes the exchange rate a critical variable in determining the pattern of resource allocation as well as the level and distribution of income, governments have every reason to avoid the onus of responsibility insofar as possible.

This matters because we know that domestic impacts, too—not just exchange rate movements—may be anything but symmetrical. In practice, prices and incomes may change much more in some countries than in others, depending on circumstances. Adjustment in one country could generate relatively little macroeconomic change at home but considerable price and income pressures abroad, effectively diverting much of the pain of adjustment elsewhere; or, conversely, most of the impact could be bottled up domestically whether exchange rates move or not. As with exchange-rate movements, few governments wish to be blamed for a sizable impact on the domestic economy.

The Power to Delay

What, then, are the sources of monetary power at the macro-level? What are its limits? States obviously differ greatly in their relative capacity to avoid the burden of adjustment. It is equally obvious that there are limits to the autonomy of even the most powerful states. How can all this be explained?

Given the dual nature of the macro-level pathway, it should not be surprising that separate factors might be at work in each of the two hands. Most critical for the Owned Reserves Power to Delay, I suggest, are financial variables—above all, a country’s international liquidity position, which encompasses both foreign reserves and access to external credit. The more liquidity there is at a country’s disposal, relative to other states, the longer it can postpone adjustment of its balance of payments. Most critical for the Power to Deflect, by contrast, are more fundamental structural variables, also defined in relational terms, that determine how much real sacrifice will be required once the process of adjustment begins. It should also not be surprising that there might be distinctly different limits to each of the two hands of monetary power.

International Liquidity

A country’s international liquidity comprises all available sources of internationally acceptable liquid assets. Before the postwar revival of global capital markets, the term was generally assumed to be synonymous with the sum of a country’s
international reserve assets. But once financial globalization began to take hold, the meaning of the term was expanded to include access to external credit as well, extended to the government or to the private sector. Today, international liquidity is generally defined to encompass the full array of international means of payment owned by or available to a country’s public authorities and residents.

The ultimate purpose of international liquidity is financing: to cover deficits in the balance of payments, via either a net reduction of external claims (owned reserves) or a net increase of external liabilities (borrowing). The availability of financing to an economy, relative to others, can have a significant impact on the timing of adjustment and, hence, on the distribution of adjustment costs among deficit countries. More liquidity means more capacity to stave off any unwelcome reallocation of resources. Every deficit country has an obvious incentive to postpone the continuing cost of adjustment for as long as possible. The longer one deficit country can manage to put off adjustment, the greater will be the pressure on other deficit countries to bear the burden instead . . . .

What, then, are the limits of this hand of monetary power? This requires a closer look at each of the two main components of international liquidity: owned reserves and borrowing capacity . . . .

. . . . A priori, therefore, no generalization is possible about where the limits are likely to be found in this context. All we know for sure is that the appetite for owned reserves will be considerably short of infinite. Hence, the Power to Delay by this means will be short of infinite, too.

Borrowing Capacity

In most respects, much the same also can be said about external borrowing. Here, too, it might appear that a government would want to make as much use as possible of borrowing capacity to finance deficits. The more liquidity that can be raised externally, either by the government itself or by the private sector, the longer adjustment can be postponed. But that too neglects the costs involved. These costs include not just the direct debt-service payments that would be required by foreign loans; even more critically, they include possible policy compromises that could become necessary if the country finds itself overextended to foreign creditors . . . .

Two implications follow. First, it seems clear that the distribution of the continuing cost of adjustment among deficit countries will be heavily influenced, if not largely determined, by creditor perceptions of debt-service capacity, which tend to favor the relatively wealthy. Ceteris paribus, the Power to Delay should be greatest in the advanced industrial economies—the nations that enjoy the highest standing as international borrowers. The Power to Delay will be least in poorer and less developed economies that have limited access, at best, to foreign
finance. Second, it also seems clear that the distribution of the continuing cost among deficit countries is apt to be highly volatile, given the persistent threat of rapid swings of sentiment about the “soundness” of policy in one economy or another. The perpetual opinion poll often changes its mind—and when it does, the ability to postpone adjustment through borrowing is changed as well. Taken together, these two observations suggest that, although wealthier economies may be the most favored in this context, there is no fixed pattern involved. What creditors giveth by way of a Power to Delay, they may also taketh away.

The Power to Deflect

The Power to Deflect, by contrast, derives not from financial variables but, rather, from more fundamental structural variables that distinguish one national economy from another. Two features in particular stand out: the degree of openness and the degree of adaptability of each individual economy.

Openness and Adaptability

The Power to Deflect is a function of both elements of the adjustment process, stimulus and response. Openness matters to the Power to Deflect because it is the key determinant of an economy’s sensitivity, relative to others, to payments disequilibrium (stimulus). Adaptability matters because it is the key determinant of an economy’s relative vulnerability to disequilibrium (response).

Of these two structural variables, openness is clearly the easier to identify empirically. A standard measure of openness is the ratio of foreign trade to gross domestic product (GDP). The logic of its salience here is equally clear. The more open an economy, the greater is the range of sectors whose earning capacity and balance sheets will be directly impacted by adjustment once the process begins. This is true whether exchange rates remain pegged or are allowed to move. Either way, openness makes it difficult for an economy to avert at least some significant impact on prices and income at home.

In addition, if exchange rates move, governments in open economies are likely to come in for more criticism than would policy makers in more closed economies. Openness, ceteris paribus, also broadens the range of domestic constituencies that will take an active interest in the value of the country’s currency. In a relatively closed economy, even fairly substantial exchange-rate movements may leave the largest part of the population unaffected and therefore indifferent, effectively insulating the government from criticism. In a more open economy, by contrast, where more interest groups will be directly affected, even small movements may lead to widespread opprobrium for policy makers, even if the government had nothing to do with starting the process in the first place. A high
degree of openness makes it difficult to suppress widespread domestic repercussions when exchange rates change. It therefore makes it difficult for the authorities to deflect blame for any inflation or austerity that may result.

Adaptability is more difficult to identify empirically—it is an admittedly amorphous concept that, in fact, encompasses a myriad of qualities at the microeconomic level, such as factor mobility, informational availabilities, and managerial resilience. Still, the logic of its salience, too, is clear. For any given degree of openness, the adaptability of an economy determines how readily diverse sectors can reverse a disequilibrium without large or prolonged price or income changes. At issue is allocative flexibility. The more easily productive resources can switch from one activity to another, overriding or accommodating to outside pressures, the less likely it is that domestic repercussions will involve serious pain; hence, the less likely it is, as well, that the process of adjustment will generate widespread resentment or protest. Conversely, the greater the rigidities characteristic of an economy’s labor or product markets, the more serious will be resulting market dislocations and therefore the potential for political fallout. Adaptability, like beauty, may be one of those properties that is difficult to define, yet we know it when we see it and we know that it is important.

Conclusion

To summarize, we may say that the macrofoundations of monetary power are best [understood] as being dual in nature. At the macro-level, monetary power is deployable with two hands: the Power to Delay, aimed at avoiding the continuing cost of adjustment; and the Power to Deflect, aimed at avoiding the transitional cost of adjustment. The Power to Delay is largely a function of a country’s international liquidity position relative to others, comprising both owned reserves and borrowing capacity. The Power to Deflect has its source in more fundamental structural variables: the relative degree of openness and adaptability of the national economy. The Power to Delay is limited only by the government’s appetite for reserves and by the willingness of foreign agents to lend. The Power to Deflect is limited by the economy’s underlying attributes and endowments.

Accordingly, it should be no surprise that states vary greatly in their monetary power, implying a systematic element of hierarchy in monetary relations. In fact, monetary relations have always tended to be distinctly hierarchical, taking the shape of what I have elsewhere described as a Currency Pyramid—narrow at the peak, where one or a few countries dominate, and increasingly broad below. Ultimately, for all states, the issue is adjustment costs. Relative standing in the Currency Pyramid depends on the relative capacity to avoid the burden of payments adjustment, making others pays instead.
The analysis here does just that for theories of monetary relations, incorporating variations in hierarchy by exploring the underlying sources of monetary power. The practical importance of the analysis lies in its identification of the key factors that determine the relative power of individual states, all of which are amenable to public policy to a greater or lesser extent.

The positioning of states in the Currency Pyramid directly reflects their access to both hands of monetary power. At the peak of the Pyramid is the United States, long acknowledged as the most powerful state in monetary affairs. The analysis in this essay suggests that the dominant position of the United States, which many describe as a hegemony, should be attributed to the country’s unique combination of relevant capabilities—the special privilege that it enjoys in financing deficits, due to the global role of the dollar, as well as the notable adaptability of its domestic economy, which also happens to be relatively closed as compared with most other nations. Conversely, the lowly status of many poor developing nations would appear to relate directly to their lack of international liquidity as well as, typically, to the relatively high openness and low allocative flexibility of their economies. In between, rankings may be said to depend on how the key liquidity and structural factors stack up in each individual country. If governments wish to elevate their standing in the Currency Pyramid, it is these factors that must be addressed.
Contemporary Marxism

Marxism after Marx is replete with lively disagreements and creative tensions. The Marxist family is indeed a noisy and often disorderly one. In the decades after the death of Marx, an economistic form of his thought prevailed under the influence of orthodox Marxists such as Engels, Lenin, and Kautsky, who stressed the ultimate determinative influence of the material base upon the superstructure (culture, law, the state, the family) of capitalist society. Since WWII, however, humanistic strands of Marxism have become more prominent through the influence of the Frankfurt School and the writings of Antonio Gramsci, among others. Such “Western Marxists” highlight the significance of culture, civil society, and the state as autonomous terrains of capitalist society and downplay the operation of objective material laws of motion governing capitalist development and reproduction. The type of contemporary Marxism that flourishes in IPE is very much in the humanist tradition and particularly influenced by Gramsci. It stands as the premier instance of critical theory in IPE and thus a template for a type of theorizing that sets out to understand the historical construction of the world so as to change it. At the same time, Marxism is also one of the major components of the theoretical bricolage of the world systems approach. Both strands of work are represented here.

Robert W. Cox (b. 1926) sets forth a master framework for engaging in a humanistic Marxist analysis of the international political economy. He begins by defining two different types of social theory: problem-solving and critical. Humanistic Marxism—or as Cox prefers, historical materialism—is a critical theory of the international political economy. As a critical theory, historical materialism does not take the social world to be populated by natural objects expressing law-like properties and relationships. Instead it is focused on an account of historical change and the constitution of society through struggle and contestation. Cox conceptualizes history as a progression of “historical structures.” These structures are defined as the mutual interaction of three “forces”: material capabilities, ideas, and institutions. Moreover, such structures can be studied at three distinct yet interrelated levels of analysis: production, forms of state, and world
orders. As a materialist, Cox argues that movement in the realm of class relations is the motor force of change. In his conception, states are hardly the origins of power but instead intermediaries between global and local social forces. Neither are they especially unified intermediaries at that. Instead, they are subject to the same process of “internationalisation” that production has experienced. This Cox calls “a political economy perspective of the world.”

Cox takes particular inspiration from the work of Antonio Gramsci, especially the concept of hegemony. Gramsci offers a rather different understanding than the one found in liberal and economic nationalist work on hegemonic stability. For Gramsci, hegemony is the intellectual and moral leadership of one social class over others, premised upon consent of the led rather than coercion of the dominated. In this way Gramsci de-emphasizes the state, which is no longer the primary site of class power. He instead points to civil society, particularly in the advanced capitalist countries, as the true locus of class power. Cox takes this notion of hegemony and applies it to his historical structures. He defines hegemony as “a fit between material power, ideology and institutions” that evokes notions of legitimate rule. Not every structure is hegemonic, of course, and not every hegemonic structure is global. Consider the pax americana of extensive peaceful cooperation between not only the Western powers but extending increasingly into the countries of the Global South. Cox is comfortable referring to this as an “imperial system…a transnational structure with a dominant core and dependent periphery.” Violence remains, but in hegemonic structures only at the margins.

From a critical theory perspective, to study the international political economy is to study the entire system, not as a coherent and stable unit but as a configuration always coming into being and yet containing its counter-structure at the same time. To understand global change is to go beyond studying states as actors or even markets and regimes as political-economic institutions. One begins and ends with the whole. It is to study world order itself.

Giovanni Arrighi (1937-2009) also offers an overarching analytic framework for understanding the development of the international political economy, doing so from a world systems perspective. For Arrighi, the story of capitalism is the story of cycles over the long term or _longue durée_, a term associated with the French _Annales_ School of history. He takes inspiration from Marx’s formula of commodity circulation in a capitalist economy, M-C-M’. Here, capitalists use money to produce commodities, which they then sell for a sum of money greater than that with which they began, amounting to the accumulation of capital. Arrighi takes this abstract account of capitalism and historicizes it, turning it into “a recurrent pattern of historical capitalism as a world system.” The first half of the equation, M-C, comes to refer to capitalism’s era of “material expansion,” which is eventually superseded by the second half, C-M’, capitalism’s era
of “financial rebirth and expansion.” The switch from M-C to C-M´ is the turning point of the cycle, its ineluctable downward swing. Arrighi quotes Fernand Braudel’s evocative observation: “by reaching the stage of financial expansion, to have in some sense announced its maturity: it [is] a sign of autumn.”

Hegemonic states play a central role in these cycles. Arrighi presents them as far more coherent and unified, both as territories and as bureaucratic organizations, than one finds in Cox’s framework. Such states manage but never eliminate inter-state competition, the most important element being competition for mobile capital, which marks an essential aspect of the capitalist world-economy. The rise and fall of these hegemons over the course of five centuries is the context within which Arrighi understands the contemporary international political economy. The United States cycle of accumulation and world hegemony is current, with its phase of material expansion beginning in the early twentieth century and its turning point toward financialization in the 1970s crisis of the post-WWII international order. Thus, notably, Arrighi does not interpret the rise of finance since that time as an indicator of continuing or reformulated American power. Instead, it is a sign of hegemonic demise akin to that of Britain in the Edwardian period. With such a cyclical theory of history, Arrighi is understandably tempted to look ahead to the next cycle of accumulation and hegemonic order. He sees the rise of the East Asian economies as clearly the most significant world historical trend of the last half century, i.e., since the start of US financialization and hegemonic decline. The failure of Japan to organize the region behind it in the 1990s, along with the continued political gulf between China and the rest of the East Asian states in military alliance with the US, makes a smooth hegemonic transition a very fraught proposition, however. Arrighi even holds out the possibility that the US might be able through its military superiority to “terminate capitalist history through the formation of a truly global world empire.”
Social Forces, States and World Orders: Beyond International Relations Theory
ROBERT W. COX

On Perspectives and Purposes

Theory is always for someone and for some purpose. All theories have a perspective. Perspectives derive from a position in time and space, specifically social and political time and space. The world is seen from a standpoint defineable in terms of nation or social class, of dominance or subordination, of rising or declining power, of a sense of immobility or of present crisis, of past experience, and of hopes and expectations for the future. Of course, sophisticated theory is never just the expression of a perspective. The more sophisticated a theory is, the more it reflects upon and transcends its own perspective; but the initial perspective is always contained within a theory and is relevant to its explication. There is, accordingly, no such thing as theory in itself, divorced from a standpoint in time and space. When any theory so represents itself, it is the more important to examine it as ideology, and to lay bare its concealed perspective….

Beginning with its problematic, theory can serve two distinct purposes. One is a simple, direct response: to be a guide to help solve the problems posed within the terms of the particular perspective which was the point of departure. The other is more reflective upon the process of theorising itself: to become clearly aware of the perspective which gives rise to theorising, and its relation to other perspectives (to achieve a perspective on perspectives); and to open up the possibility of choosing a different valid perspective from which the problematic becomes one of creating an alternative world. Each of these purposes gives rise to a different kind of theory.

The first purpose gives rise to problem-solving theory. It takes the world as it finds it, with the prevailing social and power relationships and the institutions into which they are organised, as the given framework for action. The general aim of problem-solving is to make these relationships and institutions work smoothly by dealing effectively with particular sources of trouble. Since the general pattern of institutions and relationships is not called into question, particular
problems can be considered in relation to the specialised areas of activity in which they arise. Problem-solving theories are thus fragmented among a multiplicity of spheres or aspects of action, each of which assumes a certain stability in the other spheres (which enables them in practice to be ignored) when confronting a problem arising within its own. The strength of the problemsolving approach lies in its ability to fix limits or parameters to a problem area and to reduce the statement of a particular problem to a limited number of variables which are amenable to relatively close and precise examination. The *ceteris paribus* assumption, upon which such theorising is based, makes it possible to arrive at statements of laws or regularities which appear to have general validity but which imply, of course, the institutional and relational parameters assumed in the problem-solving approach.

The second purpose leads to critical theory. It is critical in the sense that it stands apart from the prevailing order of the world and asks how that order came about. Critical theory, unlike problem-solving theory, does not take institutions and social and power relations for granted but calls them into question by concerning itself with their origins and how and whether they might be in the process of changing. It is directed towards an appraisal of the very framework for action, or problematic, which problem-solving theory accepts as its parameters. Critical theory is directed to the social and political complex as a whole rather than to the separate parts. As a matter of practice, critical theory, like problemsolving theory, takes as its starting point some aspect or particular sphere of human activity. But whereas the problem-solving approach leads to further analytical sub-division and limitation of the issue to be dealt with, the critical approach leads towards the construction of a larger picture of the whole of which the initially contemplated part is just one component, and seeks to understand the processes of change in which both parts and whole are involved.

Critical theory is theory of history in the sense of being concerned not just with the past but with a continuing process of historical change. Problem-solving theory is non-historical or ahistorical, since it, in effect, posits a continuing present (the permanence of the institutions and power relations which constitute its parameters). The strength of the one is the weakness of the other. Because it deals with a changing reality, critical theory must continually adjust its concepts to the changing object it seeks to understand and explain. These concepts and the accompanying methods of enquiry seem to lack the precision that can be achieved by problem-solving theory, which posits a fixed order as its point of reference. This relative strength of problem-solving theory, however, rests upon a false premise, since the social and political order is not fixed but (at least in a long-range perspective) is changing. Moreover, the assumption of fixity is not merely a convenience of method, but also an ideological bias. Problemsolving theories can be represented, in the broader perspective of critical theory,
as serving particular national, sectional, or class interests, which are comfortable within the given order. Indeed, the purpose served by problem-solving theory is conservative, since it aims to solve the problems arising in various parts of a complex whole in order to smooth the functioning of the whole. This aim rather belies the frequent claim of problem-solving theory to be value-free. It is methodologically value-free insofar as it treats the variables it considers as objects (as the chemist treats molecules or the physicist forces and motion); but it is value-bound by virtue of the fact that it implicitly accepts the prevailing order as its own framework. Critical theory contains problem-solving theories within itself, but contains them in the form of identifiable ideologies, thereby pointing to their conservative consequences, not to their usefulness as guides to action. Problem-solving theory tends to ignore this kind of critique as being irrelevant to its purposes and in any case, as not detracting from its practical applicability. Problem-solving theory stakes its claims on its greater precision and, to the extent that it recognises critical theory at all, challenges the possibility of achieving any scientific knowledge of historical processes.

Critical theory is, of course, not unconcerned with the problems of the real world. Its aims are just as practical as those of problem-solving theory, but it approaches practice from a perspective which transcends that of the existing order, which problem-solving theory takes as its starting point. Critical theory allows for a normative choice in favour of a social and political order different from the prevailing order, but it limits the range of choice to alternative orders which are feasible transformations of the existing world. A principal objective or critical theory, therefore, is to clarify this range of possible alternatives. Critical theory thus contains an element of utopianism in the sense that it can represent a coherent picture of an alternative order, but its utopianism is constrained by its comprehension of historical processes. It must reject improbable alternatives just as it rejects the permanency of the existing order. In this way critical theory can be a guide to strategic action for bringing about an alternative order, whereas problem-solving theory is a guide to tactical actions which, intended or unintended, sustain the existing order.

The perspectives of different historical periods favour one or the other kind of theory. Periods of apparent stability or fixity in power relations favour the problem-solving approach. The Cold War was one such period. In international relations, it fostered a concentration upon the problems of how to manage an apparently enduring relationship between two superpowers. However, a condition of uncertainty in power relations beckons to critical theory as people seek to understand the opportunities and risks of change. Thus the events of the 1970s generated a sense of greater fluidity in power relationships, of a many-faceted crisis, crossing the threshold of uncertainty and opening the opportunity for a new development of critical theory directed to the problems of world order. To reason about possible future world orders now, however, requires a broadening
of our enquiry beyond conventional international relations, so as to encompass basic processes at work in the development of social forces and forms of state, and in the structure of global political economy. Such, at least, is the central argument of this essay.

Realism, Marxism and an Approach to a Critical Theory of World Order

....This discussion has distinguished two kinds of theorising as a preliminary to proposing a critical approach to a theory of world order. Some of the basic premises for such a critical theory can now be restated:

(1) an awareness that action is never absolutely free but takes place within a framework for action which constitutes its problematic. Critical theory would start with this framework, which means starting with historical enquiry or an appreciation of the human experience that gives rise to the need for theory;

(2) a realisation that not only action but also theory is shaped by the problematic. Critical theory is conscious of its own relativity but through this consciousness can achieve a broader time-perspective and become less relative than problemsolving theory. It knows that the task of theorising can never be finished in an enclosed system but must continually be begun anew;

(3) the framework for action changes over time and a principal goal of critical theory is to understand these changes;

(4) this framework has the form of an historical structure, a particular combination of thought patterns, material conditions and human institutions which has a certain coherence among its elements. These structures do not determine people's actions in any mechanical sense but constitute the context of habits, pressures, expectations and constraints within which action takes place;

(5) the framework or structure within which action takes place is to be viewed, not from the top in terms of the requisites for its equilibrium or reproduction (which would quickly lead back to problem-solving), but rather from the bottom or from outside in terms of the conflicts which arise within it and open the possibility of its transformation.

Frameworks for Action: Historical Structures

At its most abstract, the notion of a framework for action or historical structure is a picture of a particular configuration of forces. This configuration does not determine actions in any direct, mechanical way but imposes pressures and constraints. Individuals and groups may move with the pressures or resist and oppose them, but they cannot ignore them. To the extent that they do successfully resist a prevailing historical structure, they buttress their actions with an alternative, emerging configuration of forces, a rival structure.
Three categories of forces (expressed as potentials) interact in a structure: material capabilities, ideas and institutions. No one-way determinism need be assumed among these three; the relationships can be assumed to be reciprocal. The question of which way the lines of force run is always an historical question to be answered by a study of the particular case.

Material capabilities are productive and destructive potentials. In their dynamic form these exist as technological and organisational capabilities, and in their accumulated forms as natural resources which technology can transform, stocks of equipment (e.g. industries and armaments), and the wealth which can command these.

Ideas are broadly of two kinds. One kind consists of intersubjective meanings, or those shared notions of the nature of social relations which tend to perpetuate habits and expectations of behaviour. . . .

The other kind of ideas relevant to an historical structure are collective images of social order held by different groups of people. These are differing views as to both the nature and the legitimacy of prevailing power relations, the meanings of justice and public good, and so forth. . . . Institutionalisation is a means of stabilising and perpetuating a particular order. Institutions reflect the power relations prevailing at their point of origin and tend, at least initially, to encourage collective images consistent with these power relations. Eventually, institutions take on their own life; they can become either a battleground of opposing tendencies, or stimulate the creation of rival institutions reflecting different tendencies. Institutions are particular amalgams of ideas and material power which in turn influence the development of ideas and material capabilities.

There is a close connection between institutionalisation and what Gramsci called hegemony. Institutions provide ways of dealing with internal conflicts so as to minimise the use of force. (They may, of course, also maximise the capacity for using force in external conflicts, but we are considering here only the internal conflicts covered by an institution.) There is an enforcement potential in the material power relations underlying any structure, in that the strong can clobber the weak if they think it necessary. But force will not have to be used in order to ensure the
dominance of the strong to the extent that the weak accept the prevailing power relations as legitimate. This the weak may do if the strong see their mission as hegemonic and not merely dominant or dictatorial, that is, if they are willing to make concessions that will secure the weak's acquiescence in their leadership and if they can express this leadership in terms of universal or general interests, rather than just as serving their own particular interests. Institutions may become the anchor for such a hegemonic strategy since they lend themselves both to the representations of diverse interests and to the universalisation of policy.

It is convenient to be able to distinguish between hegemonic and non-hegemonic structures, that is to say between those in which the power basis of the structure tends to recede into the background of consciousness, and those in which the management of power relations is always in the forefront. Hegemony cannot, however, be reduced to an institutional dimension. One must beware of allowing a focus upon institutions to obscure either changes in the relationship of material forces, or the emergence of ideological challenge to an erstwhile prevailing order. Institutions may be out of phase with these other aspects of reality and their efficacy as a means of regulating conflict (and thus their hegemonic function) thereby undermined. They may be an expression of hegemony but cannot be taken as identical to hegemony.

For the purpose of the present discussion, the method of historical structures is applied to the three levels, or spheres of activity: (1) the organisation of production, more particularly with regard to the social forces engendered by the production process; (2) forms of state as derived from a study of state/society complexes; and (3) world orders, i.e., the particular configurations of forces which successively define the problematic of war or peace for the ensemble of states. Each of these levels can be studied as a succession of dominant and emergent rival structures. . . .

Considered separately, social forces, forms of state, and world orders can be represented in a preliminary approximation as particular configurations of material capabilities, ideas and institutions (as indicated in Figure 7.1). Considered in relation to each other, and thus moving towards a fuller representation of historical process, each will be seen as containing, as well as bearing the impact of, the others (as in Figure 7.2).

\[ \text{Figure 7.2} \]
Hegemony and World Orders

How are these reciprocal relationships to be read in the present historical conjuncture? Which of the several relationships will tell us the most?

...start by redefining what it is that is to be explained, namely, the relative stability of successive world orders. This can be done by equating stability with a concept of hegemony that is based on a coherent conjunction or fit between a configuration of material power, the prevalent collective image of world order (including certain norms) and a set of institutions which administer the order with a certain semblance of universality (i.e. not just as the overt instruments of a particular state's dominance). In this formulation, state power ceases to be the sole explanatory factor and becomes part of what is to be explained...

Social Forces, Hegemony and Imperialism

Represented as a fit between material power, ideology and institutions, hegemony may seem to lend itself to a cyclical theory of history; the three dimensions fitting together in certain times and places and coming apart in others... What is missing is some theory as to how and why the fit comes about and comes apart. It is my contention that the explanation may be sought in the realm of social forces shaped by production relations.

Social forces are not to be thought of as existing exclusively within states. Particular social forces may overflow state boundaries, and world structures can be described in terms of social forces just as they can be described as configurations of state power. The world can be represented as a pattern of interacting social forces in which states play an intermediate though autonomous role between the global structure of social forces and local configurations of social forces within particular countries. This may be called a political economy perspective of the world: power is seen as emerging from social processes rather than taken as given in the form of accumulated material capabilities that is as the result of these processes. (Paraphrasing Marx, one could describe the latter, neorealist view as the “fetishism of power.”) In reaching for a political economy perspective, we move from identifying the structural characteristics of world orders as configurations of material capabilities, ideas and institutions (Figure 7.1) to explaining their origins, growth and demise in terms of the interrelationships of the three levels of structures (Figure 7.2).

It is, of course, no great discovery to find that, viewed in the political economy perspective, the pax Britannica was based both on the ascendancy of manufacturing capitalism in the international exchange economy, of which Britain was the centre, and on the social and ideological power, in Britain and other parts of northwest Europe, of the class which drew its wealth from manufacturing. The
new bourgeoisie did not need to directly control states; its social power became the premises of state politics.

The demise of this hegemonic order can also be explained by the development of social forces. Capitalism mobilised an industrial labour force in the most advanced countries, and from the last quarter of the Nineteenth century industrial workers had an impact on the structure of the state in these countries. The incorporation of the industrial workers, the new social force called into existence by manufacturing capitalism, into the nation involved an extension in the range of state action in the form of economic intervention and social policy. This in turn brought the factor of domestic welfare (i.e. the social minimum required to maintain the allegiance of the workers) into the realm of foreign policy. The claims of welfare competed with the exigencies of liberal internationalism within the management of states; whilst the former gained ground as protectionism, the new imperialism and ultimately the end of the gold standard marked the long decline of liberal internationalism. The liberal form of state was slowly replaced by the welfare nationalist form of state.

The spread of industrialisation, and the mobilisation of social classes it brought about, not only changed the nature of states but also altered the international configuration of state power as new rivals overtook Britain’s lead. Protectionism, as the means of building economic power comparable to Britain’s, was for these new industrial countries more convincing than the liberal theory of comparative advantage. The new imperialisms of the major industrial powers were a projection abroad of the welfare nationalist consensus among social forces sought or achieved within the nations. As both the material predominance of the British economy and the appeal of the hegemonic ideology weakened, the hegemonic world order of the mid-Nineteenth century gave place to a non-hegemonic configuration of rival power blocs.

Imperialism is, thus, a rather loose concept which in practice has to be newly defined with reference to each historical period. There is little point in looking for any “essence” of imperialism beyond the forms which dominance and subordination take in different successive world order structures. The actual form, whether activated by states, by social forces (e.g. the managements of multinational corporations), or some combination of both, and whether domination is primarily political or economic, is to be determined by historical analysis, and not deductive reasoning.

…James Petras, in his use of the concept of an imperial state system, has posed a number of questions concerning the structural characteristics of states in the present world order. The dominant imperial state and subordinate collaborator states differ in structure and have complementary functions in the imperial system; they are not just more and less powerful units of the same kind, as might be represented in a simple neo-realist model. A striking feature
in his framework is that the imperial state he analyses is not the whole US government; it is “those executive bodies within the ‘government’ which are charged with promoting and protecting the expansion of capital across state boundaries.” The imperial system is at once more than and less than the state. It is more than the state in that it is a transnational structure with a dominant core and dependent periphery. This part of the US government is at the system’s core, together (and here we may presume to enlarge upon Petras’ indications) with inter-state institutions such as the IMF and the World Bank, symbiotically related to expansive capital, and with collaborator governments (or at any rate parts of them linked to the system) in the system’s periphery. It is less than the state in the sense that non-imperial, or even anti-imperial, forces may be present in other parts of both core and periphery states. The unity of the state, posited by neo-realism, is fragmented in this image, and the struggle for and against the imperial system may go on within the state structures at both core and periphery as well as among social forces ranged in support and opposition to the system. The state is thus a necessary but insufficient category to account for the imperial system. The imperial system itself becomes the starting point of enquiry.

The imperial system is a world order structure drawing support from a particular configuration of social forces, national and transnational, and of core and periphery states. One must beware of slipping into the language of reification when speaking of structures; they are constraints on action, not actors. The imperial system includes some formal and less formal organisations at the system level through which pressures on states can be exerted without these system-level organisations actually usurping state power. The behaviour of particular states or of organised economic and social interests, however, finds its meaning in the larger totality of the imperial system. Actions are shaped either directly by pressures projected through the system or indirectly by the subjective awareness on the part of actors of the constraints imposed by the system. Thus one cannot hope to understand the imperial system by identifying imperialism with actors, be they states or multinationals; they are both dominant elements in the system, but the system as a structure is more than their sum. Furthermore, one must beware of ignoring the principle of dialectic by over emphasising the power and coherence of a structure, even a very dominant one. Where a structure is hegemonic, critical theory leads one to look for a counter-structure, even a latent one, by seeking out its possible bases of support and elements of cohesion.

….Two specific questions deserving attention are: (1) what are the mechanisms for maintaining hegemony in this particular historical structure? and (2) what social forces and/or forms of state have been generated within it which could oppose and ultimately bring about a transformation of the structure?
A partial answer to the first question concerns the internationalisation of the state. The basic principles of the *pax americana* were similar to those of the *pax britannica*—relatively free movement of goods, capital and technology and a reasonable degree of predictability in exchange rates. The post-war hegemony was, however, more fully institutionalised than the *pax britannica* and the main function of its institutions was to reconcile domestic social pressures with the requirements of a world economy. The International Monetary Fund was set up to provide loans to countries with balance of payments deficits in order to provide time in which they could make adjustments, and to avoid the sharp deflationary consequences of an automatic gold standard. The World Bank was to be a vehicle for longer term financial assistance. Economically weak countries were to be given assistance by the system itself, either directly through the system’s institutions or by other states nominally certified by the system’s institutions. These institutions incorporated mechanisms to supervise the application of the system’s norms and to make financial assistance effectively conditional upon reasonable evidence of intent to live up to the norms.

This machinery of surveillance was, in the case of the western allies and subsequently of all industrialised capitalist countries, supplemented by elaborate machinery for the harmonisation of national policies. Such procedures began with the mutual criticism of reconstruction plans in western European countries (the US condition for Marshall aid funds), continued with the development of annual review procedures in NATO (which dealt with defence and defence support programmes), and became an acquired habit of mutual consultation and mutual review of national policies (through the OECD and other agencies).

The notion of international obligation moved beyond a few basic commitments, such as observance of the most favoured nation principle or maintenance of an agreed exchange rate, to a general recognition that measures of national economic policy affect other countries and that such consequences should be taken into account before national policies are adopted. Conversely, other countries should be sufficiently understanding of one country’s difficulties to acquiesce in short-term exceptions. Adjustments are thus perceived as responding to the needs of the system as a whole and not to the will of dominant countries. External pressures upon national policies were accordingly internationalized.

Of course, such an internationalised policy process presupposed a power structure, one in which central agencies of the US government were in a dominant position. But it was not necessarily an entirely hierarchical power structure with lines of force running exclusively from the top down, nor was it one in which the units of interaction were whole nation-states. It was a power structure seeking to maintain consensus through bargaining and one in which the
bargaining units were fragments of states. The power behind the negotiation was tacitly taken into account by the parties.

The practice of policy harmonisation became such a powerful habit that when the basic norms of international economic behaviour no longer seemed valid, as became the case during the 1970s, procedures for mutual adjustment of national economic policies were, if anything, reinforced. In the absence of clear norms, the need for mutual adjustment appeared the greater.

State structures appropriate to this process of policy harmonisation can be contrasted with those of the welfare nationalist state of the preceding period. Welfare nationalism took the form of economic planning at the national level and the attempt to control external economic impacts upon the national economy. To make national planning effective, corporative structures grew up in most industrially advanced countries for the purpose of bringing industry, and also organised labour, into consultation with the government in the formulation and implementation of policy. National and industrial corporative structures can raise protectionist or restrictive obstacles to the adjustments required for adaptation of national economies to the world economy in a hegemonic system. Corporatism at the national level was a response to the conditions of the inter-war period; it became institutionally consolidated in western Europe just as the world structure was changing into something for which national corporatism was ill suited.

The internationalisation of the state gives precedence to certain state agencies—notably ministries of finance and prime ministers’ offices—which are key points in the adjustment of domestic to international economic policy. Ministries of industries, labour ministries, planning offices, which had been built up in the context of national corporatism, tended to be subordinated to the central organs of internationalised public policy. As national economies became more integrated in the world economy, it was the larger and more technologically advanced enterprises that adapted best to the new opportunities. A new axis of influence linked international policy networks with the key central agencies of government and with big business. This new informal corporative structure overshadowed the older more formalised national corporatism and reflected the dominance of the sector oriented to the world economy over the more nationally oriented sector of a country’s economy.

The internationalisation of the state is not, of course, limited to advanced capitalist core countries. It would not be difficult to make a catalogue of recent cases in peripheral countries where institutions of the world economy, usually as a condition for debt renewal, have dictated policies which could only be sustained by a coalition of conservative forces. Turkey, Peru and Portugal are among those recently affected. As for Zaire, a conference of creditors laid down the condition that officials of the IMF be placed within the key ministries of the state to oversee the fulfillment of the conditions of debt renewal.
The Internationalisation of Production

The internationalisation of the state is associated with the expansion of international production. This signifies the integration of production processes on a transnational scale, with different phases of a single process being carried out in different countries. International production currently plays the formative role in relation to the structure of states and world order that national manufacturing and commercial capital played in the mid-Nineteenth century.

International production expands through direct investment, whereas the rentier imperialism, of which Hobson and Lenin wrote, primarily took the form of portfolio investment. With portfolio investment, control over the productive resources financed by the transaction passed with ownership to the borrower. With direct investment, control is inherent in the production process itself and remains with the originator of the investment. The essential feature of direct investment is possession, not of money, but of knowledge—in the form of technology and especially in the capacity to continue to develop new technology. The financial arrangements for direct investment may vary greatly, but all are subordinated to this crucial factor of technical control. The arrangements may take the form of wholly-owned subsidiaries, joint ventures with local capital sometimes put up by the state in host countries, management contracts with state-owned enterprises, or compensation agreements with socialist enterprises whereby, in return for the provision of technology, these enterprises become suppliers of elements to a globally organised production process planned and controlled by the source of the technology. Formal ownership is less important than the manner in which various elements are integrated into the production system.

Direct investment seems to suggest the dominance of industrial capital over finance capital. The big multinational corporations which expand by direct investment are, to some degree, self-financing and to the extent that they are not they seem capable of mobilising money capital in a number of ways, such as through local capital markets (where their credit is better than that of national entrepreneurs), through the Eurocurrency markets, through infusions of capital from other multinationals linked to technology and production agreements, through state subsidies, and so forth. And yet, particularly since the 1970s, finance capital seems to be returning to prominence through the operations of the multinational banks, not only in the old form of rentier imperialism administering loans to peripheral states, but also as a network of control and private planning for the world economy of international production. This network assesses and collectivises investment risks and allocates investment opportunities among the participants in the expansion of international production, that is, it performs the function of Lenin’s ‘collective capitalist’ in the conditions of late Twentieth century production relations.
International Production and Class Structure

International production is mobilising social forces, and it is through these forces that its major political consequences vis-a-vis the nature of states and future world orders may be anticipated. Hitherto, social classes have been found to exist within nationally-defined social formations, despite rhetorical appeals to the international solidarity of workers. Now, as a consequence of international production, it becomes increasingly pertinent to think in terms of a global class structure alongside or superimposed upon national class structures.

At the apex of an emerging global class structure is the transnational managerial class. Having its own ideology, strategy and institutions of collective action, it is both a class in itself and for itself. Its focal points of organisation, the Trilateral Commission, World Bank, IMF and OECD, develop both a framework of thought and guidelines for policies. From these points, class action penetrates countries through the process of internationalisation of the state. The members of this transnational class are not limited to those who carry out functions at the global level, such as executives of multinational corporations or as senior officials of international agencies, but includes those who manage the internationally-oriented sectors within countries, the finance ministry officials, local managers of enterprises linked into international production systems, and so on.

National capitalists are to be distinguished from the transnational class. The natural reflex of national capital faced with the challenge of international production is protectionism. It is torn between the desire to use the state as a bulwark of an independent national economy and the opportunity of filling niches left by international production in a subordinate symbiotic relationship with the latter.

Industrial workers have been doubly fragmented. One line of cleavage is between established and non-established labour. Established workers are those who have attained a status of relative security and stability in their jobs and have some prospects of career advancement. Generally they are relatively skilled, work for larger enterprises, and have effective trade unions. Non-established workers, by contrast, have insecure employment, have no prospect of career advancement, are relatively less skilled, and confront great obstacles in developing effective trade unions. Frequently, the non-established are disproportionately drawn from lower-status ethnic minorities, immigrants and women. The institutions of working class action have privileged established workers. Only when the ideology of class solidarity remains powerful, which usually means only in conditions of high ideological polarisation and social and political conflict, do organisations controlled by established workers (unions and political parties) attempt to rally and act for non-established workers as well.

The second line of cleavage among industrial workers is brought about by the division between national and international capital (i.e. that engaged in international production). The established workers in the sector of international
production are potential allies of international capital. This is not to say that those workers have no conflict with international capital, only that international capital has the resources to resolve these conflicts and to isolate them from conflicts involving other labour groups by creating an enterprise corporatism in which both parties perceive their interest as lying in the continuing expansion of international production.

Established workers in the sector of national capital are more susceptible to the appeal of protectionism and national (rather than enterprise) corporatism in which the defence of national capital, of jobs and of the workers’ acquired status in industrial relations institutions, are perceived to be interconnected.

Non-established labour has become of particular importance in the expansion of international production. Production systems are being designed so as to make use of an increasing proportion of semi-skilled (and therefore frequently nonestablished) in relation to skilled (and established) labour. This tendency in production organisation makes it possible for the centre to decentralise the actual physical production of goods to peripheral locations in which an abundant supply of relatively cheap non-established labour is to be found, and to retain control of the process and of the research and development upon which its future depends.

As a non-established workforce is mobilised in Third World countries by international production, governments in these countries have very frequently sought to pre-empt the possibility of this new social force developing its own class-conscious organisations by imposing upon it structures of state corporatism in the form of unions set-up and controlled by the government or the dominant political party. This also gives local governments, through their control over local labour, additional leverage with international capital regarding the terms of direct investment. If industrial workers in Third World countries have thus sometimes been reduced to political and social quiescence, state corporatism may prove to be a stage delaying, but in the long run not eliminating, a more articulate self-consciousness.

Even if industry were to move rapidly into the Third World and local governments were, by and large, able to keep control over their industrial workforces, most of the populations of these countries may see no improvement, but probably deterioration, in their conditions. New industrial jobs lag far behind increases in the labour force, while changes in agriculture dispossess many in the rural population. No matter how fast international production spreads, a very large part of the world’s population in the poorest areas remains marginal to the world economy, having no employment or income, or the purchasing power derived from it. A major problem for international capital in its aspiration for hegemony is how to neutralise the effect of this marginalisation of perhaps onethird of the world’s population so as to prevent its poverty from fuelling revolt.
Over the last quarter of a century something fundamental seems to have changed in the way in which capitalism works. In the 1970s, many spoke of crisis. In the 1980s, most spoke of restructuring and reorganization. In the 1990s, we are no longer sure that the crisis of the 1970s was ever really resolved and the view has begun to spread that capitalist history might be at a decisive turning point.

Our thesis is that capitalist history is indeed in the midst of a decisive turning point, but that the situation is not as unprecedented as it may appear at first sight. Long periods of crisis, restructuring and reorganization, in short, of discontinuous change, have been far more typical of the history of the capitalist world-economy than those brief moments of generalized expansion along a definite developmental path like the one that occurred in the 1950s and 1960s. In the past, these long periods of discontinuous change ended in a reconstitution of the capitalist world-economy on new and enlarged foundations. Our investigation is aimed primarily at identifying the systemic conditions under which a new reconstitution of this kind may occur and, if it does occur, what it may look like . . .

. . . . the starting point of our investigation has been Fernand Braudel’s contention that the essential feature of historical capitalism over its *longue durée*—that is, over its entire lifetime—has been the “flexibility” and “eclecticism” of capital rather than the concrete forms assumed by the latter at different places and at different times:

Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and *adaptation*. If there is, as I believe, a certain unity in capitalism, from thirteenth century Italy to the present-day West, it is here above all that such unity must be located and observed.

In certain periods, even long periods, capitalism did seem to “specialize,” as in the nineteenth century, when it “moved so spectacularly into the new world
of industry.” This specialization has led “historians in general . . . to regard industry as the final flowering which gave capitalism its ‘true’ identity.” But this is a short-term view:

[After] the initial boom of mechanization, the most advanced kind of capitalism reverted to eclecticism, to an indivisibility of interests so to speak, as if the characteristic advantage of standing at the commanding heights of the economy, today just as much as in the days of Jacques Coeur (the fourteenth century tycoon) consisted precisely of not having to confine oneself to a single choice, of being eminently adaptable, hence non-specialized.

It seems to me that these passages can be read as a restatement of Karl Marx’s general formula of capital: MCM´. Money capital (M) means liquidity, flexibility, freedom of choice. Commodity capital (C) means capital invested in a particular input-output combination in view of a profit. Hence, it means concreteness, rigidity, and a narrowing down or closing of options. M´ means expanded liquidity, flexibility, and freedom of choice.

Thus understood, Marx’s formula tells us that capitalist agencies do not invest money in particular input-output combinations, with all the attendant loss of flexibility and freedom of choice, as an end in itself. Rather they do so as a means towards the end of securing an even greater flexibility and freedom of choice at some future point. Marx’s formula also tells us that if there is no expectation on the part of capitalist agencies that their freedom of choice will increase, or if this expectation is systematically unfulfilled, capital tends to revert to more flexible forms of investment—above all, to its money form. In other words, capitalist agencies “prefer” liquidity, and an unusually large share of their cash flow tends to remain in liquid form.

This second reading is implicit in Braudel’s characterization of “financial expansion” as a symptom of maturity of a particular capitalist development . . . we can readily recognize in this latest “rebirth” of finance capital yet another instance of that reversal to “eclecticism” which in the past has been associated with the maturing of a major capitalist development: “[Every] capitalist development of this order seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: it [is] a sign of autumn.”

Marx’s general formula of capital (MCM´) can therefore be interpreted as depicting not just the logic of individual capitalist investments, but also a recurrent pattern of historical capitalism as world system. The central aspect of this pattern is the alternation of epochs of material expansion (MC phases of capital accumulation) with phases of financial rebirth and expansion (CM´ phases). In phases of material expansion money capital “sets in motion” an increasing mass
of commodities (including commoditized labor-power and gifts of nature); and in phases of financial expansion an increasing mass of money capital “sets itself free” from its commodity form, and accumulation proceeds through financial deals (as in Marx’s abridged formula MM'). Together, the two epochs or phases constitute a full systemic cycle of accumulation (MCM').

Our investigation is essentially a comparative analysis—of successive systemic cycles of accumulation in an attempt to identify (1) patterns of recurrence and evolution, which are reproduced in the current phase of financial expansion and of systemic restructuring; and (2) the anomalies of this current phase of financial expansion, which may lead to a break with past patterns of recurrence and evolution. Four systemic cycles of accumulation will be identified, each characterized by a fundamental unity of the primary agency and structure of world-scale processes of capital accumulation: a Genoese cycle, from the fifteenth to the early seventeenth centuries; a Dutch cycle, from the late sixteenth century through most of the eighteenth century; a British cycle, from the latter half of the eighteenth century through the early twentieth century; and a US cycle, which began in the late nineteenth century and has continued into the current phase of financial expansion. As this approximate and preliminary periodization implies, consecutive systemic cycles of accumulation overlap, and although they become progressively shorter in duration, they all last longer than a century: hence the notion of the “long century,” which will be taken as the basic temporal unit in the analysis of world-scale processes of capital accumulation . . . .

. . . .In short, the connection between Braudel’s secular cycles and the capitalist accumulation of capital has no clear logical or historical foundation. The notion of systemic cycles of accumulation, in contrast, derives directly from Braudel’s notion of capitalism as the “nonspecialized” top layer in the hierarchy of the world of trade. This top layer is where “large-scale profits” are made. Here the profits are large, not just because the capitalist stratum “monopolizes” the most profitable lines of business; even more important is the fact that the capitalist stratum has the flexibility needed to switch its investments continually from the lines of business that face diminishing returns to the lines that do not.

As in Marx’s general formula of capital (MCM'), so in Braudel’s definition of capitalism what makes an agency or social stratum capitalist is not its predisposition to invest in a particular commodity (e.g. labor-power) or sphere of activity (e.g. industry). An agency is capitalist in virtue of the fact that its money is endowed with the “power of breeding” (Marx’s expression) systematically and persistently, regardless of the nature of the particular commodities and activities that are incidentally the medium at any given time. The notion of systemic cycles of accumulation which we have derived from Braudel’s historical observation of recurrent financial expansions follows logically from this strictly instrumental relationship of capitalism to the world of trade and production, and emphasizes
financial expansions are taken to be symptomatic of a situation in which the investment of money in the expansion of trade and production no longer serves the purpose of increasing the cash flow to the capitalist stratum as effectively as pure financial deals can. In such a situation, capital invested in trade and production tends to revert to its money form and accumulate more directly, as in Marx’s abridged formula MM . . . .

. . . .(MC) phases of material expansion will be shown to consist of phases of continuous change, during which the capitalist world-economy grows along a single developmental path. And (CM’) phases of financial expansion will be shown to consist of phases of discontinuous change during which growth along the established path has attained or is attaining its limits, and the capitalist world-economy “shifts” through radical restructurings and reorganizations onto another path.

Historically, growth along a single developmental path and shifts from one path to another have not been simply the unintended outcome of the innumerable actions undertaken autonomously at any given time by individuals and the multiple communities into which the world-economy is divided. Rather, the recurrent expansions and restructurings of the capitalist world-economy have occurred under the leadership of particular communities and blocs of governmental and business agencies which were uniquely well placed to turn to their own advantage the unintended consequences of the actions of other agencies. The strategies and structures through which these leading agencies have promoted, organized, and regulated the expansion or the restructuring of the capitalist world-economy is what we shall understand by regime of accumulation on a world scale. The main purpose of the concept of systemic cycles is to describe and elucidate the formation, consolidation, and disintegration of the successive regimes through which the capitalist world-economy has expanded from its late medieval sub-systemic embryo to its present global dimension.

The entire construction rests on Braudel’s unconventional view of the relationship that links the formation and enlarged reproduction of historical capitalism as world system to processes of state formation on the one side, and of market formation on the other. The conventional view in the social sciences, in political discourse, and in the mass media is that capitalism and the market economy are more or less the same thing, and that state power is antithetical to both. Braudel, in contrast, sees capitalism as being absolutely dependent for its emergence and expansion on state power and as constituting the antithesis of the market economy.

More specifically, Braudel conceived of capitalism as the top layer of a three-tiered structure—a structure in which, “as in all hierarchies, the upper [layers] could not exist without the lower stages on which they depend.” The lowest and until very recently broadest layer is that of an extremely elementary and mostly
self-sufficient economy. For want of a better expression, he called this the layer of *material life*, “the stratum of the non-economy, the soil into which capitalism thrusts its roots but which it can never really penetrate”:

Above [this lowest layer], comes the favoured terrain of the *market economy*, with its many horizontal communications between the different markets: here a degree of automatic coordination usually links supply, demand and prices. Then alongside, or rather above this layer, comes the zone of the *anti-market*, where the great predators roam and the law of the jungle operates. This—today as in the past, before and after the industrial revolution—is the real home of *capitalism*.

…the really important transition that needs to be elucidated is not that from feudalism to capitalism but from scattered to concentrated capitalist power. And the most important aspect of this much neglected transition is the unique fusion of state and capital, which was realized nowhere more favorably for capitalism than in Europe:

Capitalism only triumphs when it becomes identified with the state, *when it is the state*. In its first great phase, that of the Italian city-states of Venice Genoa and Florence, power lay in the hands of the moneyed elite. In seventeenth century Holland the aristocracy of the Regents governed for the benefit and even according to the directives of the businessmen, merchants, and moneylenders. Likewise, in England the Glorious Revolution of 1688 marked the accession of business similar to that in Holland.

The obverse of this process has been inter-state competition for mobile capital. As Max Weber pointed out in his *General Economic History*, in antiquity, as in the late Middle Ages, European cities had been the seedbeds of “political capitalism.” In both periods the autonomy of these cities was progressively eroded by larger political structures. Nevertheless, while in antiquity this loss of autonomy meant the end of political capitalism, in early modern times it meant the expansion of capitalism into a new kind of world system:

In antiquity the freedom of the cities was swept away by a bureaucratically organized world empire within which there was no longer a place for political capitalism… [In] contrast with antiquity [in the modern era the cities] came under the power of competing national states in a condition of perpetual struggle for power in peace or war. This competitive struggle created the largest opportunities for modern western
capitalism. The separate states had to compete for mobile capital, which dictated to them the conditions under which it would assist them to power…. Hence it is the closed national state which afforded to capitalism its chance for development—and as long as the national state does not give place to a world empire capitalism also will endure.

In making the same point in *Economy and Society*, Weber further suggested that this competition for mobile capital among “large, approximately equal and purely political structures” resulted in that memorable alliance between the rising states and the sought-after and privileged capitalist powers that was a major factor in creating modern capitalism…. Neither the trade nor the monetary policies of the modern states…can be understood without this peculiar political competition and “equilibrium” among the European states during the last five hundred years.

Our analysis will substantiate these remarks by showing that inter-state competition has been a critical component of each and every phase of financial expansion and a major factor in the formation of those blocs of governmental and business organizations that have led the capitalist world-economy through its successive phases of material expansion. But in partial qualification of Weber’s thesis, our analysis will also show that the concentration of power in the hands of particular blocs of governmental and business agencies has been as essential to the recurrent material expansions of the capitalist world-economy as the competition among “approximately equal” political structures. As a rule, major material expansions have occurred only when a new dominant bloc accrued sufficient world power to be in a position not just to bypass or rise above inter-state competition, but to bring it under control and ensure minimal inter-state cooperation. What has propelled the prodigious expansion of the capitalist world-economy over the last five hundred years, in other words, has not been inter-state competition as such, but inter-state competition in combination with an ever-increasing concentration of capitalist power in the world system at large.

….the sequence of leading capitalist states outlined in this passage consists of units of increasing size, resources, and world power. All four states—Venice, the United Provinces, the United Kingdom, and the United States—have been great powers of the successive epochs during which their ruling groups simultaneously played the role of leader in processes of state formation and of capital accumulation. Seen sequentially, however, the four states appear to have been great powers of a very different and increasing order. As we shall detail in the course of this study, the metropolitan domains of each state in this sequence
encompass a larger territory and a greater variety of resources than those of its predecessor. More importantly, the networks of power and accumulation that enabled the states in question to reorganize and control the world system within which they operated grew in scale and scope as the sequence progresses.

It can thus be seen that the expansion of capitalist power over the last five hundred years has been associated not just with inter-state competition for mobile capital, as underscored by Weber, but also with the formation of political structures endowed with ever-more extensive and complex organizational capabilities to control the social and political environment of capital accumulation on a world scale. Over the last five hundred years these two underlying conditions of capitalist expansion have been continually recreated in parallel with one another. Whenever world-scale processes of capital accumulation as instituted at any given time attained their limits, long periods of inter-state struggle ensued, during which the state that controlled or came to control the most abundant sources of surplus capital tended also to acquire the organizational capabilities needed to promote, organize, and regulate a new phase of capitalist expansion of greater scale and scope than the preceding one.

As a rule, acquiring these organizational capabilities was far more the result of positional advantages in the changing spatial configuration of the capitalist world-economy than of innovation as such. Braudel goes as far as saying that innovation played no role whatsoever in the successive spatial shifts of the center of systemic processes of accumulation: “Amsterdam copied Venice, as London would subsequently copy Amsterdam, and as New York would one day copy London.” As we shall see, this process of imitation was far more complex than the simple sequence outlined here implies. Each shift will be shown to have been associated with a true “organizational revolution” in the strategies and structures of the leading agency of capitalist expansion. Nevertheless, Braudel’s contention that the shifts reflected “the victory of a new region over an old one” combined with “a vast change of scale” will stand.

...competition for mobile capital among large but approximately equal political structures has been the most essential and enduring factor in the rise and expansion of capitalist power in the modern era. Unless we take into account the effects of this competition on the power of the competing states and on the power of the statal and non-statal organizations that assist them economically in the struggle, our assessments of relationships of forces in the world system are bound to be fundamentally flawed. The capabilities of some Italian city-states over several centuries to keep at bay militarily and to influence politically the great territorial powers of late medieval and early modern Europe would be as incomprehensible as the sudden collapse and disintegration in the late 1980s and early 1990s of the largest, most self-sufficient, and second greatest military power of our times: the USSR.
It is no accident that the seeming reversal of Marx’s dictum noted by Kotkin and Kishimoto occurred in the midst of a sudden escalation of the armaments race and political-ideological struggle between the United States and the USSR—Fred Halliday’s Second Cold War. Nor is it by chance that the financial expansion of the 1970s and 1980s attained its moment of greatest splendor precisely at the time of this sudden escalation. To paraphrase Marx, it was at this time that the alienation of the US state proceeded faster than ever before; and to paraphrase Weber, it was at this time that the competition for mobile capital between the two largest political structures in the world created for capitalism an extraordinary new opportunity for self-expansion.

Capitalist power in the world system cannot expand indefinitely without undermining inter-state competition for mobile capital on which the expansion rests. Sooner or later a point will be reached where the alliances between the powers of state and capital—that are formed in response to this competition become so formidable that they eliminate the competition itself and, therefore, the possibility for new capitalist powers of a higher order to emerge. So do the structures of US capitalism constitute the ultimate limit of the six centuries-long process through which capitalist power has attained its present, seemingly all-encompassing scale and scope?

In seeking plausible answers to these questions, the complementary insights of Weber and Marx concerning the role of high finance in the modern era must be supplemented by Adam Smith’s insights concerning the process of world market formation. Like Marx after him, Smith saw in the European “discoveries” of America and of a passage to the East Indies via the Cape of Good Hope a decisive turning point in world history. He was none the less far less sanguine than Marx about the ultimate benefits of these events for humanity.

Smith, of course, did not use the term “capitalism”—a term introduced in the vocabulary of the social sciences only in the twentieth century. Yet, his assessment that “superiority of force” was the most important factor in enabling the conquering West to appropriate most of the benefits—and to impose on the conquered non-West most of the costs—of the wider market economy established as a result of the so-called Discoveries, parallels Braudel’s assessment that the fusion of state and capital was the vital ingredient in the emergence of a distinctly capitalist layer on top of, and in antithesis to, the layer of market economy. In Smith’s scheme of things large-scale profits can be maintained for any length of time only through restrictive practices, buttressed by state power, which constrain and disrupt the “natural” operation of the market economy. In this scheme of things, as in Braudel’s, the upper layer of merchants and manufacturers “who commonly employ the largest capitals, and who by their wealth draw to themselves the greatest share of the public consideration” is truly the “anti-market,” Braudel’s contre-marche.
However, Braudel’s and Smith’s conceptions of the relationship between the market economy and its capitalist antithesis differ in one important respect. For Braudel the relationship is fundamentally static. He neither sees nor foresees any synthesis emerging from the struggle between “thesis” and “antithesis.” Smith, in contrast, does see such a synthesis emerging out of the withering away of inequality of force under the impact of the very process of world market formation. As the last sentence of the passage quoted above indicates, Smith thought that the widening and deepening of exchanges in the world market economy would act as an unstoppable equalizer of relationships of force between the West and the non-West.

A more dialectical conception of historical processes is not necessarily more accurate than a less dialectical one. As it turned out, for more than 150 years after Smith advanced the thesis of the corrosive impact of processes of world market formation on the superiority of force of the West, the inequality of force between West and non-West increased rather than decreased. World market formation and the military conquest of the non-West proceeded in tandem. By the 1930s, only Japan had fully escaped the misfortunes of Western conquest, but only by itself becoming an honorary member of the conquering West.

Then, during and after the Second World War, the wheel turned. Throughout Asia and Africa old sovereignties were re-established and scores of new ones were created. To be sure, massive decolonization was accompanied by the establishment of the most extensive and potentially destructive apparatus of Western force the world had ever seen. The far-flung network of quasi-permanent overseas military bases put in place by the United States during and after the Second World War, Krasner notes, “was without historical precedent; no state had previously based its own troops on the sovereign territory of other states in such extensive numbers for so long a peacetime period.” And yet, on the battlefields of Indochina, this world-encompassing military apparatus proved to be wholly inadequate to the task of coercing one of the poorest nations on earth to its will.

The successful resistance of the Vietnamese people marked the apogee of a process initiated by the Russian Revolution of 1917, whereby the West and non-West were reshuffled into a tripartite grouping consisting of a First, Second, and Third World. While the historical non-West came to be grouped almost entirely in the Third World, the historical West split into three distinct components. Its more prosperous components (North America, Western Europe, and Australia) joined by Japan, came to constitute the First World. One of its less prosperous components (the USSR and Eastern Europe) came to constitute the Second World and another (Latin America) joined the non-West to constitute the Third World. Partly a cause and partly an effect of this tripartite fission of the historical West, the fortunes of the non-West from the end of the Second World War to the Vietnam War seemed to be in the ascendant.
any hope (or fear) of an imminent equalization of the opportunities of the peoples of the world to benefit from the continuing process of world market formation was, to say the least, premature. US competition for mobile capital in world money markets to finance both the Second Cold War and the “buying” of electoral votes at home through tax cuts, suddenly dried up the supply of funds to Third and Second World countries and triggered a major contraction in world purchasing power. Terms of trade swung back in favor of the capitalist West as fast and as sharply as they had swung against it in the 1970s, and the income gap between the capitalist West and the rest of the world became wider than ever.

Nevertheless, the backlash did not restore the status quo ante. On the one hand, the superiority of force of the capitalist West seemed to have become greater than ever. Disoriented and disorganized by the increasing turbulence of the world-economy, and hard-pressed by the Second Cold War, the USSR was squeezed out of the “superpower business.” Instead of having two superpowers to play off against one another, Third World countries now had to compete with the fragments of the Soviet empire in gaining access to the markets and resources of the capitalist West. And the capitalist West, under US leadership, moved quickly to take advantage of the situation to tighten its de facto global “monopoly” of the legitimate use of violence.

On the other hand, superiority of force and the capitalist accumulation of capital seemed to diverge geopolitically as never before. The decline of Soviet power was matched by the emergence of what Bruce Cumings has aptly called the “capitalist archipelago” of East and Southeast Asia.

Collectively, the competitiveness of the East and Southeast Asian capitalist archipelago as the new “workshop of the world” is the single most important factor forcing the traditional centers of capitalist power—Western Europe and North America—to restructure and reorganize their own industries, their own economies, and their own ways of life.

What kind of power is this that even an expert eye can hardly discern? Is it a new kind of “superiority of force” or, rather, the beginning of the end of the superiority of force on which, over the last five hundred years, the capitalist fortunes of the West have been built? Is capitalist history about to end through the formation of a truly global world empire based on the enduring superiority of force of the West as Max Weber seemed to envisage, or is it going to end through the formation of a world market economy in which the superiority of force of the West withers away as Adam Smith seemed to envisage?
From the perspective of most economists, economics is first and foremost a method of analysis (the “principles of economics”) in which hypotheses of social behavior based on highly abstract generalizations are subjected to rigorous empirical testing toward the goal of delivering scientifically valid statements about the social world. Positive political economy is the application of this method to themes traditionally lying at the crossroads of the economic and the political. Being rooted in the liberal tradition, positive political economy constructs its frame of analysis around a particular abstraction, the rational self-interested maximizing individual. Within IPE, positive political economy builds particularly upon ideas found in the work of classical liberals on international trade. From a liberal perspective, an open international economy is a collective good and therefore subject to all the problems of provision that economic theory identifies. Political obstacles in particular include what economist Jagdish Bhagwati calls “directly unproductive profit-seeking activities,” for example, the rent-seeking behavior of protectionists. To be positive in positive political economy is to work apart from a normative approach of what should be (characteristic of critical approaches) as well as separate from an historical approach, which leans toward rich description and thus fails to be theoretically rigorous.

Roland Vaubel (b. 1948) seeks to provide a “systematic explanation” for the failures of international institutions to promote the public interest. He does so from a public choice perspective, the banner under which the principles of economics march in political science. Vaubel’s target is what he calls “the conventional approach,” or the “public-interest view” advanced by rationalist liberal IPE and represented in this volume by the work of Robert Keohane. Taking on interdependence theory, he claims that market-based interdependence has no need of political coordination through international regimes; only non-market-based interdependence calls for political management. Taking on Keohane’s particular argument for international regimes, Vaubel argues that information produced by international organizations is usually biased; that which is produced and disseminated in a decentralized manner is best. Taking on mainstream liberal IPE
as a whole, Vaubel argues that a truly rationalist approach serves as a corrective to “naïve internationalism,” demonstrating both the “built-in” dangers of all political organizations and the superiority of markets in securing public welfare.

Vaubel’s argument against international organizations is rooted in the concept of rent-seeking, economically unproductive behavior that strives to secure income not by creating new wealth but by capturing a larger share of existing wealth. Vaubel argues that politicians and bureaucrats are just as self-interested as anyone else. While the invisible hand enables markets to turn private interests into the public interest, international organizations have no similar Midas-like mechanism. Even democratic states have the highly imperfect instrument of elections to harmonize the private interests of politicians and bureaucrats in power and reelection/reappointment with the public interest. International organizations lack such accountability while at the same time provide numerous channels for rent-seekers to wield influence in sites insulated from public pressure. Results run the gamut, from farmers securing agricultural subsidies to uncompetitive industries protected by tariffs and anti-dumping measures to international bureaucrats themselves grown fat on the largesse of taxpayer funding for international organizations. Vaubel even suggests, following Friedrich Hayek, that the state monopoly on the provision of money is an instance of international collusion that creates excessive inflation, to the detriment of public welfare.

Through his argument, Vaubel seeks to undermine the central normative plank of liberal IPE, the claim that international cooperation is good in and of itself, and that it produces the collective good of an open international economy. His analysis serves to move liberals away from a Keynesian optimism about international cooperation through states and other political organizations and back toward classical liberal skepticism concerning them, combined with renewed optimism about the positive coordinating capacities of markets.

Ronald Rogowski (b. 1944) applies a particular instance of abstract liberal economic theory, the Stolper-Samuelson theorem, to explain political coalitions around international trade. This theorem is derived from the Heckscher-Ohlin (or here, Heckscher-Ohlin-Vanek) model of trade, a development of David Ricardo’s theory of comparative advantage. The Heckscher-Ohlin model states that countries export goods and services whose production is intensive in nationally abundant factors. At the same time, countries will import goods and services in which they are factor-scarce. This offers an explanation of why the US, for example, exports aircraft and imports toys, or why the UK exports financial services and imports grain. The Stolper-Samuelson theorem builds upon Heckscher-Ohlin to show that the real incomes of owners of domestically abundant factors rise with free trade and fall with trade protection; the reverse is true of the real incomes of owners of domestically scarce factors.
Rogowski uses this model (constructed upon numerous simplifying assumptions) to build a theory of domestic political coalitions around trade openness applicable to all societies throughout recorded history. He begins by defining three simplified factors of production familiar to any student of trade economics or of classical political economy: land, labor, and capital. Countries are defined along three axes, namely, whether any one factor is relatively abundant or relatively scarce in comparison to a country’s trading partners. Conflicts between the owners of these factor endowments over trade policy are inherent in the model. The specifics, however, turn on the relative abundance or scarcity of each endowment as well as on whether world trade is expanding or contracting. Rogowski’s permutations result in three forms of political struggle: “urban-rural conflict,” “class conflict,” and the “red-green coalition.” In the first, capital and labor ally against land while in the second capital and land ally against labor. The third is a situation in which land and labor ally against capital. Each side’s support for free trade turns on its relative abundance and the general conditions of trade expansion or contraction in the international political economy. Through a number of historical chapters, Rogowski finds this simple model delivers a significant explanatory punch. Within a positivist approach to social science like positive political economy, this stands as the best kind of work.

Moreover, with this rather simple model Rogowski also offers interesting and nuanced insights into the classical arguments around class cleavages and free trade. Both David Ricardo and Karl Marx saw that British capitalists and workers were united and ultimately successful in support of free trade against British landowners and the rural sector. Rogowski’s analysis shows that this is not a universal phenomenon but rather one premised on the particular relative factor endowments of Britain in the early and mid-nineteenth century. British capital and labor supported free trade and land opposed it because in Britain, compared to its trading partners, both capital and labor were relatively abundant and land was relatively scarce. In a period of expanding trade, the assertiveness of the capital-labor coalition carried the day. The young United States was also a free trading country in the same period but for very different political-economic reasons. In the US prior to the Civil War, the support of independent farmers and plantation owners for openness prevailed over the opposition of labor and especially capital thanks to the country being highly land-abundant while labor- and capital-scarce in a period of trade expansion. Industry and an industrial workforce began developing in the late nineteenth century, however, in the teeth of British industrial hegemony. Rogowski’s model offers an elegant explanation of the erosion of support for free trade at this time and the US shift to protectionism.
A Public Choice Approach to International Organization

ROLAND VAUBEL

The conventional approach to international organization is based on the assumption that governments aim at ‘the public interest’. It is a normative theory which—without much questioning—is also applied as a positive theory: it is supposed to justify and explain international organization at the same time. If some specifically positive analysis is added, it usually attempts to explain why international organization is less extensive than appears to be desirable. The conventional approach does not deny that international organization may sometimes be counter-productive. But it does not provide a systematic explanation of such institutional and policy failures. The central thesis of this paper is that there exists a systematic explanation for these failures and that it must be grounded on public choice theory.

The following analysis deals with the activities of international agencies and with the international negotiations among governments. Both are subsumed under the heading of international organization. The first part of the paper summarizes the conventional approach and draws attention to its limitations and abuses. In the second part, the new approach to international organization is presented and its three main implications are derived and confronted with the evidence.

I. The conventional approach: A short survey and critique

The conventional case for international organization rests on three pillars:

1. Without international organization, international externalities would result in underproduction of international public goods and in overexploitation of common resources.

2. Without international organization, international economies of scale in the production of national public goods could not be exploited. On this view,
international organizations are like clubs—also in so far as they confer prestige upon their member countries.

3. Game theory is used to show that non-cooperative national decision making can produce a suboptimal outcome (for instance, a ‘prisoners’ dilemma’) and that cooperative behavior can improve the outcome.

These arguments are logically impeccable but misleadingly incomplete and often misapplied.

1.1 International externalities?

A favorite theme, notably in the political-science literature, is that the technological revolution in transport and communications has created a hitherto unknown degree of international interdependence which consequently requires a hitherto unknown degree of international organization. This ‘functionalist’ view of the world is too simple because it fails to distinguish two fundamentally different types of interdependence:

- interdependence through the market, i.e., through the price mechanism (so-called ‘pecuniary’ and Pareto-irrelevant externalities), and
- non-market interdependence (so-called ‘technological’ and potentially Pareto-relevant externalities).

Increasing international market interdependence does not justify a larger role for international agencies or intergovernmental coordination. On the contrary, if national markets become more interdependent or integrated, competition is intensified and the market works more efficiently so that the role of government in the economy can be reduced. International organization may have to be strengthened only where the growing interdependence is of the non-market type.

International expenditure ‘leakages’ of the Keynesian type are of the market-interdependence variety. The same is true for the international transmission of national monetary and fiscal policies.

As international market interdependence grows, it becomes more important to be well-informed about current and future developments in other countries. But this is not an argument for collective decision-making or for confidential exchange of information at summit meetings or through international agencies. Such knowledge is an international public good.

The conventional approach does not only misapply externality theory in these cases, it also tends to overlook the positive international externalities which decentralization affords: decentralized policy making by governments generates more knowledge because it reduces world business cycle risk through
diversification and uses policy competition as a discovery procedure. Finally, as the public choice approach shows, international organization can enable national governments to impose more negative externalities on their citizens.

1.2 International economies of scale

The economies of scale which are adduced to justify the activity of international agencies frequently relate to goods which are not public goods. The best examples are the various public international insurance schemes. Insurances benefit from the law of large numbers but they can be efficiently provided by the private sector. Food and energy supplies, for example, can be secured individually through long-term delivery contracts or private Stock building. A central bank which wants to borrow foreign exchange to finance exchange market interventions can do so in the world capital market, if it is creditworthy.

Some authors, for instance the EC Study Group, treat improvements in a group’s external bargaining position as international economies of scale. This is misleading because such ‘improvements’ are purely distributional, they are not ‘Pareto-improvements’. Many international agencies have only or primarily such distributional aims (OPEC, the IEA, UNCTAD, and other UN organizations in which the developing countries have a voting majority).

1.3 International game theory

International interdependence through the market cannot justify international organization if there is perfect competition among the demanders and suppliers of private and public goods. The game-theoretic justification of international organization insists that the number of countries and public suppliers is too small, and that some of them are too large, to permit workable competition. But even the existence of a policy oligopoly is not sufficient to establish a case for international coordination. The modern classical economist will raise two main objections, which I shall call the monetarist objection and the public-choice objection.

The monetarist objection is that decentralized policy making can be efficient even in such circumstances, if the policy instruments are assigned according to comparative advantage and if the decision makers refrain from adopting international policy targets with respect to the exchange rate, the balance of payments, etc. International organization is at best a second-best solution to these problems. The first-best solution is for the governments to assign monetary and fiscal policy to their domestic targets and to free their country’s trade and capital movements: they must refuse to join the game. A possible objection to this solution is that the suggested first-best solution is not feasible, for example, because
the public does not believe the government (the problem of time inconsistency). But if we allow for these imperfections in the political process, we ought to allow for others as well. This takes us to the public-choice objection.

The theory of public choice denies that the democratic process constrains governments to implementing the wishes of a majority of voters, let alone, of all voters. This implies that any approach which treats national governments as the only parties engaged in, and affected by, the game is bound to be entirely misleading. If the public-interest view of government is abandoned, a new and very different theory of international organization emerges.

2. The analytical framework of the new approach

If the democratic process does not constrain governments to implementing ‘the public interest’, the game-theoretic case for international organization can break down even if politicians and bureaucrats are entirely benevolent and aim at what they regard as the public interest… The reason is that, since they cannot credibly bind themselves, let alone future governments, and since they are known to gain from certain policy surprises (monetary expansion, public spending, public deficits), the market will not believe their announcements and anticipate an inferior performance, say, higher inflation. Because of such distrust, prices and wages are higher, and employment lower, than is optimal. In these circumstances the threat of temporary real exchange rate depreciation, which an expansionary monetary shock would generate under a non-cooperative regime, can serve as a substitute for credibility. Owing to the imperfection of the political process, decentralized policy-making is not only first best but also second best.

More typically, public choice models assume that, to some extent, politicians and bureaucrats are not only able, but also interested, to pursue personal goals which are not shared by their voters. To simplify, we shall assume that national foreign-policy makers try to maximize their own utility in the form of power to implement the policies they favor. They operate under the constraint that in order to stay in power they have to be reelected by a majority.

International agreements and commitments impose further constraints on the national politician’s freedom of discretion. Thus, he will not participate in international decision-making, unless, by doing so, he can obtain an agreement which

A. satisfies him personally; or
B. helps him to gain votes; or
C. reduces his cost, in terms of votes lost, of implementing his own favored domestic policies.
If the politician has a sufficient majority to start with, international agreements of type B and C enable and induce the national policy maker to dissipate the excess votes by implementing new unpopular domestic policies—those which he favors most. In case C participation in international decision-making is also likely to affect the relative ‘vote prices’ between the various unpopular domestic policies which he favors.

Our analysis also assumes that many voters face substantial political information costs. Since the weight of the individual vote is so small that it is unlikely to affect the outcome of the election, voters are to some extent ‘rationally ignorant’. In these circumstances, the politician in government can use international meetings and agencies to affect the voters’ information costs:

- to draw attention to popular policies;
- to hide unpopular policies; or
- to disseminate false information.

Thus, international organization—like all instruments of policy-making—can serve the politician to pursue his own ends at the expense of his voters. It can reduce the effectiveness of the reelection constraint.

The view that democracy may produce undesired results in the field of foreign policy has a long tradition and goes back at least to Tocqueville. In this tradition, it is usually argued that the information requirements and the need for confidentiality and continuity render foreign policy relatively unsuitable for democratic control. The reason given is not that the preferences of the politicians and the preferences of their voters may diverge. In the modern literature, this possibility has sometimes been noted in passing but it has not been analyzed… (According to Frei, a discussion of this question would be ‘unproductive and sterile’, translation R.V.). If examples are given, they relate to international agreements to stem protectionism…

In the following, I shall use the public-choice approach to derive and substantiate three positive hypotheses about the role of international organization:

1. In many cases, international joint decision making of national governments must be viewed as collusion at the expense of a majority of voters.
2. In many cases, the division of labor between international agencies and national governments serves to hide the cost of concessions to pressure groups.
3. For several reasons, international agencies tend to supply more favors to pressure groups than the national bureaucracies would have done.
2.1 International coordination as collusive behavior

…If politicians are viewed as competitive suppliers of public and other goods and services and their voters as consumers of these goods and services, it cannot be surprising that politicians are tempted to collude. Several authors have suggested that such collusion is a genuine problem in the closed economy … In the open economy, international coordination among governments may serve a similar purpose ….

A politician in government competes with (i) other members of his government, (ii) the politicians in opposition and, to the extent that voters can substitute between domestic and foreign state-provided goods, with (iii) foreign politicians in government. Collusion with foreign politicians can be useful for the domestic politician in several respects:

1. **Participation** in international meetings (especially in summit meetings) helps him to capture the attention of the media and to increase his prestige (especially if he is the host and/or leader). In this way, he can gain a competitive edge over the other politicians in his government and the opposition.

2. **Mutual approval** of each other’s policies at such meetings (and by international agencies) helps to stifle criticism from competing politicians at home.

3. Collective international **decision-making** enables the participating politicians to shirk domestic responsibility for unpopular policies; to ‘sell’ such policies as part of an international bargain; and to protect themselves—whether intentionally or not—against superior performance of foreign governments.

This last point deserves further exposition. It is well known from the theory of industrial organization that it is easier to establish and maintain a cartel if

i. the quality of the product is homogeneous;

ii. the cost functions are similar for all suppliers,

iii. there is a dominant supplier who can act as price-leader;

iv. the price elasticity of demand for the product is low;

v. there are high barriers to entry (for example, in the form of economies of scale).

This may explain why governments try to collude particularly frequently as suppliers of money. By agreeing on a convergence of inflation rates and exchange rate stability, each government reduces the ‘danger’ that its citizens may demand foreign money in place of the domestic money or that they may criticize it for not performing as well as other governments. Moreover, since the price level
reacts more sluggishly to monetary impulses, when the exchange rate is fixed than when it is flexible, such coordination obscures the causal nexus between monetary policy and inflation.

Restrictions of currency competition, as Hayek has pointed out, aggravate inflation. Monetary collusion, like all collusion, raises the price of the product in question (the price of holding money) and leads to a reduction in its quantity (real money balances). In the terminology of Albert Hirschman, international monetary collusion can be said to block both ‘voice’ and ‘exit’—the two corrective feedback mechanisms that can lead a government back to price level stability. The power of government is greatest in the closed economy (‘socialism in one country’). If the economy is open for the flow of goods, assets and information, international policy competition is a means of constraining the actions of politicians in line with the preferences of their citizens . . .

2.2 The division of labor between international agencies and national member governments

The division of labor between international agencies and national governments is a function of the demand for powers from the international agencies and the supply of powers from national governments. If the economic theory of bureaucracy applies, the officials in international agencies try to maximize their power; their demand for additional powers and resources is unlimited. It follows that international agencies are willing to take any work they can get, however unpleasant or unimportant it may be. The division of labor is not demand-determined, but exclusively supply-determined. To explain it, we need a supply-side theory.

Which powers are national governments likely to delegate to international agencies? It has frequently been noted that they are not likely to give away very important powers, i.e., policy instruments which can be applied to crucially affect the outcome of elections. This is the so-called ‘law of inverse salience’ in integration theory.

The national politicians will rather try to get rid of their ‘unpleasant’ activities, their ‘dirty work’. These are interventions which they consider necessary to gain or maintain the support of some interest groups on whose support they depend, but for which they do not like to take direct responsibility because part of the cost has to be borne by the other supporters of the ruling coalition. If the benefits are highly concentrated, they are recognized by the beneficiaries and help to win votes. Fewer votes are lost among the others, if the costs are widely dispersed and obscured by the operation of international agencies. International organization raises information costs more for the general public which has to pay than for the well-organized pressure groups which benefit. If some countries receive more than they pay, international organization may also serve to
disperse the costs of such programmes more widely than would be possible on a national basis.

However, voter ignorance is not rational to the same extent in the case of salient general political issues. Hence, the ‘dirty work’ hypothesis offers an additional explanation of why international agencies typically do not receive political powers of general importance.

Rational voter ignorance is also less likely during the founding stages of international agencies. To join or not to join an international club is often a salient question about which rational voters will want to be informed. But as time goes on, many small decisions are taken in the international agency, and the declared original intentions lose their weight. Collusive practices at the expense of the citizens gain ground. Olsen has described a very similar process for the nation state. The decline of nations and the decline of international agencies seem to obey the same laws.

Is this ‘dismal’ view of international agencies consistent with the empirical evidence? In several respects, it applies to the European Community. The EC Commission seems to have an ‘adverse selection’ problem. It has increasingly specialized in ‘dirty’ activities:

- it subsidizes agriculture by setting disequilibrium support prices and by buying and then degrading, destroying or dumping the resulting excess output;
- it gives its seal of approval to national subsidies (Art. 92 III);
- it authorizes national protectionist measures (Art. 115);
- it negotiates ‘voluntary export restraints’ with foreign countries (most of them in the Far East);
- it adopts a plethora of ‘antidumping measures’ each month;
- it authorizes or even initiates and enforces cartels in industries that suffer from severe excess capacity (steel, textiles, synthetics, etc.). In the case of steel, it enforces a price cartel with production quotas and export quotas: it regulates the industry for the benefit of the weaker producers and at the expense of consumers.

Has the Community become Europe’s ‘policy dustbin’?

The International Monetary Fund relieves its members of unpleasant tasks as well:

- it imposes policy conditions on borrowing governments which want to evade the responsibility of unpleasant measures;
- by serving as a bogeyman or scapegoat, it enables the individual lending governments to escape the nationalist resentment which such policy conditions would otherwise create in the borrowing countries….
What has been said about IMF conditionality, applies to the World Bank as well. To the extent that foreign aid is unpopular in the donor countries, the multilateral aid institutions help the national politicians to collude against their voters and to avoid responsibility for specific grants and the inevitable scandals. Domestic pressure to tie aid can also be warded off more easily. Nor is it surprising that such touchy issues as birth control are handed over to international agencies (notably to the World Health Organization).

Another interesting case is the International Energy Agency (IEA), which may be viewed as an embryonic counter-cartel of oil consumers. If energy supplies are suddenly cut off by OPEC, the IEA is to ration the remaining energy among its member countries: a highly unpleasant task if the case were ever to arise.

These examples should suffice to show that the ‘dirty work’ hypothesis is not only theoretically plausible but also consistent with the evidence. It may also explain why international agencies frequently serve to exchange national benefits rather than to internalize international externalities. As has been emphasized, it is not supposed to explain everything international agencies do. But it seems to add to our understanding of the observable international division of labor.

Does our hypothesis explain phenomena which the alternative hypothesis, the public-interest view, does not explain? In many cases, a hard and fast proof is impossible because politicians and bureaucrats always give some reasons which seem to justify their actions in terms of the public interest. It would be necessary to refute each of these arguments, which is clearly beyond the scope of this paper. However, to show that our hypothesis does have excess explanatory power, it is sufficient to prove the case in one instance. We choose an example of major importance—probably the most important of all.

According to the conventional approach (the alternative hypothesis), the common agricultural policy of the European Community was adopted to compensate France and Italy for their concessions to F.R. Germany in the trade of manufactures. This explanation is inconsistent with the fact that, already in the early years, it was usually the German government which pressed for the highest support prices. There is also the difficulty that, in fact, French industry increased its market share in international trade between the member countries. According to official EC calculations, France is now a net payer to the European Community, and this is due to the common agricultural policy. The adherents of the conventional approach might argue that this development could not be foreseen. But how do they explain the fact that the German government is still one of the staunchest defenders of the common agricultural policy, although the German net payments are by far the largest (in total amount and per head)?
2.3 International agencies and the aggregate supply of transfers to interest groups

If the ‘dirty-work hypothesis’ helps to explain the existing division of labor among national governments and international agencies, we may further ask whether this division of labor affects the aggregate supply of such dirty work. There are several reasons to believe that international agencies supply more transfers to interest groups than the national bureaucracies would do.

First, since international agencies, by raising taxpayers’ information cost, enable the politician to supply favors to interest groups at smaller political cost to himself, he will want to supply more of such favors—either because he enjoys giving to these groups (e.g., farmers) or because, at the margin, such transfers have become a cheaper method of generating majorities than the techniques that were previously employed. By substituting transfers through international agencies for the supply of public goods through national bureaucracies, the politician can reduce his cost of satisfying the reelection constraint and, hence, increase his power.

International organization also reduces the political cost of catering for pressure groups in another way. Most international agencies operate under the cover of some internationalist ideal: international (or group) solidarity, cooperation, integration, peace, etc. This immunizes them against public criticism.

Third, international organization does not only raise the information cost of taxpayers but also that of the politicians. Owing to language barriers and sheer distance, international agencies are farther removed from political control than the national bureaucracies. As a result, international agencies enjoy more slack. If they are entrusted with additional tasks, they have more excess capacity to give up in exchange for power. Hence, they are likely to do the dirty work more thoroughly than the national officials would.

Finally, the individual national politician has less of an incentive to monitor and improve the activities of international agencies. In particular, a national minister of finance is not as interested in controlling their expenditures as in restraining the spending of his own government. This is because he has to bear the additional cost of persuading his foreign colleagues but can internalize only some fraction of the benefits. As Frey notes, ‘this lack of incentives is another example of the free-riding problem.’ It is likely to be more severe, the larger the number of member countries and the smaller their average contribution (in relation to the transaction cost of reform).

To be conclusive, our argument has to assume that international bureaucrats have the same utility function as national bureaucrats and that the economic theory of bureaucracy applies to both of them. Both try to maximize their power in terms of budget size, staff and freedom of discretion and appreciate some
leisure on the job. Both enjoy some freedom to pursue these objectives because, in many respects, they have acquired an information monopoly and because the politicians need their cooperation . . . .

Conclusion

The purpose of this paper has been to develop a positive theory of international organization which can supplement the conventional normative theory used as a positive theory.

The conventional approach draws much of its plausibility from the fact that it relies on the reasons given by the decision-makers and reported in the media, and on the lofty objections stated in the charters of international agencies. The public-choice approach, by its very nature, is precluded from accepting such evidence. In some respects, it must appear dismal and perhaps cynical.

It is a positive theory which tries to explain. But just as the conventional normative theory tends also to be used as a positive theory, our positive theory is likely to have normative implications as well.

It does not imply that international organization is generally undesirable. But it can be used to emphasize the advantages of decentralized policy making and to warn against a naive internationalism which welcomes international agreements for their own sake—regardless of what is being agreed upon. International organization can be and is abused, and the cause is not an occasional lack of virtue among politicians but a systematic built-in tendency toward collusion at the expense of the citizens. Such collusion is not only undesirable in itself. There is also the danger that it discredits and crowds out unambiguously desirable forms of international cooperation: agreements to remove non-market obstacles to market interdependence in the field of international trade and capital movements.
Why Changing Exposure to Trade Should Affect Political Cleavages

RONALD ROGWOSKI

The Stolper-Samuelson Theorem

In 1941, Wolfgang Stolper and Paul Samuelson solved conclusively the old riddle of gains and losses from protection (or, for that matter, from free trade). In almost any society, they showed, protection benefits (and liberalization of trade harms) owners of factors in which, relative to the rest of the world, that society is poorly endowed, as well as producers who use that scarce factor intensively. Conversely, protection harms (and liberalization benefits) those factors that—again, relative to the rest of the world—the given society holds abundantly, and the producers who use those locally abundant factors intensively. Thus, in a society rich in labor but poor in capital, protection benefits capital and harms labor; and liberalization of trade benefits labor and harms capital.

So far, the theorem is what it is usually perceived to be, merely a statement, albeit an important and sweeping one, about the effects of tariff policy. The picture is altered, however, when one realizes that exogenous changes can have exactly the same effects as increases or decreases in protection. A cheapening of transport costs, for example, is indistinguishable in its impact from an across-the-board decrease in every affected state’s tariffs; so is any change in the international regime that decreases the risks or the transaction costs of trade. The converse is of course equally true; when a nation’s external transport becomes dearer or its trade less secure, it is affected exactly as if it had imposed a higher tariff.

The point is of more than academic interest because we know, historically, that major changes in the risks and costs of international trade have occurred: notoriously, the railroads and steamships of the nineteenth century brought drastically cheaper transportation; so, in their day, did the improvements in shipbuilding and navigation of the fifteenth and sixteenth centuries; and so, in our own generation, have supertankers, cheap oil, and containerization. According to the familiar argument of Kindleberger and others, international hegemony decreases
both the risks and the transaction costs of international trade; and the decline of hegemonic power makes trade more expensive, perhaps—as, some have argued, in the 1930s—prohibitively so. Analyzing a much earlier period, the Belgian historian Henri Pirenne attributed much of the final decline of the Roman Empire to the growing insecurity of interregional, and especially of Mediterranean, trade after A. D. 600.

Global changes of these kinds, it follows, should have had global consequences. The “transportation revolutions” of the sixteenth, the nineteenth, and scarcely less of the mid-twentieth century must have benefited in each affected country owners and intensive employers of locally abundant factors and must have harmed owners and intensive employers of locally scarce factors. The events of the 1930s should have had exactly the opposite effect. What, however, will have been the political consequences of those shifts of wealth and income? To answer that question, we require a rudimentary model of the political process and a somewhat more definite one of the economy.

Simple Models of the Polity and the Economy

Concerning domestic political processes, I shall make only three assumptions: that the beneficiaries of a change will try to continue and accelerate it, while the victims of the same change will endeavor to retard or halt it; that those who enjoy a sudden increase in wealth and income will thereby be enabled to expand their political influence as well; and that, as the desire and the means for a particular political preference increase, the likelihood grows that political entrepreneurs will devise mechanisms that can surmount the obstacles to collective action.

For our present concerns, the first assumption implies that the beneficiaries of safer or cheaper trade will support yet greater openness, while gainers from dearer or riskier trade will pursue even greater self-sufficiency. Conversely, those who are harmed by easier trade will demand protection or imperialism; and the victims of exogenously induced constrictions of trade will seek offsetting reductions in barriers. More important, the second assumption implies that the beneficiaries, potential or actual, of any such exogenous change will be strengthened politically (although they may still lose); the economic losers will be weakened politically as well. The third assumption gives us reason to think that the resultant pressures will not remain invisible but will actually be brought to bear in the political arena.

The issue of potential benefits is an important one, and a familiar example may help to illuminate it. In both great wars of this century, belligerent governments have faced an intensified demand for industrial labor and, because of the military’s need for manpower, a reduced supply. That situation has positioned workers—and, in the U.S. case, such traditionally disadvantaged workers—as blacks and women—to demand greatly increased compensation: these groups, in
short, have had large potential gains. Naturally, governments and employers have endeavored to deny them those gains; but in many cases—Germany in World War I, the United States in World War II, Britain in both world wars—the lure of sharing in the potential gains has induced trade union leaders, and workers themselves, to organize and demand more. Similarly, when transportation costs fall, governments may at first partially offset the effect by imposing protection.

Owners of abundant factors nonetheless still have substantial potential gains from trade, which they may mortgage, or on which others may speculate, to pressure policy toward lower levels of protection.

So much for politics. As regards the economic aspect, I propose to adopt with minor refinements the traditional three-factor model—land, labor, and capital—and to assume, for now, that the land-labor ratio informs us fully about any country’s endowment of those two factors. (I shall presently relax this assumption, but it is useful at this stage of the exposition.) No country, in other words, can be rich in both land and labor: a high land-labor ratio implies abundance of land and scarcity of labor; a low ratio signifies the opposite. Finally, I shall simply define an advanced economy as one in which capital is abundant.

This model of factor endowments inevitably oversimplifies reality and will require amendment. Its present starkness, however, permits us in theory to place any country’s economy into one of four cells (see Table 8.1), according to whether it is advanced or backward and whether its land-labor ratio is high or low. We recognize, in other words, only economies that are: (1) capital rich, land rich, and labor poor; (2) capital rich, land poor, and labor rich; (3) capital poor, land rich, and labor poor; or (4) capital poor, land poor, and labor rich.

<table>
<thead>
<tr>
<th>Table 8.1 Four Main Types of Factor Endowments</th>
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<tbody>
<tr>
<td>Land-Labor Ratio</td>
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<td>High</td>
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<tr>
<td>Economy Advanced</td>
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<tr>
<td>ABUNDANT: Capital</td>
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<tr>
<td>ABUNDANT: Capital</td>
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<tr>
<td>ABUNDANT: Land</td>
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<tr>
<td>ABUNDANT: Land</td>
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<tr>
<td>SCARCE: Labor</td>
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<tr>
<td>SCARCE: Land</td>
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<tr>
<td>Economy Backward</td>
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<tr>
<td>ABUNDANT: Land</td>
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<tr>
<td>ABUNDANT: Labor</td>
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<tr>
<td>SCARCE: Capital</td>
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<tr>
<td>SCARCE: Capital</td>
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<tr>
<td>SCARCE: Labor</td>
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<td>SCARCE: Land</td>
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</tbody>
</table>
Political Effects of Expanding Trade

The Stolper-Samuelson theorem, applied to our simple model, implies that increasing exposure to trade must result in urban-rural conflict in two kinds of economics, and in class conflict in the two others. Consider first the upper right-hand cell of Table 8.1: the advanced (therefore capital-rich) economy endowed abundantly in labor but poorly in land. Expanding trade must benefit both capitalists and workers; it harms only landowners and the pastoral and agricultural enterprises that use land intensively. Both capitalist and workers—which is to say, almost the entire urban sector—should favor free trade; agriculture should on the whole be protectionist. Moreover, we expect the capitalists and the workers to try, very likely in concert, to expand their political influence. Depending on preexisting circumstances, they may seek concretely an extension of the franchise, a reapportionment of seats, a diminution, in the powers of an upper house or of a gentry-based political elite, or a violent "bourgeois" revolution.

Urban-rural conflict should also arise in backward, land-rich economies (the lower left-hand cell of Table 8.1) when trade expands, albeit with a complete reversal of fronts. In such “frontier” societies, both capital and labor are scarce; hence both are harmed by expanding trade and, normally will seek protection. Only land is abundant, and therefore only agriculture will gain from free trade. Farmers and pastoralists will try to expand their influence in some movement of a “populist” and antiurban stripe.

Conversely, in backward economies with low land-labor ratios (the lower right-hand cell of Table 8.1), land and capital are scarce and labor is abundant. The model therefore predicts class conflict: labor will pursue free trade and expanded political power (including, in some circumstances, a workers’ revolution); landowners, capitalists, and capital-intensive industrialists will unite to support protection, imperialism, and a politics of continued exclusion.

The reverse form of class conflict is expected to arise in the final case, that of the advanced but land-rich economy (the upper left-hand cell of Table 8.1) under increasing exposure to trade. Because both capital and land are abundant, capitalists, capital-intensive industries, and agriculture will all benefit from, and will endorse, free trade; labor being scarce, workers and labor-intensive industries will resist, normally embracing protection and (if need be) imperialism. The benefited sectors will seek to expand their political power, if not by disfranchisement then by curtailment of workers’ economic prerogatives and suppression of their organizations.

These implications of the theory of international trade (summarized in Table 8.2) seem clear, but do they in any way describe reality?… It is worth observing how closely the experience of three major countries—Germany, Britain, and the United States—conforms to this analysis in the period of rapidly expanding
trade in the last third of the nineteenth century, and how far it can go to explain otherwise puzzling disparities in those states’ patterns of political evolution.

Germany and the United States were both relatively backward (i.e., capital-poor) societies: both imported considerable amounts of capital in this period, and neither had until late in the century anything like the per capita industrial capacity of the United Kingdom or Belgium. Germany, however, was rich in labor and poor in land; the United States, of course, was in exactly the opposite position. (Again, we observe that the United States imported, and Germany exported—not least to the United States—workers, which is not surprising since, at midcentury, Prussia’s labor-land ratio was fifteen times that of the United States.)

The theory predicts class conflict in Germany, with labor the “revolutionary” and free-trading element, and with land and capital united in support of protection and imperialism. Surely this description will not ring false to any student of German socialism or of Germany’s infamous “marriage of iron and rye.” For the United States, conversely, the theory predicts—quite accurately, I submit—urban-rural conflict, with the agrarians now assuming the “revolutionary” and free-trading role; capital and labor unite in a protectionist and imperialist coalition. Neither E. E. Schattschneider nor Walter Dean Burnham could have described more succinctly the history of the Populist movement or of the election of 1896.

Britain, on the other hand, was already an advanced economy in the nineteenth century. Its per capita industrial output far exceeded that of any other

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**Table 8.2 Predicted Effects of Expanding Exposure to Trade**

<table>
<thead>
<tr>
<th>Land-Labor Ratio</th>
<th>High</th>
<th>Low</th>
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<tbody>
<tr>
<td><strong>Economy Advanced</strong></td>
<td>CLASS CLEAVAGE:</td>
<td>URBAN-RURAL CLEAVAGE:</td>
</tr>
<tr>
<td>Land and Capital</td>
<td>free trading, assertive;</td>
<td>Capital and Labor</td>
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<tr>
<td>Labor defensive, protectionist</td>
<td></td>
<td>Land defensive, protectionist</td>
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<tr>
<td>‘Radicalism’</td>
<td></td>
<td>‘Socialism’</td>
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<tr>
<td><strong>Economy Backward</strong></td>
<td>URBAN-RURAL CLEAVAGE:</td>
<td>CLASS CLEAVAGE:</td>
</tr>
<tr>
<td>Land free trading, assertive;</td>
<td>Labor free trading, assertive;</td>
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<tr>
<td>Labor and Capital defensive, protectionist</td>
<td>Land and Capital defensive, protectionist</td>
<td></td>
</tr>
<tr>
<td>‘U.S. Populism’</td>
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nation, and it exported capital in vast quantities. That it was also rich in labor is suggested by its extensive exports of that factor to the United States, Canada, Australia, New Zealand, and Africa; in fact, Britain’s labor-land ratio then exceeded Japan’s by 50 percent and was over thirty times that of the United States. Britain therefore falls into the upper right-hand quadrant of Table 8.1 and is predicted to exhibit a rural-urban cleavage whose fronts are opposite those found in the United States: capitalists and labor unite in support of free trade and in demands for expanded political power, while landowners and agriculture support protection and imperialism.

Although this picture surely obscures important nuances, it illuminates crucial differences—between, for example, British and German political development in this period. In Britain, capitalists and labor united in the Liberal party and forced an expanded suffrage and curtailment of (still principally land-owning) aristocratic power. In Germany, liberalism shattered, the suffrage at the crucial level of the individual states was actually contracted, and—far from eroding aristocratic power—the bourgeoisie grew more and more *verjunkert* in style and aspirations.

**Political Effects of Declining Trade**

When rising costs or declining security substantially increases the risks or costs of external trade, the gainers and losers in each situation are simply the reverse of those under increasing exposure to trade. Let us first consider the situation of the highly developed (and therefore by definition capital-rich) economics.

In an advanced economy with a high land-labor ratio (the upper left-hand cell of Table 8.1), we should expect intense *class conflict* precipitated by a newly aggressive working class. Land and capital are both abundant in such an economy; hence, under declining trade owners of both factors (and producers who use either factor intensively) lose. Moreover, they can resort to no such simple remedy as protection or imperialism. Labor being the only scarce resource, workers and labor-intensive industries are well positioned to reap a significant windfall from the “protection” that dearer or riskier trade affords; and, according to our earlier assumption, like any other benefited class they will soon endeavor to parlay their greater economic power into greater political power. Capitalists and landowners, even if they were previously at odds, will unite to oppose labor’s demands.

Quite to the contrary, declining trade in an advanced economy that is labor rich and land poor (the upper right-hand cell of Table 8.1) will entail renewed *urban-rural* conflict. Capital and labor are both abundant, and both are harmed by the contraction of external trade. Agriculture, as the intense exploiter of the only scarce factor, gains significantly and quickly tries to translate its gain into greater political control.
Urban-rural conflict is also predicted for backward, land-rich countries under declining trade; but here agriculture is on the defensive. Labor and capital being both scarce, both benefit from the contraction of trade; land, as the only locally abundant factor, is threatened. The urban sectors unite, in a parallel to the “radical” coalition of labor-rich developed countries under expanding trade discussed previously, to demand an increased voice in the state.

Finally, in backward economies rich in labor rather than land, class conflict resumes, with labor this time on the defensive. Capital and land, as the locally scarce factors, gain from declining trade; labor, locally abundant, suffers economic reverses and is soon threatened politically.

Observe again, as a first test of the plausibility of these results—summarized in Table 8.3—how they appear to account for some prominent disparities of political response to the last precipitous decline of international trade, the depression of the 1930s. The U.S. New Deal represented a sharp turn to the left and occasioned a significant increase in organized labor’s political power. In Germany, a depression of similar depth (gauged by unemployment rates and declines in industrial production) brought to power first Hindenburg’s and then Hitler’s dictatorship. Landowners exercised markedly greater influence than they had under Weimar; and indeed a credible case can be made that the rural sector was the principal early beneficiary of the early Nazi regime. Yet this is exactly the broad difference that the model would lead us to anticipate, if we accept that by 1930 both countries were economically advanced—although Germany, after physical reparations and cessions of industrial regions, was surely less rich in capital.

<table>
<thead>
<tr>
<th>Table 8.3. Predicted Effects of Declining Exposure to Trade</th>
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<tbody>
<tr>
<td><strong>Land-Labor Ratio</strong></td>
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<tr>
<td>High</td>
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<tr>
<td>Economy Advanced</td>
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<td>Economy Backward</td>
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than the United States—but the United States held land abundantly, which in Germany was scarce (respectively, the left- and right-hand cells of the upper half of Table 8.3). Only an obtuse observer would claim that such factors as cultural inheritance and recent defeat in war played no role; but surely it is also important to recognize the sectoral impact of declining trade in the two Societies.

Red-Green Coalitions

Let us now relax the assumption that the land-labor ratio informs us completely about the relative abundance of these two factors and admit that a country may be rich or poor in both land and labor. Four new cases arise in theory if (as I suspect) rarely in practice (see Table 8.4): economies may be, as before, advanced or backward (i.e. capital rich or capital poor), but they may now be rich in both land and labor, or poorly endowed in both factors.

Table 8.4 Predicted Effects on Economies That Are Rich, or Poor, in Both Land and Labor

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<tr>
<th>Land and Labor</th>
<th>Land and Labor</th>
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<tr>
<td>Both Abundant</td>
<td>Both Scarcce</td>
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<tr>
<th>Economy Advanced</th>
<th>EXPANDING TRADE:</th>
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<tr>
<td></td>
<td>Capital assertive,</td>
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<tr>
<td></td>
<td>free-trading;</td>
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<td></td>
<td>Land and Labor</td>
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<tr>
<td></td>
<td>protectionist,</td>
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<td></td>
<td>defensive</td>
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<tr>
<th>Economy Backward</th>
<th>EXPANDING TRADE:</th>
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<td>Land and Labor</td>
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<td>free-trading,</td>
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<td></td>
<td>assertive;</td>
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<tr>
<td></td>
<td>Capital defensive,</td>
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<tr>
<td></td>
<td>protectionist</td>
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|                  | DECLINING TRADE: |
|                  | Land and Labor |
|                  | assertive; |
|                  | Capital |
|                  | “internationalist,” |
|                  | defensive |

|                  | DECLINING TRADE: |
|                  | Capital assertive; |
|                  | Land and Labor |
|                  | “internationalist,” |
|                  | defensive |
Two cases, that of the advanced economy that is rich in both factors and of the backward one that is poor in both, are theoretically improbable and politically uninteresting; if all factors were (temporarily) abundant relative to the rest of the world, the society would unanimously embrace free trade; if all were scarce, it would agree on protection. Let us consider then, the remaining two possibilities.

In an advanced economy where both land and labor are scarce, expanding trade will benefit only capital. Agriculture and labor—“Green” and “Red”—can be expected to unite. Only capitalists will unreservedly embrace free trade; to the extent that such policies are objectively possible, farmers and workers will support protection and, if need be, imperialism. Either a “progressive” capitalist dictatorship, pursuing trade and development, or an economically retrograde but more participatory regime may ensue. When trade contracts in such a case, the scarce factors of land and labor gain economically at capital’s expense; and the alliance of Red and Green, likely demanding expanded mass participation in politics and a radical curtailment of capitalist power, grows markedly more assertive.

In a backward economy with abundant land and labor, change in exposure to trade again mobilizes a coalition of Red and Green, but with diametrically opposed positions. Expanding trade now benefits farmers and workers but harms capitalists; and the mass coalition—or, where agriculture is dominated by a few large landowners, a coalition of gentry and labor—pursues a wider franchise, free trade, and a general disempowerment of capital. Contracting trade, in such an economy, benefits only the owners of capital and injures both workers and farmers; again intense conflict between capital and both other sectors is predicted, ending in either a capitalist dictatorship or an anticapitalist revolution.

Can either situation arise in reality? Myint has argued cogently that the backward economy with abundant land and labor may not be rare. Primitive economies are often thinly populated, with vast reserves of untilled land; at the same time, as Lewis argued in a seminal essay, they are frequently so plagued by underemployment (e.g., in peasant families and in servile or clientelistic relationships) that, for immediate purposes, labor in them can be regarded as unlimited in supply. More precisely, labor can be withdrawn from its present use with almost no marginal loss of productivity.

Although it has been less widely noticed, Myint has also suggested that an “artificial” scarcity of labor may arise in densely populated societies. Where, far from there being any hidden unemployment, people have “had to devote the whole of their time and resources to obtain a minimum subsistence,” any turn to alternative enterprise or employment carries substantial risks and costs. To plan an export crop, or to work in the new mill, is inevitably to forgo some part of subsistence production. And what if the crop fails, export prices collapse, or the mill closes in midseason?
Myint’s point, I believe, can be taken further. If in some traditional land-abundant economies there is hidden unemployment and much leisure, in some traditional land-scarce societies there is equally overemployment and a hidden taste for leisure. The phenomenon of the “self-exploiting” family enterprise, either as small farm or as small business, is well known. Such circumstances may create an additional barrier to the recruitment of labor, for family members often conceive, with reason, that the comparative laxity of factory or large-farm discipline will “ruin” the wage earner for the rigors of work on the homestead.

We expect, then, that a simultaneous scarcity of labor and land is likeliest to be encountered precisely in those densely populated societies whose pre-trade economy is most characterized by small, extremely marginal, self-exploiting family enterprises….

Possible Objections

Several objections can plausibly be raised to the whole line of analysis that I have advanced here.

1. Most fundamentally, one can question the empirical accuracy of the Stolper-Samuelson theorem, or of the Heckscher-Ohlin-Vanek (HOV) model that underlies it. That was attempted chiefly by Leontieff in two seminal papers; his survey of the evidence was updated by Baldwin. In essence, Leontieff purported to show that the United States exported labor-intensive goods and imported capital-intensive ones; Baldwin obtained the same result for later and more complete data. Because the United States was almost universally accounted to be abundant in capital and scarce in labor, this finding was the opposite of what the theory would predict; and Leontieff went on to observe that the conventional Stolper-Samuelson conclusion about the effects of protection must also be wrong: rather, “protectionist policies are bound to weaken the bargaining position of American labor and correspondingly strengthen that of capital.”

The “Leontieff paradox” is widely known. Less familiar, unfortunately, is Leamer’s conclusive demonstration that Leontieff’s entire mode of analysis was erroneous, and that Leontieff’s own data show the United States as “revealed by its trade to be relatively well-endowed in capital compared with labor.” Moreover, a wider investigation of recent patterns of international trade demonstrates the HOV model to be surprisingly accurate.

2. It may be argued that the effects sketched out here will not obtain in countries that depend only slightly on trade. A Belgium, where external trade (taken as the sum of exports and imports) roughly equals gross domestic product (GDP), can indeed be affected profoundly by changes in the risks
or costs of international commerce; but a state like the United States in the 1960s, where trade amounted to scarcely a tenth of GDP, will have remained largely immune.

This view, while superficially plausible, is incorrect. The Stolper-Samuelson result obtains at any margin; and in fact holders of scarce factors have been quite as devastated by expanding trade in almost autarkic economies—one need think only of the weavers of India or of Silesia, exposed in the nineteenth century to the competition of Lancashire mills—as in ones previously more dependent on trade.

3. Given the comparative advantage always assures gains from trade, it may be objected that the cleavages described here need not arise at all: the gainers from trade can always compensate the losers and have something left over; trade remains the Pareto-superior outcome. As Stolper and Samuelson readily conceded in their original essay, this is perfectly true. To the student of politics, however, and with even greater urgency to those who are losing from trade in concrete historical situations, it remains obvious that such compensation will in fact occur. Rather, the natural tendency is for gainers to husband their winnings and to stop their ears to the cries of the afflicted. Perhaps only unusually strong and trustworthy states, or political cultures that especially value compassion and honesty, can credibly assure the requisite compensation . . . and even in those cases substantial conflict over the nature and level of compensation will usually precede the ultimate agreement.

4. Equally, one can ask why the cleavages indicated here should persist. In a world of perfectly mobile factors and rational behavior, people would quickly disinvest from losing factors and enterprises (e.g., farming in Britain after 1880) and move to sectors whose auspices were more favorable. Markets should swiftly clear; and a new, if different, political equilibrium should be achieved. To this two answers may be given. First, in some cases trade expands or contracts so rapidly and surprisingly as to frustrate rational expectations. Especially in countries that experience a steady series of such exogenous shocks—the case in Europe, I would contend, from 1840 to the present day—divisions based on factor endowments (which ordinarily change only gradually) will be repeatedly revived. Second, not infrequently some factors’ privileged access to political influence makes the extraction of rents and subsidies seem cheaper than adaptation: Prussian Junker, familiarly, sought (and easily won) protection rather than adjustment. In such circumstances, adaptation may be long delayed, sometimes with ultimately disastrous consequences.

At the same time, it should be conceded that, as improved technology makes factors more mobile (see the subsequent discussion) and anticipation easier, the theory advanced here will likely apply less well. Indeed, this
entire analysis may be a historically conditioned one, whose usefulness will be found to have entered a rapid decline sometime after 1960.

5. Exactly to the contrary, it can be asserted that some factors are less mobile within nations than the Stolper-Samuelson model assumes; this is the crux of the so-called specific factors model of tariff effects. In essence, it can be shown, a factor trapped in a specific sector and not readily put to other uses may lose in the short run from policies that will benefit it over the longer term, and vice-versa. Thus capitalists in America, where capital is abundant, will benefit from free trade in the long run; but capital that is invested in a labor-intensive sector and that cannot readily be redeployed may be harmed over the near term. Some have accepted this approach as explaining apparent anomalies in groups’ positions on trade issues.

Three points deserve emphasis. First, as Mussa made clear in his seminal essay, no one doubts that the Stolper-Samuelson theorem holds for the long run; at most, the specific-factors model describes a short-term exception, or lag, in the operation of the Stolper-Samuelson predictions. Second, much would suggest a priori that this “short run,” or lag, should be growing steadily shorter. Surely capital has become more mobile within nations over time; so, one suspects in light of more frequent migrations and career changes, has labor; even land is more readily shifted among uses, as improved transportation and communication have permitted the siting of factories and headquarters in areas that once would have seemed too remote. Third, as Magee rightly emphasized, the question is an empirical one, which is appropriately addressed by the evidence of historical coalition formation on issues of trade... I submit that, on balance, that evidence speaks unambiguously in favor of the Stolper-Samuelson position and against the specific factors model.

6. This analysis, some may contend, reifies such categories as “capital,” “labor,” and “land,” assuming a unanimity of preference that most countries’ evidence belies. In fact, a kind of shorthand and a testable hypothesis are involved: a term like “capital” is the convenient abbreviation of “those who draw their income principally from investments, plus the most capital-intensive producers”; and I indeed hypothesize that individuals’ political positions will vary with their derivation of income—or, more precisely, of present value of anticipated future income—from particular factors.

A worker, for example, who derives 90 percent of her income from wages and 10 percent from investments will conform more to the theory’s expectation of “labor”’s political behavior than one who depends half on investments and half on wages. An extremely labor-intensive manufacturer will behave less like a “capitalist” than a more capital-intensive one. And a peasant (as noted previously) who depends chiefly on inputs of his own labor will
resemble a “worker,” whereas a more land-intensive neighbor will behave as a “landowner.”

7. Finally, it may be objected that I have said nothing about the outcome of these conflicts. I have not done so for the simple reason that I cannot: history makes it all too plain, as in the cases of nineteenth-century Germany and America, that the economic losers from trade may win politically over more than the short run. What I have advanced here is a speculation about cleavages, not about outcomes. I have asserted only that those who gain from fluctuations in trade will be strengthened and emboldened politically; nothing guarantees that they will win. Victory or defeat depends, so far as I can see, both on the relative size of the various groups and on those institutional and cultural factors that this perspective so resolutely ignores.

Conclusion

It is essential to recall what I am not claiming to do in this volume. I do not contend that changes in countries’ exposure to trade explain all, or even most, of their varying patterns of political cleavage. It would be foolish to ignore the importance of ancient cultural and religious loyalties, of wars and migrations, or of such historical memories as the French Revolution and the Kulturkampf. Other cleavages antedate, and persist through, the ones I discuss here, shaping, crosscutting, complicating, and indeed sometimes dominating their political resolution.

Neither will I be able to offer, despite the detail of the remaining chapters, anything like a conclusive empirical demonstration of the hypotheses that this chapter has advanced. At most, the empirical regularities that I shall note may serve to suggest the plausibility of the model and the value of further refinement and testing of it.

In the main, I am presenting here a theoretical puzzle, a kind of social-scientific “thought experiment” in Hempel’s original sense: a teasing out of unexpected, and sometimes counterintuitive, implications of theories already widely accepted. For the Stolper-Samuelson theorem is generally, indeed almost universally, embraced; yet, coupled with a stark and unexceptionable model of the political realm, it plainly implies that changes in exposure to trade must profoundly affect nations’ internal political cleavages. Do they do so? If they do not, what conclusions shall we draw, either about our theories of international trade, or about our understanding of politics?
The grand contours of political economy theory were set by English-speakers (mostly liberals) and German-speakers (mostly nationalists and Marxists). Although French-speaking intellectuals have exercised comparatively little influence in IPE, poststructuralism stands as a notable exception. Such distinct origins add to a self-conceptualization quite unlike that of any other theory or theories in this volume. First, poststructuralism is a post-positivist approach to social theory. If positivism describes those approaches that seek causal explanations of objective social phenomena, post-positivism pursues the constitution of inter-subjective social phenomena. Perhaps oversimplified, positivists ask “why?” whereas post-positivists ask “what?” and “how-possible?” Second, poststructuralism is a particular strand of post-positivism that rejects the possibility of scientific knowledge of the social world. Whereas Marxists and other critical theorists build upon emancipation as the foundation for their claim to uncover truth and impart knowledge, poststructuralists reject this as just another totalizing narrative that creates and supports structures of power under the guise of telling the truth about the world.

Michel Foucault’s concept of biopower animates the work of poststructuralists Michael Hardt (b. 1960) and Antonio Negri (b. 1933) on “the new global form of sovereignty...we call Empire.” Foucault’s understanding of power is dramatically different from that found in positivist theories. Rather than an outside force that compels an actor to do or not to do the will of another, biopower constructs the actors themselves from the inside. This is no metaphor. Biopower subjugates human bodies and entire populations, which in turn subjugate themselves through disciplinary mechanisms, especially those associated with public health. Biopolitics, in turn, describes the mode of power that takes human life itself as its object.

In this way Hardt and Negri can speak of Empire as the new global society produced through biopolitics. This is an understanding of imperialism quite different from that found in Marxism. From a Marxist perspective, empire stands as a relationship of legal and material super- and subordination between distinct
peoples oriented toward the production of commodities and the unequal accumulation of capital. From Hardt’s and Negri’s perspective, Empire certainly incorporates production as traditionally understood in Marxism. However, it is primarily a global form of domination unattached to states, experienced by all, and oriented toward the production of identity and biological life itself. International organizations and transnational corporations—especially communications industries through their use of language and symbols—are key agents practicing biopolitics. Hardt and Negri suggest a fruitful way of understanding Empire is to think of it as “a great hive” that produces both objects (honey) as well as subjects (bees), “commodities” as well as “subjectivities.”

The political implications of the argument are interesting. Hardt and Negri depict Empire as a self-contained self-validating system fantastically capable of “neutralizing difference.” Its tendencies toward “self-generating and self-regulating equilibria” are beyond those of any ideally competitive market conceived by liberals. Empire is an encompassing social form with no outside and thus no inside. We are all produced by it and subject to it. Neither does Empire have a territorial center or periphery. Thus, from their perspective it is meaningless to say that the United States or any other state or state-society complex is hegemonic, the core, or the metropole. Elsewhere in the book, Hardt and Negri state that Empire has only a “virtual center,” by which they mean that its powers and capacities simultaneously exist everywhere and nowhere. The implication is that the “heart of Empire” is accessible from any and every point on earth. Debates over where, either geographically or structurally, to attack imperialism thereby become meaningless. Any act of refusal at any location can constitute a blow for the “Multitude” against Empire.

Marieke de Goede (b. 1971) follows Foucault in emphasizing the way in which power is exercised inherently through language and the linguistic construction of the social world. She begins with the observation that “money, credit, and capital are, quite literally, systems of writing” as well as of numbering. Such objects are literally called into being through practices such as bookkeeping and financial analysis. There is no “material reality” nor are there “brute facts” of value or utility to which finance objectively points. Even a national currency or the physical gold that backs the value of a mining company has social meaning only through narratives that de Goede calls “magical storytelling.” Yet such narratives have crucial material consequences. Recent experience shows that such storytelling—for example, of the “new economy” in the 1990s or mark-to-model pricing techniques in the 2000s—has great capacity for generating flows of money, investments of materials, production of goods and services, and in these cases also their destruction through market collapse and the end of the magic. De Goede also speaks of the “legend” of the historical constitution and development of finance. Throughout IPE, a coherent narrative of the rise
of finance exists, the effect of which is to give the sector legitimacy by making it appear natural and inevitable. It also importantly grants finance the appearance of efficiency and rationality, smoothing over all the “insecurities, confusions, and contingencies of history” involved in its ascension.

In this way, the social power of finance exists through a set of performative practices. Financial power in a material sense is premised upon the power of financial ideas presented as objective information. De Goede mentions a host of practices tied to financial education that constitute persons, in a narrow sense as practitioners of responsible borrowing guided by “financial rectitude” and in a broad sense as “responsible and respectable” citizens. Credit rating is an especially concrete and familiar technology producing such subjectivities through “discourses of financial rationality.” This reaches the highest echelons of the economy when one considers how credit rating agencies were empowered to issue authoritative interpretations of financial texts during the 2000s. Such readings, of course, played a central role in the global real estate bubble and crash, surely the most important turn in the international political economy since the Great Depression.
Empire

MICHAEL HARDT AND ANTONIO NEGRI

Empire is materializing before our very eyes. Over the past several decades, as colonial regimes were overthrown and then precipitously after the Soviet barriers to the capitalist world market finally collapsed, we have witnessed an irresistible and irreversible globalization of economic and cultural exchanges. Along with the global market and global circuits of production has emerged a global order, a new logic and structure of rule—in short, a new form of sovereignty. Empire is the political subject that effectively regulates these global exchanges, the sovereign power that governs the world.

Many argue that the globalization of capitalist production and exchange means that economic relations have become more autonomous from political controls, and consequently that political sovereignty has declined. Some celebrate this new era as the liberation of the capitalist economy from the restrictions and distortions that political forces have imposed on it; others lament it as the closing of the institutional channels through which workers and citizens can influence or contest the cold logic of capitalist profit. It is certainly true that, in step with the processes of globalization, the sovereignty of nation-states, while still effective, has progressively declined. The primary factors of production and exchange—money, technology, people, and goods—move with increasing ease across national boundaries; hence the nation-state has less and less power to regulate these flows and impose its authority over the economy. Even the most dominant nation-states should no longer be thought of as supreme and sovereign authorities, either outside or even within their own borders. The decline in sovereignty of nation-states, however, does not mean that sovereignty as such has declined. Throughout the contemporary transformations, political controls, state functions, and regulatory mechanisms have continued to rule the realm of economic and social production and exchange. Our basic hypothesis is that sovereignty has taken a new form, composed of a series of national and supranational organisms united under a single logic of rule. This new global form of sovereignty is what we call Empire.
The declining sovereignty of nation-states and their increasing inability to regulate economic and cultural exchanges is in fact one of the primary symptoms of the coming of Empire. The sovereignty of the nation-state was the cornerstone of the imperialisms that European powers constructed throughout the modern era. By “Empire,” however, we understand something altogether different from “imperialism.” The boundaries defined by the modern system of nation-states were fundamental to European colonialism and economic expansion: the territorial boundaries of the nation delimited the center of power from which rule was exerted over external foreign territories through a system of channels and barriers that alternately facilitated and obstructed the flows of production and circulation. Imperialism was really an extension of the sovereignty of the European nation-states beyond their own boundaries. Eventually nearly all the world’s territories could be parceled out and the entire world map could be coded in European colors: red for British territory, blue for French, green for Portuguese, and so forth. Wherever modern sovereignty took root, it constructed a Leviathan that overarched its social domain and imposed hierarchical territorial boundaries, both to police the purity of its own identity and to exclude all that was other.

The passage to Empire emerges from the twilight of modern sovereignty. In contrast to imperialism, Empire establishes no territorial center of power and does not rely on fixed boundaries or barriers. It is a decentered and deterritorializing apparatus of rule that progressively incorporates the entire global realm within its open, expanding frontiers. Empire manages hybrid identities, flexible hierarchies, and plural exchanges through modulating networks of command. The distinct national colors of the imperialist map of the world have merged and blended in the imperial global rainbow.

The transformation of the modern imperialist geography of the globe and the realization of the world market signal a passage within the capitalist mode of production. Most significant, the spatial divisions of the three Worlds (First, Second, and Third) have been scrambled so that we continually find the First World in the Third, the Third in the First, and the Second almost nowhere at all. Capital seems to be faced with a smooth world—or really, a world defined by new and complex regimes of differentiation and homogenization, deterritorialization and reterritorialization. The construction of the paths and limits of these new global flows has been accompanied by a transformation of the dominant productive processes themselves, with the result that the role of industrial factory labor has been reduced and priority given instead to communicative, cooperative, and affective labor. In the postmodernization of the global economy, the creation of wealth tends ever more toward what we will call biopolitical production, the production of social life itself, in which the economic, the political, and the cultural increasingly overlap and invest one another.
Many locate the ultimate authority that rules over the processes of globalization and the new world order in the United States. Proponents praise the United States as the world leader and sole superpower, and detractors denounce it as an imperialist oppressor. Both these views rest on the assumption that the United States has simply donned the mantle of global power that the European nations have now let fall. If the nineteenth century was a British century, then the twentieth century has been an American century; or really, if modernity was European, then postmodernity is American. The most damning charge critics can level, then, is that the United States is repeating the practices of old European imperialists, while proponents celebrate the United States as a more efficient and more benevolent world leader, getting right what the Europeans got wrong. Our basic hypothesis, however, that a new imperial form of sovereignty has emerged, contradicts both these views....

Biopower in the Society of Control

In many respects, the work of Michel Foucault has prepared the terrain for such an investigation of the material functioning of imperial rule. First of all, Foucault’s work allows us to recognize a historical, epochal passage in social forms from disciplinary society to the society of control. Disciplinary society is that society in which social command is constructed through a diffuse network of dispositifs or apparatuses that produce and regulate customs, habits, and productive practices. Putting this society to work and ensuring obedience to its rule and its mechanisms of inclusion and/or exclusion are accomplished through disciplinary institutions (the prison, the factory, the asylum, the hospital, the university, the school, and so forth) that structure the social terrain and present logics adequate to the “reason” of discipline. Disciplinary power rules in effect by structuring the parameters and limits of thought and practice, sanctioning and prescribing normal and/or deviant behaviors. Foucault generally refers to the ancien régime and the classical age of French civilization to illustrate the emergence of disciplinarity, but more generally we could say that the entire first phase of capitalist accumulation (in Europe and elsewhere) was conducted under this paradigm of power. We should understand the society of control, in contrast, as that society (which develops at the far edge of modernity and opens toward the postmodern) in which mechanisms of command become ever more “democratic,” ever more immanent to the social field, distributed throughout the brains and bodies of the citizens. The behaviors of social integration and exclusion proper to rule are thus increasingly interiorized within the subjects themselves. Power is now exercised through machines that directly organize the brains (in communication systems, information networks, etc.) and bodies (in welfare systems, monitored activities, etc.) toward a state of autonomous alienation from the sense of life and the desire for creativity. The society of control might thus be characterized
by an intensification and generalization of the normalizing apparatuses of disciplinarity that internally animate our common and daily practices, but in contrast to discipline, this control extends well outside the structured sites of social institutions through flexible and fluctuating networks.

Second, Foucault’s work allows us to recognize the *biopolitical* nature of the new paradigm of power. Biopower is a form of power that regulates social life from its interior, following it, interpreting it, absorbing it, and rearticulating it. Power can achieve an effective command over the entire life of the population only when it becomes an integral, vital function that every individual embraces and reactives of his or her own accord. As Foucault says, “Life has now become . . . an object of power.” The highest function of this power is to invest life through and through, and its primary task is to administer life. Biopower thus refers to a situation in which what is directly at stake in power is the production and reproduction of life itself.

These two lines of Foucault’s work dovetail with each other in the sense that only the society of control is able to adopt the biopolitical context as its exclusive terrain of reference. In the passage from disciplinary society to the society of control, a new paradigm of power is realized which is defined by the technologies that recognize society as the realm of biopower. In disciplinary society the effects of biopolitical technologies were still partial in the sense that disciplining developed according to relatively closed, geometrical, and quantitative logics. Disciplinarity fixed individuals within institutions but did not succeed in consuming them completely in the rhythm of productive practices and productive socialization; it did not reach the point of permeating entirely the consciousnnesses and bodies of individuals, the point of treating and organizing them in the totality of their activities. In disciplinary society, then, the relationship between power and the individual remained a static one: the disciplinary invasion of power corresponded to the resistance of the individual. By contrast, when power becomes entirely biopolitical, the whole social body is comprised by power’s machine and developed in its virtuality. This relationship is open, qualitative, and affective. Society, subsumed within a power that reaches down to the ganglia of the social structure and its processes of development, reacts like a single body. Power is thus expressed as a control that extends throughout the depths of the consciousnnesses and bodies of the population—and at the same time across the entirety of social relations.

In this passage from disciplinary society to the society of control, then, one could say that the increasingly intense relationship of mutual implication of all social forces that capitalism has pursued throughout its development has now been fully realized. Marx recognized something similar in what he called the passage from the formal subsumption to the real subsumption of labor under capital, and later the Frankfurt School philosophers analyzed a closely related passage of the subsumption of culture (and social relations) under the totalitarian figure of
the state, or really within the perverse dialectic of Enlightenment. The passage we are referring to, however, is fundamentally different in that instead of focusing on the unidimensionality of the process described by Marx and reformulated and extended by the Frankfurt School, the Foucauldian passage deals fundamentally with the paradox of plurality and multiplicity—and Deleuze and Guattari develop this perspective even more clearly. The analysis of the real subsumption, when this is understood not only the economic or only the cultural dimension of society but rather the social bios itself, and when it is attentive to the modalities of disciplinarity and/or control, disrupts the linear and totalitarian figure of capitalist development. Civil society is absorbed in the state, but the consequence of this is an explosion of the elements that were previously coordinated and mediated in civil society. Resistances are no longer marginal but active in the center of a society that opens up in networks; the individual points are singularized in a thousand plateaus. What Foucault constructed implicitly (and Deleuze and Guattari made explicit) is therefore the paradox of a power that, while it unifies and envelops within itself every element of social life (thus losing its capacity effectively to mediate different social forces), at that very moment reveals a new context, a new milieu of maximum plurality and uncontrollable singularization—a milieu of the event.

These conceptions of the society of control and biopower both describe central aspects of the concept of Empire. The concept of Empire is the framework in which the new omniversality of subjects has to be understood, and it is the end to which the new paradigm of power is leading. Here a veritable chasm opens up between the various old theoretical frameworks of international law (in either its contractual and/or U.N. form) and the new reality of imperial law. All the intermediary elements of the process have in fact fallen aside, so that the legitimacy of the international order can no longer be constructed through mediations but must rather be grasped immediately in all its diversity. We have already acknowledged this fact from the juridical perspective. We saw, in effect, that when the new notion of right emerges in the context of globalization and presents itself as capable of treating the universal, planetary sphere as a single, systemic set, it must assume an immediate prerequisite (acting in a state of exception) and an adequate, plastic, and constitutive technology (the techniques of the police).

Even though the state of exception and police technologies constitute the solid nucleus and the central element of the new imperial right, however, this new regime has nothing to do with the juridical arts of dictatorship or totalitarianism that in other times and with such great fanfare were so thoroughly described by many (in fact too many!) authors. On the contrary, the rule of law continues to play a central role in the context of the contemporary passage: right remains effective and (precisely by means of the state of exception and police techniques) becomes procedure. This is a radical transformation that reveals
the unmediated relationship between power and subjectivities, and hence demonstrates both the impossibility of “prior” mediations and the uncontainable temporal variability of the event. Throughout the unbounded global spaces, to the depths of the biopolitical world, and confronting an unforeseeable temporality—these are the determinations on which the new supranational right must be defined. Here is where the concept of Empire must struggle to establish itself, where it must prove its effectiveness, and hence where the machine must be set in motion.

From this point of view, the biopolitical context of the new paradigm is completely central to our analysis. This is what presents power with an alternative, not only between obedience and disobedience, or between formal political participation and refusal, but also along the entire range of life and death, wealth and poverty, production and social reproduction, and so forth. Given the great difficulties the new notion of right has in representing this dimension of the power of Empire, and given its inability to touch biopower concretely in all its material aspects, imperial right can at best only partially represent the underlying design of the new constitution of world order, and cannot really grasp the motor that sets it in motion. Our analysis must focus its attention rather on the productive dimension of biopower.

The Production of Life

The question of production in relation to biopower and the society of control, however, reveal a real weakness of the work of the authors from whom we have borrowed these notions. We should clarify, then, the “vital” or biopolitical dimensions of Foucault’s work in relation to the dynamics of production. Foucault argued in several works in the mid-1970s that one cannot understand the passage from the “sovereign” state of the ancien régime to the modern “disciplinary” state without taking into account how the biopolitical context was progressively put at the service of capitalist accumulation: “The control of society over individuals is not conducted only through consciousness or ideology, but also in the body and with the body. For capitalist society biopolitics is what is most important, the biological, the somatic, the corporeal.”

One of the central objectives of his research strategy in this period was to go beyond the versions of historical materialism, including several variants of Marxist theory, that considered the problem of power and social reproduction on a superstructural level separate from the real, base level of production. Foucault thus attempted to bring the problem of social reproduction and all the elements of the so-called superstructure back to within the material, fundamental structure and define this terrain not only in economic terms but also in cultural, corporeal, and subjective ones. We can thus understand how Foucault’s
conception of the social whole was perfected and realized when in a subsequent phase of his work he uncovered the emerging outlines of the society of control as a figure of power active throughout the entire biopolitics of society. It does not seem, however, that Foucault—even when he powerfully grasped the biopolitical horizon of society and defined it as a field of immanence—ever succeeded in pulling his thought away from that structuralist epistemology that guided his research from the beginning. By structuralist epistemology here we mean the reinvention of a functionalist analysis in the realm of the human sciences, a method that effectively sacrifices the dynamic of the system, the creative temporality of its movements, and the ontological substance of cultural and social reproduction. In fact, if at this point we were to ask Foucault who or what drives the system, or rather, who is the “bios,” his response would be ineffable, or nothing at all. What Foucault fails to grasp finally are the real dynamics of production in biopolitical society.

By contrast, Deleuze and Guattari present us with a properly poststructuralist understanding of biopower that renews materialist thought and grounds itself solidly in the question of the production of social being. Their work demystifies structuralism and all the philosophical, sociological, and political conceptions that make the fixity of the epistemological frame an ineluctable point of reference. They focus our attention clearly on the ontological substance of social production. Machines produce. The constant functioning of social machines in their various apparatuses and assemblages produces the world along with the subjects and objects that constitute it. Deleuze and Guattari, however, seem to be able to conceive positively only the tendencies toward continuous movement and absolute flows, and thus in their thought, too, the creative elements and the radical ontology of the production of the social remain insubstantial and impotent. Deleuze and Guattari discover the productivity of social reproduction (creative production, production of values, social relations, affects,comings), but manage to articulate it only superficially and ephemerally, as a chaotic, indeterminate horizon marked by the ungraspable event.

We can better grasp the relationship between social production and biopower in the work of a group of contemporary Italian Marxist authors who recognize the biopolitical dimension in terms of the new nature of productive labor and its living development in society, using terms such as “mass intellectuality,” “immaterial labor,” and the Marxian concept of “general intellect.” These analyses set off from two coordinated research projects. The first consists in the analysis of the recent transformations of productive labor and its tendency to become increasingly immaterial. The central role previously occupied by the labor power of mass factory workers in the production of surplus value is today increasingly filled by intellectual, immaterial, and communicative labor power. It is thus necessary to develop a new political theory of value that can pose the problem
of this new capitalist accumulation of value at the center of the mechanism of exploitation (and thus, perhaps, at the center of potential revolt). The second, and consequent, research project developed by this school consists in the analysis of the immediately social and communicative dimension of living labor in contemporary capitalist society, and thus poses insistently the problem of the new figures of subjectivity, in both their exploitation and their revolutionary potential. The immediately social dimension of the exploitation of living immaterial labor immerses labor in all the relational elements that define the social but also at the same time activate the critical elements that develop the potential of insubordination and revolt through the entire set of laboring practices. After a new theory of value, then, a new theory of subjectivity must be formulated that operates primarily through knowledge, communication, and language.

These analyses have thus reestablished the importance of production within the biopolitical process of the social constitution, but they have also in certain respects isolated it—by grasping it in a pure form, refining it on the ideal plane. They have acted as if discovering the new forms of productive forces—immaterial labor, massified intellectual labor, the labor of “general intellect”—were enough to grasp concretely the dynamic and creative relationship between material production and social reproduction. When they reinsert production into the biopolitical context, they present it almost exclusively on the horizon of language and communication. One of the most serious shortcomings has thus been the tendency among these authors to treat the new laboring practices in biopolitical society only in their intellectual and incorporeal aspects. The productivity of bodies and the value of affect, however, are absolutely central in this context. We will elaborate the three primary aspects of immaterial labor in the contemporary economy: the communicative labor of industrial production that has newly become linked in informational networks, the interactive labor of symbolic analysis and problem solving, and the labor of the production and manipulation of affects... This third aspect, with its focus on the productivity of the corporeal, the somatic, is an extremely important element in the contemporary networks of biopolitical production. The work of this school and its analysis of general intellect, then, certainly marks a step forward, but its conceptual framework remains too pure, almost angelic. In the final analysis, these new conceptions too only scratch the surface of the productive dynamic of the new theoretical framework of biopower.

Our task, then, is to build on these partially successful attempts to recognize the potential of biopolitical production. Precisely by bringing together coherently the different defining characteristics of the biopolitical context that we have described up to this point, and leading them back to the ontology of production, we will be able to identify the new figure of the collective biopolitical body, which may nonetheless remain as contradictory as it is paradoxical. This
body becomes structure not by negating the originary productive force that animates it but by recognizing it; it becomes language (both scientific language and social language) because it is a multitude of singular and determinate bodies that seek relation. It is thus both production and reproduction, structure and superstructure, because it is life in the fullest sense and politics in the proper sense. Our analysis has to descend into the jungle of productive and conflictual determinations that the collective biopolitical body offers us. The context of our analysis thus has to be the very unfolding of life itself, the process of the constitution of the world, of history. The analysis must be proposed not through ideal forms but within the dense complex of experience.

Corporations and Communication

In asking ourselves how the political and sovereign elements of the imperial machine come to be constituted, we find that there is no need to limit our analysis to or even focus it on the established supranational regulatory institutions. The U.N. organizations, along with the great multi- and transnational finance and trade agencies (the IMF, the World Bank, the GATT, and so forth), all become relevant in the perspective of the supranational juridical constitution only when they are considered within the dynamic of the biopolitical production of world order. The function they had in the old international order, we should emphasize, is not what now gives legitimacy to these organizations. What legitimates them now is rather their newly possible function in the symbology of the imperial order. Outside of the new framework, these institutions are ineffectual. At best, the old institutional framework contributes to the formation and education of the administrative personnel of the imperial machine, the “dressage” of a new imperial élite.

The huge transnational corporations construct the fundamental connective fabric of the biopolitical world in certain important respects. Capital has indeed always been organized with a view toward the entire global sphere, but only in the second half of the twentieth century did multinational and transnational industrial and financial corporations really begin to structure global territories biopolitically. Some claim that these corporations have merely come to occupy the place that was held by the various national colonialist and imperialist systems in earlier phases of capitalist development, from nineteenth-century European imperialism to the Fordist phase of development in the twentieth century. This is in part true, but that place itself has been substantially transformed by the new reality of capitalism. The activities of corporations are no longer defined by the imposition of abstract command and the organization of simple theft and unequal exchange. Rather, they directly structure and articulate territories and populations. They tend to make nation-states merely instruments to record the flows of the commodities, monies, and populations that they set in motion. The
transnational corporations directly distribute labor power over various markets, functionally allocate resources, and organize hierarchically the various sectors of world production. The complex apparatus that selects investments and directs financial and monetary maneuvers determines the new geography of the world market, or really the new biopolitical structuring of the world.

The most complete figure of this world is presented from the monetary perspective. From here we can see a horizon of values and a machine of distribution, a mechanism of accumulation and a means of circulation, a power and a language. There is nothing, no “naked life,” no external standpoint, that can be posed outside this field permeated by money; nothing escapes money. Production and reproduction are dressed in monetary clothing. In fact, on the global stage, every biopolitical figure appears dressed in monetary garb. “Accumulate, accumulate! This is Moses and the Prophets!”

The great industrial and financial powers thus produce not only commodities but also subjectivities. They produce agentic subjectivities within the biopolitical context: they produce needs, social relations, bodies, and minds—which is to say, they produce producers. In the biopolitical sphere, life is made to work for production and production is made to work for life. It is a great hive in which the queen bee continuously oversees production and reproduction. The deeper the analysis goes, the more it finds at increasing levels of intensity the interlinking assemblages of interactive relationships.

One site where we should locate the biopolitical production of order is in the immaterial nexuses of the production of language, communication, and the symbolic that are developed by the communications industries. The development of communications networks has an organic relationship to the emergence of the new world order—it is, in other words, effect and cause, product and producer. Communication not only expresses but also organizes the movement of globalization. It organizes the movement by multiplying and structuring interconnections through networks. It expresses the movement and controls the sense and direction of the imaginary that runs throughout these communicative connections; in other words, the imaginary is guided and channeled within the communicative machine. What the theories of power of modernity were forced to consider transcendent, that is, external to productive and social relations, is here formed inside, immanent to the productive and social relations. Mediation is absorbed within the productive machine. The political synthesis of social space is fixed in the space of communication. This is why communications industries have assumed such a central position. They not only organize production on a new scale and impose a new structure adequate to global space, but also make its justification immanent. Power, as it produces, organizes; as it organizes, it speaks and expresses itself as authority. Language, as it communicates, produces commodities but moreover creates subjectivities, puts them in relation, and orders
them. The communications industries integrate the imaginary and the symbolic within the biopolitical fabric, not merely putting them at the service of power but actually integrating them into its very functioning.

At this point we can begin to address the question of the *legitimation* of the new world order. Its legitimation is not born of the previously existing international accords nor of the functioning of the first, embryonic supranational organizations, which were themselves created through treaties based on international law. The legitimation of the imperial machine is born at least in part of the communications industries, that is, of the transformation of the new mode of production into a machine. It is a subject that produces its own image of authority. This is a form of legitimation that rests on nothing outside itself and is reposed ceaselessly by developing its own languages of self-validation.

One further consequence should be treated on the basis of these premises. If communication is one of the hegemonic sectors of production and acts over the entire biopolitical field, then we must consider communication and the biopolitical context coexistant. This takes us well beyond the old terrain as Jürgen Habermas described it, for example. In fact, when Habermas developed the concept of communicative action, demonstrating so powerfully its productive form and the ontological consequences deriving from that, he still relied on a standpoint outside these effects of globalization, a standpoint of life and truth that could oppose the informational colonization of being. The imperial machine, however, demonstrates that this external standpoint no longer exists. On the contrary, communicative production and the construction of imperial legitimation march hand in hand and can no longer be separated. The machine is self-validating, autopoietic—that is, systemic. It constructs social fabrics that evacuate or render ineffectual any contradiction; it creates situations in which, before coercively neutralizing difference, seem to absorb it in an insignificant play of self-generating and self-regulating equilibria. As we have argued elsewhere, any juridical theory that addresses the conditions of postmodernity has to take into account this specifically communicative definition of social production. The imperial machine lives by producing a context of equilibria and/or reducing complexities, pretending to put forward a project of universal citizenship and toward this end intensifying the effectiveness of its intervention over every element of the communicative relationship, all the while dissolving identity and history in a completely postmodernist fashion. Contrary to the way many postmodernist accounts would have it, however, the imperial machine, far from eliminating master narratives, actually produces and reproduces them (ideological master narratives in particular) in order to validate and celebrate its own power. In this coincidence of production through language, the linguistic production of reality, and the language of self-validation resides a fundamental key to understanding the effectiveness, validity, and legitimation of imperial right.
Global Finance System

Current understandings of global finance as a system need to be challenged in order to question the discursive and ideological constitution of economic reality. Much of the academic literature on the politics of global finance depicts finance as a coherent, powerful and clearly bounded system (or agent)—on which questions of discourse and representation have little bearing.

“Like a Phoenix risen from the ashes,” as one widely accepted metaphor goes, “global finance took flight and soared to new heights of power and influence in the affairs of nations.” Benjamin Cohen’s metaphor attributes a large capacity of agency to an abstracted image of global finance. The mythological phoenix bird symbolizes immortality and resurrection, and the image of finance as an immortal being, preying on the capacities of nation-states, has become a common theme in academic literature on international finance. Such conceptualizations see international finance as a “mastering force” undermining national sovereignty and scope for domestic policy intervention, in contrast to the postwar Bretton Woods order when finance was the “servant” of economic production and financial flows were subjected to capital controls. For instance, Philip Cerny has argued that “the evolution of the international financial system . . . characterized by the acceleration of international capital movements” has “challenged the capacity of the state to provide effective governance not only of financial markets themselves, but also of economic affairs generally.” This financial evolution, according to Cerny, is mainly driven by inventions in information and communications technology, creating a situation in which financial trading can take place through “a computer screen which can be linked into almost any market in the world at any time of the day or night.” Cerny not only offers an understanding of international finance that implies a trade-off between market and state authority, but he also assumes the unproblematic existence of financial markets as self-regulating and self-contained entities. Even if Cerny’s work criticizes the emergence of self-regulating markets on a global scale, he bases his arguments

on a profoundly uncritical image of the financial market as an efficient and transparent mechanism, allocating capital on the basis of price information. It is only thus that Cerny’s political agenda can prioritize the promotion of a stable international financial order based on undistorted financial markets.

Another way in which finance is reified as a homogenous and clearly defined structure is through the increasingly common metaphor of the “global financial architecture.” …[The] metaphor depoliticizes financial governance, reducing it to a technical problem.

Especially since the Asian financial crisis, calls for a new international financial architecture (NIFA) have multiplied. In this, political economy literature shares its discursive representation of finance with the language of policy makers. Tony Blair, for example, said in a 1998 speech to the New York Stock Exchange: “Together, we must design a new international financial architecture for a new international financial age.” By comparison, political economists, while critical of policy proposals, uncritically accept the architecture metaphor…

Similar to the metaphor that casts finance as an autonomous powerful agency, the metaphor that casts finance as an architectural structure—while acknowledging a more important role of politics in its construction—presents finance as a coherent and homogenous sphere of thought and action with clearly defined walls, thus constricting scope for critique. This representation of finance as an autonomous and clearly bounded structure obscures all historical ambiguity, political struggle, and cultural confusion over what may be legitimate preoccupations within “the financial sphere.” It assumes the uncontestable economic reality of globalizing capital flows and powerful markets and leaves questions concerning the representation of financial and economic reality unanswered.

Performance and Performativity

Instead of assuming that finance is a system defined by undeniable economic realities, it can be argued that it is a particularly interpretative and textual practice. Money, credit, and capital are, quite literally, systems of writing. This goes for the earliest forms of credit and bookkeeping money as much as for early twenty-first century definitions of capital. For instance, Mary Poovey argues that early modern bookkeeping, which forms the basis of current accountancy practices, was a rule-governed kind of writing that “tended to create what it purported to describe.” Poovey demonstrates that the systems of writing and numbering that made up bookkeeping not just actualized the categories it assumed to exist as prior economic reality but also disciplined and regulated economic agency and credibility. By comparison, modern credit and accounting practices have necessitated international negotiations over the definition of “capital,” and the
political effects of adopting one definition over another have made these negotia-
tions anything but consensual.

In fact, credit, from the Latin credere, signifies belief, faith, and trust—a person being worthy of trust or having the reputation to be believed. To be a creditor was originally possible as a function of social and moral standing: “Extending credit . . . meant that you were willing to trust someone to pay you in the future . . . . To have credit in a community meant that you could be trusted to pay back your debts.” Further, Nigel Thrift has documented the historical importance of the “narrative of the gentleman” to London’s financial district. This was one way in which the worth of people and practices was assessed; it was “a widespread narrative based on values of honour, integrity, courtesy, and so on, and manifested in ideas of how to act, ways to talk [and] suitable clothing.” Historically, then, credit carries a gendered dimension: the reputation and authority that underlies credibility distinctly belong to the gentleman.

If anything, current practices have increased finance’s textual nature rather than resolved its interpretative struggles. The importance of information for financial participants is well documented . . . Because of the avalanche of information available to financial participants, they are engaged in constant processes of selection and interpretation—trying to determine the meaning of news and the ways in which “the market” will react to news . . . . Thrift concludes: “International financial centres are centres of representational authority, able to describe what constitutes ‘news’ and how that ‘news’ is interpreted.”

In contrast to understanding finance as a system, then, I will understand finance as a discursive domain made possible through performative practices, which have to be articulated and rearticulated on a daily basis. In discourse theory, a performative is that which enacts or brings about what it names—the quintessential example being the priest whose words “hereby I thee wed” enact the marriage. Understanding finance as a performative practice suggests that processes of knowledge and interpretation do not exist in addition to, or of secondary importance to, “real” material financial structures, but are precisely the way in which “finance” materializes. Judith Butler proposes to replace the notion of discourse constructing reality with studying the “process of materialisation that stabilises over time to produce the effect of boundary, fixity, and surface we call matter.” According to Butler, this process of materialization “is neither a single act nor a causal process initiated by a subject and culminating in a set of fixed effects” but an ongoing, citational practice “which operates through the reiteration of norms.” It is not just the case then that financial knowledge is socially constructed, but the very material structures of the financial markets—including prices, costs, and capital—are discursively constituted and historically contingent.
This understanding avoids the theoretical limits of what I have elsewhere called economism—or the assumption that in economics and finance there exists a prepolitical domain of material economic reality—and shifts attention to the historical and discursive processes through which a domain we now call finance has materialized. In addition, it provides a contrast to notions of performance in conventional economic and financial analysis. The work of financial analysts professes to measure and comment on economic performance. While acknowledging the importance of information for their profession, financial analysts assume economic performance to be an objective and measurable reality, which may, to be sure, lead to different interpretations of what profitable investments are, but which exists prior to and independently from their scrutiny and recommendations. In contrast, a notion of finance as made possible through performative practices rejects the existence of an objective and measurable prior reality in favor of considering the “manifest political consequences of adopting one mode of representation over another.”

Anna Tsing provides an interesting example of this mutual constitution of discourse and investment, thus illustrating finance’s performativity. Tsing documents the story of the Canadian gold mining company Bre-X, which attracted speculative investment after claiming to have discovered gold in the forests of Indonesia—a claim that was later disputed, after which investors lost their money. The point of the story, for Tsing, is not that the investors were misled with false claims of gold discovery, but that investment always requires stories of discovery and opportunity to coax monetary flows and that this is the way in which finance operates. “Bre-X was always a performance, a drama, a conjuring trick, an illusion, regardless of whether real gold or only dreams of gold ever existed at Busang.” In fact, in “speculative enterprises, profit must be imagined before it can be extracted; the possibility of economic performance must be conjured like a spirit to draw an audience of potential investors.” It is thus that performance and performativity are linked: the magical storytelling of investment opportunities (in Bre-X as well as in the new economy and countless other instances) performatively constitutes “real” economic performance, in the form of measured international capital flows, investments, stock prices, etc.

Power and Agency in Financial Practices

Understanding finance as made possible through performative practices has consequences for the way in which power and agency are conceptualized. It breaks with what David Campbell has called an “economistic conception of power” that can be found in much of the existing literature in political economy and that regards power as “a commodity to be wielded by agents.” Instead, it entails a Foucauldian understanding of power as “employed and exercised
through a net-like organisation... Individuals circulate between its threads; they are always in the position of simultaneously undergoing and exercising this power. They are not only its inert or consenting target; they are always also the elements of its articulation.”

In Foucault’s work, the power of ideology is no longer seen as a more or less conscious distortion of the truth in order to further particular (class) interests, but rather as bound up with complex and historically grounded technologies of truth production. Foucault proposes to reject the concept of ideology in favor of the study of historically constituted “apparatuses of knowledge.” In this manner, knowledge, ideas, and ideology no longer follow material production and institutions, but are a requirement for material and institutional possibilities: “Indeed, we must produce truth in order to produce wealth in the first place.” The power of financial ideas exists in the spaces in which “production of effective instruments for the formation and accumulation of knowledge” takes place, including “methods of observation, techniques of registration, procedures of investigation and research.” Before events and phenomena can be discussed in policy forums or be the subject of international negotiations—thus before they come into focus within political economy—they must be “rendered into information,” in the form of, for instance, “written reports, drawings, pictures, numbers, charts, graphs, statistics.” “Information in this sense is not the outcome of a neutral recording function,” Miller and Rose conclude, “it is itself a way of acting upon the real.”

Foucault’s analysis suggests that there are general regulative practices that govern “the limits and forms of the sayable” within a constituted domain of discourse. They determine what it is possible to speak of within the historically constituted financial sphere, which events are recorded as evidence and which utterances are recognized as valid. These same limits govern which statements are considered futile and irrelevant to the financial domain, which evidence is inadmissible, which utterances are invalid. Indeed, is it not precisely through its exclusions that a more or less coherent financial domain becomes thinkable at all? Most importantly, then, understanding finance as a performative practice focuses debate on the exclusions made for financial discourse to emerge as a rational, normal, scientific, and respectable practice.

The regulative practices that govern the limits of the financial domain act on the ways participants in this sphere understand their roles, interests, and possibilities. In Austin’s example of the priest enacting marriage, the priest’s power is not a totalizing sovereign power, nor is it solely a mechanic derivative of prior structures. The power of the priest is dependent on but not exhaustively determined by prior institutions of power and ritualized formulas for enacting marriage. As Butler puts it, “The subject is neither a sovereign agent with a purely instrumental relation to language nor a mere effect whose agency is pure complicity with
prior operations of power.” Similarly, we can think of financial agents as neither sovereign subjects nor reducible to the mechanics of financial power structures. Instead, they are regulated through historically constituted financial discourses but also acquire the authority to perform, affirm, and amend these discourses. “A general theory of the performativity of political discourse,” Butler writes, understands “performativity as a renewable action without clear origin or end [which] suggests that speech is finally constrained neither by its specific speaker nor its originating context.” In other words, financial participants articulate and execute financial decisions or strategies but are not sovereign originators of their actions.

Thinking through Butler’s formulation in a more concrete way, the importance of financial education and examination as sites that produce and constrain financial agents becomes clear. Stephen Gill . . . has taken a first step toward the problematization of economic agency with his concept of “economic citizenship.” Modern capitalism, Gill argues, prepares its members for economic citizenship from an early age, by including in the education curriculum lessons on financial rectitude. Teenagers are targeted with programs explaining how to develop a personal credit-rating record, which has become increasingly important in order to obtain employment and accommodation . . . Targeting children is done through marketing strategies such as special children’s mutual funds, for instance, the “Rupert the Bear Fund” in the United Kingdom and the “FUNds for Kids” program in Canada. The latter includes “a package for children under nine, with a stuffed ‘Henry the Hedgehog’ (as in ‘hedge your investments’), a mock mutual-fund certificate and a storybook, Henry’s Mysterious Present: A Story about Mutual Funds.

It is important to note that education in financial rectitude and responsibility is not a new phenomenon. Zelizer documents how the development of American consumer society in the 1920s and 1930s went hand in hand with popular education in “spending well” . . . It is not simply the case that (preexisting) citizens are disciplined in particular modes of financial responsibility with these rules of economic citizenship, but it is more precisely the case that responsible and respectable subjects emerge through these rules.

Another important example through which financially correct behavior is articulated, taught, and incited is provided by technologies of credit rating. These technologies define and patrol the boundaries between “good” and “bad,” or financially responsible and financially irresponsible, economic citizens . . . Procedures for consumer credit rating are increasingly standardized and computerized, reducing the determination of creditworthiness to a few variables on a scorecard, such as age and employment. Increasingly, financial decisions are being made on the basis of geographical information such as postcodes, leading to geographies of financial inclusion and exclusion. These articulations of creditworthiness demonstrate a clear continuity with older definitions of credit
as moral standing, trustworthiness, and social responsibility. At the same time, what is new about late modern computerized credit rating is the speed and intensity with which it operates. As Leyshon and Thrift put it, “In the world of business information, it is always census time.”

That it is not just consumers and citizens whose identities are shaped and regulated through criteria of financial rectitude and responsibility is demonstrated by Timothy Sinclair’s studies on bond-rating agencies, who assess the creditworthiness of states. These agencies “disavow any ideological content to their rating judgements” by claiming that their rating processes are “technical rather than judgmental in nature.” However, bond-rating agencies have acquired authoritative positions in international credit networks, offering particular visions of financial truth and particular criteria of financial responsibility that shape and regulate the behavior of states and financial institutions. Rating agencies, Sinclair argues,

vet and judge practices, opportunities, forms of organisation, whole fields of human enterprise. They adjust the ground rules inside capital markets and thereby shape the international organisation and behaviour of those institutions seeking funds. Thus the agencies do not just constrain capital markets but actually provide significant pressures on market participants themselves, contributing importantly to their internal constitution as agents.

Finally, at the level of financial experts—those participating in financial decision making, being employed by banks and other financial institutions—a proliferation of financial education can also be observed. Expensive and prestigious master of business administration courses can be considered to govern not just abstract or expert knowledge of financial participants but also behavior, dress, self-understanding, and sense of community for those who participate in them. In this sense, financial education is part of the constitution of agents and their interests. Financial agents do not deliberately and consciously delude subordinate classes, but emerge within a domain of explicit and implicit norms that regulate the limits of the sayable for legitimate participation in the financial sphere. It is thus not the case that a focus on identity “supersede[s] political economy” or “displace[s] its central problematic,” but it is on the contrary the case that identity is at the heart of motivation, behavior, and possibilities in political economy.

Indeed, it is precisely their initiation and education that makes it possible for financial professionals to articulate, reaffirm, reformulate, but sometimes also resist discourses of financial rationality. Butler emphasizes the instability of
power and the multiplicity of possible resistances by placing emphasis on the con-
tinued necessity of performance and enunciation of (financial) governance . . . .

In conclusion, then, understanding finance as rendered possible through performative practices serves a triple purpose. First, it prioritizes investigation into how understandings of economic reality and rationality in themselves exercise a particular power. Second, it places identity—the way in which financial participants understand their interests, roles, responsibilities, and possibilities at the heart of an understanding of financial power. Third, it moves debate away from images of finance as a rational and coherent whole to demonstrate the weaknesses, contingencies, and contradictions within existing practices.

A Genealogy as a Practice of Criticism

A genealogy, for Foucault, is not a search for origins but an account of the contingent, piecemeal, and unsteady emergence of the conditions of possibility for a particular discursive domain. According to Foucault, historians are all too often on a quest for origins, searching for “that which was already there . . . a primordial truth fully adequate to its nature.” Conventional historical enquiry thus risks communicating that present orders are inevitably and evolutionary the way they are as a result of a teleological unfolding of history. This happens, according to Edkins, “when events are ‘read’ backward or retroactively: at that point it is easy to explain ‘objectively’ why certain forces were effective and how particular tendencies ‘won’ .” In contrast, a genealogy argues that no logical or evolutionary trajectory for the development of contemporary (financial) practices was implicit in history or human nature. To defy retrospective readings, a genealogy “will never neglect as inaccessible the vicissitudes of history. On the contrary, it will cultivate the details and accidents that accompany every beginning; it will be scrupulously attentive to their petty malice.”

A genealogy, in short, is a practice of criticism that is motivated by finding insecurities and uncertainties in that which is represented as stable, coherent, and self-perpetuating. The politics of freedom and “possible transformation,” according to Foucault, start with “following lines of fragility in the present”: “History serves to show how that-which-is has not always been; i.e., that the things which seem most evident to us are always formed in the confluence of encounters and chances, during the course of a precarious and fragile history.” Demonstrating the contingency of history, Foucault argues, enables political criticism and the imagination of alternative futures: “It is fruitful in a certain way to describe that-which-is by making it appear as something that might not be, or that might not be as it is.” In this book, I show that the history of finance is ambiguously located in religious symbolism, colonial conquest, sexual imaginations, gambling,
superstition, and discourses of moral obligation, which still underpin the ways we make sense of money, credit, and investment today. However, these aspects have largely been written out of financial history to maintain the carefully protected identity of modern rational finance.

Much literature in political economy has eliminated all ambiguity and disturbances from its understandings of financial history. As Maurer puts it: “Scholars of finance almost without exception write stories of inevitability: capital needed to get faster or more mobile, and so it did, and the manner in which it did so logically followed from what went before.” This literature thus presents the emergence of money and finance as what Shapiro, quoting Erich Auerbach, calls a legend. A legend can be recognized because it “runs far too smoothly. All cross-currents, all friction that is casual, secondary to the main events or themes, everything unresolved, truncated and uncertain, which confuses the clear progress of the action and simple orientation of the actors, has disappeared.” Accordingly, Shapiro argues, a legend consciously or unconsciously aims at “silencing all tendencies subversive to the main, naturalizing and legitimating story.” For instance, in her account of the emergence of the present monetary order, Strange presents financial history as a legend. After Strange rightly asserts that in order to criticize “the mix of values” prevalent in the current financial order it is helpful [to] look at past financial orders, she presents the trajectory from a primitive to a developed monetary system far too smoothly. Strange’s money legend can be demonstrated by a lengthy quotation:

A primitive economy, to begin with, makes very little use of money… The money economy is only a small part of the real economy… Money moreover tends to be in a form that can be seen and touched—asset money as the economists would say—not fiat or credit money. So it is apt to be some reasonably portable but scarce commodity—metal or shells or beads—over whose supply the ruler has little control. At intermediate stages in semi-developed monetary systems, the money economy begins to penetrate more of the real economy. Physical asset money becomes more sophisticated. Money is made into coins.…

Next, banks appear. To begin with, they accept money or valuables for safe-keeping, give the depositor a receipt and allow him to draw on his deposit and settle accounts with third parties through the bank. Finding from experience that all the depositors will not want to draw money out at the same time, the banks lend, at a price, to others. The borrowers draw on their bank loans. Credit has been created. Pretty soon, the banks start printing “promises to pay” beyond their liabilities to depositors and borrowers…. As the number of banks and other specialized financial enterprises grow, the variety of forms of
credit-money—what the bankers call “credit instruments”—multiplies. Financial markets proliferate.

In Strange’s legend, there is no mention of the confusions and disruptions to everyday life caused by money and credit as discussed by Braudel. Nor is there acknowledgment of the intense political controversies the appearance of credit produced in seventeenth-century England and the gendered metaphors through which credit slowly became legitimized. Even when Strange does discuss periods of financial instability, these are made to appear like small regressions on the way to the modern international financial order.

Similarly, Cohen presents the historical emergence of money and finance as a legend. “The development of money,” writes Cohen . . .

was one of the most important steps in the evolution of human society . . . Before money there was only barter, the archetypical economic transaction, which required an inverse double coincidence of wants in order for exchange to occur. The two parties to any transaction each had to desire what the other was prepared to offer. This was an obviously inefficient system of exchange, since large amounts of time had to be devoted to the necessary process of search and bargaining . . .

The introduction of generalized exchange intermediaries cut the Gordian knot of barter by decomposing the single transaction of barter into separate transactions of sale and purchase . . . Consequently, specialization in production was promoted and the advantages of economic division of labour became attainable—all because of the development of money.

Cohen’s story races without glitches, doubts, or confusions from primitive times to the emergence of Adam Smith’s liberal trading order, thus naturalizing and legitimizing the latter. Cohen’s more recent work uses these same phrases to describe the emergence of monetary economies, but places more emphasis on the social bonds enabling the functioning of money. However, he still casts monetary exchange as a natural and evolutionary human practice, which evolves from primitive forms and understandings to modern ones without encountering much resistance.

Ron Martin provides a third example of the representation of financial history as a legend that naturalizes present conditions by assuming a linear historical progression of financial innovation. Martin identifies three phases “in the historical evolution of the financial system of advanced capitalist countries” and presents these in tabular form. “The earliest stage, associated with industrialization,” Martin explains,
was essentially a “regional” and “bank-oriented” system, based on a network of regional banks using local resources of capital and saving to channel into private industry... To the extent that international movements of money took place, they were mainly associated with financing overseas trade. As the advanced capitalist countries moved into the mature stage of industrial development, so their financial system became much more spatially and organizationally centralized. In this second, “national” or “market-oriented,” phase, national capital markets largely replaced regional banks as sources of funds... The latest, contemporary, phase, associated with the passage to a late- or post-industrial era, marks the onset of a further shift in the nature of the financial system toward a “transnational” and “securitized” form. Capital and money markets are separating from industry, money has been commodified, and as national financial centers become increasingly globalized and globally integrated, it is now national monetary autonomy that is being challenged.

Martin presents a linear progressive history that dismisses all political debate, confusion, contingencies, and reversals from the history of financial networks. His term “historical evolution” accords to the financial sphere a self-propelling ability, which only ever proceeds in one direction and cannot be reversed. Martin leaves no possibility for aspects of the different historical phases to exist simultaneously, except for a certain transition period in which, he notes, the phases may overlap.

Legends of monetary history, Jean-Christophe Agnew points out, arise partly because what we now call market exchange took place within a web of social actions that cannot be disentangled and partly because of the lack of historical records of early motives for exchange. “The absence of documentation,” Agnew observes, “is scarcely a deterrent for those who prefer to think of markets as the institutional expression of a natural human propensity to truck and barter. If anything, the seemingly magical appearance of markets in the landscape of antiquity tends to confirm this view of trade as a kind of socio-biological tropism, suggesting, as it does, a spontaneous gravitational pull toward commodity exchange encoded deep within the cellular structure of primitive society.” In such a view, Agnew asserts, “an event such as the establishment of the Royal Exchange in London in 1658 is... but a more complex and sophisticated variation of transactions carried out elsewhere with yams, shells and salt.”

In contrast to such retrospective readings of market exchange, Agnew documents the cultural webs of meaning within which concepts of the modern market emerged, demonstrating a close historical connection between the ways in which meanings of the market and the theatre evolved in sixteenth- and
seventeenth-century England… Similarly, Braudel’s work documents the non-linear histories of monetary networks, showing that various forms of money, barter networks, silver and gold coin, paper money, and credit existed side-by-side instead of as subsequent stages of monetary evolution. Barter and “primitive” currencies, Braudel argues, were perpetuated in many countries long after the emergence of monetary economies: “Under the thin surface of monetary economies, primitive activities continued and blended into the others in the regular meetings at town markets, or in the more concentrated atmosphere of trade fairs. Rudimentary economies survived in the heart of Europe, encircled by monetary life which did not destroy them but kept them as so many internal colonies within easy reach.” Even in the modern globalized economy, it is not difficult to distinguish networks of barter and informal exchange existing alongside sophisticated financial networks.

In contrast to an evolutionary history of modern credit practices, a genealogy is attentive to the insecurities, confusions, and contingencies of history. It aims to “bring to light both the contingency of the institutionalized frameworks of society within which everyday social practice take place and the existence of other possible resolutions.” Is it then possible to discern, through genealogy, a number of founding acts that gave meaning (and value) to our current financial concepts? Does this imply that we can identify historical alternatives and choose a different path? Ernesto Laclau points out why this is not the case, for the passing of time has modified systems of possibilities. Moreover, we can never exactly reconstruct the alternatives of the past, nor can we clearly identify historical “moments” of decision, nor are historically discarded options the only weaknesses in present discourses. In other words, present orders of discourse cannot simply be “wished away” because they regulate, shape, and constrain current actions, possibilities, and identities. In Judith Butler’s formulation, discourses should not be understood as “merely cultural,” but have become part of material life in the sense that they define legal “personhood” and operate the “gendered distribution of legal and economic entitlements.”

We can, however, reread the historical controversies and political struggles that slowly and contingently produced the meanings that are in many instances unquestioned today. Some of the ways in which these discourses were stabilized may even be discernible as “moments,” for instance, when legal decisions succeeded in fixing the meaning of contested concepts, after which controversies slowly refocused. This happened, for example, when the U.S. Supreme Court in 1905 formalized a certain demarcation between gambling and finance that had been contested and resisted for decades previously. Still, we must be careful not to portray the court’s decision as a solitary and definitive act in history, but understand it within the historical constellation of discourses that made it possible and attributed authority to it.
Finally, and most importantly then, a genealogy is an inquiry into financial history that is “a history of the present.” It looks for and emphasizes the weaknesses in present (financial) practices, which are “not systemic contradictions, but rather, effects of fragmented histories, colliding discourses, forces that prevailed without triumphing, arguments insecure about themselves.” The genealogy of finance that follows, then, will demonstrate that financial practice is less sure of itself and its discursive groundings than linear histories allow. If the distinction between gambling and finance, for instance, remains tenuous and insecure, we may imagine consciously in law determining the boundaries after which legitimate finance becomes illegitimate gambling. If the definition of financial indicators can be shown to be arbitrary and unfounded in historical necessity, a redefinition of such indicators may be thought possible that includes, for instance, measures of child poverty. If the boundaries of the sphere of finance are shown to be less fixed and rigid, moreover, the legitimacy of broad public debates on financial issues may be restored. In this manner, the social and gendered effects of financial practices may be addressed. “If everything about us is the effect of accident rather than will or design,” Brown says, “then we are, paradoxically, both more severely historical and also more malleable than we would otherwise seem. We are more sedimented by history, but also more capable of intervening in our histories.”
The primary intellectual goal of feminist theory is to make gender visible. All other theories are premised upon concepts other than gender and recognize differences between men and women only in passing, if at all. To make gender visible, however, is far more than simply making women visible and also far more than simply adding gender as yet another category or variable to existing analyses. It involves uncovering, making visible, the gendered nature of both IPE theory and the international political economy as it exists empirically. This can be as little as exposing the hidden gender implications of free trade, economic development, or imperialism. In that most feminist theories are post-positivist, however, they usually go well beyond highlighting uneven gender outcomes to demonstrate how gender constitutes the very structures and practices of the international political economy. For IPE, the most important is the construction of the public/private divide elemental to liberal society. Female labor and female subjectivity is characteristically concentrated in the private sphere of family, household, and the subsistence sector. From a feminist perspective, the construction of the private as feminine is the cause of its devaluation and neglect by mainstream scholars. Moreover, feminists argue that the more visible sphere of production is premised upon this less visible sphere of reproduction. The public is built atop the private and cannot exist without the practices of biological, material, social, and ideological reproduction that occur there. Any IPE theory seeking to understand relations of production and exchange therefore must understand reproduction as well. In this way, feminist theory goes far beyond simply adding women to IPE. It addresses the very construction of our categorizations themselves: man/woman, masculine/feminine, private/public, production/reproduction, and so on. It seeks not simply an IPE with women in it, but the creation of a fully gendered IPE.

Ann Tickner (b. 1937) conducts some preliminary ground-clearing for such a theory with a critique of the holy troika of liberalism, economic nationalism, and Marxism. She finds that the core analytic concepts in each—the individual, the state, and social class—have a gender dimension, and revealing this
dimension shows how each is biased toward the interests of men. In a common feminist critique of liberalism, Tickner argues that the actor at the foundation of liberal rationality is “rational economic man” with a clear masculine gender. In turn, the sphere of action for homo economicus—the market—is also constructed as masculine. Liberal theory’s hidden gender bias becomes for Tickner part and parcel of liberal policy’s revealed sex bias. Liberal prescriptions for economic development that place markets at the center therefore not surprisingly generate bias toward men and against women. Tickner finds that the state is gendered as well. In focusing on an IR realist version of economic nationalist IPE, she recycles some of her critique of liberalism. However, she goes beyond that to question the existence of a national interest in either military security or economic growth that serves all members of the polity. Finally, Tickner finds that social classes are gendered in Marxist analysis due to the theory’s emphasis on the sphere of production dominated by men and its neglect of the sphere of reproduction dominated by women. While largely sympathetic to Marxism as a critical theory and emancipation project, she nonetheless argues that the problem of capitalist societies is not merely one of class exploitation but also of patriarchy. Equality of class need not have any necessary implication for the legal status of the family or women’s role in the reproductive economy.

Following her critique, Tickner’s positive response is the development of a “feminist epistemology.” Concretely, this takes the form of redefining the core analytic concepts of IPE (as well as IR). One instance is rationality. Rather than understand rationality as a natural characteristic of autonomous and egoistic individuals, Tickner insists that rationality is socially situated. An alternative feminist rationality would not be rooted in market competition and acquisitiveness but instead in “caring roles.” Power would also be redefined away from autonomy and domination and toward “mutual enablement.” A second instance is a theoretical fusion of the productive and reproductive spheres. This would incorporate sites such as the family, the household, and the subsistence sector into the mainstream of IPE analysis. Tickner believes that such theoretical changes can contribute to material and social changes in the lives of women in the international political economy.

Spike Peterson (b. 1946) advances the case for such a feminist epistemology in IPE. She argues that by understanding gender analytically, a constructivist (and particularly a poststructuralist) feminism shows how gender is constitutive of the contemporary international political economy itself. This can best be seen by conceptualizing gender as a “governing code” that defines knowledge as well as value. A theory defined by production, rationality, capital accumulation, and Davos men is not the objective world of fact but instead a biased masculinist perspective. A world that rewards production, rationality, capital accumulation, and Davos men is likewise a world of masculine values.
Peterson’s “rewriting” of the international political economy can be seen in her discussions of the reproductive economy under conditions of globalization that reveal the “masculinist and modernist bias in political economy.” This sector is dominated by female labor in sexual intercourse, biological reproduction, child-rearing, householding, education/socialization, and elder-care. Even though such labor is essential to the functioning of the formal productive economy, it is devalorized by that productive economy as well as by mainstream IPE. From a theoretical perspective, this leads to a problematic invisibility. Exacerbated by globalization, informalization—an increasing shift in economic activity to the informal shadow or even illegal economy—affects reproductive as much as productive labor. The traditional domestic (i.e., family) economy is transformed, and so, too, are the traditional boundaries between the productive and the reproductive; consider, for example, the growth of wage-labor domestic services and the sex industry, both tied closely to the growth of global tourism. Yet these processes, because they transform what is quite literally “women’s work,” are devalued materially and intellectually.

Peterson also turns to the gendered construction of what she calls the “virtual economy” made up by “flows of symbols, information and communication.” Industries such as finance and the news media are not only dominated by men, they are also coded male. For Peterson, this means that finance becomes centered on gambling and short-term gain, while the news media is focused on war, power politics, and (not surprisingly) finance. The globalizing ideology of consumerism codes practices of consumption as female and constructs women as “key consumers whose primary motivation for consumption is presumably to please men and improve family life.”

Peterson’s outline shows why mainstream scholars should take account of feminism. First, she argues that a feminist IPE demonstrates how social and cultural constructions of gender determine who does what kind of work, whether in the productive, reproductive, or virtual economies. Second, she argues that a feminist IPE offers a theory of value that the mainstream cannot do without. Those commodities and processes coded masculine—“reason, economic man, breadwinner, the public sphere”—are valued highly, while those coded feminine—emotions, cooperation, housewife, the private sphere—are ascribed low value, so low that they are omitted from analysis altogether. Adding analytic gender thus does not simply supplement existing theories but promises to radically reconstruct them. As Peterson concludes, “understanding ‘feminisation as denigration’ exemplifies the transformative potential of studying gender analytically.”
International political economy should give us tools to help us understand how global economic welfare and security can be maximized, and it should help us think about the contemporary global problems of militarism, economic injustice, and environmental degradation. The most basic tools that IPE offers are ideas—key concepts like “rationality,” “security,” and “power”—the building blocks of explanation.

In The Political Economy of International Relations, Robert Gilpin describes what he calls the three constituting ideologies of international political economy: liberalism, nationalism, and Marxism. Gilpin defines an ideology as a belief system that includes both scientific explanations and normative prescriptions. Because none of these ideologies discusses gender, we must presume that they are to be considered gender neutral, meaning that they claim that the interactions between states and markets (which is the limited way that Gilpin defines political economy) can be understood without reference to gender distinctions. Feminists would disagree with this claim; just as Marxists have argued that the world economy cannot be understood without reference to class, feminists make similar claims about gender. Ignoring gender distinctions hides a set of social and economic relations characterized by inequality between men and women. Feminists would argue that in order to understand how these unequal relationships affect the workings of the world economy and their consequences for women and men, an approach that makes gender relations explicit must be constructed.

In this chapter I shall investigate whether liberalism, nationalism, and Marxism are indeed gender neutral, with respect to their explanations and their normative prescriptions. I shall examine the individual, state, and class, the central unit of analysis for each of these perspectives, to see whether they evidence a masculine bias both in the way they are described and the interest they represent. If this is the case, then it is legitimate to ask whether and how gender has circumscribed each perspective’s understanding of the workings of
the world economy. If there is evidence of a masculine bias in these representations, we must ask whether the normative preferences and policy prescriptions of each of these perspectives will serve the interests of men more than those of women.

Having critiqued each ideology from a feminist perspective, I shall attempt to begin to construct a feminist understanding of international political economy that will necessarily take us out of Gilpin’s oppositional tricotomy. I do so by specifying a wider set of fundamental concepts and by employing a feminist perspective to redefine some of the core concepts that are contested within the three perspectives. Because there is very little literature on gender and international relations, I shall draw on feminist literature from different disciplines and approaches. I am aware that it is impossible to speak of one feminist approach—feminist theory is interdisciplinary and encompasses a broad ideological spectrum. Feminist theorists define themselves variously as liberals, radicals, socialists, Marxists, and post-modernists, and it would be impossible to do justice to all of them. Nevertheless, there are common themes in much of the feminist literature suggesting that any feminist perspective on international political economy would start with very different assumptions about the individual, the state, and class from those at the foundations of Gilpin’s three ideologies. Whereas different feminist literatures respond to the needs and concerns of different groups of women—middle class or poor, Western or Third World—feminism shares a common opposition to gender inequality and the oppression of women and a commitment to building a world in which women and men are equal participants in all aspects of society.

Throughout this chapter I shall be using the terms “masculine” and “feminine” to refer to a set of socially constructed categories that vary in time and place rather than to fixed biological determinants of sex. In the West, conceptual dichotomies such as objectivity versus subjectivity, reason versus emotion, mind versus body, culture versus nature, autonomy versus relatedness, and public versus private have typically been used to describe male/female differences. Although many feminists object to this type of dichotomization, arguing that it tends to devalue the characteristics associated with femininity, psychological tests performed in the United States confirm that in that country, at least, both men and women recognize these dichotomous characteristics as masculine and feminine, respectively. Not only do individuals perceive these dichotomies as gender related, but the characteristics associated with masculinity are more highly valued by men and women alike.

A Feminist Critique of IPE Liberalism

….Liberal theory takes the individual as the basic unit of analysis. According to liberals, human beings are by nature economic animals driven by rational
self-interest. Rational economic man is assumed to be motivated by the laws of profit maximization. He is highly individualistic, pursuing his own economic goals in the market without any social obligation to the community of which he is a part. Liberals believe that this instrumentally rational market behavior, even though it is driven by selfish profit motives, produces outcomes that are efficient or beneficial for everyone even though they acknowledge that not everyone will benefit to the same extent. The detrimental effects of economic growth and market behavior, such as dwindling resources and environmental damage, are generally not considered.

A feminist critique of liberalism should begin with an examination of rational economic man, a construct that, although it extrapolates from roles and behaviors associated with Western men and assumes characteristics that I have described as masculine, has been used by liberal economics to represent the behavior of humanity as a whole. Nancy Hartsock suggests that rational economic man, appearing coincidentally with the birth of modern capitalism, is a social construct based on the reduction of a variety of human passions to a desire for economic gain. Sandra Harding contrasts this type of behavior with what she calls an “African” worldview, in which the economic behavior of individuals is embedded within a social order. She claims that this communal orientation, seen as deviant by neoclassical economic theory, contains some striking parallels with the worldview of Western women.

For Hartsock, Harding, and other nonliberal feminists, the highly individualistic, competitive market behavior of rational economic man could not be assumed as a norm if women’s experiences were taken as the prototype for human behavior. Women in their reproductive and maternal roles do not conform to the behavior of individual instrumental rationality. Much of women’s work in the provision of basic needs takes place outside the market, in households or in the subsistence sector of Third World economies. Moreover, when women enter the market economy, they are disproportionately represented in the caring professions as teachers, nurses, or social workers—choices that are generally not made on the basis of profit maximization but on the basis of values that are emphasized in female socialization. If this is the case, we must conclude that most women’s, as well as some men’s, motivations and behavior cannot be explained using this model of rationality.

Rational economic man is extrapolated from assumptions about human nature that have their origins in Western liberal political theory. Rational economic man is a Hobbesian man whose passions have been tamed by the rational pursuit of profit. Liberal contract theories about men’s origins depict a state of nature where individuals exist prior to and apart from the community; they come together not out of any desire for community but out of the need for a protected environment in which they can conduct their economic transactions more securely. Hartsock argues that, given its dependence solely on economic
exchange, any notion of community in liberal theory is fragile and instrumental. She claims, however, that this liberal assumption that the behavior of individuals can be explained apart from society is unrealistic because individuals have always inhabited and been a part of society.

Even though early liberal theorists were explicit in their assertion that their theories about human behavior applied to the behavior of men and not women, this distinction has since been lost as contemporary liberals assume this type of behavior for humanity as a whole. Feminists take issue with this theory of human behavior, claiming that it is biased toward a masculine representation. Harding claims that for women, the self is defined through relationship with others rather than apart from others. Alison Jaggar argues that liberalism’s individualistic portrayal of human nature has placed excessive value on the mind at the expense of the body. Because, in our sexual division of labor, men have dominated the intellectual fields whereas women have been assigned the tasks necessary for physical survival, Jaggar concludes that given this sexual division of labor, women would be unlikely to develop a theory of human nature that ignored human interdependence or to formulate a conception of rationality that stressed individual autonomy. If the need for interdependence were taken as the starting point, community and cooperation would not be seen as puzzling and problematic.

Generalizing from rational economic man to the world economy, liberals believe that world welfare is maximized by allowing market forces to operate unimpeded and goods and investment to flow as freely as possible across national boundaries according to the laws of comparative advantage. If capital is being rewarded disproportionately to labor in the world economy, then men are being rewarded disproportionately to women; a 1981 Report to the UN Committee on the Status of Women states that although women represent one-half of the global population and one-third of the paid labor force, and are responsible for two-thirds of all working hours, they receive only one-tenth of world income and own less than one percent of world property.

Recent studies of Third World development and its effects on women are beginning to document evidence that demonstrates that liberal strategies to promote economic growth and improve world welfare may have a differential impact on men and women. Because women’s work more generally often takes place outside the market economy, a model based on instrumentally rational market behavior does not capture all the economic activities of women. Nor can we assume that the prescriptions generated by such a model will be as beneficial to women as they are to men.
A Feminist Critique of IPE Nationalism

Nationalism in orthodox IPE emerged as a critique of liberalism, but its explanation of state behavior is quite close to the liberals’ explanation of the behavior of rational economic man. States are assumed to be behaving as rational profit maximizers pursuing wealth, power, and autonomy in an anarchic international system devoid of any sense of community. In a conflictual world, states are striving to be economically self-sufficient. Their participation in the world economy is an attempt to create an international division of labor and resource allocation favorable to their own interests and those of groups within their national boundaries. Arguments against extensive economic interdependence are justified in the name of national security. Strategic domestic industries are to be given protection, especially when they produce military-related goods. National security and national interest are, therefore, the overriding goals of policy.

A feminist critique of the nationalist approach must begin by asking whether the state, the central unit of analysis, is a gendered construct with respect to both its historical origins and its contemporary manifestations. In spite of advances in the legal rights of women in many states, none of the known forms of state politicizes women’s roles in such a way as to give them de facto equality with men. In all states, institutions of state power are dominated by men, particularly in the realm of foreign policy and the military. Because most foreign-policy makers and theorists who have explained the origins of states and state behavior in the international arena have been men, we might assume that this could influence not only the behavior of states and the prioritizing of certain statist goals, such as power and autonomy, but also the theoretical explanations of that behavior. We might also assume that prescriptions for maximizing state power might work more to the advantage of men than women.

Beginning in the seventeenth century, the economy was placed in the public domain of men and of rational scientific knowledge. The nationalist approach, particularly its contemporary neorealist version, has taken the liberal concept of rational economic man, which grew out of this enlightenment knowledge, and used it to explain the behavior of states in the international system. Using game theoretic models, such explanations of states’ behavior draw on the instrumentally rational market behavior of individuals. Because international economic interactions rarely result in winner-take-all situations, neorealists have focused on Prisoners Dilemma games to explain states’ behavior in the international system. Where international cooperation is seen to exist, it is explained not in terms of international community but rather in terms of enlightened self-interest in an environment that is essentially anarchic.

In her feminist critique of this application of game theory, Birgit Brock-Utne cites recent research to support her claim that men and women exhibit
different types of behavior when playing Prisoners Dilemma games. Challenging a research finding that suggests that men may be more cooperative than women because, in single-sex Prisoners Dilemma games, men choose a cooperative strategy more often than women do, Brock-Utne claims that this is because men are more interested than women in strategic considerations of winning the game. When given a choice, men prefer games of skill, whereas women prefer games of chance. Prisoners Dilemma is a game of skill, so this may explain why women tend to lose interest when playing such games and fail to figure out the best strategy to maximize gains. Recent research findings suggest that women may be more influenced by the interpersonal situation, such as getting along with the other players, than by strategic considerations associated with winning the game. If, as Brock-Utne suggests, women tend to find this type of game based on instrumental rational behavior uninteresting, it is unlikely that they would have selected this methodology for explaining the behavior of states in the international system.

Using game theoretic models to explain states’ behavior in the international system, nationalists portray states as unitary actors: concentrating at the interstate level, nationalists do not generally focus their attention on the internal distribution of gains. But, if, as I have argued, women have been peripheral to the institutions of state power and are less rewarded economically than men, the validity of the unitary actor assumption should be examined from the perspective of gender. We must question whether women are gaining equally to men from nationalist prescriptions to pursue wealth and power. In all states, women tend to be clustered at the bottom of the socioeconomic scale; in the United States in the 1980s, 78 percent of all people living in poverty were women or children under 18. When they enter the labor market, women tend to be ghettoized in low-paying jobs or face wage discrimination in the form of lower wages for the same jobs as men. Moreover, in societies where military spending is high, women are often the first to feel the effects of economic hardship when social welfare programs are sacrificed for military priorities. As mentioned above, for nationalists the military/industrial complex is an important part of the domestic economy entitled to special protection. For women, however, the trade-off between military and economic security can be particularly acute.

I have shown that the nationalist explanation of states’ behavior in the international system that focuses on instrumental rationality may be biased toward a masculine representation. Nationalist prescriptions for maximizing wealth and power may impact negatively on women because women are often situated at the edge of the market or the bottom of the socioeconomic scale.
A Feminist Critique of IPE Marxism

...Because it speaks for the interests of the least powerful in the international system, Marxist theory would appear to be more compatible with a feminist perspective. In fact, much of recent feminist theory owes a strong intellectual debt to Marxism. Like Marxists, radical, socialist, and postmodern feminists see knowledge as historically and socially constructed. Marxists and feminists would agree that knowledge is embedded in human activity. Like much of feminist theory, Marxism rejects the notion of a universal and abstract rationality and objectivity upon which both the liberal and nationalist approaches to specific ways are attributable to patriarchy rather than to capitalism. Second, Marxism rejects that a class analysis ignores women’s role in the family. Feminists maintain that women do not have the same opportunities as men when they enter the workforce. Even in the United States, where considerable advances have been made in the economic position of women, full-time working women in 1987 earned an average of 71 percent of the earnings of full-time working men. Women frequently experience harassment and intimidation in the workplace, and taking time off for bearing and raising children may impede opportunities for promotion. In many other parts of the world, the position of working women is more critical. Multinational corporations in the Third World prefer to hire young women because they are willing to work for low wages and are more docile than men and therefore easier to control. Such women are often fired if they attempt to unionize or if they marry, since marriage raises the issue of the company’s responsibility for maternity benefits.

It is Marxism’s tendency to ignore women in their reproductive roles of which feminists are most critical, however. For classical Marxists, procreation was seen as a natural female process fixed by human biology. Therefore a division of labor, whereby women are primarily responsible for the rearing of children, was also seen as relatively fixed. Because Marxism assumed that women’s roles as caretakers of children was natural, an assumption questioned by many feminists, classical Marxism omitted women’s roles in the family from its analysis. Feminists argue that ignoring women in their reproductive and childrearing roles, an omission common to all approaches to political economy, leaves all the unpaid labor that women perform in the family outside of economic analysis. By ignoring women in their domestic roles, Marxists and non-Marxists alike neglect certain issues that are peculiar to women regardless of their class position....

Marxist theory has paid insufficient attention to women’s private roles in households, and feminist writers also claim that contemporary Marxist analyses do not adequately deal with the position of marginalized women in the Third World. Although they often play a crucial role in subsistence production, increasingly women in the Third World are being defined as dependents. Although
dependency theory recognizes this type of marginalization as a structural consequence of capitalist development, it does not acknowledge the special position of women among the marginalized nor the fact that the status of women relative to men has been declining in many parts of the Third World.

If, as many feminists claim, women’s oppression is due to patriarchy as well as capitalism, could the position of women be expected to improve under socialism as Marxists maintain? Socialist feminists agree that the condition of women in socialist states usually improves in areas of social policies, welfare, and legal rights. The availability of maternity rights, day-care, and other institutional reforms may further improve the position of working women in socialist states. However, a study of Soviet women, who make up 51 percent of the Soviet workforce, finds them disproportionately concentrated in unskilled jobs while they continue to carry most of the domestic workload. Since interference in the family as an institution is as much resisted in socialist states as it is in capitalist states, problems of powerlessness and violence that women encounter in families remain. Moreover, writers on women in socialist states generally conclude that even if women’s conditions in the workforce are improved, women are as poorly represented in positions of state power and decision-making as they are in capitalist states. Feminists conclude, therefore, that, although women may suffer from particular forms of repression under capitalism, the liberation of women through class struggle cannot be assumed. It will come about only when women are equal to men in the public and private spheres, a condition that will not necessarily be attained in a postcapitalist world.

Toward a Feminist Perspective on IPE

I have shown that the individual, the state, and class, which are the basic units of analysis for the liberal, nationalist, and Marxist approaches to international political economy, respectively, tend to present a narrowly masculine representation. I have also suggested that the prescriptions that each of these perspectives offers for maximizing economic welfare and security may work to the advantage of men more than women. I shall now suggest how we might begin to think about constructing a feminist perspective which could offer us a less gender biased representation of international political economy and could represent the particular interests of women. Such a perspective, coming from the position of those on the fringes of the state and the market, might also help us to think about solutions to contemporary global problems such as militarism, economic injustice, and environmental degradation, which, although they have not traditionally been central to the field of international political economy, are problems with which the state and the market seem increasingly unable to cope.
A feminist perspective on international political economy must be wary of discourses that generalize and universalize from theories based on assumptions taken from characteristics associated with Western men. Because, as I have shown, a masculine perspective is embedded in the epistemological foundations of all three approaches, the construction of a feminist perspective should include efforts to develop a feminist epistemology. Only by so doing can hidden gender relations be brought to light and an approach that takes gender into account both in its scientific explanations and normative prescriptions be constructed. A feminist perspective on international political economy might begin, therefore, by constructing some alternative definitions of concepts, such as rationality, security, and power—concepts that have been central to our understanding of the field but, as I shall argue, have been embedded in a masculine epistemology.

Both the liberal and nationalist perspectives rely on a depersonalized definition of rationality that equates the rationality of individuals and state with a type of instrumental behavior that maximizes self-interest. Both of these approaches assume that rational action can be defined objectively regardless of time and place. Most feminists take issue with this definition of rationality; agreeing with Marxists, they would argue that individuals and states are socially constituted and what counts as rational action is embodied within a particular society. In capitalist societies, rationality is associated with profit maximization; thus, the notion of rationality has been placed in the public sphere of the market and thus distinguished from the private sphere of emotion and the household. Feminists argue that because it is men who have primarily occupied this public sphere, rationality as we understand it is tied to a masculine type of reasoning that is abstract and conceptual. Women, whose lived experiences have been more closely bound to the private sphere of caretaking and childrearing, would define rationality as contextual and personal rather than as abstract. In their caring roles, women are engaged in activities associated with serving others—activities that are rational from the perspective of reproduction rather than production. A feminist definition of rationality would, therefore, be tied to an ethic of care and responsibility. Such a definition would be compatible with behavior more typical of women’s lived experiences and would allow us to assume rational behavior that is embedded in social activities that are not necessarily tied to profit maximization. It could be extended beyond the household to include responsibility for the Earth and its resources, a type of rationality that may be necessary if we are to ensure the survival of future generations.

The concept of security is central to the nationalist perspective. For nationalists, security has generally been subsumed under the rubric of power, particularly military power, and is usually associated with the security of the nation-state. National security is a concept that is particularly problematic for women. Betty Reardon believes that, far from protecting women, national security, with its
military connotations, can offer particular dangers for women. According to Reardon, sexism and militarism are two interdependent manifestations of social violence. Excluded from the patriotic duty of defending the state, women have traditionally been defined as the protected rather than the protectors, although they have had little control over the conditions of their protection. Moreover, women experience special vulnerabilities within the state as frequent victims of family violence, which often takes place outside the protection of the law. As mentioned above, women are also subject to special economic vulnerabilities in households, in the workforce, and in the subsistence economy. With the growing militarization of many parts of the Third World, fueled by an international arms trade that is becoming an increasingly significant proportion of world trade, women are especially vulnerable to the trade-off between military and economic security. Given these special vulnerabilities of women inside society and households as well as with respect to the international system, security for women is not necessarily synonymous with national security. A more adequate definition of security would be multilevel and multidimensional and would include both physical and economic security. A feminist perspective would therefore define security as the absence of violence, whether it be military, economic, or sexual.

Power in international relations, whether it is used to explain the behavior of states or classes, has generally been defined in terms of domination and coercion. Nancy Hartsock argues that this type of power as domination has always been associated with masculinity because the exercise of power has generally been a masculine activity. When women write about power, they stress energy, capacity, and potential, says Hartsock. Hannah Arendt’s definition of power is frequently cited by feminists; Arendt defines power as the human ability to act in concert, or action that is taken in connection with others who share similar concerns. This definition of power is similar to psychologist David McClelland’s portrayal of female power, which he describes as shared rather than assertive. Jean Jaquette argues that because women are rarely in positions of economic or political power, they have been more apt to rely on power as persuasion. She compares women’s domestic activities to coalition-building activities of weak states. All of these writers are portraying power not as domination but as a relationship of mutual enablement.

If we were to agree with Marxists that the way in which we describe reality has an effect on the way we perceive and act, and that autonomy and self-sufficiency are unrealistic, then a feminist perspective would assume a connected, interdependent individual whose behavior includes activities related to reproduction as well as production. In order to capture these productive and reproductive activities, the artificial boundaries between the world of rational economic man in the public sphere of production and the activities that women perform outside the economy as mothers, caretakers, and subsistence producers of basic needs
must be broken down. Breaking down these barriers would help to reduce the
differential value attached to the rational or “efficient” world of production and
the private world of reproduction. Were childbearing and childrearing to be seen
as more valued activities, it could help to reduce the excessive focus on the pro-
ductive efficiency of an ever-expanding commodity production—a focus whose
utility in a world of shrinking resources, vast inequalities, and increasing envi-
ronmental damage is becoming questionable. A perspective that takes this rede-
dined individual as its basic unit of analysis could help to create an alternative
model of political economy that respects human relationships as well as their
relation to nature.

If a substantial portion of women’s productive and reproductive activities are
taking place on the peripheries of the world economy in households or in the
subsistence sector of Third World economies, a feminist perspective must be
concerned with achieving economic justice in these particular contexts . . .

Because women are so centrally involved in basic needs satisfaction in house-
holds and in the subsistence economy of the Third World, a feminist approach
to international political economy must be supportive of a basic needs approach
where basic needs are defined in terms of both material needs and the need for
autonomy and participation . . .

Women have generally been peripheral to the institutions of the nation-state
and transnational capital; therefore, a feminist perspective on international
political economy should take a critical stance with respect to these institutions,
questioning whether they are effectively able to deal with global problems of
militarism, poverty, and the environment—problems that have a particularly
negative impact on women. Building a model of political economy that starts
at the bottom, with the individual and the local satisfaction of the individual’s
basic needs, envisages a type of state that is more self-reliant with respect to the
international system and more able to live within its own resource limits. Such
a state would be less militaristic and give priority to welfare over military con-
siderations. Looking at the world economy from the perspective of those on the
fringes of capitalism can help us to think about constructing a model that would
be concerned with the production of life rather than the production of things
and wealth. Maria Mies argues that the different conception of labor upon which
such a model depends could help us adapt our lifestyle at a time when we are
becoming increasingly conscious of the finiteness of the Earth and its resources.
Such a model would depend on an extended definition of security, which goes
beyond a nationalist, militarist focus and begins to speak to the economic and
environmental security of individuals and states alike.

In their conclusion to The Global Political Economy, Stephen Gill and David
Law call for the formation of a counterhegemonic perspective on IPE, one based
on an alternative set of concepts and concerns, which could deal with a series
of problems associated with militarism, environmental crises, and the excesses and inequalities of the marketplace that are becoming more acute as we enter the twenty-first century. They suggest that such a perspective might emerge out of transnational linkages between grass-roots social movements concerned with peace, ecology, and economic justice. Because women are represented in much larger numbers in these new social movements than they are in institutions of state power and transnational capital, women would be in a position to make a significant contribution to the formation of this counterhegemonic perspec-
tive. Some feminists have argued that women’s position outside the structures of power, on the peripheries of the system, gives them a special epistemological standpoint, which can provide a more comprehensive view of reality. At a time when existing political and economic institutions seem increasingly incapable of solving many global problems, a feminist perspective, by going beyond an investigation of market relations, state behavior, and capitalism, could help us to understand how the global economy affects those on the fringes of the market, the state, or in households as we attempt to build a more secure world where inequalities based on gender and other forms of discrimination are eliminated.
Across disciplines, feminist interventions have typically begun by exposing the omission of actual women and their activities, while also documenting how women and feminised activities are represented as inferior to male-as-norm (androcentric) criteria. In economics and political economy, feminists have exposed how men dominate the practice of and knowledge production about (what men define as) ‘economics’; how women’s domestic, reproductive and caring labour is deemed marginal to (male-defined) production and analyses of it; how orthodox models and methods presuppose male-dominated activities (paid work, the formal economy) and masculinised characteristics (autonomous, objective, rational, instrumental, competitive). As a corollary, ‘women’s work’ and feminised qualities—in whatever sphere—are devalued: deemed ‘economically’ irrelevant, characterised as subjective, ‘natural’ and ‘unskilled’, and typically unpaid. For most economists, social reproduction through heterosexual families and non-conflictual intra-household dynamics are simply taken for granted; alternative household forms and the rising percentage of female-headed and otherwise ‘unconventional’ households are rendered deviant or invisible.

Mounting evidence of systematic exclusions prompts a new strategy: correcting androcentric bias by adding women and their experiences to existing analytical frameworks. New questions emerge regarding what counts as relevant data (marriage patterns, family budgets), appropriate sources (church records, personal diaries) and germane topics (caring labour, shopping, food preparation, sex work). From this expanded inquiry we learn more about women and everyday life, but also more about men and conventional topics. That is, rather than a masculinist focus exclusively on ‘the main story’ of men’s activities, we
...attend as well to the ‘background’ story that is rarely visible but which underpins and enables men’s activities. Not only do women’s lives become more visible, but the interdependence of both stories is illuminated, which also improves our understanding of the featured story and its primarily male protagonists. Hence, this ‘project’ not only adds women, but expands into investigating relationships among women’s and men’s identities, activities, and inequalities of power...

Making women empirically visible is thus an indispensable project. It inserts actual (embodied) women in our picture of economic reality, exposes how women and men are differently engaged with and affected by political economy, and reveals women as agents and activists, as well as victims of violence and the poorest of the poor. But adding women to existing paradigms also raises deeper questions by exposing how the conceptual structures themselves presuppose masculine experience and perspective. For example, women/femininity cannot simply be ‘added’ to constructions that are constituted as masculine: reason, economic man, breadwinner, the public sphere. Either women as feminine cannot be added (that is, women must become like men) or the constructions themselves are transformed (namely, adding women as feminine alters their masculine premise and changes their meaning). In this sense, the exclusions are not accidental or coincidental but required for the analytical consistency of reigning paradigms.

The implications of this insight move us along the continuum, from more positivist/rationalist epistemological commitments limited to understanding gender empirically to more constructivist and poststructuralist insistence that gender is also analytical. In effect, we move beyond critique to reconstruction of theory, and this has been particularly fertile terrain in the past decade. We also move beyond the dichotomy of men and women to the hierarchy of masculinity over femininity.

Understood analytically, gender is a governing code that pervades language and hence systemically shapes how we think, what we presume to ‘know’, and how such knowledge claims are legitimated. Epistemological and ontological issues are more visible at this ‘side’ of the continuum because conventional categories and dichotomies are not taken for granted but problematised...At the same time, as a governing code gender systemically shapes what we value. In particular, gender privileges (valorises) that which is characterised as masculine—not all men or only men—at the expense of that which is stigmatised (devalorised) as feminine: lacking agency, control, reason, ‘skills’, culture, and so on... ...As a generalisation regarding theoretical developments, feminist scholars increasingly subscribe to constructivist orientations, where masculinist assumptions are problematised and feminist alternatives explored. Constructivism means different things to different people, especially in different disciplines.
Without engaging complex definitional debates, I simply note minimalist claims: constructivism recognises that agent and structure are not categorically separate (as in a positivist binary), but interact to construct social reality. By acknowledging the social construction of agents, identities and ideologies, constructivism opens inquiry to new questions, not least for present purposes, how masculinist (and other) ideologies shape what we study and how we study it. On the continuum posited here, this goes beyond simply adding women as an empirical category and has the potential for altering existing theoretical frameworks.

From more constructivist and especially poststructuralist starting points, gender is understood as a governing code and its inclusion in our analyses necessarily has epistemological/theoretical implications. On this view, gendering political economy entails a questioning of orthodox methods and foundational inquiries in so far as these rely on gendered assumptions and biases. This raises the theoretical stakes dramatically: it threatens to be systemically disruptive, which decreases receptivity and increases resistance to more complex understandings of gender. It is important to note that, in the absence of constructivist or poststructuralist insights, the meaning of operational ‘codes’ (gender or otherwise) is neither obvious nor readily comprehended. Hence, the systemic, intellectually transformative work of feminists is effectively ‘invisible’ because it exceeds what the mainstream can see or comprehend through positivist/modernist lenses.

Gendered political economy of globalisation

…Globalisation is a gendered process that reflects both continuity and change. Men, especially those who are economically, ethnically and racially privileged, continue to dominate institutions of authority and power worldwide. And masculinist thinking continues to dominate economic theorising and policy making: top-down, decontextualised (non-holistic), formulaic and over-reliant on growth and quantifiable indicators (rather than provisioning and measures of human wellbeing and sustainability). But globalisation is also disrupting gendered patterns by altering conventional beliefs, roles, livelihoods and political practices worldwide. While some changes are small and incremental, others challenge our deepest assumptions (e.g. male breadwinner roles) and most established institutions (e.g. patriarchal families). Feminists argue that not only are the benefits and costs of globalisation unevenly distributed between men and women, but that masculinist bias in theory/practice exacerbates structural hierarchies of race/ethnicity, class and nation.

With other critical scholars I argue that dominating accounts of GPE perpetuate economistic, modernist/positivist and masculinist commitments. In
particular, these preclude adequate analyses of two central features of global restructuring. First, today’s globalisation is distinguished by its dependence on historically contingent and socially embedded information and communication technologies (ICTs) specific to the late twentieth century. Due to the inherently conceptual/cultural nature of information, not only empirical but analytical challenges are posed by the unprecedented fusion of culture and economy—of virtual and material dimensions—afforded by ICTs. In brief, the symbolic/virtual aspects of today’s GPE expose—to a unique extent and in new developments—how conventional (positivist) separations of culture from economy are totally indefensible and how poststructuralist lenses are essential for adequately analyzing today’s GPE. Second, globalisation and its effects are extremely uneven, manifested starkly in global, intersecting stratifications of ethnicity/race, class, gender and nation. To address these conditions adequately requires critical and especially feminist postcolonial lenses.

Moreover, to investigate the interconnections among structural hierarchies I deploy gender analytically, arguing that denigration of the feminine (coded into masculinist/modernist dichotomies as hierarchical) pervades language and culture, with systemic effects on how we ‘take for granted’ (normalise/depoliticise) the devaluation of feminised bodies, identities and activities. This has particular relevance for economics, where assessments of ‘value’ are key. I argue that feminisation of identities and practices effectively devalues them in cultural as well as economic terms. Briefly: the taken-for-granted devaluation of ‘women’s work’ is generalised from women to include feminised ‘others’: migrants, marginalised populations, ‘unskilled’ workers, the urban underclass and developing countries. Women and feminised others constitute the vast majority of the world’s population, as well as the vast majority of poor, less skilled, insecure, informalised and flexibilised workers; and the global economy absolutely depends on the work that they do. Yet their work is variously unpaid, underpaid, trivialised, denigrated, obscured and uncounted: it is devalued. This economic devalorisation is either hardly noticed or deemed ‘acceptable’ because it is consistent with cultural devalorisation of that which is feminised. The key point here is that feminization devalorises not only women but also racially, culturally and economically marginalised men and work that is deemed unskilled, menial and ‘merely’ reproductive.

Moving beyond a narrow definition of economics, I develop an alternative analytical framing of reproductive, productive and virtual economies that shifts how we see the terrain of globalisation and hence how we might interpret, understand and respond to it. I refer not to conventional but Foucauldian economies: as mutually constituted (therefore coexisting and interactive) systemic sites through and across which power operates. These sites involve familiar exchanges, but also include sociocultural processes of
subject formation and cultural socialisation that underpin identities and their political effects. The conceptual and cultural dimensions of these sites are understood as inextricable from (mutually constituted by) material effects, social practices and institutional structures. The objectives are to demonstrate the co-constitution of culture and economy, the interaction of identification processes and their politics, and the value of deploying a critical feminist, poststructuralist lens as a means to exposing the operating codes of neoliberal capitalism. Here I review only major trends in each economy, emphasising how they are gendered.

The productive economy

I begin with the familiar ‘productive economy’ (PrE), understood as ‘formal’—regularised and regulated—economic activities identified with primary, secondary and tertiary production. Globalisation variously complicates these distinctions, especially as ICTs reconfigure each sector. First, the dramatic decline in world prices of and demand for (non-oil) primary products has been devastating to Third World economies where primary production dominates: unemployment problems are exacerbated, ability to attract foreign investment is reduced, and debt dependency may be increased. One effect is viewing (unregulated) labour as a competitive resource and/or encouraging out-migration in search of work.

Second, ‘de-industrialisation’ especially affects advanced industrialized countries and major cities, manifested variously through downsizing, ‘jobless growth’, loss of skilled and often unionised positions, growth in low-wage, semi- and unskilled jobs, and relocation of production to lower wage areas. Job security is additionally eroded for all but elite workers through ‘flexibilisation’: more temporary, part-time, non-unionised jobs with fewer benefits, and more ‘just-in-time’, decentralised and subcontracted production processes. These shifts tend to increase un- and underemployment (especially of men) and coupled with erosion of union power translate into a decline in real incomes and household resources.

Flexibilisation tends to increase the power and autonomy of management and be attractive to those with highly valued skills. Some find that flexible arrangements better suit their life conditions. Mothers and single parents may prefer flexible arrangements, although this must be assessed in the context of childcare availability and limited access to better-paying and more secure employment opportunities. Specific trade-offs depend on specific contexts, but a general point remains: in the absence of regulatory frameworks that protect workers’ rights and generate living wages, flexibilisation translates into greater insecurity of employment and income for the majority of the world’s workers.
Third, employment shifts from manufacturing to information-based services as technologies transform the nature of work worldwide. Income polarisation is exacerbated in so far as service jobs tend to be either skilled and high-waged (professional-managerial jobs; for which read ‘masculinised’) or semi-, unskilled and poorly paid (personal, cleaning, retail and clerical services; for which read: ‘feminised’). Hence, this shift also favours countries with developed technology infrastructures and relatively skilled workers.

The fourth trend is feminisation of employment, understood simultaneously as a material, embodied transformation of labour markets (increasing proportion of women), a conceptual characterisation of deteriorated and devalorised labour conditions (less desirable, meaningful, safe or secure), and a reconfiguration of worker identities (feminised managers, female breadwinners). Women’s formal employment has been increasing worldwide, while male participation has been falling (this indicates less an empowerment of women than a deterioration in working conditions for men). As jobs require few skills, and flexibilisation becomes the norm, the most desirable workers are those who are perceived to be undemanding (unorganised), docile but reliable, available for part-time and temporary work, and willing to accept low wages. Gender stereotypes depict women as especially suitable for these jobs and gender inequalities render women especially desperate for access to income. In short, as more jobs become casual, irregular, flexible and precarious, more women—and feminised men—are doing them.

Fifth, globalisation increases flows of people: to urban areas, export-processing zones, seasonal agricultural sites and tourism locales. Migrations are shaped by colonial histories, geopolitics, immigration policies, capital flows, labour markets, cultural stereotypes, skill attributions, kinship networks and identity markers. Given the nature of ‘unskilled’ jobs most frequently available (cleaning, harvesting, domestic service, sex work), migrant worker populations are especially marked by gender and race/ethnicity. Being on the move—for work, recreation or escape—affects personal and collective identities and cultural reproduction. Not least, traditional family forms and divisions of labour are disrupted, destabilizing men’s and women’s identities and gender relations more generally. Shifting identities have complex effects at numerous ‘levels’, whether expressed in anti-immigrant racism, nationalist state-building, ethnocultural diasporas, ethnic cleansing or patriarchal religious fundamentalisms.

Sixth, feminists have generated extensive research on structural adjustment policies, documenting not only their gender-differentiated effects but also gender, class and racial/ethnic biases in policy making. Privatisation has patterned effects in so far as reductions in public spending have generalisable consequences. When social services are cut, women are disproportionately affected because they are more likely to depend on secure government jobs and on
public resources in support of reproductive labour. When public provisioning declines, women are culturally expected to fill the gap, in spite of fewer available resources, more demands on their time and minimal increases in men's caring labour. Effects include more women working a ‘triple shift’, the feminisation of poverty world-wide, and both short- and long-term deterioration in female health and human capital development.

Trade liberalisation is associated with increases in women’s labour force participation worldwide, with complicated gender effects. In general, elite, educated and highly skilled women benefit from the ‘feminisation of employment’ and employment in any capacity arguably benefits women in terms of access to income and the personal and economic empowerment this affords. Women, however, continue to earn 30-40 per cent less than men, and the majority of women are entering the workforce under adverse structural conditions. Work in export-processing zones is tedious yet demanding, and sometimes hazardous, with negative effects on women’s health and long-term working capacity. When new technologies are implemented it is also typically men—not women—who are retained or rehired as machine operators.

The uneven and gendered effects of these trends are most visible in relation to production processes and working conditions. For the majority of families worldwide, one-third of which are female-headed, restructuring has meant declining household income, reduced access to safe and secure employment, and decreased provision of publicly funded social services. Global poverty is increasingly feminised and is especially stark among female-headed households and elderly women. In developed economies reduction of social services disproportionately hurts women, the urban underclass and immigrant families. Structural adjustment programmes imposed on developing countries exacerbate women’s poverty by promoting outward-oriented growth, rather than meeting domestic subsistence needs. They reduce public subsidies that lower prices of basic goods, spur urbanisation and labour migration that increases the number of female-headed households, aggravate un- and underemployment of men that reduces household income, and disrupt traditional social forms of support for women.

These conditions force people to pursue ‘survival strategies’ and seek income however they can. The global trend is towards the un- and under-employment of men, increasing employment of women as cheaper workers, and a phenomenal growth of ‘informal’ work in the home, community and shadow economy and in criminal activities. Feminists argue that these trends not only differentially affect women, men and feminised ‘others’, but they are also shaped by masculinist ways of thinking in regard to how ‘work’ and ‘economics’ are defined, who should do what kinds of work, and how different activities are valued.
The reproductive economy

Conventional—and continuing—neglect of the ‘reproductive economy’ (RE) exemplifies masculinist and modernist bias in political economy. This neglect continues due to masculinising the (valorised) public sphere of power and formal (paid) work, and feminising the (marginalised) family/private sphere of emotional maintenance, leisure and caring (unpaid) labour. Here I focus on three reasons for taking the RE seriously: the significance of subject formation and socialisation, the devalorisation of ‘women’s work’ and the increasing role of informalisation in the GPE.

Socialisation presumably teaches us how to become individuals/subjects/agents according to the codes of a particular cultural environment. Subject formation begins in the context of family life, and the language, cultural rules, and ideologies we acritically imbibe in childhood are especially influential. This is where we first observe and internalise gender differences, their respective identities and divisions of labour. Moreover, gender acculturation is inextricable from beliefs about race/ethnicity, age, class, religion and other axes of ‘difference’.

Feminists have long argued that subject formation matters structurally for economic relations. It produces individuals who are then able to ‘work’ and this unpaid reproductive labour saves capital the costs of producing key inputs. It also instills attitudes, identities and belief systems that enable societies to function. Capitalism, for instance, requires not only that ‘workers’ accept and perform their role in ‘production’, but that individuals more generally accept hierarchical divisions of labour and their corollary: differential valorisation of who does what kind of work.

Socialisation and the caring labour required to sustain family relations are stereotyped as ‘women’s work’ worldwide. Yet, in spite of romanticised motherhood and a glut of pro-family rhetoric, neoliberal globalisation reduces the emotional, cultural and material resources necessary for the wellbeing of most women and families. Similarly, the ideology of patriarchal states, religions and nuclear families that locates women in the home (as loyal dependents and loving service providers) is today contradicted by two realities: many women wish to work outside of the home, whilst for many other women, economic realities (and consumerist ideologies) compel them to seek formal employment. As already noted, when household resources decline, masculinist ideologies hold women disproportionately responsible for family survival. Women everywhere are increasing the time they spend on reproductive labour, in ensuring food availability and health maintenance for the family, in providing emotional support and taking responsibility for young, ill and elderly dependents. Mothers often curtail their own consumption and healthcare in favour of serving family
needs, and daughters (more often than sons) forfeit educational opportunities when extra labour is needed at home. The effects are not limited to women because the increased burdens they bear are inevitably translated into costs to their families, and hence to societies more generally. As a survival strategy, women especially rely on informal work to ensure their own and their family’s wellbeing.

Informal activities are not unique to, but have nonetheless greatly expanded in, the context of neoliberal restructuring. Increasing un- and underemployment, flexibilisation and erosion or prohibition of union power has meant declining real incomes and decreased job security worldwide. Deregulation and privatization undercut welfare provisioning, state employment and collective supports for family wellbeing. People are thus ‘pushed’ to engage in informal activities as a strategy for securing income however they can. Informalisation has a variety of direct and indirect effects on labour relations. In general, it decreases the structural power of workers, reaps higher profits for capital, depresses formal wages, disciplines all workers and, through the isolation of informalised labour, impedes collective resistance. Women, the poor, migrants and recent immigrants are the prototypical (feminised) workers of the informal economy; in the context of increasing flexibilisation, the devalued conditions which informalisation demands are arguably the future for all but elite workers worldwide.

Informalisation tends to be polarised between a small, highly skilled group able to take advantage of and prosper from deregulation and flexibilisation, and the majority of the world’s workers who participate less out of choice than necessity due to worsening conditions in the formal economy. Among those with less choice women are the majority, as informal work constitutes a survival strategy for sustaining households. Insecure and risky work in domestic services and the sex industry are often the primary options. This reflects not only dire economic needs, but also masculinist thinking that identifies domestic labour as women’s work and objectifies female bodies as sources of pleasure for men. Masculinist institutions collude in promoting economic policies (tourism as a development plan, remittances as a foreign currency source) that ‘push’ women into precarious informal work.

Informalisation is heterogeneous and controversial. Some individuals prosper by engaging in entrepreneurial activities afforded by a less regulated environment. This is especially evident in micro-enterprises (favoured by neoliberals) where innovation may breed success and multiplying effects; in tax evasion and international pricing schemes that favour larger operations; in developing countries where informal activities are crucial for income generation; and in criminal activities that are ‘big business’ worldwide (for example, traffic in drugs, arms and the bodies of sex workers and illegal immigrants). In sum, informalisation
Globalisation is especially visible in flows of symbols, information and communication through electronic and wireless transmissions that defy territorial constraints. It is not only the new scale and velocity of these transmissions but the different (symbolic, non-material, virtual) nature of these processes that we must address, as intangible symbols contravene familiar notions of time and space as well as conventional analyses of material goods. The unprecedented fusion of symbols/culture and commodities/economy in today’s GPE requires an understanding of ‘culture’ and ‘economy’ as co-constituted. Given the newness of these developments, specifying a ‘virtual economy’ (VE) is a first step. I identify three (interactive) modes of this economy—financial, informational, cultural—and review them briefly here with a focus on how they are gendered.

Since the 1970s floating exchange rates, reduced capital controls, offshore transactions, desegmentation, new financial instruments, securitisation and the rise of institutional investors have interacted to amplify the speed, scale and complexity of global financial transactions. (Male-dominated) powerful states have been complicit in, and (masculinist?) technologies have been decisive for, enabling the mobility of capital and its enhanced power. The key result is an enormous mass of “world money”…[that] is not being created by economic activity like investment, production, consumption, or trade… It is virtual [symbolic] rather than real [commodity] money. The point is not that this ‘delinking’ (of symbolic from commodity money) insulates the real economy from global finance; rather, prices ‘set’ in the virtual economy (e.g. through interest and exchange rates) have decisive (and gendered) effects throughout the socio-economic order. For example, investment strategies shift toward short-term horizons and away from infrastructural and arguably more socially-beneficial endeavours; production shifts toward flexibilisation, with its problematic job insecurities; and labour markets are polarised between high-tech, highly skilled masculinised jobs and devalorised, feminised services. In global financial markets, what does distinguish symbolic from commodity money is the extent to which its symbolic/informational content (e.g. stock market values and forecasts) is a function less of ‘objective’ indicators than processes of interpretation that involve subjective ideas, identities and expectations. Financial crises and stock market scandals reveal the extent to which (primarily male) agents in this
rarefied environment rely on guesswork, trust in their colleagues’ opinions, and purely subjective assessments as they ‘play’ casino capitalism….

Effects of global finance are multiple. The allure of financial trading exacer-
bates the devalorisation of manufacturing and encourages short-term over long-
term investments in industry, infrastructure and human capital. The expansion,
complexity and non-transparency of global financial transactions makes money
laundering easier, which enhances opportunities for illicit financial trading as
well as organised crime (including the gendered practices of trade in women,
guns and drugs) and decreases tax contributions that underpin public welfare.
Access to credit becomes decisive for individuals and states, and is deeply struc-
tured by familiar hierarchies. Increasing urgency in regard to ‘managing money’
and investment strategies shifts status and decision-making power within house-
holds, businesses, governments and global institutions. These changes disrupt
conventional identities, functions and sites of authority, especially as pursuit
of profits displaces provisioning needs and governments compete for private
global capital at the expense of public welfare.

Moreover, the instability of financial markets increases risks that are socialized
(hurting public welfare) and, when crises ensue, women suffer disproportion-
ately. Two entwined issues emerge: first, women and gender-sensitive analyses
are absent—or at best marginalised—in the decision-making processes and ana-
lytical assessments of the financial order. Women are underrepresented in the
institutions of global finance, a model of elite agency and (instrumental) eco-
nomic ‘efficiency’ is deemed common sense, and the masculinism of financial
players and their practices is obscured. Second, these exclusions and blinders
filter what elite analysts are able—or willing—to ‘see’. In particular, they obscure
the gendered costs of crises: loss of secure jobs and earning capacity due to
women’s concentration in precarious forms of employment; lengthened work
hours for women as they ‘cushion’ the impact of household income; decreased
participation of girls in education and deteriorating health conditions for
women; increased child labour and women’s licit and illicit informal activities;
and increased acts of violence against women.

These costs not only disproportionately hurt women in the immediacy and
aftermath of crises, but have important long-term effects. On the one hand, girls
and women are less able to participate as full members of society and have fewer
skills required for safe and secure income-generation, whilst the intensification
of women’s work with fewer resources imperils social reproduction more gener-
ally. On the other hand, entire societies are affected as deteriorating conditions
of social reproduction, health and education have long-term consequences for
collective wellbeing and national competitiveness in the new world economy.

The informational mode of the virtual economy features the exchange of
knowledge, information or ‘intellectual capital’. While all processes involve
information/knowledge, information here is the commodity: ideas, codes, concepts, knowledge are what is being exchanged. This commodification poses questions poorly addressed in conventional analyses. In particular, the informational economy has unique characteristics: its self-transforming feedback loop, the imperative of accelerating innovation, defiance of exclusive possession, capacity to increase in value through use and intrinsic dissolution of cultural-economic distinctions. Hence, the informational economy necessarily involves a transformation not only of goods, but also of (gendered) thinking, knowledge and cultural codes.

Computer-based digitisation enables the conversion (reduction) of information, images, literature, music and even human experience into a binary code of 1s and 0s available to anyone with the relevant ‘reading’ capacity (conceptual and technological, access to which is gendered). These many and diverse phenomena are reduced to a common, universal code and circulated ‘virtually’ around the world, without the constraints of time and space. Digitisation also effectively ‘objectifies’ these diverse phenomena, rendering them objects/commodities that are tradeable. Economic and political developments are simultaneously embedded in, affected by and profoundly shape sociocultural beliefs and practices. Not all information/knowledge is deemed worthy of digitisation or incorporation in networks of communication, and the selection processes at work are pervasively gendered. Media conglomerates—dominated by elite men and the corporate, consumerist interests they serve—determine the content of what is transmitted. The news industry focuses on traditionally male-defined activities: war, power politics, financial markets and ‘objective’ indicators of economic trends. Women are relatively invisible in these accounts, except as victims or those who deviate from gender expectations. The significance of media domination and its effects cannot be overstated, for it ultimately shapes what most of us know about ‘reality’ and our subjective interpretation of reality is shaped by the cultural codings of global media. News reporters, politicians and advertisers know that the media powerfully shape what we have knowledge of, believe in, hope for and work toward; they create and direct consumer desire, as well as social consciousness and political understanding. More generally, the politics of knowledge/information include whose questions are pursued, whose concerns are silenced, whose health needs are prioritised, whose methods are authorised, whose paradigm is presumed, whose project is funded, whose findings are publicised, whose intellectual property is protected. All of these are deeply structured by gender, as well as racial, economic and national hierarchies.

The conceptual and ideological commitments of digitisation and the informational economy are inextricable from the embodied practices of this economy. Whose history, stories, lives, language, music, dreams, beliefs and culture are documented, much less celebrated? Who is accorded credibility and
authority: as religious leader, economic expert, marketing genius, financial guru, scientific expert, objective journalist, leading scholar, technological wizard, ‘average American’, ‘good mother’, ‘man on the street’? Who is empowered to speak on behalf of their identity group, who on behalf of ‘others’? Who benefits and how from English as the global lingua franca? Who determines what information is publicised—witnessed, replicated, published, disseminated, broadcast? Again, gender features prominently in these questions, and the politics they reveal. In sum, like money, information is not neutral. It carries, conveys and confers power in multiple ways, with diverse effects. Adequate analysis of these developments requires taking the politics of cultural coding seriously and taking seriously the gender of cultural coding.

The third mode of the virtual economy features the exchange of aesthetic or cultural symbols, treated here as heightened consumerism. The consumer economy/society involves the creation of a ‘social imaginary’ of particular tastes and desires, and the extensive commodification of tastes, pleasure and leisure. Aesthetics figure prominently here as, first, the value-added component of goods is less a function of information/knowledge and more a production of ephemeral, ever-changing tastes, desires, fashion and style, and, second, this production is increasingly key to surplus accumulation. In an important sense, capital focuses less on producing consumer goods than on producing both consumer subjectivities and a totalising ‘market culture’ that sustain consumption. Consumerism also involves a political economy of signs in the explicit sense of the power of symbols, signs and codes to determine meaning and hence value. The basic argument is that commodities do not have value in and of themselves, but only as a function of the social codes/context (including material conditions) within which they have significance. The significance of (gendered) cultural coding is amplified as consumerism deepens the commodification of the lifeworld. For example, adoptable children, sexualised bodies and sensual pleasures are for sale, based on gendered assumptions regarding the ‘need to mother’, the male ‘sex drive’, and whose pleasures are prioritised.

Consider how economics and culture are fused through shopping malls, theme parks, marinas, arts centres, museums, sports complexes and entertainment areas that are designed to foster consumption and have us think of it as culture. These ‘cultural industries’ serve to legitimate consumerism and increase subjective internalisation of capitalist ideology. On the one hand, individuals are encouraged to identify cultural gratification with consumption, rather than other perhaps more meaningful and less profit-oriented activities (e.g. critical reflection, spiritual/moral development, building egalitarian and sustainable communities). On the other hand, even political activities shift to market-based expressions: identity-based groups become particular targets of marketing and
use consumption as an identity ‘marker’, whilst political action is increasingly consumer-based as people ‘vote’ through what they do or do not buy.

As a status indicator, consumption assumes greater significance as consumer goods are made available, consumption becomes a ‘way of life’, and market-created codes determine what is ‘worth’ consuming. The politics of advertising—who decides what we ‘want’ and with what effects—is explicitly about using cultural codes to manipulate consciousness. Gender and the reproductive economy figure prominently here, as gendered stereotypes and divisions of labour continue to identify women/housewives as the key consumers whose primary motivation for consumption is presumably to please men and improve family life. This raises a number of issues: advertising is disproportionately targeted at women (and tends to depend on and reproduce heterosexist stereotypes); constructions of ‘femininity’ are arguably more dependent on market/consumer ideologies and the aesthetics they promote than are constructions of ‘masculinity’; women must learn and use particular (but typically unacknowledged) skills as informed and competent consumers; women/housewives exercise varying forms of power as consumers, especially within the household but also as investment decision makers; masculinist paradigms tend to neglect consumption ‘work’ (and skills); and masculinist and productivist paradigms have been slow to recognise the economic role of consumption in today’s economy.

Similarly, arts and entertainment are increasingly less an expression of local cultures and spontaneous creativity than big business on a global scale where selling sex and sensationalism is a lucrative strategy. Popular music and videos feature perennial themes of love sought, gained and lost, while sexual themes are increasingly more explicit, graphic and violent. Women’s bodies continue to be objectified, and their sexual interests either trivialised or exaggerated into causes of male desperation, perversion and destruction. Similarly, women rarely appear as strong, independent or competent, except as adjuncts of male exploits, a challenge to be overcome, or a caution against ‘excessive’ female power. Feminisms are rarely depicted positively, but denigrated as disruptive, ‘anti-family’, irrational or, at best, ‘too idealistic’. Negative representations in ‘popular culture’ not only undercut the political efficacy of feminist activism, but also undermine the acceptability and credibility of feminist interventions in all spheres, including the academy and its knowledge production.

While affluent consumption is the privilege of only a small percentage of the world’s population, it shapes the desires, choices and valorisation of those without affluence. The political economy of consumption involves consumerism as an ideology (fuelled by pervasive advertising and global media that propel even the poorest to desire consumer goods as an expression of self-worth), as well as the more familiar power-laden practices of consumption. Whose needs, desires, and interests are served? Whose bodies and environments are devalorised in
pursuit of consumerism and the neoliberal commitment to growth (rather than redistribution) that fuels it? Finally, consumerism requires purchasing power, increasingly sought through access to credit. As already noted, patterns regarding who has it, how much they have, and how they use it correspond tellingly to class, race/ethnicity, gender and geopolitical stratifications.

Conclusion

…Understanding ‘feminisation as denigration’ exemplifies the transformative potential of studying gender analytically. On the one hand, we are no longer just referring to embodied individuals but to gender coding of constructs, categories, subjectivities, objects, activities and institutionalised practices. Romanticism notwithstanding, the more any one of these is feminised, the more likely that its devaluation is assumed or ‘explained’. On the other hand, we are not simply talking about male-female relations or promoting the status of ‘women’. We are, first, addressing the exploitation of all whose identities, labour and livelihoods are devalued by being feminised and, second, advancing the critical project of theorising how hierarchies of race/ethnicity, gender, class and nation intersect. For scholars committed to new political economy and concerned with oppressive structural arrangements, these contributions alone warrant more serious engagement with gender. More generally, then, I argue that feminist work is not a digression from nor supplement to conventional accounts; rather, it is an essential orientation for advancing our theory and practice of political economy.
As feminism is more than just adding women to the study of the international political economy, Green theory is more than just adding the natural environment. Naming exactly what that *more* is, however, is harder for Greens than it is for feminists. The primary reason is that there is no self-identified Green literature or tradition in IPE—it exists primarily in the eye of the beholder of the field. For example, Eric Helleiner (in this volume) finds an implicit Green IPE in the writings of Leopold Kohr and the anti-globalization (or as some prefer, alter-globalization) movement. Robyn Eckersley draws a Green IPE out of the literatures on Green political theory, global environmental politics, and sustainable development. We (in the introduction) along with Helleiner see the work of Karl Polanyi as central to a distinctly Green approach to IPE. It is fair to say that, regardless of pulling on disparate threads, the appropriation of ecology as the study of the economy of nature—and particularly human ecology as the study of human beings and human society within that economy—is what makes identification of a coherent Green tradition possible. Mainstream approaches, when they consider environmental issues at all, usually understand the international political economy as a human system that receives inputs (e.g., natural resources) from and discharges outputs (e.g., pollution, waste) to non-human subsystems that collectively make up something called “the environment.” This reflects the classic culture-nature distinction in Western philosophy. A Green or ecological approach instead understands the international political economy as an open subsystem of the largely closed planetary ecosystem with which human society is deeply intertwined and fundamentally dependent. Because of this view, the relative size of any political-economic subsystem within a larger ecosystem becomes a central analytic device for Green IPE, as do exchanges between various subsystems. From a Green perspective, resultant environmental degradation can never be seen as some sort of Malthusian “revenge of nature.” It is an inherently social (or human ecological) process.

Eric Helleiner (b. 1963) is the first major scholar to identify a Green theory of international political economy. He sets for himself the task of description and
comparison rather than advocacy, beginning with what he calls a “neo-medieval” normative project of global political-economic decentralization. Helleiner relies especially on the work of economist Leopold Kohr to elaborate this vision. Kohr took inspiration from his experiences with separatist republican and anarchist governments in Spain during its civil war and played the role of gadfly to increasing European unification during the 1940s and 1950s. Instead of larger markets, which in his view required larger states to regulate and manage them leading to larger concentrations of political-economic power, Kohr favored embedding political-economic relations in local communities. The Green vision should not be seen as micro-scale mercantilism, however. Instead it seeks to take advantage of the rising importance of non-state actors, transnational social movements, and multilayered forms of political authority identified by globalization theorists. These are the building blocks of a form of globalization guided neither by the cosmopolitical spirit of liberalism nor a micronationalist spirit derived from economic nationalism, but instead by the spirit of subsidiarity where, in E. F. Schumacher’s words, “small is beautiful.”

Moving beyond the Green normative project, Helleiner usefully compares Green IPE’s analytic structure to the holy troika across three other components: unit of analysis, global structure, and key dynamic. The importance of human ecology shows through most in the Green conceptualization of the international political economy as a structure of “industrialism.” The particular thermodynamic qualities of industrial production, exchange, and consumption define the contemporary order. Following ecological economics, Greens argue that a structure of industrialism disembeds the human economy from the biosphere, leading to the ruin of the latter. Following Polanyi, Greens likewise argue that a structure of industrialism disembeds the human economy from human society, leading again to the ruin of the latter. Both environmental and social degradation are not so much problems to be solved as they are constitutive elements of the contemporary international political economy.

Alf Hornborg (b. 1954) offers an empirical engagement with these themes, building off the world systems approach in his ecological theory of imperialism. In such an approach, capitalism can only be understood at the scale of the world-economy and through the exploitative trade between core and periphery that forms its foundation. Hornborg sees little hope in a study of imperialism as the transfer of value, however, and thus departs from the neo-Marxist tenor of the world systems approach. Instead he turns the concept of unequal exchange in an ecological direction. This is the “thermodynamics of imperialism,” an unequal exchange of matter and energy between “world system centers” and resource peripheries. In a thermodynamic sense, global trade amounts to an exchange of high-quality energy and ordered matter (exergy, primary and intermediate goods) from the periphery for low-quality energy and disordered
matter (entropy, final goods) from the core. This process is inherently unequal, for there exists a net transfer of “orderliness” from the periphery to the core, and the more core-like (or peripheral, for that matter) any particular site is, the larger the scale of the transfer.

Hornborg’s theory is not a materialist one, however, despite his embrace of ecology. The mechanism by which this exchange is accomplished is wholly cultural. Hornborg highlights an obvious relationship that he makes newly strange and thus useful. There is an inverse relationship within industrial society between energy potential and price. That is, a product with an objectively lower (higher) quality of energy has a subjectively higher (lower) economic value than a product with an objectively higher (lower) quality of energy. For example, steel cable has a higher value than iron ore, or furniture a higher value than logs. Moreover, the economy must work this way. If the relationship were reversed, industrial machines could not be supplied with the high-quality energy they require to produce goods and services; it wouldn’t be economically “rational” to do so. In setting such price relationships, the market stands as the social technology that makes unequal exchange possible. The market even legitimates such exchange by making something unequal (in an energy sense) appear equal (in price).

Hornborg finishes with a theory of capital that echoes and departs from Marx. He argues that capital, understood as the material means of production, is inherently exploitative because its very existence is premised upon unequal exchange. The accumulation of capital is at the same time an accumulation of power in that capital accumulation constitutes “a recursive (positive feedback) relationship between technological infrastructure and the symbolic capacity to make claims on other people’s resources.” While Hornborg is comfortable with the Marxist argument that a capitalist system reproduces itself through the exploitation of labor, he is more keen to highlight the way in which a core industrial society (especially through fuels; non-industrial societies do this more through fodder and foodstuffs) reproduces itself through the exploitation of peripheral nature. Through the links exposed by human ecology, this exploitation is intimately linked with the destruction of peripheral societies as well, which lose their own orderliness in addition to their ability to order themselves. Instead they become increasingly disordered, and what order remains is constructed by those in the core. This is indeed a provocative theory of imperialism.
International Political Economy and the Greens

ERIC HELLEINER

Within the last few years, ‘greens’ have played an increasingly visible role in discussions concerning the future of the international political economy (IPE). In the politics of international trade, for example, they had a significant voice during the debates surrounding the North American Free Trade Agreement (NAFTA) and the latest GATT round. Greens have also been involved in the political struggles associated with the reform of the Bretton Woods financial institutions as well as broader development debates. In addition, they have played a leading role in organising ‘The Other Economic Summit’ which has recently shadowed the annual G-7 summit and criticised its economic proposals. Within the academic world, too, teachers of IPE have witnessed a growing number of students in their classes who describe themselves as influenced by ‘green’ political ideas.

Despite these developments, IPE scholars have been slow to recognise the distinct perspective that the greens bring to the study of international political economy. A quick glance through the leading IPE textbooks turns up little discussion of a ‘green’ school within the field. Instead, three traditional pillars of 19th century thought—liberalism, Marxism and economic nationalism—are usually defined as representing the range of the debate. To be sure, environmental issues are increasingly addressed as a new issue-area within IPE. As green thinkers are at pains to point out, however, ‘green’ politics consists of much more than a concern with environmental issues.

The fault lies not just with IPE scholars. In the growing literature on green political thought, there is also no systematic discussion of the greens’ views on issues of international political economy. Even extended analyses of green perspectives on world politics more broadly are hard to find in this literature. Given the greens’ own emphasis on the need [to] ‘think globally’, this lacuna in the literature seems surprising. It is also unfortunate since, as this article suggests, the greens may offer a conceptualisation of world order which is quite significant in this era of global structural change.

In this article, I attempt to outline how a green perspective within the field of IPE might best be characterised. In the first section, I try to describe the greens’ normative project in the international political economy, arguing that it is best seen as a project aiming to construct a kind of ‘neo-mediaeval’ world political-economic order. The second section draws on this discussion to outline more formally the ways in which the greens’ perspective within IPE is distinct from the perspectives offered by the three traditional schools of liberalism, Marxism and economic nationalism. It is important to emphasise that my task is primarily a descriptive and pedagogical one. I am not attempting to endorse the greens’ views nor, given space constraints, do I evaluate the strengths or weaknesses of the perspective. This task is left to the reader.

Two further caveats are also necessary. First, my effort to define a green school of thought is inevitably somewhat idiosyncratic. As much as possible, I have followed the lead of other writers on green political thought in choosing which thinkers and works to draw on in identifying this school. But since existing studies of green thought have not addressed IPE issues in any depth, my focus is also different in some respects. The economist Leopold Kohr, for example, assumes a more central place in my analysis than he is often given elsewhere because he was one of the first green thinkers to focus on IPE issues. I have also drawn considerably on the thought of figures associated with ‘The Other Economic Summit’ since this group of people has been at the forefront of efforts to introduce green ideas into debates about the future of the international political economy.

Second, my goal is not to provide a comprehensive survey of green thought in this area, but rather to outline its broad contours in a way that highlights its distinctiveness for IPE scholars. One consequence of this approach is that I focus less attention on various disagreements and opposing factions that exist among the greens than I should. Instead, I present what is really a kind of ‘ideal-type’ representing a green perspective in IPE. No doubt my discussion thus oversimplifies and paves over important internal debates. If it helps to stimulate debate, however, my goal will be at least partially realised.

The normative project: building a neo-mediaeval world political-economic order

Despite their growing prominence in debates and political struggles concerning IPE issues, the greens’ normative project in the international political economy is still poorly understood. To understand it better, we must investigate the slogan that best summarises the project: ‘think globally, act locally’. Despite the popularity of this slogan, the meaning originally ascribed to it by the greens has often been forgotten as it has proliferated not just on car bumper stickers but also in
corporate strategy sessions. In this section, I suggest that the slogan highlights the greens’ commitment to a project of constructing what international relations scholars would call a ‘neo-mediaeval’ world political-economic order.

‘Act locally’

The meaning of the second part of the slogan is perhaps more straightforward than that of the first. ‘Act locally’ is meant to convey the idea that people should focus their energies primarily on improving the quality of life and solving problems within the local communities where they live. The phrase reflects a deep commitment to the decentralisation of political-economic life and the strength and value of local communities. Behind these sentiments also rests a critique of the large-scale nature of social life in the industrial era. As one well-known ‘green’ film put it, the industrial age is seen to have ushered in a condition perhaps best captured by the Hopi word ‘koyaanisqatsi’, a word which translates roughly as ‘life out of balance’. The era of industrialism is said to have rendered life ‘out of balance’ in both a social and environmental sense.

The ‘social’ side of the greens’ critique of the large-scale nature of industrial life is usually less well known outside green circles and thus requires a more extended discussion. It was developed in a comprehensive way by Leopold Kohr in the 1950s. An Austrian-born economist, Leopold Kohr had a particular interest in issues of international political economy and his ideas had a central influence on better known figures such as E. F. Schumacher and Ivan Illich. Kohr’s interest in IPE issues dated from early in his career. His first major publication was a 1941 article entitled ‘Disunion Now’ on the subject of the prospects of economic and political integration in Europe. In the late 1940s, he also wrote an important work for the Carnegie Endowment on the subject of customs unions which played a role in the European debates leading up to the signing of the Treaty of Rome. But it is his 1957 book, The Breakdown of Nations, which is usually cited by other green thinkers as the first major critique of the large-scale nature of industrial life from a green standpoint.

From Kohr’s perspective, the ‘bigness’ of political and economic life in the industrial age undermined the ability of humans to live full and balanced lives within communities that were both democratic and respectful of their individualism. In part, he worried about large concentrations of power emerging in both the political and economic realms. He suggested, for example, that the large size and extensive power of the ‘nation-states’ which emerged in the industrial age inevitably inclined them to authoritarianism. In such a large political community, Kohr argued that people were unable to check the substantial governing apparatus of the state. He was also concerned that state officials were tempted to use the concentrated power of nation-states externally against other states,
thereby unleashing wars more brutal, prolonged and far-reaching in their effects than any of the pre-industrial era.

Kohr also worried that the integrated national and global economic spaces of the industrial age encouraged concentrations of power. One form of concentrated power was held by large oligopolistic and monopolistic firms that Kohr argued inevitably formed as the size of the economy grew. Their power worried Kohr both because it undermined democratic life and because it inhibited the self-regulating character of a market economy. Kohr was also concerned about economic power concentrating in the hands of the state as it increasingly intervened in the economy to address the imperfectly functioning markets of the industrial age. In addition, Kohr argued that large-scale economic integration would encourage economic power to concentrate inequitably in regions and countries which were already more powerful and economically advanced before integration took place.

Alongside his concerns about concentrations of power, Kohr worried about the social effects of the ‘mass’ nature of large-scale economic and political life on individuals and communities. In large political settings, he suggested that democratic values and individualism were inevitably undermined as people were transformed from active individual ‘citizens’ into passive mass ‘subjects’ of the state. This development was further reinforced, according to Kohr, by the tendency of large states to see themselves as serving a mass uniform category of ‘the people’ instead of a unique collection of individuals. Kohr was also concerned that the mass ‘collectivist’ thinking which emerged in overly large political communities fostered aggressive nationalist thinking and thus encouraged the destructive wars and economic competition between states that he saw as characterising the industrial age.

In large integrated economic spaces, Kohr also argued that economic life became detached from the meaningful social relations and priorities of local communities. Not only did people become subject to the economic decisions of distant bureaucrats and corporate planners, but they were also increasingly buffeted by large, anonymous market developments that they could not control or even understand. From Kohr’s perspective only in smaller settings could economic activities and choices be embedded within social life in a more democratic and organic way. Kohr also challenged the assumption that large economies increased people’s standard of living, arguing that the more ‘leisurely way of life’ in small-scale economies led to a higher quality of life.

Kohr’s critique of ‘bigness’ was primarily directed against the large-scale nature of economic and political life within the nation-state, an institution he saw as a product of the industrial age. In more recent years, the kinds of arguments he outlined have also increasingly been used by greens to criticise the globalisation of social life. For example, Rene Dubos—who is credited with
originating the slogan ‘think globally, act locally,’—worried that globalisation pressures were eroding the creativity, diversity and autonomy of local economic and political life. Other contemporary greens have also been concerned about the way that economic globalisation is undermining the ability of communities and countries to pursue their own chosen economic path without reference to the competitive pressures of the global marketplace. The concentrated power of transnational corporations (TNCs) has also increasingly drawn the ire of greens, particularly given the perceived propensity of these firms to pursue profit often without much regard for social concerns.

From a green perspective, the industrial age has not only rendered life ‘out of balance’ in a social sense but also environmentally. Greens are concerned about the outputs of waste and toxic byproducts from large-scale industrial production that are said to be polluting the biosphere in an unsustainable manner. Large industrial economies are also seen to draw excessively on renewable and non-renewable resources as inputs. In addition, the extended nature of economic life in the industrial age is viewed as encouraging environmentally-damaging long-distance trade and transportation.

Equally significant, the various social phenomena that Kohr identified with industrialism are also seen as major contributors to the degradation of the environment. Aggressive militarism and economic rivalry between nation-states in the industrial age, for example, are considered important causes of environmental problems. In the large-scale mass societies of the industrial age, greens also worry that humans lose touch with the environmental consequences of their actions. Moreover, indigenous and local forms of knowledge concerning appropriate environmental management are said to be increasingly eroded in this kind of extended social setting, or at least rendered powerless as decision making becomes concentrated in distant economic and political institutions.

Given the greens’ social and environmental critique of the large-scale nature of industrial life, it is hardly surprising that they are strong advocates of ‘decentralisation.’ Kohr, for example, argued that the problems posed by the ‘bigness’ of nation-states would be best eliminated if a world of relatively self-reliant ‘small states’ could be created that resembled the mediaeval European world. Most contemporary greens, however, focus instead on voluntarist, ‘non-statist’ strategies for decentralising social life. They emphasise that much of the decentralism of the mediaeval age was not related to the existence of small states, but rather to the embedding of economics and politics within local community life through the everyday activities of individuals and local social groups. ‘Act locally’ is a call for these types of activities to be promoted . . .
If ‘acting locally’ represents an endorsement of this kind of neo-mediaeval localism, the meaning that greens ascribe to the phrase ‘think globally’ is less obvious, in part because it has changed over time. In its original use by Rene Dubas, the phrase was meant primarily to reinforce the urgency of the need to act locally. Dubos hoped that, in gaining an understanding of the urgency and seriousness of the global predicament, people would be prompted to seek out ways in which they could act locally to improve the world. The knowledge acquired from “thinking globally” would thus act—like the Europe-wide Christian **ecumene** of the mediaeval era—as a kind of catalyst to change lifestyles and behaviour at the local level. In addition, the phrase was designed to encourage people to develop a humble awareness of the complex diversity of the world and hence the need to reject globally-uniform strategies of reform dreamt up by large distant bureaucracies in favour of locally developed initiatives and knowledge.

Although the greens thus accept that some form of a world economy will exist, they envisage a ‘green’ world economy looking very different from the increasingly integrated and deregulated world economy that is emerging in the late twentieth century. They would prefer to see what James Robertson calls a ‘pluralistic, decentralising multi-level’ world economy in which relatively autonomous local economies would exist within national economic spaces, which in turn would function fairly independently within broader regional and global economic structures. The various levels of political authorities described above—local, national, regional and global—would each play a role in helping to regulate economic activity to create and maintain this economic structure.

For some green thinkers, the political authority to be used initially in implementing this vision is the nation-state, despite their misgivings about its role over the long term. Herman Daly and John Cobb, for example, argue that the nation-state today is the only political institution capable of regulating and challenging the power of global markets and corporations in a serious way. They thus support capital controls and trade protectionist measures that would strengthen its economic role and self-reliance in the short term, even though in the long term they advocate that power be delegated to more local and supranational political bodies. At the same time, other greens would prefer to begin immediately to attempt to construct regional and global institutional frameworks above the nation-state that could guide the world economy towards a more green structure. Regionwide and global regulations on TNCs, for example, are envisioned in order to provide further ‘protective shields’ beyond the nation-state for efforts to foster democracy and self-reliance within a local community.
context. International trade arrangements that promote social justice, ecological sustainability and self-reliant local economies are also favoured for the same reasons.

Many greens note that these regional and global initiatives could build on existing supranational institutional frameworks in the international political economy, but they are keen to distinguish their proposals from what is presently in place. At the global level, for example, the Bretton Woods institutions and the G-7 summits are criticised for their limited action on environmental issues as well as for their advocacy of an open liberal world economy instead of policies that might strengthen the self-reliance of regional, national and local economies. Many greens would also like to see these bodies become more open to democratic scrutiny as well as more representative of all the peoples of the world. Similarly, at the regional level, greens are critical of the NAFTA and the European Community’s Single European Act and Maastricht Treaty on the grounds that they are seen to be encouraging the spread of large-scale market forces. There are also concerns about the centralising tendencies of regional integration in the European Community context, a development which is said to undermine local autonomy and perhaps encourage the creation of an externally aggressive European superstate. In place of a centralised European Community, European greens would prefer a decentralised ‘Europe of the regions’.

Despite these various proposals, greens do not appear very comfortable with efforts to regulate the world economy through national, regional and global institutions. Given their distrust of large-scale institutions, the greens seem to prefer regulation of the world economy to be done as much as possible through non-institutional means. Of key importance in this respect, of course, would be the voluntary efforts of individuals and local communities to foster their own self-reliance in as many aspects of everyday life as possible. It is hoped that these efforts would construct the kind of dense localist barriers to large-scale economic activity that existed in the mediaeval age.

Equally significant would be the voluntary activities of ‘global civil society’ groups that were aiming to promote a world economy which was more in keeping with green goals. These activities could involve the establishment of ‘alternative’ international trading and financial organisations that were guided by social and environmental concerns rather than simply profit concerns. It might also involve the lobbying of banks to write down debts of poor countries or the organisation of international boycotts of TNCs whose activities were undermining ‘green’ goals. ‘Global civil society’ groups might also be active in holding international fora—such as ‘The Other Economic Summit’—which kept the public spotlight on the activities of regional and global political institutions in order to ensure that these institutions upheld their green mandates.
Do the greens present a distinct perspective in international political economy?

To evaluate whether the greens are presenting a distinct perspective in IPE, we need to compare their normative objectives, as well as the theoretical assumptions underlying them, to those offered by the three traditional schools of liberalism, Marxism and economic nationalism. This section outlines such a comparison, concluding that the greens do indeed put forward a world-view that is unique relative to the world-views put forward by the three dominant paradigms.

To begin with, it seems clear that the greens’ normative project cannot be easily categorised within any of the existing three schools in the field of IPE. Although the project contains some similar objectives to each of the other schools, it sharply contrasts with other goals they each have. With respect to liberals, for example, the greens share with them a wariness of statist economic planning, often invoking the same kind of libertarian arguments as figures associated with the ‘Chicago school’. Greens are also keen to encourage the kind of small-scale markets of Adam Smith’s pre-industrial world on the similar grounds that they encourage decentralisation and individual freedom. At the same time, however[,] the greens are strongly opposed to the kind of large-scale regional and global economic integration along free market lines that contemporary liberals advocate. Indeed, they are often among the most vocal opponents that liberals face in promoting these initiatives in the current age.

In opposing large-scale capitalism, the greens share some common ground with Marxists. But their objectives also differ in other respects. In Marxist circles, one does not find the same kind of enthusiasm that greens hold for small-scale markets and non-statist, voluntarist economic initiatives. Greens are also strongly supportive of a project in which Marxists have shown little interest: that of expanding the local ‘countereconomy’ which is controlled by neither the state nor the market… The greens’ support for smallscale markets and the ‘countereconomy’ also sometimes draws on Fernand Braudel, a scholar whose argument that these two levels of economic life needed to be sharply distinguished from that of large-scale capitalism is often viewed as quite heretical by the Marxist left.

In criticising globally integrated markets, greens have also often made allies with economic nationalists. Particularly popular in green circles is John Maynard Keynes’ 1933 article ‘National Self-sufficiency’, in which he advocates capital controls and trade protection (while at the same time, like the greens, endorsing the continued free flow of idea across borders). Despite this link to nationalist thought, however, the normative goals of greens are also obviously quite different from those of economic nationalists. Although both seek to ensure that global
market forces are made to serve ‘community’ goals, greens are not willing to embrace initiatives that serve only the ends of the national community. Instead, they advocate a multi-leveled response to economic globalisation in which initiatives by the nation-state are combined with state and non-state activities at the local and supranational levels. Indeed, many of these local and supranational activities are explicitly aimed at undermining the power of the nation-state over time in favour of the kind of neo-mediaeval world order described above.

The greens’ normative project is, thus, clearly unique. Behind this project also lie theoretical assumptions about how best to conceive of the international political economy that differ from those held by the three dominant schools in IPE. By comparing these ontological assumptions, it should be possible to map out the distinction between the greens and the traditional schools in a more comprehensive and formal way (see Table 11.1).

IPE texts usually describe the ontological conceptions of the international political economy held by the three traditional schools in the following simplified ways. Liberals are said to be driven by a vision of the international political economy as a collection of individuals interacting within harmoniously functioning global markets. Marxists are seen to focus on the existence of classes within an exploitative world capitalist system. Economic nationalists are said to concentrate on nation-states existing with an anarchic, conflictual state system.

The greens’ ontological conception of the international political economy clearly differs from each of these in several ways. In place of individuals, classes or nation-states, the greens’ primary unit of analysis is perhaps best seen as ‘local communities’. Implicit in this choice is a critique of the units of analysis employed by the three dominant schools. As we have seen, greens clearly reject the methodological individualism of liberal thought. Adopting a communitarian position, greens view humans as essentially ‘persons-in-community’. The economy is thus not seen to be made up of isolated individuals pursuing their

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economic self-interest. Rather, individuals in their economic life are said to be motivated by social values and relationships which have been formed in a community context. In Karl Polanyi’s words, the economy is viewed as ‘embedded’ in the broader social networks and relationships of the community.

The Marxist emphasis on class is also rejected by greens on two grounds. First, it is seen to stem from an overly materialistic conception of social life. From a green perspective, people derive their social identity and meaning not primarily from their economic relationships to each other, but rather from the broad social values and experiences of the community of which they are a part. Second, to the extent that greens are inclined to see key divisions and conflicts within human society, they depict these more in terms of ‘size’ than economic class. As Sachs asks, ‘should not the time-honoured conflict about who controls the means of production, be rephrased as a conflict between centralized capital/labour and local autonomy?’

Although greens may share a focus on communities with economic nationalists, their conception of community is also quite different. It is not defined on the basis of certain ethnic, linguistic, cultural or territorial characteristics which form a ‘nation’. Instead, greens define a human community on the basis of the character of the interaction of its members . . .

In addition to rejecting the traditional units of analysis in IPE, greens also bring a distinct conception of the key global structures and dynamics in the international political economy. ‘Industrialism’—rather than global markets, capitalism or the state system—is identified as the central global structure in the international political economy. Moreover, industrialism is seen to be encouraging neither ‘harmony’, ‘exploitation’ nor ‘anarchy’, but rather the condition of ‘koyaanisqatsi’ or life ‘out of balance’ that was discussed earlier.

As has been noted, industrialism is seen by greens to be rendering life ‘out of balance’ in both an environmental and social sense. The greens’ focus on the ecological balance of the global biosphere is central to their world-view, and until the last decade or so it could be said to represent an important way in which greens offered a distinct perspective in IPE. Greens were challenging the orthodox human-centred conceptions of the world by pointing out that structures such as ‘capitalism’, ‘global markets’ or ‘the state system’ all existed within a broader global biosphere. As the greens emphasised, the latter was not a lifeless or passive structure to be plundered as ‘raw materials’ or ‘natural resources’. Rather, it was a living organic entity of which humans were a part, which helped to set what Braudel called the ‘limits of the possible’ within human societies. In the words of Wendell Berry, the biosphere was seen to represent the ‘Great Economy’ of which the human economy was simply one part.

Within the last decade, however, there has been growing interest among political economists from liberal, Marxist and nationalist schools in incorporating
the environment within their analyses. The focus of the greens on the global biosphere as a key structure within the IPE can thus no longer be seen as unique. What does remain unique, however, is their view that the health of the global biosphere cannot be sustained in an industrial world. Liberals, for example, do not tend to view environmental problems in such an apocalyptic light. From their perspective, environmental problems are caused primarily by imperfectly functioning markets and inadequate regulatory frameworks, problems which they think it is possible to remedy through alternative pricing mechanisms and institutional reforms. Those writing in this area from a nationalist perspective seem primarily interested in environmental problems to the extent that they constitute sources of international conflict and threats to national security. Only contemporary Marxists writing in this area seem to share the green view that the current pattern of social life is deeply unsustainable in environmental terms. But they lay the blame for this at the feet of ‘capitalism’ as opposed to ‘industrialism’, a distinction that greens are keen to highlight.

The greens’ focus on the ‘social’ unsustainability of industrialism also challenges the conceptions of global structure and dynamics offered by the three dominant schools. With respect to liberalism, for example, greens question the extent to which all markets, regardless of scale, should be viewed as functioning in the kind of harmonious way that Adam Smith described. From their perspective, Smith’s model described well the small-scale pre-industrial markets of his era but should not be used to analyse the dynamics of the large-scale national and global markets of the industrial age. In particular, as we have seen, greens criticise liberals for ignoring the concentrations of corporate and geographical economic power that prevent large-scale markets from providing mutual benefits in a self-regulating fashion. Like Polanyi, greens also worry that liberals neglect the extent to which large-scale markets in the industrial age become ‘disembedded’ from local community contexts in ways that may not be socially sustainable.

The view that industrial capitalism is socially unsustainable and characterised by concentrations of economic power is one that greens would seem to share with Marxists. But for the greens, these characteristics stem primarily from the large-scale nature of economic life in the industrial age, rather than from its capitalist quality. Large-scale political institutions are, for example, seen as equally at fault in rendering social life out of balance, while small-scale capitalist markets are quite blameless. The green critique of large-scale capitalism is also distinguished from a Marxist one by its greater focus on the social disruption to community life rather than the exploitation of one class by another. Here, once again, the green critique shares a similarity to that of Polanyi, a comparison that greens often draw quite explicitly.

Finally, the greens also challenge the nationalist view that the international political economy is characterised by a never-ending struggle between states
to improve their relative position within an anarchic state system. They do not deny the prevalence of competition and rivalry between nation-states. Indeed, a central reason for describing life in the industrial age as ‘out of balance’ is the threat of large-scale war between nation-states as well as the prevalence of industrial competition between states. But unlike nationalists, greens see the possibility of a structural change in the nature of world order. By focusing attention on the different nature of ‘world order’ during the mediaeval era, they suggest that the anarchical state system is simply a historical construction which emerged out of the early modern era and reached its apogee with the emergence of powerful nationalist states in the industrial era. From the greens’ perspective, if the anarchical state system was socially constructed, it can also be deconstructed and transcended as part of their project to build a more sustainable world.

Conclusion

In sum, the greens clearly bring a new perspective to the field of international political economy which is distinct from that offered by the more conventional schools of liberalism, Marxism and economic nationalism. Their normative project—summed up by the phrase ‘think globally, act locally’—is perhaps best seen as one of promoting a world political-economic order characterised by a neomediaeval structure. Driving this project is a novel conceptualisation of the international political economy that focuses on local communities existing within an industrial world in which life is out of balance in both a social and environmental sense.

Interestingly, although the perspective is clearly a distinctive one within IPE, greens have drawn on some figures who are already fairly familiar to IPE scholars. These are figures whose work has proven difficult to pigeon-hole in the past, but who might be seen as having a link to green approaches to IPE. One of these is Karl Polanyi whose conception of economy-society linkages and whose enthusiasm for Robert Owen’s non-statist economic initiatives are shared by greens. It is perhaps not surprising that his work holds an interest for greens, given that Polanyi was one of the first to criticise comprehensively the rise of what he called the ‘machine age’. Indeed, although Polanyi’s work is often claimed by opponents of capitalism, he made clear that the real root of the historical upheavals he analysed in The Great Transformation was industrialism. From his standpoint, liberal capitalism had simply represented the ‘initial response to the challenge of the Industrial Revolution’ and his goal was to try to think through ‘a new response to the total challenge of the machine’. As he wrote in 1947, ‘what appears to our generation as the problem of capitalism is, in reality, the far greater problem of industrial civilization.’
Greens have also found inspiration in various aspects of Fernand Braudel’s work, notably his incorporation of the biosphere within political-economic analysis and his emphasis on the need to distinguish the unattractive characteristics of large-scale capitalism from the more desirable features of smaller-scale markets and local ‘material life’. As with Polanyi, the appeal of Braudel’s work may derive in part from the historical period on which it focuses. In analysing economic history between the 15th and 18th centuries, Braudel was studying the world economy in an era before industrialism and the emergence of the nation-state. This led him to shed various assumptions that the three traditional schools derived from their 19th century roots, assumptions that greens have also come to question in their critique of the industrial age.

In addition to finding inspiration among scholars familiar to IPE scholars, greens have also drawn considerably on intellectual figures without much of a profile in the field. As I have suggested, Leopold Kohr is the most significant of these. It is surprising in some ways that Kohr’s work is not better known within the field of IPE, since his early writing on customs unions gave him a role in the debates surrounding the construction of the postwar international economic order. Interestingly, few IPE scholars recognise that E. F. Schumacher—another central pioneer in green economic thought—was also actively involved early in his career in these debates. In particular, he had an important input into Keynes’ approach to the negotiations that led to the Bretton Woods agreement. Perhaps the ideas of both authors have been neglected within IPE in part because the precise nature of their increasing disillusionment with the postwar international economic order made them difficult to categorise within the three dominant paradigms of the field.
President George H. W. Bush pioneered the current discourse on sustainability by claiming that “successful economic developmental and environmental protection go hand in hand; you cannot have one without the other.” Whether serving to advocate restraint or increased economic and technological ambition, superficial environmental arguments can be used to underpin the present world order. Philosophers such as Naess and Evernden have criticized the mainstream environmental movement for participating in a discourse on terms defined by the industrial establishment. Naess argues that the superficial environmentalist discussion that pervades the discourse on global development might function as yet another means of imperialist domination: the message that we are “all in the same boat (or spaceship)” is not true; there are at least two boats, and one of them is pulling the other toward catastrophe.

Emerging concepts of “political ecology” and “environmental justice” recognize that environmental problems are socially distributed. But the problem of how human societies distribute ecological risks should not be separated from the problem of how they distribute resources. The two problems are, so to speak, opposite sides of the same coin. Martinez-Alier and O’Connor have suggested a distinction between political economy, which studies “economic distribution conflicts,” and political ecology, which “would study ecological distribution conflicts.” Ultimately, however, such a dichotomy needs to be transcended, and ecology recognized as part and parcel of any attempt to understand political economy. It is only by looking at the ecological conditions of human economies that we can adequately conceptualize the mechanisms that generate inequalities in distribution. The focus of this chapter is on how an ecological perspective might provide us with an analytically more precise way of defining “unequal exchange.”

Unequal Exchange: Problems of Conceptualization

Unequal exchange has been a central concern of various strands of Marxist social theory, including early theories of imperialism, the dependency and world system perspectives of Frank and Wallerstein, and more orthodox Marxist arguments focused on “modes of production” and the international appropriation of labor value. None of these approaches has been able to convince conventional economists that free market trade may entail such a thing as “unequal exchange.” Considerations of monopoly aside, neoclassical economic ideology has dispelled all possible criteria for assessing a market transaction as unequal or unfair. Economists are generally simply not able to see how there could be a standard that would allow one to speak of some participant in market exchange as being undercompensated. This is indeed the conceptual predicament that conventional economics forces upon us.

Brewer observes that Marx viewed capitalism as a system that can exist by itself, without necessarily having to expand geographically. It was Rosa Luxemburg who presented the thesis that a capitalist system cannot constitute its own market but is condemned to expansion, and thus in the long run to destroying its own conditions of existence. Some years earlier, in 1902, John A. Hobson had argued that monopoly conditions and capital accumulation reduced demand and encouraged export of capital, and that the incentive to protect foreign investments and markets generated “imperialism,” defined as territorial expansion. From his exile during the First World War, V. I. Lenin in 1916 suggested that the best paid workers of the industrialized nations (the “labor aristocracy”) could be perceived as implicated in the exploitation of poorer sections of the global working class. It was Lenin who coined the expression that imperialism was the “highest stage of capitalism.”

Decades later, Paul Baran followed Luxemburg in arguing that capitalist economies must suffer from a chronic deficit in demand and concomitant “underconsumption,” because the purchasing power of the workers is always bound to be less than the value of the produce that has to be sold in the market. This is the incentive toward capturing new, external markets in areas that, as a result, become structurally incapable of “development.” This zero-sum perspective was particularly distinct in Gunder Frank’s influential analysis of underdevelopment in Latin America as a result of its exchange with Europe and North America. Samir Amin showed how an unequal international division of labor can be founded in historical disparities in productivity and production costs, which have restricted the competitiveness of peripheral areas to the raw materials sector. To dependency theorists like Frank, it was evident that “underdevelopment” was not to be seen as a survival from an earlier stage—a question of lagging behind—but the result of economic relations of dependency between “metropolis” and “satellites” at
various scales of geographical inclusiveness. Another important contribution from the dependency school is the so-called Prebisch-Singer theorem, according to which differences in the elasticity of demand between raw materials and industrial products has a tendency to undermine the bargaining position of the periphery and the market prices of raw materials vis-à-vis those of industrial products.

Inspired by dependency theory, Immanuel Wallerstein elaborated world system theory, arguing that economic history could be understood in terms of uneven relations of exchange and power between core areas, semi-peripheries, and peripheries. Wallerstein connects to Luxemburg’s ideas about the necessary exchange between capitalist and noncapitalist modes of production, and he explicitly suggests that the distribution of “surplus” in an economic system is a zero-sum game. Arghiri Emmanuel showed how wage disparities between different countries generate an “imperialism of trade” in the sense of an unequal exchange of hours of labor, because a low-wage country has to export more products in exchange for a given volume of imports from a high-wage country than it would have needed to if the wage level had been uniform.

Most of these contributions can be seen as offshoots of the basic Marxist tenet that the growth of capital involves a transfer of surplus from one category of people to another, even if the shift of perspective from the local factory to global trade relations generated considerable theoretical antagonism between the more and the less orthodox Marxists. The common denominator of this Marxist tradition, widely defined, is the observation that a relation of exchange, even when it has been entered voluntarily, can generate a systematic deterioration of one party’s resources, independence, and development potential . . . .

World system theories and more orthodox Marxist perspectives are vulnerable to criticism in opposite ways. The former are unable to provide adequate definitions of key notions such as “core/periphery,” “exploitation,” and “accumulation” as long as they do not relate to factors specified independently of the premises of the model itself. As noted in the previous chapter, there is an obvious risk of tautology when concepts of core/periphery relationships and accumulation are used reciprocally to define each other—that is, core as the locus of accumulation and accumulation as what goes on in the core. The more traditional Marxist model, on the other hand, does specify exploitation independently, by referring to the quantifiable appropriation of labor value, but is immediately contradicted by the poor empirical correspondence between the economic value of goods and the quantities of labor time invested in them . . . .

An alternative approach would be to ground notions of underpayment and unequal exchange not in some (contestable) theory of value (whether based on bullion, land, labor, or energy), but in the proportion of a manufacturer’s or manufacturing center’s total finished product that is continuously returned to the suppliers of energy and raw materials in the context of various institutional
arrangements. This proportion defines how much of the productive potential of energy and materials is permanently being transferred to the manufacturing center and likely to be accumulated in its own, expanding infrastructure . . . .

. . . . A meeting of world system theory and ecological economics . . . could be a very productive one, because each could contribute something that the other is missing. World systems theorists generally have been as unconscious about thermodynamics as ecological economists have been naive about imperialism . . . .

“Exergy,” Prices, and the Social Foundations of Technology

. . . . There is . . . [a] concept, building on thermodynamics, that is useful for our purposes because it does say something about the properties of the items exchanged. This is the concept of “exergy” (with an ×), which is the quality of energy in a particular substance or context, or, in other words, that part of the energy which is available for mechanical work. Strictly speaking, there is no consumption of energy anywhere, only of its quality and accessibility (that is, exergy). Exergy is closely related to the concept of negative entropy. A nonmathematical interpretation might describe it as the potential for work that is inherent in any physically manifest information, order, structure, or contrast. When such material structures or contrasts are neutralized, for example in combustion, some of the energy that once generated them can be unleashed as work.

The concept of exergy can give us a completely different perspective on the relationship between energy and trade . . . Up to the point where the final product is sold, there is a negative correlation between price and the proportion of the original exergy that is left in a set of processed substances. The more of the original exergy that has been dissipated, the higher the price. We shall return to this matter shortly.

Another perspective that needs to be introduced at this point is Ilya Prigogine’s concept of “dissipative structures.” Dissipative structures are systems that stay far from thermodynamic equilibrium by continually drawing in exergy (negative entropy) from the outside and exporting the entropy, or disorder, they produce in the process. Erwin Schrödinger suggested that “the device by which an organism maintains itself stationary at a fairly high level of orderliness (fairly low level of entropy) really consists in continually sucking orderliness from its environment.” This interpretation can be extended from biological to social systems. Societies also maintain their internal structure by drawing order from their environments. For hunter-gatherers this is generally a matter of exploiting other species in a fairly local ecological context. For cities or world system centers, however, the maintenance of structure relies on exchange with other, peripheral social sectors more directly involved in the extraction of exergy from nature. This
The question we must address is this: If organisms draw order into their systems by eating, and export disorder by discharging waste materials, heat, and so forth, how do cities go about doing it? How do world system centers do it? The answer must be all around us, like water to fish. It is just a matter of getting our eyes on it and permitting ourselves the naïveté of a first encounter. The reader may have anticipated that market prices are the specific mechanism by which world system centers extract exergy from, and export entropy to, their peripheries. It would be impossible to understand accumulation, “development,” or modern technology itself without referring to the way in which exchange values relate to thermodynamics, that is, the way in which market institutions organize the net transfer of energy and materials to world system centers.

For a century and a half, ecologists and economists have been trapped on opposite sides of a dualistic cosmology. Ecologists have looked for objective foundations for subjective, cultural phenomena, as when the Technocrats of the 1930s and later H. T. Odum offered their different versions of an energy theory of value. Economists, on the other hand, continue to assume that objective phenomena should be reckoned with in terms of subjectively founded criteria such as “willingness to pay.” In the former case, there is an attempt by natural science to subsume the economy by suggesting that prices should reflect energy flows. In the latter case, there is an attempt by economics to subsume nature by suggesting that ecology can be evaluated in terms of prices. Herman Daly calls these two perspectives “ecological reductionism” versus “economic imperialism.” Neither position, it seems, properly accounts for the way in which ecology and economics—nature and society—are actually interfused.

The conundrum for ecological economics boils down to two seemingly contradictory and irreconcilable observations. The first is that prices are cultural constructions that do not measure or reflect real, material flows. This observation was emphasized by pioneers such as Patrick Geddes, Alfred Lotka, and Frederick Soddy, and it continues to be a point of departure for ecological economics. The second, which should have become evident during the so-called oil crises of the 1970s, is that prices are real determinants of local, material conditions for production. In the first sense, prices are not coupled to real, material conditions; in the second sense, they are. They thus seem to be unreal and real at the same time.

Another way of approaching this conundrum is by juxtaposing certain conclusions of ecological economics into a logical syllogism, the pursuit or spelling out of which seems to have been effectively blocked by the Cartesian matrix. On one hand, it has long been observed that the feasibility of technology (“productivity” or “productive forces”) is a matter of energy availability. On the other
hand, it is equally evident that energy availability is a matter of prices. To complete the syllogism, then, we would have to conclude that the feasibility of technology is a matter of prices. Systematic ratios of exchange and energy appropriation are at the very foundation of our industrial infrastructure. Unequal exchange in the world system is what reproduces machines, and machines are what reproduce unequal exchange. But does this agree with our everyday conception of technology as an application of inventive genius to natural resources? In some important sense it seems as if we have not yet grasped what technology really is. Not even the Marxist understanding of “capital” or “productive forces” seems to have pursued the syllogism to its distinctly post-Cartesian conclusion.

Capital Accumulation and the Appropriation of Energy

Technology has always represented a junction of the subjective and the objective (the mental and the material), but capital refers to those specific kinds of technologies that are dependent not only on human knowledge but also on human evaluations regarding the social exchange of labor time and other energy resources. In other words, capital represents the interfusion of technology and economics. The recursive relationship between technology and economy is well exemplified by modern transport technology (railways, steamboats, etc.), which neutralized the ancient distinction between distantly traded luxuries and locally traded bulk goods. In suddenly rendering long-distance transport of bulk goods rational, nineteenth century technology thus also reinforced the accumulative process of which it itself was a manifestation.

All infrastructure founded on an asymmetric exchange of energy between different social categories represents an appropriation of productive potential. Our intuitive, everyday understanding of modern technology, however, is generally not that it is inherently exploitative. We are aware that it consumes energy (or exergy, to be precise), but what seems to escape us is the social logic by which it inexorably provides itself with ever increasing amounts of this energy. Yet this is crucial to an understanding of the very nature of modern technology. Industrial technology does not simply represent the application of inventive genius to nature but is equally dependent on a continuous and accelerating social transfer of energy organized by the very logic of market exchange.

It may seem trivial to point out that New York and Tokyo are net importers of energy. Yet we rarely reflect on why this must be the case. From a purely thermodynamic perspective, cities “must” be net importers of energy because, like all other dissipative structures (such as biomass), their techno-industrial infrastructures require continuous inputs of energy in order to maintain their structure. But this explanation is only one side of the story: a retrospective
account in which the presence of urban technomass is taken as a self-evident point of departure. From another perspective, we can turn the question around and observe that the import of energy to industrial sectors is an inexorable consequence of market exchange. If industrial processes necessarily entail a degradation of energy, the sum of products exported from an industrial center must contain less exergy than the sum of its imports. But in order to stay in business, of course, every industrialist will have to be paid more money for his products than he spends on fuels and raw materials. At an aggregated level, then, this means that the more resources that have been dissipated by industry today, the more new resources it will be able to purchase tomorrow.

If we consider, longitudinally along the production process, any given set of fuels and raw materials destined to be transformed into a given product plus waste, its content of available energy will be inversely related to its price—that is, the more of its original energy that has been dissipated, the higher its price. The significance of this correlation is that it defines the logic of an expanding cycle of past, present, and future exchanges. We can completely disregard the subjective “utility” of the products, which is more or less arbitrary and ephemeral anyway—arbitrary because it is culturally defined and ephemeral because it diminishes rapidly with use—and observe that if a finished product is priced higher than the resources required to produce it, this means that “production” (i.e., the dissipation of resources) will continuously be rewarded with even more resources to dissipate. In the past few centuries, this logic has given the industrial sectors access to accelerating quantities of energy of various kinds. So blinded are we by the miraculous “discoveries” and “achievements” of technology that we generally fail to appreciate the extent to which the development of new technologies in itself is a manifestation of this increasingly intensive, social appropriation of energy. It has become everyday knowledge that a minority of the world’s population consumes an increasing proportion of its energy resources, but because technology and economy tend to be conceived as separate domains, this unequal distribution of resources is attributed to the “requirements” of industrial technology (i.e., an advanced level of “development”) rather than to the accumulative tendencies inherent in market exchange, and which made industrial technology possible to begin with.

One way to achieve an illuminating, distanced view of modern, techno-industrial growth may be to compare it with other modes of accumulation in pre-modern cultures.

To support themselves, notes Norman Yoffee, centers of civilization must be able to disembed from their peripheral sectors those goods and services that they require for their metabolism. A pervasive aspect of such appropriation is that it is represented as a reciprocal exchange. The Inca emperor, for instance, engaged local populations to work in his maize fields by offering them chicha (maize beer)
and mimicking traditional labor exchange. We can assess the exploitative nature of such arrangements by observing that the *chicha* with which he appeased his laborers could only have represented a fraction of the harvest that he gained from their labor. It is from the same perspective that we must view modern market exchange. Increasingly with modern technology, however, the productive input that is being underpaid is resources rather than labor. We can observe that the resources imported to industrial centers are transformed into quantities of products vastly greater than the fraction that is returned to their peripheries. We must ask by what ideological means this unequal exchange is represented as reciprocal exchange. The answer, as we have seen, is the very notion of “market price.”

The concept of capital conjures two images, one relating to abstract wealth, or purchasing power, the other to a technological infrastructure of some sort. Because capital is both symbolic and material in constitution, economists and ecologists are equally handicapped in their struggle to account for it. In a very general, cross-cultural, world-historical sense, capital accumulation is a recursive (positive feedback) relationship between technological infrastructure and the symbolic capacity to make claims on other people’s resources. Such a general understanding of capital accumulation would be as applicable to agricultural terraces in ancient Peru as to the textile factories of eighteenth-century England. In both cases, *the infrastructure is used to produce an output that is culturally transformed into more infrastructure*. The important thing is not whether this transformation is conducted by means of maize beer parties hosted by the Inca emperor or by the sale of British textiles on the world market. The important thing is that, in both cases, the material operation of a technological system presupposes specific rates of exchange that ultimately rest on human evaluations and that guarantee a minimum net transfer of energy from one social sector to another. Whether this energy is in the form of labor, food, fodder, draft animals, or fuels is also secondary to the essential logic of unequal exchange underlying capital accumulation itself.

The notion of a reasonable market price conceals the fact that what is being exchanged are intact resources for products representing resources already spent. This argument is not to be confused with an energy theory of value. It would be nonsensical to offer an “exergy theory of value” because it would systematically contradict the valuations that people actually make. Most attempts at achieving a dialogue between ecology and economics are deeply entrenched in the ambition to envisage principles for ecologically correct pricing that will guarantee long-term sustainability, and thus ultimately in the faith that such principles can be devised. But to pursue the logical implications of such a policy must lead to the discovery that it runs counter to those structural imperatives on which the very viability of industrialism is founded. The industrial sectors of world society subsist precisely on that discrepancy between the material and the symbolic that
the more perspicacious versions of ecological economics are in the process of exposing. It is no coincidence that the emergence of modern industrialism, for which the discrepancy between price and productive potential is so crucial, was accompanied by an ideology (neoclassical economics) that rendered this very discrepancy invisible.

Because valuation is an altogether cultural phenomenon, a discussion of the objective aspects of industrial resource management that does not examine the assumption that finished products have a higher value than the raw materials for which they are exchanged remains imprisoned by the very cosmology that it should try to account for. A thorough analysis must struggle to distance itself from the cultural categories through which the system operates. As “prices” are socially negotiated exchange relationships between human beings, it is useless to search for their correlates in the material world. Only when we stop looking for a real measure of value, which should correlate with price, and recognize the impossibility of such a congruity, can we appreciate the profundity of the problem and perhaps begin to envisage ways of transcending it ....

The ideology of prices and money fetishism continues to confuse us in many ways, not least in the contemporary debate on ecology and sustainable development. In the Brundtland Report, even the adverse effects of economic growth are marshaled to reinforce our faith in it. But in representing exchange relations, money cannot repair damages to the biosphere, only redistribute them in the world system. Ecological issues and distributional issues are truly inseparable.
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