CHAPTER TWO

Three Ideologies of Political Economy

OVER THE PAST century and a half, the ideologies of liberalism, nationalism, and Marxism have divided humanity. This book uses "ideology" to refer to "systems of thought and belief by which [individuals and groups] explain . . . how their social system operates and what principles it exemplifies" (Heilbroner, 1985, p. 107). The conflict among these three moral and intellectual positions has revolved around the role and significance of the market in the organization of society and economic affairs.

Through an evaluation of the strengths and weaknesses of these three ideologies it is possible to illuminate the study of the field of international political economy. The strengths of each perspective set forth here will be applied to subsequent discussions of specific issues, such as those of trade, investment, and development. Although my values are those of liberalism, the world in which we live is one best described by the ideas of economic nationalism and occasionally by those of Marxism as well. Eclecticism may not be the route to theoretical precision, but sometimes it is the only route available.

The three ideologies differ on a broad range of questions such as: What is the significance of the market for economic growth and the distribution of wealth among groups and societies? What ought to be the role of markets in the organization of domestic and international society? What is the effect of the market system on issues of war or peace? These and similar questions are central to discussions of international political economy.

These three ideologies are fundamentally different in their conceptions of the relationships among society, state, and market, and it may not be an exaggeration to say that every controversy in the field of international political economy is ultimately reducible to differing conceptions of these relationships. The intellectual clash is not merely of historical interest. Economic liberalism, Marxism, and economic nationalism are all very much alive at the end of the twentieth century; they define the conflicting perspectives that individuals have with regard to the implications of the market system for domestic and international society. Many of the issues that were controversial in the

eighteenth and nineteenth centuries are once again being intensely debated.

It is important to understand the nature and content of these contrasting "ideologies" of political economy. The term "ideology" is used rather than "theory" because each position entails a total belief system concerning the nature of human beings and society and is thus akin to what Thomas Kuhn has called a paradigm (Kuhn, 1962). As Kuhn demonstrates, intellectual commitments are held tenaciously and can seldom be dislodged by logic or by contrary evidence. This is due to the fact that these commitments or ideologies allege to provide scientific descriptions of how the world *does* work while they also constitute normative positions regarding how the world *should* work.

Although scholars have produced a number of "theories" to explain the relationship of economics and politics, these three stand out and have had a profound influence on scholarship and political affairs. In highly oversimplified terms, economic nationalism (or, as it was originally called, mercantilism), which developed from the practice of statesmen in the early modern period, assumes and advocates the primacy of politics over economics. It is essentially a doctrine of state-building and asserts that the market should be subordinate to the pursuit of state interests. It argues that political factors do, or at least should, determine economic relations. Liberalism, which emerged from the Enlightenment in the writings of Adam Smith and others, was a reaction to mercantilism and has become embodied in orthodox economics. It assumes that politics and economics exist, at least ideally, in separate spheres; it argues that markets—in the interest of efficiency, growth, and consumer choice—should be free from political interference. Marxism, which appeared in the mid-nineteenth century as a reaction against liberalism and classical economics, holds that economics drives politics. Political conflict arises from struggle among classes over the distribution of wealth. Hence, political conflict will cease with the elimination of the market and of a society of classes. Since both nationalism and Marxism in the modern era have developed largely in reaction to the tenets of liberal economics, my discussion and evaluation of these ideologies will begin with economic liberalism.

The Liberal Perspective

Some scholars assert that there is no such thing as a liberal theory of political economy because liberalism separates economics and politics from one another and assumes that each sphere operates according to

particular rules and a logic of its own.[1] This view is itself, however, an ideological position and liberal theorists do in fact concern themselves with both political and economic affairs. Whether it is made explicit in their writings or is merely implicit, one can speak of a liberal theory of political economy.

There is a set of values from which liberal theories of economics and of politics arise; in the modern world these political and economic values have tended to appear together (Lindblom, 1977). Liberal economic theory is committed to free markets and minimal state intervention, although, as will be pointed out below, the relative emphasis on one or the other may differ. Liberal political theory is committed to individual equality and liberty, although again the emphasis may differ. We are primarily concerned here with the economic component of liberal theory.

The liberal perspective on political economy is embodied in the discipline of economics as it has developed in Great Britain, the United States, and Western Europe. From Adam Smith to its contemporary proponents, liberal thinkers have shared a coherent set of assumptions and beliefs about the nature of human beings, society, and economic activities. Liberalism has assumed many forms—classical, neo-classical, Keynesian, monetarist, Austrian, rational expectation, etc. These variants range from those giving priority to equality and tending toward social democracy and state interventionism to achieve this objective, to those stressing liberty and noninterventionism at the expense of social equality. All forms of economic liberalism, however, are committed to the market and the price mechanism as the most efficacious means for organizing domestic and international economic relations. Liberalism may, in fact, be defined as a doctrine and set of principles for organizing and managing a market economy in order to achieve maximum efficiency, economic growth, and individual welfare.

Economic liberalism assumes that a market arises spontaneously in order to satisfy human needs and that, once it is in operation, it functions in accordance with its own internal logic. Human beings are by nature economic animals, and therefore markets evolve naturally without central direction. As Adam Smith put it, it is inherent in mankind to "truck, barter and exchange." To facilitate exchange and improve

[1] The term "liberal" is used in this book in its European connotation, that is, a commitment to individualism, free market, and private property. This is the dominant perspective of most American economists and of economics as taught in American universities. Thus, both Paul Samuelson and Milton Friedman, despite important differences between their political and theoretical views, are regarded here as representatives of the American liberal tradition.

their well-being, people create markets, money, and economic institutions. Thus, in his "The Economic Organization of a P.o.W. Camp," R. A. Radford (1945) shows how a complex and sophisticated market arose spontaneously in order to satisfy human wants, but his tale also demonstrates how a form of government was necessary to police and maintain this primitive market system.[2]

The rationale for a market system is that it increases economic efficiency, maximizes economic growth, and thereby improves human welfare. Although liberals believe that economic activity also enhances the power and security of the state, they argue that the primary objective of economic activity is to benefit individual consumers. Their ultimate defense of free trade and open markets is that they increase the range of goods and services available to the consumer.

The fundamental premise of liberalism is that the individual consumer, firm, or household is the basis of society. Individuals behave rationally and attempt to maximize or satisfy certain values at the lowest possible cost to themselves. Rationality applies only to endeavor, not to outcome. Thus, failure to achieve an objective due to ignorance or some other cause does not, according to liberals, invalidate their premise that individuals act on the basis of a cost/benefit or means/ends calculus. Finally, liberalism argues that an individual will seek to acquire an objective until a market equilibrium is reached, that is, until the costs associated with achieving the objective are equal to the benefits. Liberal economists attempt to explain economic and, in some cases, all human behavior on the basis of these individualistic and rationalistic assumptions (Rogowski, 1978).

Liberalism also assumes that a market exists in which individuals have complete information and are thus enabled to select the most beneficial course of action. Individual producers and consumers will be highly responsive to price signals, and this will create a flexible economy in which any change in relative prices will elicit a corresponding change in patterns of production, consumption, and economic institutions; the latter are conceived ultimately to be the product rather than the cause of economic behavior (Davis and North, 1971). Further, in a truly competitive market, the terms of exchange are determined solely by considerations of supply and demand rather than by the exercise of power and coercion. If exchange is voluntary, both parties benefit. In colloquial terms, a "free exchange is no robbery."

Economics, or rather the economics taught in most American universities (what Marxists call orthodox or bourgeois economics), is as-

[2] I would like to thank Michael Doyle for bringing this interesting article to my attention.

sumed to be an empirical science of maximizing behavior. Behavior is believed to be governed by a set of economic "laws" that are impersonal and politically neutral; therefore, economics and politics should and can be separated into distinct spheres. Governments should not intervene in the market except where a "market failure" exists (Baumol, 1965) or in order to provide a so-called public or collective good (Olson, 1965).

A market economy is governed principally by the law of demand (Becker, 1976, p. 6). This "law" (or, if one prefers, assumption) holds that people will buy more of a good if the relative price falls and less if it rises; people will also tend to buy more of a good as their relative income rises and less as it falls. Any development that changes the relative price of a good or the relative income of an actor will create an incentive or disincentive to acquire (or produce) more or less of the good; this law in turn has profound ramifications throughout the society. Although certain exceptions to this simple concept exist, it is fundamental to the operation and success of a market system of economic exchange.

On the supply side of the economy, liberal economics assumes that individuals pursue their interests in a world of scarcity and resource constraints. This is a fundamental and inescapable condition of human existence. Every decision involves an opportunity cost, a tradeoff among alternative uses of available resources (Samuelson, 1980, p. 27). The basic lesson of liberal economics is that "there is no such thing as a free lunch"; to get something one must be willing to give up something else.

Liberalism also assumes that a market economy exhibits a powerful tendency toward equilibrium and inherent stability, at least over the long term. This "concept of a self-operating and self-correcting equilibrium achieved by a balance of forces in a rational universe" is a crucial one for the economists' belief in the operation of markets and the laws that are believed to govern them (Condliffe, 1950, p. 112). If a market is thrown into a state of disequilibrium due to some external (exogenous) factor such as a change in consumer tastes or productive technology, the operation of the price mechanism will eventually return it to a new state of equilibrium. Prices and quantities will once again balance one another. Thus, a change in either the supply or the demand for a good will elicit corresponding changes in the price of the good. The principal technique of modern economic analysis, comparative statics, is based on this assumption of a tendency toward systemic equilibrium.[3]

[3] The method of comparative statics was invented by David Ricardo. It consists of a model of a market in a state of equilibrium, the introduction of an exogenous variable

An additional liberal assumption is that a basic long-term harmony of interests underlies the market competition of producers and consumers, a harmony that will supercede any temporary conflict of interest. Individual pursuit of self-interest in the market increases social well-being because it leads to the maximization of efficiency, and the resulting economic growth eventually benefits all. Consequently, everyone will gain in accordance with his or her contribution to the whole, but, it should be added, not everyone will gain equally because individual productivities differ. Under free exchange, society as a whole will be more wealthy, but individuals will be rewarded in terms of their marginal productivity and relative contribution to the overall social product.

Finally, most present-day liberal economists believe in progress, defined most frequently as an increase in wealth per capita. They assert that the growth of a properly functioning economy is linear, gradual, and continuous (Meier and Baldwin, 1963, p. 70). It proceeds along what an economist colleague has called "the MIT standard equilibrium growth curve." Although political or other events—wars, revolution, or natural disasters—can dramatically disrupt this growth path, the economy will return eventually to a stable pattern of growth that is determined principally by increases in population, resources, and productivity. Moreover, liberals see no necessary connection between the process of economic growth and political developments such as war and imperialism; these political evils affect and may be affected by economic activities, but they are essentially caused by political and not by economic factors. For example, liberals do not believe that any causal relationship existed between the advance of capitalism in the late nineteenth century and the upheavals of imperialism after 1870 and the outbreak of the First World War. Liberals believe economics is progressive and politics is retrogressive. Thus they conceive of progress as divorced from politics and based on the evolution of the market.

On the basis of these assumptions and commitments, modern economists have constructed the empirical science of economics. Over the past two centuries, they have deduced the "laws" of maximizing behavior, such as those of the theory of comparative advantage, the theory of marginal utility, and the quantity theory of money. As Arthur Lewis has commented to me, economists discover new laws at the rate of about one per quartercentury. These "laws" are both contingent and

into the system, and a calculation of the new equilibrium state. Because this mode of analysis is generally unconcerned with the origins of the exogenous variable itself, it is limited as a means of examining the problem of economic change.

normative. They assume the existence of economic man—a rational, maximizing creature—a variant of the species homo sapiens that has been relatively rare in human history and has existed only during peculiar periods of favorable conditions. Further, these laws are normative in that they prescribe how a society must organize itself and how people must behave if they are to maximize the growth of wealth. Both individuals and societies may violate these laws, but they do so at the cost of productive efficiency. Today, the conditions necessary for the operation of a market economy exist, and the normative commitment to the market has spread from its birthplace in Western civilization to embrace an increasingly large portion of the globe. Despite setbacks, the modern world has moved in the direction of the market economy and of increasing global economic interdependence precisely because markets *are* more efficient than other forms of economic organization (Hicks, 1969).

In essence, liberals believe that trade and economic intercourse are a source of peaceful relations among nations because the mutual benefits of trade and expanding interdependence among national economies will tend to foster cooperative relations. Whereas politics tends to divide, economics tends to unite peoples. A liberal international economy will have a moderating influence on international politics as it creates bonds of mutual interests and a commitment to the status quo. However, it is important to emphasize again that although everyone will, or at least can, be better off in "absolute" terms under free exchange, the "relative" gains will differ. It is precisely this issue of relative gains and the distribution of the wealth generated by the market system that has given rise to economic nationalism and Marxism as rival doctrines.

The Nationalist Perspective

Economic nationalism, like economic liberalism, has undergone several metamorphoses over the past several centuries. Its labels have also changed: mercantilism, statism, protectionism, the German Historical School, and, recently, New Protectionism. Throughout all these manifestations, however, runs a set of themes or attitudes rather than a coherent and systematic body of economic or political theory. Its central idea is that economic activities are and should be subordinate to the goal of state building and the interests of the state. All nationalists ascribe to the primacy of the state, of national security, and of military power in the organization and functioning of the international system. Within this general commitment two basic positions can be discerned. Some nationalists consider the safeguarding of national economic in-

terests as the minimum essential to the security and survival of the state. For lack of a better term, this generally defensive position may be called "benign" mercantilism.[4] On the other hand, there are those nationalists who regard the international economy as an arena for imperialist expansion and national aggrandizement. This aggressive form may be termed "malevolent" mercantilism. The economic policies of Nazi economic minister Hjalmar Schacht toward eastern Europe in the 1930s were of this type (Hirschman, 1969).

Although economic nationalism should be viewed as a general commitment to state building, the precise objectives pursued and the policies advocated have differed in different times and in different places. Yet, as Jacob Viner has cogently argued in an often-quoted passage, economic nationalist (or what he calls mercantilist) writers share convictions concerning the relationship of wealth and power:

> I believe that practically all mercantilists, whatever the period, country, or status of the particular individual, would have subscribed to all of the following propositions: (1) wealth is an absolutely essential means to power, whether for security or for aggression; (2) power is essential or valuable as a means to the acquisition or retention of wealth; (3) wealth and power are each proper ultimate ends of national policy; (4) there is long-run harmony between these ends, although in particular circumstances it may be necessary for a time to make economic sacrifices in the interest of military security and therefore also of long-run prosperity (Viner, 1958, p. 286).

Whereas liberal writers generally view the pursuit of power and wealth, that is, the choice between "guns and butter," as involving a tradeoff, nationalists tend to regard the two goals as being complementary (Knorr, 1944, p. 10).

Economic nationalists stress the role of economic factors in international relations and view the struggle among states—capitalist, socialist, or whatever—for economic resources as pervasive and indeed inherent in the nature of the international system itself. As one writer has put it, since economic resources are necessary for national power, every conflict is at once both economic and political (Hawtrey, 1952). States, at least over the long run, simultaneously pursue wealth and national power.

As it evolved in the early modern era, economic nationalism responded to and reflected the political, economic, and military developments of the sixteenth, seventeenth, and eighteenth centuries: the

[4] One can identify Friedrich List with the benign mercantilist position. List believed that true cosmopolitanism could only be possible when all states had been developed. For a discussion of benign and malevolent mercantilism, see Gilpin 1975, pp. 234-37 and Chapter Ten below.

emergence of strong national states in constant competition, the rise of a middle class devoted at first to commerce and increasingly to manufacturing, and the quickening pace of economic activities due to changes within Europe and the discovery of the New World and its resources. The evolution of a monetarized market economy and the wide range of changes in the nature of warfare that have been characterized as the "Military Revolution" were also critically important (Roberts, 1956). Nationalists (or "mercantilists," as they were then called) had good cause to identify a favorable balance of trade with national security.

For several reasons, the foremost objective of nationalists is industrialization (Sen, 1984). In the first place, nationalists believe that industry has spillover effects (externalities) throughout the economy and leads to its overall development. Second, they associate the possession of industry with economic self-sufficiency and political autonomy. Third, and most important, industry is prized because it is the basis of military power and central to national security in the modern world. In almost every society, including liberal ones, governments pursue policies favorable to industrial development. As the mercantilist theorist of American economic development, Alexander Hamilton, wrote: "not only the wealth but the independence and security of a country appear to be materially connected to the prosperity of manufactures" (quoted in Rostow, 1971, p. 189); no contemporary dependency theorist has put it better. This nationalist objective of industrialization, as will be argued in Chapter Three, is itself a major source of economic conflict.

Economic nationalism, both in the early modern era and today, arises in part from the tendency of markets to concentrate wealth and to establish dependency or power relations between the strong and the weak economies. In its more benign or defensive form it attempts to protect the economy against untoward external economic and political forces. Defensive economic nationalism frequently exists in less developed economies or in those advanced economies that have begun to decline; such governments pursue protectionist and related policies to protect their nascent or declining industries and to safeguard domestic interests. In its more malevolent form, economic nationalism is the conduct of economic warfare. This type is most prevalent in expanding powers. The classic example is Nazi Germany.

In a world of competing states, the nationalist considers relative gain to be more important than mutual gain. Thus nations continually try to change the rules or regimes governing international economic relations in order to benefit themselves disproportionately with respect to other economic powers. As Adam Smith shrewdly pointed out, everyone wants to be a monopolist and will attempt to be one unless prevented

by competitors. Therefore, a liberal international economy cannot develop unless it is supported by the dominant economic states whose own interests are consistent with its preservation.

Whereas liberals stress the mutual benefits of international commerce, nationalists as well as Marxists regard these relations as basically conflictual. Although this does not rule out international economic cooperation and the pursuit of liberal policies, economic interdependence is never symmetrical; indeed, it constitutes a source of continuous conflict and insecurity. Nationalist writers from Alexander Hamilton to contemporary dependency theorists thus emphasize national self-sufficiency rather than economic interdependence.

Economic nationalism has taken several different forms in the modern world. Responding to the Commercial Revolution and the expansion of international trade throughout the early period, classical or financial mercantilism emphasized the promotion of trade and a balance of payments surplus. Following the Industrial Revolution, industrial mercantilists like Hamilton and List stressed the supremacy of industry and manufacturing over agriculture. Following the First and Second World Wars these earlier concerns have been joined by a powerful commitment to the primacy of domestic welfare and the welfare state. In the last decades of this century, the increasing importance of advanced technology, the desire for national control over the "commanding heights" of the modern economy, and the advent of what might best be called "policy competitiveness" have become the distinctive features of contemporary mercantilism. In all ages, however, the desire for power and independence have been the overriding concern of economic nationalists.

Whatever its relative strengths and weaknesses as an ideology or theory of international political economy, the nationalist emphasis on the geographic location and the distribution of economic activities provide it with powerful appeal. Throughout modern history, states have pursued policies promoting the development of industry, advanced technology, and those economic activities with the highest profitability and generation of employment within their own borders. As far as they can, states try to create an international division of labor favorable to their political and economic interests. Indeed, economic nationalism is likely to be a significant influence in international relations as long as the state system exists.

THE MARXIST PERSPECTIVE

Like liberalism and nationalism, Marxism has evolved in significant ways since its basic ideas were set forth by Karl Marx and Friedrich En-

gels in the middle of the nineteenth century.[5] Marx's own thinking changed during his lifetime, and his theories have always been subject to conflicting interpretations. Although Marx viewed capitalism as a global economy, he did not develop a systematic set of ideas on international relations; this responsibility fell upon the succeeding generation of Marxist writers. The Soviet Union and China, furthermore, having adopted Marxism as their official ideology, have reshaped it when necessary to serve their own national interests.

As in liberalism and nationalism, two basic strands can be discerned in modern Marxism. The first is the evolutionary Marxism of social democracy associated with Eduard Bernstein and Karl Kautsky; in the contemporary world it has tapered off and is hardly distinguishable from the egalitarian form of liberalism. At the other extreme is the revolutionary Marxism of Lenin and, in theory at least, of the Soviet Union. Because of its triumph as the ruling ideology in one of the world's two superpowers, this variation is the more important and will be stressed here.

As Robert Heilbroner (1980) has argued, despite the existence of these different Marxisms, four essential elements can be found in the overall corpus of Marxist writings. The first element is the dialectical approach to knowledge and society that defines the nature of reality as dynamic and conflictual; social disequilibria and consequent change are due to the class struggle and the working out of contradictions inherent in social and political phenomena. There is, according to Marxists, no inherent social harmony or return to equilibrium as liberals believe. The second element is a materialist approach to history; the development of productive forces and economic activities is central to historical change and operates through the class struggle over distribution of the social product. The third is a general view of capitalist development; the capitalist mode of production and its destiny are governed by a set of "economic laws of motion of modern society." The fourth is a normative commitment to socialism; all Marxists believe that a socialist society is both the necessary and desirable end of historical development (Heilbroner, 1980, pp. 20-21). It is only the third of these beliefs that is of interest here.

Marxism characterizes capitalism as the private ownership of the means of production and the existence of wage labor. It believes that capitalism is driven by capitalists striving for profits and capital accumulation in a competitive market economy. Labor has been dispos-

[5] Although there were important differences between the views of Engels and Marx, I shall refer to Marx throughout this discussion as standing for the combined contribution of both men.

sessed and has become a commodity that is subject to the price mechanism. In Marx's view these two key characteristics of capitalism are responsible for its dynamic nature and make it the most productive economic mechanism yet. Although its historic mission is to develop and unify the globe, the very success of capitalism will hasten its passing. The origin, evolution, and eventual demise of the capitalist mode of production are, according to Marx, governed by three inevitable economic laws.

The first law, the law of disproportionality, entails a denial of Say's law, which (in oversimplified terms) holds that supply creates its own demand so that supply and demand will always be, except for brief moments, in balance (see Sowell, 1972). Say's law maintains that an equilibrating process makes overproduction impossible in a capitalist or market economy. Marx, like John Maynard Keynes, denied that this tendency toward equilibrium existed and argued that capitalist economies tend to overproduce particular types of goods. There is, Marx argued, an inherent contradiction in capitalism between its capacity to produce goods and the capacity of consumers (wage earners) to purchase those goods, so that the constantly recurring disproportionality between production and consumption due to the "anarchy" of the market causes periodic depressions and economic fluctuations. He predicted that these recurring economic crises would become increasingly severe and in time would impel the suffering proletariat to rebel against the system.

The second law propelling the development of a capitalist system, according to Marxism, is the law of the concentration (or accumulation) of capital. The motive force of capitalism is the drive for profits and the consequent necessity for the individual capitalist to accumulate and invest. Competition forces the capitalists to increase their efficiency and capital investment or risk extinction. As a result, the evolution of capitalism is toward increasing concentrations of wealth in the hands of the efficient few and the growing impoverishment of the many. With the petite bourgeoisie being pushed down into the swelling ranks of the impoverished proletariat, the reserve army of the unemployed increases, labor's wages decline, and the capitalist society becomes ripe for social revolution.

The third law of capitalism is that of the falling rate of profit. As capital accumulates and becomes more abundant, the rate of return declines, thereby decreasing the incentive to invest. Although classical liberal economists had recognized this possibility, they believed that a solution could be found through such countervailing devices as the export of capital and manufactured goods and the import of cheap food

(Mill, 1970 [1848], pp. 97-104). Marx, on the other hand, believed that the tendency for profits to decline was inescapable. As the pressure of competition forces capitalists to increase efficiency and productivity through investment in new labor-saving and more productive technology, the level of unemployment will increase and the rate of profit or surplus value will decrease. Capitalists will thereby lose their incentive to invest in productive ventures and to create employment. This will result in economic stagnation, increasing unemployment, and the "immiserization" of the proletariat. In time, the ever-increasing intensity and depth of the business cycle will cause the workers to rebel and destroy the capitalist economic system.

The core of the Marxist critique of capitalism is that although the individual capitalist is rational (as liberals assume), the capitalist system itself is irrational. The competitive market necessitates that the individual capitalist must save, invest, and accumulate. If the desire for profits is the fuel of capitalism, then investment is the motor and accumulation is the result. In the aggregate, however, this accumulating capital of individual capitalists leads to the periodic overproduction of goods, surplus capital, and the disappearance of investment incentives. In time, the increasing severity of the downturns in the business cycle and the long-term trend toward economic stagnation will cause the proletariat to overthrow the system through revolutionary violence. Thus, the inherent contradiction of capitalism is that, with capital accumulation, capitalism sows the seeds of its own destruction and is replaced by the socialist economic system.[6]

Marx believed that in the mid-nineteenth century, the maturing of capitalism in Europe and the drawing of the global periphery into the market economy had set the stage for the proletarian revolution and the end of the capitalist economy. When this did not happen, Marx's followers, such as Rudolf Hilferding and Rosa Luxemburg, became concerned over the continuing vitality of capitalism and its refusal to disappear. The strength of nationalism, the economic successes of capitalism, and the advent of imperialism led to a metamorphosis of Marxist thought that culminated in Lenin's *Imperialism* (1939), first published in 1917. Written against the backdrop of the First World War and drawing heavily upon the writings of other Marxists, *Imperialism* was both a polemic against his ideological enemies and a synthesis of

[6] In effect, the Marxists are accusing the defenders of capitalism with employing the fallacy of composition. This is "a fallacy in which what is true of a part is, on that account alone, alleged to be also *necessarily* true of the whole" (Samuelson, 1980, p. 11). Similarly, Keynes argued that although individual saving is a virtue, if everyone saved it would be a calamity.

Marxist critiques of a capitalist world economy. In staking out his own position, Lenin in effect converted Marxism from essentially a theory of domestic economy to a theory of international political relations among capitalist states.

Lenin set himself the task of accounting for the fact that nationalism had triumphed over proletarian internationalism at the outbreak of the First World War and thereby sought to provide the intellectual foundations for a reunification of the international communist movement under his leadership. He wanted to show why the socialist parties of the several European powers, especially the German Social Democrats under Karl Kautsky, had supported their respective bourgeoisies. He also tried to explain why the impoverishment of the proletariat had not taken place as Marx had predicted, and instead wages were rising and workers were becoming trade unionists.

In the years between Marx and Lenin, capitalism had experienced a profound transformation. Marx had written about a capitalism largely confined to western Europe, a closed economy in which the growth impulse would one day cease as it collided with various constraints. Between 1870 and 1914, however, capitalism had become a vibrant, technological, and increasingly global and open system. In Marx's day, the primary nexus of the slowly developing world economy was trade. After 1870, however, the massive export of capital by Great Britain and subsequently by other developed economies had significantly changed the world economy; foreign investment and international finance had profoundly altered the economic and political relations among societies. Furthermore, Marx's capitalism had been composed mainly of small, competitive, industrial firms. By the time of Lenin, however, capitalist economies were dominated by immense industrial combines that in turn, according to Lenin, were controlled by the great banking houses *(haut finance)*. For Lenin, the control of capital by capital, that is, of industrial capital by financial capital, represented the pristine and highest stage of capitalist development.

Capitalism, he argued, had escaped its three laws of motion through overseas imperialism. The acquisition of colonies had enabled the capitalist economies to dispose of their unconsumed goods, to acquire cheap resources, and to vent their surplus capital. The exploitation of these colonies further provided an economic surplus with which the capitalists could buy off the leadership ("labor aristocracy") of their own proletariat. Colonial imperialism, he argued, had become a necessary feature of advanced capitalism. As its productive forces developed and matured, a capitalist economy had to expand abroad, capture colonies, or else suffer economic stagnation and internal revolution.

Lenin identified this necessary expansion as the cause of the eventual destruction of the international capitalist system.

The essence of Lenin's argument is that a capitalist international economy does develop the world, but does not develop it evenly. Individual capitalist economies grow at different rates and this differential growth of national power is ultimately responsible for imperialism, war, and international political change. Responding to Kautsky's argument that capitalists were too rational to fight over colonies and would ally themselves in the joint exploitation of colonial peoples (the doctrine of "ultra-imperialism"), Lenin stated that this was impossible because of what has become known as the "law of uneven development":

> This question [of the possibility of capitalist alliances to be more than temporary and free from conflict] need only be stated clearly enough to make it impossible for any other reply to be given than that in the negative; for there can be *no* other conceivable basis under capitalism for the division of spheres of influence . . . than a calculation of the *strength* of the participants in the division, their general economic, financial, military strength, etc. And the strength of these participants in the division does not change to an equal degree, for under capitalism the development of different undertakings, trusts, branches of industry, or countries cannot be *even*. Half a century ago, Germany was a miserable, insignificant country, as far as its capitalist strength was concerned, compared with the strength of England at that time. Japan was similarly insignificant compared with Russia. Is it "conceivable" that in ten or twenty years' time the relative strength of the imperialist powers will have remained *un*changed? Absolutely inconceivable (Lenin, 1939 [1917], p. 119).

In effect, in this passage and in his overall attempt to prove that an international capitalist system was inherently unstable, Lenin added a fourth law to the original three Marxist laws of capitalism. The law is that, as capitalist economies mature, as capital accumulates, and as profit rates fall, the capitalist economies are compelled to seize colonies and create dependencies to serve as markets, investment outlets, and sources of food and raw materials. In competition with one another, they divide up the colonial world in accordance with their relative strengths. Thus, the most advanced capitalist economy, namely Great Britain, had appropriated the largest share of colonies. As other capitalist economies advanced, however, they sought a redivision of colonies. This imperialist conflict inevitably led to armed conflict among the rising and declining imperial powers. The First World War, according to this analysis, was a war of territorial redivision between a declining Great Britain and other rising capitalist powers. Such wars of colonial division and redivision would continue, he argued, until the industrial-

izing colonies and the proletariat of the capitalist countries revolted against the system.

In more general terms, Lenin reasoned that because capitalist economies grow and accumulate capital at differential rates, a capitalist international system can never be stable for longer than very short periods of time. In opposition to Kautsky's doctrine of ultra-imperialism, Lenin argued that all capitalist alliances were temporary and reflected momentary balances of power among the capitalist states that would inevitably be undermined by the process of uneven development. As this occurred, it would lead to intracapitalist conflicts over colonial territories.

The law of uneven development, with its fateful consequences, had become operative in his own age because the world had suddenly become finite; the globe itself had become a closed system. For decades the European capitalist powers had expanded, gobbling up overseas territory, but the imperialist powers increasingly came into contact and therefore into conflict with one another as the lands suitable for colonization diminished. He believed that the final drama would be the imperial division of China and that, with the closing of the global undeveloped frontier, imperialist clashes would intensify. In time, conflicts among the imperialist powers would produce revolts among their own colonies and weaken Western capitalism's hold on the colonialized races of the globe.

Lenin's internationalization of Marxist theory represented a subtle but significant reformulation. In Marx's critique of capitalism, the causes of its downfall were economic; capitalism would fail for economic reasons as the proletariat revolted against its impoverishment. Furthermore, Marx had defined the actors in this drama as social classes. Lenin, however, substituted a political critique of capitalism in which the principal actors in effect became competing mercantilistic nation-states driven by economic necessity. Although international capitalism was economically successful, Lenin argued that it was politically unstable and constituted a war-system. The workers or the labor aristocracy in the developed capitalist countries temporarily shared in the exploitation of colonial peoples but ultimately would pay for these economic gains on the battlefield. Lenin believed that the inherent contradiction of capitalism resided in the consequent struggle of nations rather than in the class struggle. Capitalism would end due to a revolt against its inherent bellicosity and political consequences.

In summary, Lenin argued that the inherent contradiction of capitalism is that it develops the world and plants the political seeds of its own destruction as it diffuses technology, industry, and military power. It

creates foreign competitors with lower wages and standards of living who can outcompete the previously dominant economy on the battlefield of world markets. Intensification of economic and political competition between declining and rising capitalist powers leads to economic conflicts, imperial rivalries, and eventually war. He asserted that this had been the fate of the British-centered liberal world economy of the nineteenth century. Today he would undoubtedly argue that, as the U.S. economy declines, a similar fate threatens the twentieth-century liberal world economy, centered in the United States.

With the triumph of Bolshevism in the Soviet Union, Lenin's theory of capitalist imperialism became the orthodox Marxist theory of international political economy; yet other heirs of the Marxist tradition have continued to challenge this orthodoxy. It has also been modified by subsequent changes in the nature of capitalism and other historical developments. Welfare-state capitalism has carried out many of the reforms that Lenin believed to be impossible, the political control of colonies is no longer regarded by Marxists as a necessary feature of imperialism, the finance capitalist of Lenin's era has been partially displaced by the multinational corporation of our own, the view that capitalist imperialism develops the less developed countries has been changed to the argument that it underdevelops them, and some Marxists have been so bold as to apply Marxist theory to Lenin's own political creation, the Soviet Union. Thus modified, at the end of the twentieth century Marxism in its various manifestations continues to exercise a powerful influence as one of the three dominant perspectives on political economy.

A Critique of the Perspectives

As we have seen, liberalism, nationalism, and Marxism make different assumptions and reach conflicting conclusions regarding the nature and consequences of a world market economy or (as Marxists prefer) a world capitalist economy. The position of this book is that these contrasting ideologies or perspectives constitute intellectual commitments or acts of faith. Although particular ideas or theories associated with one position or another may be shown to be false or questionable, these perspectives can be neither proved nor disproved through logical argument or the presentation of contrary empirical evidence. There are several reasons for the persistence of these perspectives and their resistance to scientific testing.

In the first place, they are based on assumptions about people or society that cannot be subjected to empirical tests. For example, the lib-

eral concept of rational individuals cannot be verified or falsified; individuals who appear to be acting in conflict with their own interest may actually be acting on incorrect information or be seeking to maximize a goal unknown to the observer and thus be fulfilling the basic assumption of liberalism. Moreover, liberals would argue that although a particular individual in a particular case might be shown to have behaved irrationally, in the aggregate the assumption of rationality is a valid one.

Second, predictive failure of a perspective can always be argued away through the introduction into the analysis of ad hoc hypotheses.[7] Marxism is replete with attempts to explain the predictive failures of Marxist theory. Lenin, for example, developed the concept of "false consciousness" to account for the fact that workers became trade unionists rather than members of a revolutionary proletariat. Lenin's theory of capitalist imperialism may also be viewed as an effort to explain the failure of Marx's predictions regarding the collapse of capitalism. More recently, as will be discussed below, Marxists have been compelled to formulate elaborate theories of the state to explain the emergence of the welfare state and its acceptance by capitalists, a development that Lenin said was impossible.

Third, and most important, the three perspectives have different purposes and to some extent exist at different levels of analysis. Both nationalists and Marxists, for example, can accept most of liberal economics as a tool of analysis while rejecting many of its assumptions and normative foundations. Thus Marx used classical economics with great skill, but his purpose was to embody it in a grand theory of the origins, dynamics, and end of capitalism. The fundamental difference, in fact, between liberalism and Marxism involves the questions asked and their sociological assumptions rather than the economic methodology that they employ (Blaug, 1978, pp. 276-77).

As reformulated by Lenin, Marxism has become nearly indistinguishable from the doctrine of political realism (Keohane, 1984a, pp. 41-46). Political realism, like economic nationalism, stresses the primacy of the state and national security. Although the two are very close, realism is essentially a political position whereas economic nationalism is an economic one. Or, put another way, economic nationalism is based on the realist doctrine of international relations.

Both in Lenin's theory and in political realism, states struggle for wealth and power, and the differential growth of power is the key to

[7] See Blaug (1978, p. 717) on the use of ad hoc hypotheses to explain away predictive failures.

international conflict and political change (Gilpin, 1981). However, the assumptions of the two theories regarding the basis of human motivation, the theory of the state, and the nature of the international system are fundamentally different. Marxists regard human nature as malleable and as easily corrupted by capitalism and correctable by socialism; realists believe that political conflict results from an unchanging human nature.

Whereas Marxists believe that the state is ultimately the servant of the dominant economic class, realists see the state as a relatively autonomous entity pursuing national interests that cannot be reduced to the particularistic interests of any class. For Marxists, the international system and foreign policy are determined by the structure of the domestic economy; for realists, the nature of the international system is the fundamental determinant of foreign policy. In short, Marxists regard war, imperialism, and the state as evil manifestations of a capitalism that will disappear with the communist revolution; realists hold them to be inevitable features of an anarchical international political system.

The difference between the two perspectives, therefore, is considerable. For the Marxist, though the state and the struggles among states are a consequence of the capitalist mode of production, the future will bring a realm of true harmony and peace following the inevitable revolution that the evil capitalist mode of production will spawn. The realist, on the other hand, believes there will be no such nirvana because of the inherently self-centered nature of human beings and the anarchy of the international system itself. The struggle among groups and states is virtually ceaseless, although there is occasionally a temporary respite. It seems unlikely that either prediction will ever receive scientific verification.

Each of the three perspectives has strengths and weaknesses, to be further explored below. Although no perspective provides a complete and satisfactory understanding of the nature and dynamism of the international political economy, together they provide useful insights. They also raise important issues that will be explored in succeeding chapters.

Critique of Economic Liberalism

Liberalism embodies a set of analytical tools and policy prescriptions that enable a society to maximize its return from scarce resources; its commitment to efficiency and the maximization of total wealth provides much of its strength. The market constitutes the most effective means for organizing economic relations, and the price mechanism operates to ensure that mutual gain and hence aggregate social benefit

tend to result from economic exchange. In effect, liberal economics says to a society, whether domestic or international, "if you wish to be wealthy, this is what you must do."

From Adam Smith to the present, liberals have tried to discover the laws governing the wealth of nations. Although most liberals consider the laws of economics to be inviolable laws of nature, these laws may best be viewed as prescriptive guides for decision makers. If the laws are violated, there will be costs; the pursuit of objectives other than efficiency will necessarily involve an opportunity cost in terms of lost efficiency. Liberalism emphasizes the fact that such tradeoffs always exist in national policy. An emphasis on equity and redistribution, for example, is doomed to failure in the long run if it neglects considerations of efficiency. For a society to be efficient, as socialist economies have discovered, it cannot totally disregard the pertinent economic "laws."

The foremost defense of liberalism is perhaps a negative one. Although it may be true, as Marxists and some nationalists argue, that the alternative to a liberal system could be one in which all gain equally, it is also possible that the alternative could be one in which all *lose* in absolute terms. Much can be said for the liberal harmony of interest doctrine; yet, as E. H. Carr has pointed out, evidence to support this doctrine has generally been drawn from historical periods in which there was "unparalleled expansion of production, population and prosperity" (Carr, 1951 [1939], p. 44). When sustaining conditions break down (as happened in the 1930s and threatens to occur again in the closing decades of the century), disharmony displaces harmony and, I shall argue, the consequent breakdown of liberal regimes tends to lead to economic conflict wherein everyone loses.

The major criticism leveled against economic liberalism is that its basic assumptions, such as the existence of rational economic actors, a competitive market, and the like, are unrealistic. In part, this attack is unfair in that liberals knowingly make these simplifying assumptions in order to facilitate scientific research; no science is possible without them. What is more important, as defenders correctly point out, is that they should be judged by their results and ability to predict rather than by their alleged reality (Posner, 1977, ch. 1). From this perspective and within its own sphere, economics has proven to be a powerful analytical tool.

By the same token, however, liberal economics can be criticized in several important respects. As a means to understand society and especially its dynamics, economics is limited; it cannot serve as a comprehensive approach to political economy. Yet liberal economists have tended to forget this inherent limitation, to regard economics as the

master social science, and to permit economics to become imperialistic. When this occurs, the nature and basic assumptions of the discipline can lead the economist astray and limit its utility as a theory of political economy.

The first of these limitations is that economics artificially separates the economy from other aspects of society and accepts the existing sociopolitical framework as a given, including the distribution of power and property rights; the resource and other endowments of individuals, groups, and national societies; and the framework of social, political, and cultural institutions. The liberal world is viewed as one of homogeneous, rational, and equal individuals living in a world free from political boundaries and social constraints. Its "laws" prescribe a set of maximizing rules for economic actors regardless of where and with what they start; yet in real life, one's starting point most frequently determines where one finishes (Dahrendorf, 1979).

Another limitation of liberal economics as a theory is a tendency to disregard the justice or equity of the outcome of economic activities. Despite heroic efforts to fashion an "objective" welfare economics, the distribution of wealth within and among societies lies outside the primary concern of liberal economics. There is some truth in the Marxist criticism that liberal economics is a tool kit for managing a capitalist or market economy. Bourgeois economics is, in the Marxist view, a discipline of engineering rather than a holistic science of society. It tells one how to achieve particular objectives at the least cost under a given set of constraints; it does not purport to answer questions regarding the future and destiny of man, questions dear to the hearts of Marxists and economic nationalists.

Liberalism is also limited by its assumption that exchange is always free and occurs in a competitive market between equals who possess full information and are thus enabled to gain mutually if they choose to exchange one value for another. Unfortunately, as Charles Lindblom has argued, exchange is seldom free and equal (Lindblom, 1977, pp. 40-50). Instead, the terms of an exchange can be profoundly affected by coercion, differences in bargaining power (monopoly or monopsony), and other essentially political factors. In effect, because it neglects both the effects of noneconomic factors on exchange and the effects of exchange on politics, liberalism lacks a true "political economy."

A further limitation of liberal economics is that its analysis tends to be static. At least in the short run, the array of consumer demands, the institutional framework, and the technological environment are accepted as constants. They are regarded as a set of constraints and op-

portunities within which economic decisions and tradeoffs are made. Questions about the origins of, or the directions taken by, economic institutions and the technological apparatus are, for the liberal, a secondary matter. Liberal economists are incrementalists who believe that social structures tend to change slowly in response to price signals. Although liberal economists have attempted to develop theories of economic and technological change, the crucial social, political, and technological variables affecting change are considered to be exogenous and beyond the realm of economic analysis. As Marxists charge, liberalism lacks a theory of the dynamics of international political economy and tends to assume the stability and the virtues of the economic status quo.

Liberal economics, with its laws for maximizing behavior, is based on a set of highly restrictive assumptions. No society has ever or could ever be composed of the true "economic man" of liberal theory. A functioning society requires affective ties and the subordination of individual self-interest to larger social values; if this were not the case the society would fly apart (Polanyi, 1957). Yet Western society has gone far in harnessing for social and economic betterment a basic tendency in human beings toward self-aggrandizement (Baechler, 1971). Through release of the market mechanism from social and political constraints, Western civilization has reached a level of unprecedented affluence and has set an example that other civilizations wish to emulate. It has done so, however, at the cost of other values. As liberal economics teaches, nothing is ever achieved without a cost.

Critique of Economic Nationalism

The foremost strength of economic nationalism is its focus on the state as the predominant actor in international relations and as an instrument of economic development. Although many have argued that modern economic and technological developments have made the nation-state an anachronism, at the end of the twentieth century the system of nation-states is actually expanding; societies throughout the world are seeking to create strong states capable of organizing and managing national economies, and the number of states in the world is increasing. Even in older states, the spirit of nationalist sentiments can easily be inflamed, as happened in the Falkland War of 1982. Although other actors such as transnational and international organizations do exist and do influence international relations, the economic and military efficiency of the state makes it preeminent over all these other actors.

The second strength of nationalism is its stress on the importance of

security and political interests in the organization and conduct of international economic relations. One need not accept the nationalist emphasis on the primacy of security considerations to appreciate that the security of the state is a necessary precondition for its economic and political well-being in an anarchic and competitive state system. A state that fails to provide for its own security ceases to be independent. Whatever the objectives of the society, the effects of economic activities upon political independence and domestic welfare always rank high among its concerns (Strange, 1985c, p. 234).

The third strength of nationalism is its emphasis on the political framework of economic activities, its recognition that markets must function in a world of competitive groups and states. The political relations among these political actors affect the operation of markets just as markets affect the political relations. In fact, the international political system constitutes one of the most important constraints on and determinant of markets. Since states seek to influence markets to their own individual advantage, the role of power is crucial in the creation and sustaining of market relations; even Ricardo's classic example of the exchange of British woolens for Portuguese wine was not free from the exercise of state power (Choucri, 1980, p. 111). Indeed, as Carr has argued, every economic system must rest on a secure political base (Carr, 1951 [1939]).

One weakness of nationalism is its tendency to believe that international economic relations constitute solely and at all times a zero-sum game, that is, that one state's gain must of necessity be another's loss. Trade, investment, and all other economic relations are viewed by the nationalist primarily in conflictual and distributive terms. Yet, if cooperation occurs, markets *can* bring mutual (albeit not necessarily equal) gain, as the liberal insists. The possibility of benefit for all is the basis of the international market economy. Another weakness of nationalism is due to the fact that the pursuit of power and the pursuit of wealth usually do conflict, at least in the short run. The amassing and exercising of military and other forms of power entail costs to the society, costs that can undercut its economic efficiency. Thus, as Adam Smith argued, the mercantilist policies of eighteenth-century states that identified money with wealth were detrimental to the growth of the real wealth created by productivity increases; he demonstrated that the wealth of nations would have been better served by policies of free trade. Similarly, the tendency today to identify industry with power can weaken the economy of a state. Development of industries without regard to market considerations or comparative advantage can weaken a society economically. Although states in a situation of conflict must on

occasion pursue mercantilistic goals and policies, over the long term, pursuit of these policies can be self-defeating.

In addition, nationalism lacks a satisfactory theory of domestic society, the state, and foreign policy. It tends to assume that society and state form a unitary entity and that foreign policy is determined by an objective national interest. Yet, as liberals correctly stress, society is pluralistic and consists of individuals and groups (coalitions of individuals) that try to capture the apparatus of the state and make it serve their own political and economic interests. Although states possess varying degrees of social autonomy and independence in the making of policy, foreign policy (including foreign economic policy) is in large measure the outcome of the conflicts among dominant groups within each society. Trade protectionism and most other nationalist policies result from attempts by one factor of production or another (capital, labor, or land) to acquire a monopoly position and thereby to increase its share of the economic rents. Nationalist policies are most frequently designed to redistribute income from consumers and society as a whole to producer interests.[8]

Nationalism can thus be interpreted as either a theory of state building or a cloak for the interests of particular producer groups that are in a position to influence national policy. In their failure to appreciate fully or distinguish between the two possible meanings of economic nationalism, nationalists can be faulted for not applying, both to the domestic level and to the determination of foreign policy, their assumption that the political framework influences economic outcomes. They fail to take sufficient account of the fact that domestic political groups frequently use a nationalist rationale, especially that of national security, to promote their own interests.

Whereas in the past, land and capital were the primary carriers of nationalist sentiments, in advanced economies labor has become the most nationalistic and protectionist of the three factors of production. In a world of highly mobile capital and resources, labor seeks to use the state to advance its threatened interests. The increased power of labor in the contemporary welfare state, as I shall argue below, has become a major force for economic nationalism.

The validity of nationalists' emphasis on protectionism and industrialization is more difficult to ascertain. It is true that all great industrial powers have had strong states that protected and promoted their

[8] The literature on the political economy of tariffs and other forms of trade protectionism as rent-seeking is extensive. As noted earlier, the subject of economic policy making falls outside the scope of this book. Frey (1984b) is an excellent discussion of this approach to tariff policy and related topics.

industries in the early stages of industrialization and that without such protectionism, the "infant" industries of developing economies probably would not have survived the competition of powerful firms in more advanced economies. Yet it is also the case that high levels of protectionism in many countries have led to the establishment of inefficient industries and even retarded economic development (Kindleberger, 1978b, pp. 19-38). In the final quarter of the twentieth century, economies like those of Taiwan and South Korea, which have limited protectionism while favoring competitive export industries, have performed better than those less developed countries that have attempted to industrialize behind high tariff walls while pursuing a strategy of import substitution.

The nationalist's bias toward industry over agriculture also must get a mixed review. It is true that industry can have certain advantages over agriculture and that the introduction of industrial technology into a society has spillover effects that tend to transform and modernize all aspects of the economy as it upgrades the quality of the labor force and increases the profitability of capital.[9] Yet one must remember that few societies have developed without a prior agricultural revolution and a high level of agricultural productivity (Lewis, 1978a). In fact, certain of the most prosperous economies of the world, for example, Denmark, the American farm belt, and western Canada, are based on efficient agriculture (Viner, 1952). In all these societies, moreover, the state has promoted agricultural development.

One may conclude that the nationalists are essentially correct in their belief that the state must play an important role in economic development. A strong state is required to promote and, in some cases, to protect industry as well as to foster an efficient agriculture. Yet this active role of the state, though a necessary condition, is not a sufficient condition. A strong and interventionist state does not guarantee economic development; indeed, it might retard it. The sufficient condition for economic development is an efficient economic organization of agriculture and industry, and in most cases this is achieved through the operation of the market. Both of these political and economic conditions have characterized the developed economies and the rapidly industrializing countries of the contemporary international system.

It is important to realize that, whatever its relative merits or deficiencies, economic nationalism has a persistent appeal. Throughout modern history, the international location of economic activities has been a

[9] Cornwall (1977) provides a representative argument of the benefits of industry over agriculture in economic development.

leading concern of states. From the seventeenth century on states have pursued conscious policies of industrial and technological development. Both to achieve stable military power and in the belief that industry provides a higher "value added" (see Chapter Three, note 26) than agriculture, the modern nation-state has had as one of its major objectives the establishment and protection of industrial power. As long as a conflictual international system exists, economic nationalism will retain its strong attraction.

Critique of Marxist Theory

Marxism correctly places the economic problem—the production and distribution of material wealth—where it belongs, at or near the center of political life. Whereas liberals tend to ignore the issue of distribution and nationalists are concerned primarily with the *international* distribution of wealth, Marxists focus on both the domestic and the international effects of a market economy on the distribution of wealth. They call attention to the ways in which the rules or regimes governing trade, investment, and other international economic relations affect the distribution of wealth among groups and states (Cohen, 1977, p. 49).[10] However, it is not necessary to subscribe to the materialist interpretation of history or the primacy of class struggle in order to appreciate that the ways in which individuals earn their living and distribute wealth are a critical determinant of social structure and political behavior.

Another contribution of Marxism is its emphasis on the nature and structure of the division of labor at both the domestic and international levels. As Marx and Engels correctly pointed out in *The German Ideology*, every division of labor implies dependence and therefore a political relationship (Marx and Engels, 1947 [1846]). In a market economy the economic nexus among groups and states becomes of critical importance in determining their welfare and their political relations. The Marxist analysis, however, is too limited, because economic interdependence is not the only or even the most important set of interstate relations. The political and strategic relations among political actors are of equal or greater significance and cannot be reduced to merely economic considerations, at least not as Marxists define economics.

The Marxist theory of international political economy is also valuable in its focus on international political change. Whereas neither liberalism nor nationalism has a comprehensive theory of social change,

[10] The volume edited by Krasner (1982c) contains a wide-ranging discussion of the concept of international regimes.

Marxism emphasizes the role of economic and technological developments in explaining the dynamics of the international system. As embodied in Lenin's law of uneven development, the differential growth of power among states constitutes an underlying cause of international political change. Lenin was at least partially correct in attributing the First World War to the uneven economic growth of power among industrial states and to conflict over the division of territory. There can be little doubt that the uneven growth of the several European powers and the consequent effects on the balance of power contributed to their collective insecurity. Competition for markets and empires did aggravate interstate relations. Furthermore, the average person's growing awareness of the effects on personal welfare and security of the vicissitudes of the world market and the economic behavior of other states also became a significant element in the arousal of nationalistic antagonisms. For nations and citizens alike, the growth of economic interdependence brought with it a new sense of insecurity, vulnerability, and resentment against foreign political and economic rivals.

Marxists are no doubt also correct in attributing to capitalist economies, at least as we have known them historically, a powerful impulse to expand through trade and especially through the export of capital. The classical liberal economists themselves observed that economic growth and the accumulation of capital create a tendency for the rate of return (profit) on capital to decline. These economists, however, also noted that the decline could be arrested through international trade, foreign investment, and other means. Whereas trade absorbs surplus capital in the manufacture of exports, foreign investment siphons off capital. Thus, classical liberals join Marxists in asserting that capitalist economies have an inherent tendency to export goods and surplus capital.

This tendency has led to the conclusion that the nature of capitalism is international and that its internal dynamics encourage outward expansionism. In a closed capitalist economy and in the absence of technological advance, underconsumption, surplus capital, and the resulting decline in the rate of profit would eventually lead to what John Stuart Mill called "the stationary state" (Mill, 1970 [1848], p. 111). Yet, in an open world economy characterized by expanding capitalism, population growth, and continuing improvement in productivity through technological advance, there is no inherent economic reason for economic stagnation to take place.

On the other hand, a communist or socialist economy has no inherent *economic* tendency to expand internationally. In a communist economy, investment and consumption are primarily determined by

the national plan and, moreover, the state has a monopoly of all foreign exchange.[11] A communist economy may of course have a political or strategic motive for exporting capital, or it may need to invest abroad in order to obtain vital sources of raw materials. A Marxist regime may also find it profitable to invest abroad or to engage in other commercial transactions. Certainly the Soviet Union has been rightly credited on occasion with being a shrewd trader, and Ralph Hawtrey's point that the advent of a communist or socialist government does not eliminate the profit motive but merely transfers it to the state has some merit (Hawtrey, 1952). Nevertheless, the incentive structure of a communist society with its stress on prestige, power, and ideology is unlikely to encourage the economy's expansion abroad. The tendency is rather for economics to be subordinated to politics and the nationalistic goals of the state (Viner, 1951).

Marxists are certainly correct that capitalism needs an open world economy. Capitalists desire access to foreign economies for export of goods and capital; exports have a Keynesian demand effect in stimulating economic activity in capitalist economies, and capital exports serve to raise the overall rate of profit. Closure of foreign markets and capital outlets would be detrimental to capitalism, and a closed capitalist economy would probably result in a dramatic decline in economic growth. There is reason to believe that the capitalist system (certainly as we have known it) could not survive in the absence of an open world economy. The essential character of capitalism, as Marx pointed out, is cosmopolitan; the capitalist's ideology is international. Capitalism in just one state would undoubtedly be an impossibility.

In the nineteenth and twentieth centuries the dominant capitalist states, Great Britain and the United States, employed their power to promote and maintain an open world economy. They used their influence to remove the barriers to the free flow of goods and capital. Where necessary, in the words of Simon Kuznets, "the greater power of the developed nations imposed upon the reluctant partners the opportunities of international trade and division of labor" (Kuznets, 1966, p. 335). In pursuit of their own interests, they created international law to protect the property rights of private traders and investors (Lipson, 1985). And when the great trading nations became unable or unwilling to enforce the rules of free trade, the liberal system began its steady retreat. Up to this point, therefore, the Marxists are correct in their identification of capitalism and modern imperialism.

[11] Wiles (1968) presents a valuable analysis of the contrasting behavior of capitalist and communist economies.

The principal weakness of Marxism as a theory of international political economy results from its failure to appreciate the role of political and strategic factors in international relations. Although one can appreciate the insights of Marxism, it is not necessary to accept the Marxist theory that the dynamic of modern international relations is caused by the needs of capitalist economies to export goods and surplus capital. For example, to the extent that the uneven growth of national economies leads to war, this is due to national rivalries, which can occur regardless of the nature of domestic economies—witness the conflict between China and the Soviet Union. Although competition for markets and for capital outlets can certainly be a cause of tension and one factor causing imperialism and war, this does not provide an adequate explanation for the foreign policy behavior of capitalist states.

The historical evidence, for example, does not support Lenin's attribution of the First World War to the logic of capitalism and the market system. The most important territorial disputes among the European powers, which precipitated the war, were not those about overseas colonies, as Lenin argued, but lay within Europe itself. The principal conflict leading to the war involved redistribution of the Balkan territories of the decaying Ottoman Empire. And insofar as the source of this conflict was economic, it lay in the desire of the Russian state for access to the Mediterranean (Hawtrey, 1952, pp. 117-18). Marxism cannot explain the fact that the three major imperial rivals—Great Britain, France, and Russia—were in fact on the same side in the ensuing conflict and that they fought against a Germany that had few foreign policy interests outside Europe itself.

In addition, Lenin was wrong in tracing the basic motive force of imperialism to the internal workings of the capitalist system. As Benjamin J. Cohen has pointed out in his analysis of the Marxist theory of imperialism, the political and strategic conflicts of the European powers were more important; it was at least in part the stalemate on the Continent among the Great Powers that forced their interstate competition into the colonial world (Cohen, 1973). Every one of these colonial conflicts (if one excludes the Boer War) was in fact settled through diplomatic means. And, finally, the overseas colonies of the European powers were simply of little economic consequence. As Lenin's own data show, almost all European overseas investment was directed to the "lands of recent settlement" (the United States, Canada, Australia, South Africa, Argentina, etc.) rather than to the dependent colonies in what today we call the Third World (Lenin, 1939 [1917], p. 64). In fact, contrary to Lenin's view that politics follows investment, international finance during this period was largely a servant of foreign pol-

icy, as was also the case with French loans to Czarist Russia.[12] Thus, despite its proper focus on political change, Marxism is seriously flawed as a theory of political economy.

Three Challenges to a World Market Economy

Despite its serious limitations as a theory of the market or the capitalist world economy, Marxism does raise three issues that cannot be easily dismissed and that are crucial to understanding the dynamics of international relations in the contemporary era. The first is the economic and political implications of the process of uneven growth. The second is the relationship of a market economy and foreign policy. The third is the capacity of a market economy to reform and moderate its less desirable features.

The Process of Uneven Growth

There are two fundamentally opposed explanations for the fact that uneven economic growth tends to lead to political conflict. Marxism, especially Lenin's law of uneven development, locates the sources of the conflict in the advanced capitalist economies' need to export surplus goods and capital and to engage in imperialistic conquest. Political realism holds that conflict among states over economic resources and political superiority is endemic in a system of international anarchy. From the realist perspective, the process of uneven growth generates conflict between rising and declining states as they seek to improve or maintain their relative position in the international political hierarchy.

As already argued, there appears to be no reliable method to resolve this controversy and choose one theory over the other. Both Marxism and political realism can account for the tendency of uneven growth to cause political conflict among states. Awkward facts and contrary evidence can easily be "explained away" by the use of ad hoc hypotheses. As neither of these theories appears capable of meeting the test of falsifiability, scholars of international political economy are forced to identify with one or another depending on their assumptions about the relationship of international economics and international politics.

My position on this issue is that of political realism; the process of uneven growth stimulates political conflict because it undermines the international political status quo. Shifts in the location of economic activities change the distribution of wealth and power among the states

[12] Herbert Feis (1964 [1930]) and Eugene Staley (1935) have effectively made this argument.

in the system. This redistribution of power and its effect on the standing and welfare of individual states accentuate the conflict between rising and declining states. If this conflict is not resolved it can lead to what I have elsewhere called a "hegemonic war" whose ultimate result is to determine which state or states will be dominant in the new international hierarchy (Gilpin, 1981). A realist interpretation, I believe, is far superior to that of Marxism in explaining the relationship of uneven growth and political conflict.

Thus, in contrast to Lenin's use of the "law of uneven development" to explain the First World War, one can counterpose Simon Kuznets' essentially realist explanation. In his *Modern Economic Growth*, Kuznets interrupts his detailed analysis of economic growth to inquire whether a connection existed between the phenomenon of economic growth and the first great war of this century (Kuznets, 1966).

Kuznets first emphasizes the great growth in power that preceded the outbreak of the war. "The growing productive power of developed nations, derived from the science-oriented technology that played an increasing role in modern economic growth, has meant also greater power in armed conflict and greater capacity for protracted struggle" (Kuznets, 1966, p. 344). Together, continuing capital accumulation and modern technology had enabled nations to conduct wars of unprecedented magnitude.

Second, Kuznets regards such great wars as the "ultimate tests of changes in relative power among nations, tests to resolve disagreements as to whether such shifts have indeed occurred and whether the political adjustments pressed for are really warranted" (Kuznets, 1966, p. 345). In other words, the role of war is to test whether the redistribution of power in the system wrought by economic growth has operated to change the fundamental balance of power in the system, and if the balance has shifted, then consequent political and territorial adjustments reflecting the new distribution are to be expected. In an age of rapid and continuous economic growth there will be frequent and significant shifts of relative economic, and hence of military, power. "If wars are needed to confirm or deny such shifts, the rapidity and frequency with which shifts occur may be the reason for the frequent conflicts that serve as tests" (ibid.). Thus a great war is caused by the uneven growth of state power.

And, finally, Kuznets argues that "major wars are associated with the emergence in the course of modern economic growth of several large and developed nations" (Kuznets, 1966, p. 345). A century of uneasy peace had been possible because, during much of the period, there was only one large advanced country generating economic growth. The

emergence of other industrialized and growing societies, especially Germany after 1870, eventually led to hegemonic war. The emergence of several large economically developed countries is the necessary, if not sufficient, condition for the occurrence of world wars. "In this sense it was a century of Pax Britannica that ended when the leading country could no longer lead and impose its peace on such a large part of the world" (ibid.). It seems impossible to say more than this about the connection between economic growth and military conflict.

Market Economies and Foreign Policy

Another Marxist criticism of a market or capital society is that it tends to pursue an aggressive foreign policy. Liberals, of course, take the opposite position that capitalist economies are fundamentally pacific. For example, Joseph Schumpeter in his essay on imperialism argued that capitalists are antibellicose and modern wars are due to the holdover of precapitalist "vestigial" social structures (Schumpeter, 1951). In a truly capitalist society, he maintained, the foreign policy would be pacifist.[1] Marxists, liberals, and nationalists have long debated the issue of whether economic interdependence is a source of peaceful relations or a source of conflict among nation-states. Liberals believe that the mutual benefits of trade and the expanding web of interdependence among national economies tend to foster cooperative relations. They believe, as Norman Angell tried to demonstrate in his famous *The Great Illusion* (1910), written four years prior to the First World War, that war has become unthinkable because it is antithetical to modern industrial society and does not pay. But for nationalists, trade is merely another arena for international competition, because economic interdependence increases the insecurity of states and their vulnerability to external economic and political forces.

From Montesquieu's statement that "peace is the natural effect of trade," through the writings of John Bight and Richard Cobden in the nineteenth century, to contemporary theorists of functionalism and economic interdependence, liberals have viewed international economics as separable from politics and as a force for peace. Whereas politics tends to divide, economics tends to unite peoples. Trade and economic interdependence create bonds of mutual interest and a vested interest in international peace and thus have a moderating influence on international relations.

The basic assumption of Marxists and economic nationalists, on the

[1] Michael Doyle (1983) has argued in an excellent two-part article that liberal economies, which he—in contrast to Schumpeter—distinguishes from capitalist ones, do in fact have a low propensity to war in comparison with other liberal societies.

other hand, is that international interdependence is not only a cause of conflict and insecurity, but it creates dependency relations among states. Because interdependence is never symmetrical, trade becomes a source for increasing the political power of the strong over the weak. Therefore Marxists and economic nationalists advocate policies of economic autarky.

The historical record does not lend much support to either position; the patterns of economic and political relations are highly contradictory. Political antagonists may be major trading partners, as was the case with Great Britain and Germany in the First World War; or, as was the case with the United States and the Soviet Union after the Second World War, they may have negligible economic intercourse. What the evidence suggests is that whether trade aggravates or moderates conflicts is dependent upon the political circumstances. Attention, therefore, should be given to interrelated factors that appear to influence the ways in which trade affects international political relations.

The first factor affecting the political consequences of trade is the existence or absence of a dominant or hegemonic liberal power that can establish and manage the international trading system. The great eras of economic interdependence have been identified with the unchallenged supremacy of hegemonic trading power such as Great Britain in the nineteenth century and the United States after the Second World War. When the domination of these powers waned and they were challenged by rising powers, trade conflicts increased.

The second factor determining the political effects of trade is the rate of economic growth in the system. Although it is true that the decline of protectionism and the enlargement of world markets stimulates economic growth, the corollary is also true; a rapid rate of economic growth leads to increasing trade and economic interdependence. By the same token, a slowdown in the rate of economic growth makes adjustment difficult, intensifies international trade competition, and exacerbates international political relations.

The third factor affecting the political results of trading relations is the degree of homogeneity or heterogeneity of industrial structure, which in turn determines the composition of imports and exports (Akamatsu, 1961). Although it is true that industrial nations trade more with one another than with nonindustrial countries, when nations have highly homogeneous or even similar industrial structures and exports, competitive trading relations and commercial conflict frequently result in periods of economic stagnation (Hicks, 1969, pp. 56-57). By the same token, heterogeneity of industrial structure tends to produce complementary trading relations. Thus, the heterogeneity of the industrial structures of Great Britain and other nations in the early and mid-

nineteenth century resulted in generally harmonious trading relations. As other nations industrialized by the end of the century, commercial conflict became intense. The same phenomenon may be observed in the contemporary era, as rising industrial powers such as Japan and the newly industrializing countries (NICs) overtake and surpass the United States.

The major point to be made in these matters is that trade and other economic relations are not in themselves critical to the establishment of either cooperative or conflictual international relations. No generalizations on the relationship of economic interdependence and political behavior appear possible. At times economic intercourse can moderate and at others aggravate these relations. What can be said with some justification is that trade is not a guarantor of peace. On the other hand, the collapse of trade has frequently led to the outbreak of international conflict (Condliffe, 1950, p. 527). In general, the character of international relations and the question of peace or war are determined primarily by the larger configurations of power and strategic interest among both the great and small powers in the system.

The Significance of Welfare Capitalism

The third problem raised by the the Marxist critique of a market or capitalist economy is its capacity to reform itself. At the heart of the debate between Lenin and Kautsky on the future of capitalism was the possibility that capitalism could eliminate its worst features. For Kautsky and the social democrats, the peaceful transition of capitalism into socialism was possible as a result of the growth of workers' strength in the Western democracies. To Lenin this seemed impossible and in fact absurd because of the very nature of a capitalist economy:

> 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 [read Kautsky] advance on every occasion. But if capitalism did these things it would not be capitalism; for uneven development and wretched conditions of the masses are fundamental and inevitable conditions and premises of this mode of production (Lenin, 1939 [1917], pp. 62-63).

Leaving aside the tautological nature of Lenin's argument, what he described as an impossibility under capitalism now exists in the welfare states of the mid-twentieth century. Even if one admits that the welfare state was forced on the capitalist class by the working class, the crucial point is that it has largely addressed all three of the Marxist laws of cap-

TABLE 1. Nullification of Marxist Laws by Welfare States

Marxist Law	*Welfare State*
(1) Law of Disproportionality	Demand management through fiscal and monetary policy
(2) Law of Accumulation	Income redistribution through progressive income tax and transfer payments Support for trade unions Regional and small businesspolicies
(3) Law of the Falling Rate of Profit	Government support of education and research to increase the efficiency of all factors of production

italism and has satisfied most of Lenin's requirements for a reformed capitalism, that is, a capitalism that guarantees full employment and the economic welfare of the masses. The productivity of agriculture has been vastly increased through government support of research programs, the progressive income tax and other programs involving transfer payments have significantly redistributed income, and the advent of Keynesian economics and demand management through fiscal and monetary policy have moderated the operation of the "law of disproportionality" and dampened cyclical fluctuations through the stimulation of consumer demand.

In addition, government regulations and antitrust policies decrease the concentration of capital while government support of mass education and industrial research and development increases the efficiency and profitability of both labor and capital. As Joseph Schumpeter has written, capitalism is the first economic system to benefit the lower rungs of society (Schumpeter, 1950). Indeed, one can argue that capitalism has done all those things that Lenin predicted it could not do and has done so even though the reforms of capitalism embodied in the welfare state were initially strongly resisted by the capitalist class.[14] (See Table 1.) In fact, the expansion of capitalism following the Second World War produced the greatest era of general economic prosperity in the history of the world.

[14] Contemporary Marxists themselves have attempted to explain this anomaly in Marxist theory by arguing that the capitalist state is semiautonomous and can take actions that, though contrary to the interests of individual capitalists, are in the interest of the preservation of capitalism as a system. Such arguments among Marxists over the theory of the state have become highly scholastic (Carnoy, 1984). These theories are not convincing and, like Lenin's theory of imperialism, are best regarded as ad hoc hypotheses that seek to explain away the predictive failures of Marxist theory rather than asextensions of the theory.

However, the Marxist critique of a capitalist or global market economy still cannot be easily dismissed; it raises an important question regarding the future of the market system. Although capitalism by itself cannot be held accountable for imperialism and war and although it has survived numerous crises and has proved that it could be highly flexible and reform itself, its continued existence is still problematic. Therefore let us turn directly to the question of the capacity of welfare capitalism to survive in the rapidly changing world of nation-states in the final years of this century.

Welfare Capitalism in a Non-Welfare Internationalist Capitalist World

Despite capitalism's successes and domestic reforms, one can reasonably argue that Lenin's fourth law of uneven development remains in force, and that this will eventually doom capitalism and the liberal market economy. It is possible that, with the advent of the welfare state, the inherent contradictions of capitalism have simply been transferred from the domestic level of the nation-state to the international level. At this level there is no welfare state; there is no world government to apply Keynesian policies of demand management, to coordinate conflicting national policies, or to counter tendencies toward economic disequilibrium. In contrast to domestic society, there is no state to compensate the losers, as is exemplified in the dismissal by wealthy countries of the demands of the less developed countries for a New International Economic Order (NIEO); nor is there an effective international government response to cheating and market failures.

In the anarchy of international relations, the law of uneven development and the possibility of intracapitalist clashes still applies. One could even argue that the advent of national welfare states has accentuated the economic conflicts among capitalist societies (Krauss, 1978). The new commitment of the capitalist welfare state to full employment and domestic economic well-being causes it to substitute interventionist policies for the free play of market forces and thereby brings it into conflict with the policies of other states pursuing a similar set of economic goals.

Welfare states are potentially highly nationalistic because governments have become accountable to their citizenry for the elimination of economic suffering; sometimes the best way to achieve this goal is to pass on economic difficulties to other societies. In times of economic crisis public pressures encourage national governments to shift the burdens of unemployment and economic adjustment to other societies;

thus, economic and interstate competition through the market mechanism subtly shifts to interstate conflict for economic and political advantage. This nationalistic struggle to gain economic advantage and to shift the costs of economic distress to others again threatens the future of international capitalism.

The issue of the future of capitalist society in the era of the welfare state is central to the question of the applicability of the core of Marx's general theory of historical development to the world of the late twentieth century. One proposition of Marx's theory was that "no social order ever perishes before all the productive forces for which there is room in it have developed; and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society itself" (Marx, 1977 [1859], p. 390), that is, one mode of production is not transcended by the next until it has exhausted its inherent productive potential. Each phase of human experience, according to Marxism, has its own historical mission to fulfill in elevating human productive capacities and thereby setting the stage for the phase to follow. Each mode advances until further progress is no longer possible; then historical necessity dictates that the fetters holding back society are removed by the class chosen to carry it to the next level of material achievement and human liberation.

The implications of this formulation are intriguing for the future of capitalism envisioned by Marxist theory. According to Marx, the historical function of capitalism was to develop the world and its productive potential and then to bequeath to its heir, socialism, a fully developed and industrialized world economy. Although Marx provided no timetable for this cataclysmic event to take place, he lived out his life in the expectation that the revolution was imminent.

As Albert Hirschman has shown, Marx failed to recognize (or more likely suppressed) the significance of these ideas for his analysis of the eventual demise of capitalism, that is, if no mode of production comes to an end until it plays out its historical role and if the assigned task of capitalism is to develop the world, then the capitalist mode of production has many decades, perhaps centuries or even millennia, yet to run (Hirschman, 1981, ch. 7). If one further discounts, as Marxists do, the "limits to growth" argument, capitalism's assigned task of the economic development of the planet, including its oceans and nearby space, will require a very long time indeed.

Hirschman suggests that this must have been an uncomfortable thought for Marx, who until his dying day was so frequently disappointed in his longing to see the coming of the revolution. In Hirschman's view, this explains why Marx focused on European capitalism

as a closed rather than an open economy and why he failed to develop a theory of imperialism even though one would have expected this of him as an assiduous student of Hegel. As Hirschman points out, Hegel anticipated all subsequent theories of capitalist imperialism.

Hirschman concludes that Marx, in his own writings, suppressed Hegel's theory of capitalist imperialism because of its disturbing implications for Marx's predictions concerning the survivability of capitalism. If no social system is displaced by another until it exhausts the productive potential inherent in it, then an imperialistic capitalism as it expands beyond Europe into Asia, Africa, and elsewhere will add new life to the capitalist mode of production. Through the mechanisms of overseas trade and foreign investment, the inevitable collapse of capitalism may thus be postponed for centuries. Indeed, if such a collapse must await the elevation of the developing world to the economic and technological levels of the most advanced economy, then in a world of continuing technological advance, the requisite full development of the productive capacities of capitalism may never be reached.

Rosa Luxemburg appears to have been the first major Marxist theorist to appreciate the historic significance of this reasoning; she argued that as long as capitalism remains an open system and there are underdeveloped lands into which the capitalist mode of production can expand, Marx's prediction of economic stagnation and political revolution will remain unfulfilled.[15] In response to this troubling (at least for Marxists) prospect, Lenin's *Imperialism*, as noted earlier, transformed the Marxist critique of international capitalism. He argued that although capitalism does develop the world and is an economic success, the closing-in of political space through capitalist imperialism and the territorial division of the globe among rising and declining capitalist powers leads to international conflict. Thus, Lenin argued that the masses would revolt against capitalism as a war-prone political system rather than as a failed economic system.

Whether or not one accepts these several formulations and reformulations of Marxist thought, they do raise a fundamental issue. As Marx himself pointed out, the logic of the dynamics of a market or capitalist economy is expansive and international. The forces of the market reach out and bring the whole world within their confines, and they are destructive of traditional ways. The basic anarchy of the market mechanism produces instabilities in the lives of individuals and whole societies.

The modern welfare state and protectionism have developed to cush-

[15] Rousseas (1979) is an excellent discussion of her views.

ion these deleterious effects, and herein lies the most serious problem for the capitalist system and its survival. As Keynes appreciated, the logic of the welfare state is to close the economy, because the government must be able to isolate the economy from external restraints and disturbances in order to control and manage it. The international flow of trade, money, and finance undermines the Keynesian management of an economy by decreasing domestic policy autonomy. Goods, Keynes wrote at the height of the Great Depression, should be "homespun" (Keynes, 1933), and capital should stay at home where it can benefit the nation and the nation's working class.

Thus, the logic of the market economy as an inherently expanding global system collides with the logic of the modern welfare state. While solving the problem of a closed economy, the welfare state has only transferred the fundamental problem of the market economy and its survivability to the international level. The problem of reconciling welfare capitalism at the domestic level with the nature of the international capitalist system has become of increasing importance.

The resolution of this basic dilemma between domestic autonomy and international norms is essential to the future viability of the market or capitalist economy. How can one reconcile these two opposed means of organizing economic affairs? Which will prevail—national economic interventionism or the rules of the international market economy? What are the conditions that promote peace and cooperation among market economies? Is a dominant or hegemonic power required to resolve the conflict? A look at the past successes and failures of international capitalism reveals that temporary resolutions of this dilemma or failures to resolve it have been crucial in recent history. In the 1980s the future of the world market economy and the continuing survival of the capitalist mode of production are dependent upon solutions developed or not developed by the United States and its major economic partners.

In another guise this was the problem posed by Richard Cooper in his influential book, *The Economics of Interdependence* (1968). An increasingly interdependent world economy requires either an international agreement to formulate and enforce the rules of an open world market economy and to facilitate the adjustment of differences or a high degree of policy coordination among capitalist states. Without one or the other, a market economy will tend to disintegrate into intense nationalist conflicts over trade, monetary arrangements, and domestic policies. With the relative decline of American power and its ability or willingness to manage the world economy, this issue has become preeminent in the world economy. If there is no increase in policy

coordination or decrease in economic interdependence among the leading capitalist economies, the system could indeed break into warring states, just as Lenin predicted.

The long-term survivability of a capitalist or international market system, at least as we have known it since the end of the Second World War, continues to be problematic. Although the welfare state "solved" the problem of domestic capitalism identified by Marx, continuing conflicts among capitalist societies over trade, foreign investment, and international monetary affairs in the contemporary world remind us that the debate between Lenin and Kautsky over the international nature of capitalism is still relevant. As American power and leadership decline due to the operation of the "law of uneven development," will confrontation mount and the system collapse as one nation after another pursues "beggar-my-neighbor" policies, as Lenin would expect? Or, will Kautsky prove to be correct that capitalists are too rational to permit this type of internecine economic slaughter to take place?

Conclusion

The foregoing analysis of economic ideologies leads to three general propositions. The first is that the global or territorial distribution of economic activities, especially of industry and technology, is a central concern of modern statecraft; behind the technical discussions of trade, foreign investment, and monetary affairs are conflicting national ambitions and the fundamental question of "who is to produce what and where." The second point is that the international division of labor is a product of both national policies and relative efficiency; although states can and do ignore the market as they seek to influence the location of economic activities, this entails economic costs; the price mechanism operates to transform national efficiencies and international economic relations over the long run. And third, due to these changes and the uneven growth of national economies, the inherent stability of the international market or capitalist system is highly problematic; it is the nature of the dynamics of this system that it erodes the political foundations upon which it must ultimately rest and thereby raises the crucial question of finding a new political leadership to ensure the survival of a liberal international economic order.