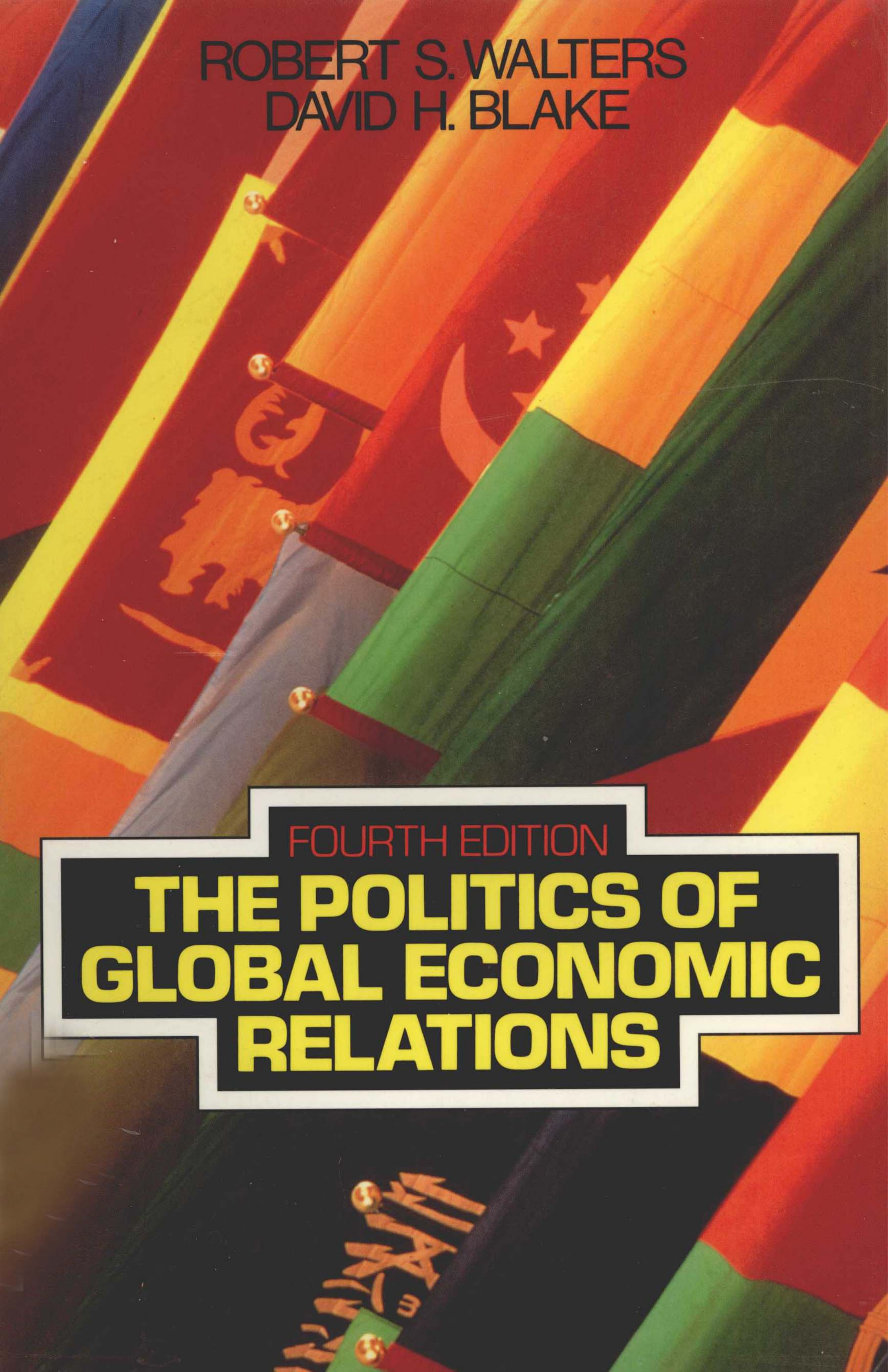

ROBERT S. WALTERS
DAVID H. BLAKE

FOURTH EDITION

THE POLITICS OF GLOBAL ECONOMIC RELATIONS

Fourth Edition

THE POLITICS OF GLOBAL ECONOMIC RELATIONS

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PREFACE

It has been fifteen years since the first edition of this book appeared. The analytical and topical foci used to organize this survey of the politics of international economic relations continue to serve us well. Readers familiar with the volume will see the same structure here as in earlier editions. Crises, altered trends, and new preoccupations in political-economic relations have required us, however, to change much of the content with the appearance of each new edition. The fourth edition is certainly no exception.

It seems to have become commonplace recently for events of major proportions to catch decision makers and analysts of international political and economic affairs off guard, only to have them later appear quite understandable in terms of forces known to be present all along. Yet, if we fully understood these forces, we should not be so shocked by developments as they unfold. It has been a period to humble serious analysts of international relations, ourselves among them.

Problems of policy coordination among the major economies in managing currency alignments during October 1987 precipitated the worst stock market crash in half a century. A decade witnessing an astounding economic performance by the United States has left it with trade and fiscal deficits that defy politically acceptable solutions. Together, they have made the management of United States domestic economic policy more vulnerable than ever to international economic developments. Japan replaced the United States as the world's largest creditor. There were fears in the United States that it was losing its technological and economic leadership to Japan and the European Economic Community on course to the creation of a single internal market in 1992. Mikhail Gorbachev unleashed reforms in the USSR and East Europe that resulted in the loss of Soviet control over East Europe and the overthrow of Communist regimes throughout the region. These developments seemed to have ended the Cold War on the West's terms and to have launched a process to reintegrate these nations with the global economy. At the same time, however, they have rekindled ethnic and nationality conflicts as well as challenges to political legitimacy that threaten the stability of countries in the region, including the Soviet Union itself. After bold experimentation during the 1980s with economic reforms going well beyond those of Communist states before, China shocked the world with its repression of students demanding democracy in June 1989. The likely course of its political and economic ties with the West have been less clear since. The world lurched into a war with Iraq during 1991 in an effort to evict it from its stunning occupation of Kuwait—marking the third time since 1973 that war and oil markets were linked in the Middle East. The United States' role in the war underlined its unique capacity to project political, economic, and military power relative to other major states in the international system—the USSR, Germany, and Japan. These developments and many others are discussed in this new edition of *The Politics of Global Economic Relations*. They are embedded in the more enduring features of the international political economy surveyed in the earlier editions.

The fourth edition also marks a change in the division of labor between the authors. David Blake assumed a new position as Dean of the Edwin L. Cox School of Business at Southern Methodist University during this revision. He contributed the chapter on multinational firms. Robert Walters assumed responsibility for the other chapters in the volume. Both of us hope the responsibilities of deaning at SMU will become routinized in a fashion that permits Dave to resume a greater role in future revisions. Our collaboration on subjects related to this book has kept us close personal friends as well as colleagues for twenty years.

We wish to thank, once again, all of the students and faculty who continue to find this volume relevant to their work. This is particularly gratifying in light of the greater knowledge all of them have about international political economy compared to our readers in 1976—and in light of the abundant materials now available on the subject matter.

R.S.W. and D.H.B.

CONTENTS

1

Introduction: Economic Transactions and World Politics

Since the early 1970s we have been undergoing a key transition in American foreign policy that in some respects is even more profound than the dramatic foreign policy moves made by the United States immediately following World War II. The Bretton Woods system, membership in the United Nations, the Truman Doctrine, Marshall aid, NATO, and the construction of a complex of alliance systems ringing the Communist world are commonly viewed as evidence of that turning point in United States history when we abandoned our tradition of isolationism (however different its face in different parts of the globe). Through these instruments the United States was seen as having moved into a series of multilateral commitments that saddled it with tremendous responsibilities abroad and circumscribed American freedom of action in ways that the United States has found unacceptable in the past. But the United States since the 1970s has confronted a series of foreign economic challenges that are resulting in even more constraints on its freedom of action than did the agreements in the 1940s.

As an isolationist, the United States could maximize freedom of action in its international relations (economic and political) by avoiding formal commitments; this was a basic theme, for example, in opposition to American membership in the League of Nations. Following World War II, when the United States did bind itself by numerous multilateral commitments in the economic and political spheres, it did so from a clearly preeminent position and, thus, was able in substantial measure to shape the various agreements to conform to American interests. The postwar multilateral agreements were typically of a sort that committed all member states to abide by specified global norms of liberal economic behavior, which, while ensuring benefits for these countries, also underlined American preeminence. Global norms of economic liberalism reflected American political-economic philosophy and policy preferences. These commitments had the net effect of ensuring America's freedom of action in the globe rather than circumscribing it.

In more recent decades, however, the United States has had to reformulate its foreign economic and political relations to take into account new global realities. America has moved from virtual self-sufficiency in energy to extensive reliance on oil imports. Europe, through the creation of the Common Market, has transformed itself from a junior partner of America to a giant economic rival/partner. Plans for eliminating all remaining barriers to a single market among the twelve member states of the Common Market in 1992 underscore a renewed momentum toward European economic integration, posing a significant challenge/opportunity for American international economic leadership. Japan's economic miracle and vigorous promotion of exports now threaten the vitality of key industries (such as automobiles, steel, and semiconductors) and hundreds of thousands of jobs in the United States. In numerous rapidly growing economic fields such as telecommunications, computers, ceramics, fiber optics, superconductivity, and biogenetics, the Japanese are also threatening American supremacy in commercial applications of new process and product technologies. In the 1980s Japan's international financial position came to parallel its trade strength, replacing the United States as the world's largest creditor. Newly industrializing countries in Asia and Latin America have assumed an important position in the international economy as trading partners/competitors with the United States. As leading international debtors, less developed states occupy an important role affecting international financial stability and the health of some heavily exposed U.S. banks. The world's confidence in the dollar waxes and wanes in an era of flexible exchange rates. The United States now relies on attracting foreign capital to sustain investment and to finance its huge federal budget deficits. Its domestic economic policy and politics are driven intermittently by the imperatives of managing foreign capital flows and the exchange rate of the dollar in ways only dimly appreciated by most Americans. These and other developments have combined to produce an evolution toward a new global economic and political order in which American preeminence must either decline or be retained at substantially escalated domestic and international costs.

The political significance of global economic relations goes well beyond this contemporary transition in the international position of the United States. The increased sensitivity in economic interdependence among virtually all states compels us to assess the political implications of international economic transactions everywhere. Even if economic transactions between states have grown at a slower rate than have economic transactions within them,[1] the volume and speed with which economic

[1]See K. Deutsch and A. Eckstein, "National Industrialization and the Declining Share of the International Economic Sector, 1890–1959," *World Politics*, 13, no. 2 (January 1961), 267–99; and K. Waltz, "The Myth of National Interdependence," in *The International Corporation*, ed. C. Kindleberger (Cambridge, Mass.: M.I.T. Press, 1970), p. 208.

resources can now be transferred between states places tremendous economic and political strains upon them. For example, modern communications and the management capabilities of giant international banks and corporations, which command assets greater than the gross national products of most states, allow massive capital transfers in response to disparities in the market conditions (interest rates, growth rates, wage levels, and so on) and the political milieus of various states.[2] Long-term investments by these economic actors and the movement of their liquid assets in international monetary markets can undermine domestic economic and political programs and produce severe conflicts between states. Indeed, some observers of these banks and corporations have argued that they may ultimately undermine the contemporary nation-state system itself.[3]

Analysts of world politics develop conceptual frameworks to address international challenges they perceive to be of overriding importance. Almost without exception, American specialists in international politics for the two decades following World War II saw the Cold War and the defense of the non-Communist world as the primary focus of U.S. foreign relations. As a consequence, they relied heavily upon paradigms in which security and power relations among states were deemed central to world politics. The dominant paradigm (political realism) led to a focus upon states as sole or primary actors in world politics,[4] and except insofar as economic instruments (such as aid and trade) were employed directly in power struggles between states, the distribution of benefits from domestic and international economic relations were seen as lying outside the boundaries of international politics.[5] Within this analytical tradition, international economic transactions such as trade and monetary affairs were typically looked upon as essentially nonpolitical relationships. They were seen as being managed, in the non-Communist world at least, according to politically neutral, technical criteria and administered by functionally specific ("nonpolitical") international organizations such as the General Agreement on Tariffs and Trade and the International Monetary Fund. The study of such affairs was left to international economists, international lawyers, and students of international organizations—most of whom neglected to analyze the larger significance of such transactions (and of international economic organizations themselves) in world politics.

In short, the conceptual frameworks used most frequently by American analysts of world politics in the early postwar period tended to relegate economic relationships to the margins of inquiry; the interrelationships between domestic and international politics were seldom examined systematically; and actors other than states received scant attention in studies of

[2]For an elaboration of the sensitivity of international economic interdependence and its substantive implications, see Richard Cooper, "Economic Interdependence and Foreign Policy in the Seventies," *World Politics*, 24, no. 2 (January 1972), 159–81. See also Chapter 7 of this book.

[3]See Frank Tannenbaum, "The Survival of the Fittest," *Columbia Journal of World Business*, 3, no. 2 (March–April, 1968), pp. 13–20.

[4]See Hans Morgenthau, *Politics Among Nations*, 4th ed. (New York: Knopf, 1967).

[5]Ibid., pp. 25–26.

international politics. Marxist analyses dealing explicitly with interests and relationships neglected in the dominant analytical tradition of American scholarship on international politics were virtually ignored.

Changes in international economic relations confronting American decision makers over the past two decades have prompted numerous efforts at reconceptualizing relations in ways that capture international political-economic behavior better than the power and security focus of political realism. Such paradigms place economics alongside of military security as questions of "high politics." Multinational firms, international banks, transnational policy networks of like-minded technocrats, international economic institutions, and economic classes are analyzed in addition to states as key actors in international relations. The logic of markets uniting countries in a global division of labor competes with the logic of the power and security dilemma in ordering relations within and among states.[6]

Despite the richness of these efforts at conceptualization, no single paradigm has assumed a position of orthodoxy in the 1970s and 1980s approximating that enjoyed in the United States by political realism during the quarter century following World War II. No attempt to fill the gap will be made in this volume. Instead, our aim is to describe more richly and explain more adequately the political significance of various relationships by contrasting assumptional bases that underlie alternative views of political and economic behavior. The chapters that follow examine the major substantive areas of trade, monetary relations, foreign investment, aid, technology transfers, alternative economic strategies for poor states, and the formulation of foreign economic policy in the United States. Each of these areas, and the interdependencies among them, will be described in terms of how they affect political relations among rich states as well as how they affect relations between rich and poor states. In addition, we will examine how various conceptual frameworks lead to alternative conclusions about which policies are most appropriate for resolving conflicts of interest among states and other actors.

Without attempting to force all analyses of global economic relations into one or the other of the following schools of thought, the major clash in description, explanation, prediction, and policy prescription relating to these problems over the years has been between those analysts and decision makers subscribing to the assumptions of classical liberal economic thought and those subscribing to the assumptions of what Americans refer to as

[6]See, particularly, Robert Keohane and Joseph Nye, *Power and Interdependence* (Boston: Little, Brown, 1977); Robert Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984); Edward Morse, *Modernization and the Transformation of International Relations* (New York: Free Press, 1976); Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978); Stephen Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983); Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981) and *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987); Immanuel Wallerstein, *The Modern World System* (New York: Academic Press, 1976) and *The Capitalist World Economy* (Cambridge: Cambridge University Press, 1979); Robert Cox, *Production, Power and World Order* (New York: Columbia University Press, 1987); and Susan Strange, *States and Markets* (New York: Basil Blackwell, 1988).

radical thought.[7] The classical liberal economic approach is evident in the works of numerous analysts[8] as well as in the basic contemporary foreign economic policy orientations of the United States and other governments of advanced industrial societies in the West. They are evident as well in the policy orientations of key international economic institutions such as the General Agreement on Tariffs and Trade, the International Monetary Fund, and the International Bank for Reconstruction and Development. Examples of radical thought can be found in the works of Cold War revisionists, analysts of contemporary American imperialism, neo-Marxian political economists, world systems theorists, and *dependencia* theories of Latin American relations in a capitalist international system.[9]

Although there are many differences of opinion among the decision-makers and scholars within each of these two general schools of thought, there are nevertheless certain basic assumptions that are shared widely by the adherents of each school; these assumptions distinguish clearly the two orientations. In particular, there are important differences between the two schools' basic assessments of the primary values underlying actions taken by decision makers on behalf of states, the distribution of benefits from international economic relations, the degree and patterns of conflict inherent in international economic relations, and the location of the major obstacles to the achievement of national economic aspirations. Taken together, these assumptional differences produce such contrary understandings of the purposes, payoffs, and processes characterizing international

[7]The term *radical* as used here comes from Marxist economists in the United States who, themselves, took the name during the late 1960s in the Radical Union of Political Economists. Throughout this volume *radical* connotes a disparate body of classical and neo-Marxist observers as well as derivative work such as that found in world systems analysis.

[8]Harry Johnson, *Economic Policies Toward Less Developed Countries* (Washington, D.C.: The Brookings Institution, 1967); "The Link That Chains," *Foreign Policy*, No. 8 (Fall 1972), 113–19; and "The Multinational Corporations as an Agency of Economic Development: Some Explanatory Observations," in *The Widening Gap*, ed. Barbara Ward (New York: Columbia University Press, 1971), pp. 242–52. See also, Richard Cooper, *The Economics of Interdependence* (New York: McGraw-Hill, 1968); Leland Yeager, with David Tuerck, *Foreign Trade and U.S. Policy* (New York: Praeger, 1976); Robert Lawrence, *Can America Compete?* (Washington, D.C.: The Brookings Institution, 1984), and, with Robert Litan, *Saving Free Trade* (Washington, D.C.: The Brookings Institution, 1986); and Richard Cooper, *Economic Policy in an Interdependent World* (Cambridge: M.I.T. Press, 1986).

[9]William Appleman Williams, *The Tragedy of American Diplomacy* (New York: Dell, 1959); David Horowitz, *The Free World Colossus* (New York: Hill and Wang, 1971); Gabriel Kolko, *The Limits of Power* (New York: Harper & Row, 1972); Harry Magdoff, *The Age of Imperialism* (New York: Monthly Review Press, 1969); Susanne Bodenheimer, "Dependency and Imperialism: The Roots of Latin American Underdevelopment," in *Readings in U.S. Imperialism*, eds. K. T. Fann and D. C. Hodges (Boston: Porter Sargent, 1971), pp. 155–82; André Gunder-Frank, "Sociology of Development and Underdevelopment of Sociology," in *Dependence and Underdevelopment*, eds. J. Cockcroft, A. G. Frank, and D. Johnson (Garden City, N.Y.: Doubleday, 1972), pp. 321–98; Johan Galtung, "A Structural Theory of Imperialism," *Journal of Peace Research*, 8, no. 2 (1971), 81–117; Fernando Cardoso, with Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979); Arghiri Emmanuel, *Unequal Exchange: A Study of the Imperialism of Trade* (New York: Monthly Review Press, 1972); Samir Amin, *Accumulation on a World Scale: A Critique of the Theory of Development*, 2 vols. (New York: Monthly Review Press, 1974); and Immanuel Wallerstein, *The Modern World System*, *The Modern World System II*, and *The Modern World System III* (New York: Academic Press, 1976, 1980, and 1989).

political-economic relations that one wonders if we are examining the same world. Some of the central tenets of these two analytical traditions are summarized in Table 1-1.

Adherents of classical liberal economic thought tend to see the focus of states' economic policies as the maximization of economic growth and efficiency. The basic value determining policy choice in regard to economic issues before the state should be the optimal allocation of resources for national growth in the context of a global economy that operates in accordance with the norms of liberal economic principles. Success or failure is usually stated in terms of aggregate measures of economic performance such as the level and growth of GNP, trade, investment, per capita income.

In this context, global as well as national economic growth and efficiency dictate that all states open themselves to foreign goods and capital and that they specialize in the production of those goods in which they possess a comparative advantage. The division of labor (distribution of production) resulting among firms and countries around the world is understood to be the outcome of market forces which should be permitted to operate unencumbered by political interference—except when it is necessary to correct market failures such as restraints on competition and the provision of public goods like defense. Existing international economic relationships are viewed as mutually beneficial, even if the distribution of benefits among states is not completely symmetrical.

To the extent that existing international relationships do not enhance growth and the efficient allocation of resources, this view blames the unwillingness of decision makers within states to pursue rational liberal economic policies. In other words, to the extent that the global economy as a whole, and individual states' policies, conform to classical liberal economic principles, *all* states' growth and economic efficiency will be maximized. Of course, world production will be maximized also.

Inherent in this positive-sum view of international economic relationships is minimal conflict of interest between states. For the adherents of classical liberal economic thought, policy prescription is universalist: No basic differentiation is made among policy prescriptions appropriate for different types of national actors (large or small, rich or poor). The formal rules of behavior in international economic relations, and the policies of international economic institutions enforcing these rules, such as the IMF, are seen as politically neutral among all states.

Liberal economic analysts are prone to see a world composed of sovereign, autonomous states enjoying equal economic opportunity (though not equality of economic condition) in an open international system. All states are understood to possess considerable autonomy and decisional latitude in critical choices about their domestic and foreign economic policies. Resource allocation in economic exchange within and between states should be determined principally by market mechanisms. To the extent that market mechanisms generate socially unacceptable inequalities, the state's function is to ameliorate them through redistribution programs. States should be very wary of intruding on market mechanisms, for they are the key to efficiency for all economic transactions, in the view of liberal analysts.

TABLE 1-1 Central Tenets of Liberal Economic and Radical Thought

BASIC PREMISE	LIBERAL ECONOMIC THOUGHT	RADICAL THOUGHT
1. Primary value being pursued by states	Maximum aggregate economic growth in national and global economies	Maximum national economic growth consistent with capacity for national self-determination and with equitable distribution of income within and between states
2. Distribution of benefits from global economic relations conducted according to liberal principles	Mutual benefit if not symmetrical distribution; positive-sum	Clearly asymmetrical distribution in favor of owners of capital and rich states; zero-sum
3. Degree of conflict *inherent* in global economic relations conducted according to liberal principles	Minimal; tendency toward equilibrium	Very great; tendency toward disequilibrium and recurrent crises
4. Persistent cleavages *inherent* in global economic relations conducted in accordance with liberal principles	None	Cleavages between rich states and poor states; cleavages between industrial-financial elites and labor within all capitalist economies
5. Major obstacle to achievement of national economic aspirations	Irrational state policies	Capitalist rules of behavior governing international economic relations
6. Overall result of activities of international economic institutions	Provision of infrastructure advantageous to all states in conduct of international economic relations	Provision of infrastructure for perpetuating dominance by rich, Western states and owners of capital
7. Characterization of existing international political system	Sovereign, autonomous states with considerable decisional latitude on economic policies	Hierarchically organized system of dominant and subordinate states; autonomy and meaningful decisional latitude on economic policy for dominant states only
8. Preferred means of resource allocation	Market mechanisms	State-administered terms of exchange
9. Relationship between economics and politics	Economics should be separated from politics	Economics determine politics

Liberal political-economists see highly developed, modern nations (and economic sectors within nations) existing alongside of underdeveloped, backward nations (and economic sectors within nations). The former are closely integrated with one another and owe their vitality to dense linkages with international markets. They are characterized by sociocultural-economic-political systems that are, among other things, highly differentiated by function, progressive, formally institutionalized, and achievement-oriented. The latter are seen as relatively isolated from other segments of the national economy and from world markets—for example, Appalachia in the United States. They are characterized by sociocultural-economic-political systems that are much less functionally differentiated, traditional, organized more by extended kinship patterns than formal institutions, and ascriptively rather than achievement-oriented.[10]

Political modernization and economic development, according to liberals, involves a diffusion of production techniques and modern forms of sociocultural-economic-political organization from the developed countries (sectors) to the backward countries (sectors) through integration into world markets—which order society by their internal logic and push all economic activity toward greater efficiency. As relative isolation from centers of modern political and economic activity explains backwardness, greater integration with such centers spurs modernization and rapid economic growth.

Liberals see less developed countries today as facing essentially the same challenges that countries in Europe and North America did in the nineteenth century. Indeed, they have certain "advantages of backwardness"—through linkages with highly developed states possible in today's world markets, less developed countries can telescope the development process by borrowing capital, technology, and production processes from international economic leaders. Liberals view backwardness and underdevelopment as an original state or condition in which all societies began. Modernization and development is a process which all states can someday experience. The societies that start the journey today or tomorrow can expedite it by emulating those that undertook it earlier.

The assumptional bases of radical thought are vastly different from those underlying the liberals' world view. Although growth and economic efficiency are seen as priority goals of states, national self-determination and equitable income distribution are just as crucial. Indeed, these last two goals would be ranked above economic growth by most radicals if, in the short run, the choice has to be made. The radical analyst tends to see income equality and the capacity for economic and political self-determination among poor states, at least, as incompatible with integration into the existing global economy, which operates in accordance with the norms of classical liberal economic thought. A poor state's open acceptance of foreign goods and capital, along with its specialization in the production

[10]For more extensive treatments of liberal and neo-Marxist development models, see J. Samuel and Arturo Valenzuela, "Modernization and Dependency: Alternative Perspectives in the Study of Latin American Underdevelopment," *Comparative Politics*, 10 (July 1978), pp. 535–57; R. Chilcote and J. Edelstein, *Latin America: Struggle with Dependency and Beyond* (Cambridge: Schenkman, 1974), pp. 1–87; and Gilpin, *The Political Economy of International Relations*, pp. 65–117, 263–88.

of those goods in which it enjoys a comparative advantage in modern world markets, condemns it to supplying raw materials and low-value-added manufactured goods (goods manufactured with relatively low capital and technology inputs), leaving it in a perpetually secondary and dependent position in relation to the leading economies. Liberal international economic relations affords fundamentally unequal economic units (states, firms) equal access to markets and resources around the globe. While appearing to be a system offering fair competition, the rules of liberal economic relations favor highly advanced commercial and financial enterprises based in modern states at the center or core of the global economy.

The benefits of such international economic relations between rich and poor states are distributed asymmetrically, in favor of the rich. This continued asymmetry in the distribution of benefits forms a basically exploitative relationship between dominant and dependent states that is seen by adherents of radical thought as the explanation for the existence and the widening of the gap between rich and poor countries. Hence, in a fundamental sense the major obstacle to the achievement of the national aspirations of poor states (most states in the world) is seen to be the nature of the international economic system itself, rather than the policies of individual poor states. Even if a poor state does formulate economic policy in accordance with classical liberal economic thought, the asymmetrical distribution of benefits in its international economic relations will condemn it to perpetual poverty, foreign penetration, and continued dependence upon rich states.

Great conflicts of interest between states are inherent in this basically zero-sum view of international economic relations. Policy prescription is not universalist. Policies appropriate for rich states in the center of the global economy are not appropriate for poor states in the periphery. Classical liberal economic thought is viewed by radical thinkers as compatible with the interests of rich states but not with those of poor states. The existing international economic system is not politically neutral, as the classical liberal economists argue. The policies of all the key international economic institutions and the distribution of benefits from most public and private economic transactions inherently favor rich states, ensuring their dominance in global economic and political relations.

Radical economic analysts visualize a hierarchically organized world with dependent, subordinate states relegated to the periphery of the international economy dominated by the leading capitalist states at its core. Only the latter possess autonomy in critical choices about their domestic and foreign economic policies. States in the periphery of the global economy must accept their place in an international division of labor imposed upon them by the leading capitalist states. Market mechanisms allocating resources in international and domestic economic exchange reinforce political, social, and economic inequalities that radical analysts find abhorrent. They seek an active role for the state in managing markets to introduce a greater measure of equity in domestic and foreign economic relations.

Contemporary neo-Marxists, such as *dependencia* and world systems theorists, have a very different sense of how world markets influence modernization and economic development from the "dual economy" view of liberals outlined above. The former do not attribute backwardness of countries (or of sectors within a domestic economy) to isolation from world markets, as do liberals. Quite the contrary, they understand the world market as creating a single division of labor closely linking advanced and backward sectors in the economies of core and periphery states. Markets simultaneously produce poverty and wealth. Development and underdevelopment are two faces of the market process. Advanced states expropriate the resources and capital surpluses of the politically and economically weak through exploitative terms of economic exchange (in trade, finance, and investment) they impose in world markets.

To neo-Marxists, closer integration of less developed countries with the advanced industrial states through international markets operating on liberal economic principles will further distort and stifle their modernization and development. Such growth as occurs will take the form of dependent development—development in the periphery states conditioned by (derivative of) decisions and political-economic interests of private finance and governments in the core states and implemented by dependent elements of society within less developed countries closely associated with these elites in the core states.[11]

In the view of neo-Marxists, less developed countries today face very different challenges of economic development from countries that industrialized early. They cannot modernize by emulating the liberal economic policies of today's rich states. Today's backward economies must overcome extensive penetration of their domestic political-economic systems by foreign economic interests and governments which siphon off economic surpluses needed for growth and development. That can be accomplished only by escaping from their unfavorable position in the international division of labor imposed by market forces in the liberal global economy.

Quite obviously, the analysts and decision makers who employ these alternative sets of primary assumptions will differ greatly in their assessment of, say, multinational corporations and in their prescriptions for the treatment of multinationals by nations, acting individually and in concert. The profound cleavage in their basic premises leads adherents of the two schools of thought to talk past each other in analyzing specific economic issues, such as multinational corporations. To the classical liberal, for example, foreign investment appears mutually beneficial; to the radical, it is exploitative. Analysts from both schools seldom examine the appropriateness of the different assumptional bases from which their perceptions and policy prescriptions flow. In the absence of this examination, political conflict over economic issues is exacerbated. The typical analyst or decision maker within each school of thought simply sees no necessity to question seriously the assumptions underlying one's own stance on the issue and continues to propose policies that are seen as harmful in their incidence or intent by adherents of the other analytical tradition.

The clash between these two schools of thought not only has important substantive implications for international relations; it also affords an op-

[11]See, for example, Peter Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (Princeton: Princeton University Press, 1979).