THE NEW INTERNATIONAL ECONOMY

Edited by Harry Makler, Alberto Martinelli & Neil Smelser

SAGE Studies in International Sociology 26
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PREFACE

This volume is a collective product of the Research Committee on Economy and Society of the International Sociological Association (ISA). More concretely, it is a collection of papers presented at a conference of the committee, entitled 'The Social and Political Challenges of the New Economy in Comparative Perspective,' held in Bellagio from 24 to 28 April 1979.

The research committee itself crystallized within the ISA as a merger of two independently formed ad hoc research groups. The first, a group on economy and society, was organized and sustained under the leadership of Alberto Martinelli and Neil Smelser during the 1970s. The second, a group on entrepreneurship, industrial leadership and development, was carried through the same period under the leadership of Fernando Cardoso and Harry Makler. At the initiative of the Executive Council of the ISA the two groups merged in 1976 and were given formal approval as a research committee within the ISA in 1978. At the present time the Executive Committee of the research committee is Fernando Cardoso, Neil Smelser (co-chair), Alberto Martinelli, Luciano Martins (co-vice chairman), Harry Makler (executive secretary) and Arnaud Sales (treasurer).

The measure of the research committee is broader than the focus of the volume — encompassing the vast interplay between the economy and all social and cultural institutions — but the strategy of the organizing group of the Bellagio conference was to focus on ramifications of contemporary capitalist development, because of the centrality of this subject in contemporary scholarship as well as its importance for the survival of contemporary civilization.

The committee is grateful to the Ford Foundation for providing funds to finance the Bellagio conference, and to the Rockefeller Foundation for making its Bellagio Study and Conference Center and staff available to us on a virtually no-cost basis. We should also like to thank the publications committee of the ISA for approving and accepting this volume into the sociology series.

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INTRODUCTION

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ISSUES IN THE ANALYSIS OF THE INTERNATIONAL ECONOMY AND ITS IMPACT

As the twentieth century draws towards a close, we see three great threats facing the people of the planet earth. The first is the threat of a nuclear holocaust, which could bring death to millions or billions and destroy civilization as the world knows it. The second is the threat of ruination of the earth's environment, whether by exhausting its key resources through unregulated economic activity or unregulated population growth, or by poisoning its waters and atmosphere and, through them, its people. And the third is the threat of repeated and disastrous economic crises, breakdown and conflicts stemming from a new and distinctive world economic situation that appears to have evolved beyond humanity's current capacity to control either that economic situation or its political and social ramifications; we refer to this situation as the new international economy.

We see these threats not as independent, but as a related family of threats. The threat of environmental ruination is unintelligible without the understanding of the growth of industrial capitalism, its competition within itself and with the socialist economies, and the spread of both systems to the Third World. And the threat of nuclear war is rendered intelligible only by grasping its main causes, among which international economic competition and the breakdown of the world economy are paramount. Toward the end of the essay we shall speculate further on the interconnections among the different classes of crises facing the world. But in this introductory essay, and in the volume as a whole, we shall concentrate principally on the international economy. In the first section (initially prepared by Alberto Martinelli) we shall lay out the broad historical phases of the development of the world economy; following that (in a section initially drafted by Harry Makler), we shall characterize its financial dimensions; third, we shall comment on the broad world context of the international economic order, indicating what parts of that context appear to have been rendered perhaps obsolete by it; and finally, we shall say a few words on the rationale for the organization of the remainder of the volume, and identify the nature of each author's contribution (Neil Smelser prepared the initial draft of this section, and also co-ordinated the other drafts).

By the term 'international economy' we refer to a patterned system of economic relations among national economies and other types of politico-economic organizations such as corporations and financial institutions. While each of these agencies can be studied on its own, we stress that the unit of analysis on which we focus is the system as a whole, which stands above and cannot be reduced to any of its component parts. Furthermore, we focus on the distinctive problems of the integration of the international system and on its distinctive conflicts and contradictions. These problems of integration, conflict and contradiction are, in part, 'economic' problems, but they are political and social as well. The organization of production and exchange on a world scale implies a new international division of labor, new relations among classes and other groups, new bases of conflict and new power relations among states no less than it implies a new organization of firms and markets.

BROAD HISTORICAL PHASES IN THE DEVELOPMENT OF THE WORLD ECONOMY

Without implying any inherent evolutionary tendency, we can identify a few major phases of development of the world economy: first, the transition from feudalism to capitalism; second, the stage of competitive capitalism; third, the stage of imperialism; and, fourth, the stage of transnational capitalism in the context of international bifurcation and polarization of the 'capitalist' and 'communist' blocs of nations. In tracing these phases we concentrate on the modes of integration of the world economy and on the relations among firms, markets and states, emphasizing that these relations imply both integration and conflict, planning and breakdown.

The long transition from feudalism to capitalism, stretching from the sixteenth century to the Industrial Revolution of the eighteenth and early nineteenth centuries, witnessed both the emergence of a world trade system at the international level and the development of distinctive cultural, legal and social-structural arrangements that were conducive for the implementation of capitalist economies and societies. The principal lines of development during this transition were the freeing of labor from feudal restrictions, the accumulation of merchant and financial capital, and the growth of international markets.[1]

As a kind of culmination to this transition, the world economy entered the stage of competitive capitalism, which dominated throughout the nineteenth century, and might be said to have reached its culmination in the great world economic crisis of 1873-96. This phase was characterized by the gradual implementation of an interdependent world economy. During this period the major integrative mechanisms were the principles of the free competitive market, combined with economic and political intervention on the part of nation-states, especially Britain, in periods of instability. Under these conditions, world commerce, which had expanded only slowly during the mercantilist era, accelerated dramatically in the middle decades of the nineteenth century, then slowed toward the end of the century.[2] Politically, the period brought 'the hundred years peace,' policed by the free trade-oriented, maritime power of Great Britain, coupled with an international and cosmopolitan financial class, who resisted, at least temporarily, the growing tendencies toward national power politics.[3]

The two great intellectual diagnoses of this phase of capitalist development were those of the classical economic thinkers (from Adam Smith to John Stuart Mill) and of Karl Marx. While opposed in many respects, these diagnoses shared certain common themes. Both the classical school and Marx regarded the capitalist system as a distinctive system, integrated by exchange in national and world markets; both regarded capitalism as possessing the capacity to bypass or destroy feudal constraints on the free movement of the factors of production; and both stressed the powerful drives toward economic growth in the capitalist system. And, in different ways, both understated the role of the state in the national and world capitalist economy. For the classical economists, the international market emerged as a harmonious summation of a huge number of free transactions among rational economic agents. The market itself was the central — and automatic — integrating mechanism. By contrast, state action would fragment world markets, support narrow class interests rather than the general welfare, and promote conflict rather than cooperation in the world economy. As a result of these assumptions, the classical economists did not see the integration of the world economic system as a political problem. Neither did Marx, but for an opposite reason: he thought that no conscious effort by political actors could prevent the collapse of the whole system. Marx analyzed the major contradictions of capitalism — the contradiction between the growing socialization of the means of production and the increasingly centralized private appropriation of profits, the contradiction between the organized character of the firm and the anarchy of the market — in almost exclusively economic and sociological terms. Intra-bourgeois competition over profits and inter-class conflict over the control of the production process were stressed, with little regard to the growth of and rivalries among nation-states. And, on the whole, the internationalization of capitalism meant the spreading of class conflict from the advanced industrial countries to the rest of the world.

In retrospect it is possible to recognize that the role of the state in the nineteenth-century international economy was more significant than either set of authors acknowledged. During the middle of the century — between the 1840s and 1870s — the world economy revolved around Great Britain. The first to industrialize, Britain's large, open economy developed ties with the rest of the world, particularly in areas of recent settlement, which built their railroads with British capital and British goods and exported their agricultural products to the 'workshop of the world.' In a process later described as 'the imperialism of free trade,'[4] Britain dominated world markets for manufactured goods with its products and encouraged peripheral states to specialize in production and exportation of primary products to Britain. It is true that the British government played little direct role in trade and capital export. Nevertheless, British military power — particularly maritime power — helped maintain British access to world markets. Britain's national colonial policy played a role helpful to British capital domination. Her colonial control over India impeded and sometimes destroyed indigenous Indian textile manufacturers and thus contributed to Lancashire's rise and consolidation of control over the cotton textile manufacture.[5] And as the nineteenth century wore on, the British-dominated international monetary system came to be more dependent on British access to Indian gold and protected markets in the Empire.[6] Even the policy of laissez-faire implied a definite state presence, since with that policy the state provided a legal and institutional framework that left political decisions to capitalists and gave freedom of movement to labor and other resources.

The link between the state and capitalist development became increasingly evident in the transition to the third phase, imperialism, which covered the turbulent period between the world economic crisis of 1873-96 and the Second World War. It is characterized by increasing concentration of industrial and financial capital; the increasing closeness of interest between those trusts that held economic power and the nation-states that wielded political-military power; the colonial partition of the non-industrialized areas of the world by the industrial powers; and a growing rivalry in international relations. While notable overall for its distinctive model of capital concentration and politico-economic domination in the form of imperialism, the phase is also marked by notable discontinuities — the acceleration of the movement of both people and money around the turn of the century; the progressive change from economic competition toward political-military confrontation prior to and cumulating in the First World War; the precarious restoration of the imperial order in the 1920s; the economic collapse in the Great Depression of the 1930s; and the second great political collapse in the Second World War.

Economic and social thinkers in the early twentieth century, both liberal and Marxist, did not fail to diagnose the imperialist developments; and the writings of Hobson, Hilferding, O. Bauer, Luxemburg, Bucharin, Lenin and Schumpeter superseded those of the classical economic theorists of Marx and Engels.[7] The main drift of the Marxist diagnosis — found both in writers of this period and in subsequent works — was to identify new kinds of contradictions not stressed by Marx and distinctive to the imperialist period. The first contradiction noted was between the internationalization of economic life and the increasing nationalism of nationally based bourgeois groups. The second contradiction was between the largely international process of capital circulation on the one hand and the nationally based processes of consensus-creation, political legitimization and the social reproduction of capital. This implies that, although market interdependence and capital internationalization may reduce the direct role of the state in the capitalist economy, the state must continue to sustain the basic socio-political conditions necessary for that economy. The implication of the first contradiction is that differences in the timing and sequence of industrial development in different nation-states led local, emerging bourgeois classes to rely on the political and military power of states to facilitate their competition with other, established capitalists elsewhere. For example, state tariffs, adopted by industrial 'latecomers,' were at first designed to overcome the disadvantage of national capital in the international market, but now became the source of high profits for powerful domestic groups, who sought the protection of the state not only to meet foreign competition but also to extend their protected markets and secure sources of raw materials. The liberal ideal of peaceful coexistence among independent states was transformed into the imperialist ideology, stressing the role of the state in curbing labor demands at home and pursuing policies of conquest and rivalry abroad. In this view, imperialism was an adaptation to these fundamental and inherent contradictions.

Liberal analyses of imperialism also emphasized the alliance between the state and capital in the late-developing countries. Economic factors do play a role in these interpretations, as illustrated by the interpretation of the German tariff of 1879 as a 'marriage of iron and rye.'[8] Prospective economic competition may also have played a role; European governments entered the scramble for colonies, especially in Africa, not so much because they were certain that economic advantages would accrue (as often as not they did not), but because they were attempting to prevent their rivals from acquiring the opportunity for prospective gains. Yet other factors are given more prominence in the non-Marxist tradition. Liberal writers on imperialism have stressed the persistence of struggles for power in world politics, above and beyond the economic interests of the contending actors. Following Schumpeter, they have emphasized the tendency of imperial states to extend their empires in an attempt to protect their 'turbulent frontiers,' or their power and prestige.[9]

The collapse of the international economy in the Second World War was so complete that many Marxists regarded the prospects for the continuation of capitalism as remote, and many liberals, including Keynes, felt that a return to a free international economy and to liberal economic policies was unlikely. Yet, again in retrospect, these diagnoses underestimated the resiliency of capitalism, and it is possible to view the postwar decades as a movement to a new phase, defined as the phase of transnational capitalism, characterized by continued competition but in the context of the hegemony of the United States.

When this phase of world economic development began and where it is going are subjects of great uncertainty and debate. Scholars even disagree whether or not the postwar period is anything qualitatively new. Some, mainly Marxists, see the period as a continuation of imperialism, citing such features as the growth of capital concentration and direct foreign investments. Others, mainly liberals, see the period as a kind of restoration of the free competitive world of the nineteenth century, with the United States assuming the dominating and monitoring role that Britain previously played. Both these views highlight genuine continuities, but both appear to miss certain distinctive characteristics of the most recent era. For example, it is true that the transnational corporations are the heirs of the cartels and trusts of an earlier era, but transnationals develop very different relations to the states of their home and host countries than did cartels and trusts, as well as very different relations to the international workforce they employ.[10] Furthermore, there are distinctive features of the world political order that must be taken into consideration; in particular, in so far as the American economy enjoys general hegemony, it does so in the context of the intense economic and political competition with the Soviet bloc, which operates in some degree as a separate world economy. Furthermore, serious economic and political threats to domination have arisen within each sphere — from Western Europe and Japan in one, and from China in the other. And the political role of the decolonized Third World is clearly less passive than in the imperialist era.

The main new features in the internationalization process are the increased importance of international trade within nearly all sectors of the economy (including the private service sectors) and the rise of transnational corporations, which are distinguished by direct investments abroad and the internationalization of entrepreneurship and technology. Whatever indicators are selected,[11] they show that international interdependence has increased significantly since 1945, certainly reversing the trend of the first half of the century, and in some cases accelerating faster than comparable trends in the nineteenth century. World commerce more than quintupled between 1950 and 1971; the annual rate of its growth was more than 7 percent in the 1950s and about 10 percent in the 1960s, often less than the rate (from a lower base) in the mid-nineteenth century but remarkable when compared with the interwar decline.[12]

The trends in capital flow are even more dramatic. Much of this increase in the 1950s and 1960s was due to investments of transnational corporations based in the United States, but short-term capital movements also played an important role. More recently, long-term direct investments by other advanced industrial countries have also increased rapidly. Another measure of the same process is the increasing internationalization of production. In the 1960s, the gross national product expanded by about 4 percent a year in most industrial countries, while imports and exports have increased by 8 to 10 percent, and production by subsidiaries abroad increased by 10 to 12 percent.

Among the political and technological factors that have facilitated this kind of expansion and the internationalization of industry and capital are the formation of an integrated economic sphere (with American dominance), the reconstruction of the international monetary system, the liberalization of trade, the development of advanced technologies permitting significant economies of scale, and the tremendous development in transportation and communications. The 1950s witnessed significant liberalization of import controls, the lowering of tariffs and the gradual return to convertibility beginning with the Bretton Woods agreements. The opening of the system accelerated in the 1960s, with a more nearly complete return to convertibility after 1958, several rounds of further tariff cuts through GATT agreements (for example, the Kennedy Round), and the development of regional trading areas, such as the European Economic Community, which was launched in 1957. These trends were paralleled by liberalizations in domestic economies, as direct discrimination regulations over the prices and quantities of commodities and factors of production gave way to lesser measures aimed at influencing aggregate demand.[13] Beginning in the 1960s, however, especially in Japan and France, there appeared the reverse trend to return to more detailed state interventions into the domestic economy; this tendency spread to other industrialized countries in the 1970s, when most of them experienced scarcities of basic factors of production such as oil and low-cost labor.

Beginning in the 1970s, this remarkable combination of economic and political arrangements began to show signs of weakness if not outright disintegration. The international monetary system became much more turbulent, beginning with the devaluation of the dollar in 1970. Protectionism in external economic relations increased in part because of competition between advanced and newly industrialized countries. World trade and foreign direct investments continue to grow at high rates, but the major industrial countries seem incapable of guaranteeing sustained rates of growth and employment with controlled rates of inflation; the 1970s became the decades of 'stagflation.' Communications and transportation continue to advance, but the capacity of productive organizations to exploit economies of scale has been thrown into doubt. Finally, the dominance of the United States has been challenged and eroded to some degree by both oil-producing countries and their industrialized partners.

The ultimate significance of the most recent changes, however, is the subject of debate and different interpretations. Marxist observers such as Mandel and Amin interpret the weakening of the American economic position in the late 1960s and early 1970s as pointing the way to a new condition of intra-capitalist rivalry.[14] At the same time, non-Marxist scholars like Gilpin have drawn analogies between the position of Great Britain in the late nineteenth century and that of the United States in recent decades; according to this view, the United States has been overinvesting abroad, and providing its technological expertise to the rest of the world at too low a price, thus undermining its own industrial strength.[15] Other phenomena cited as evidence for the 'declining hegemony' thesis are the declining proportion of world production accounted for by the United States, that country's inability to prevent large increases in oil prices imposed by formerly impotent oil-producing countries, and the recurrent crises of the dollar during the past decade.

The view that American dominance — and, with it, the present international order — will collapse has been challenged by those claiming that recent events imply not an inter-capitalist rivalry and significant shifts in power among advanced capitalist countries, but only a 'readjustment' — a persisting American hegemony, possibly accompanied by a more active role of other advanced industrial countries in the regulation and governance of the international system. In addition, while it might be argued that America as a nation-state may be in the process of some erosion, most of the transnational corporations nevertheless continue to be based in the United States, and through their influence the American presence continues to be felt.

Regardless of how one weighs the evidence — in favor of continued hegemony or of divisive rivalry — the debate suggests clearly that the integration of the world economic system under American leadership is more problematic now than it was during the 1950s and 1960s. As a result, strategies followed by other states — particularly by Japan and Germany and other European states — are likely to have a significant impact on the evolution of the system as a whole. The advanced industrial states will not easily be able to compartmentalize their policies as clearly as before, since strategies of association and dissociation in trade, energy and monetary policies may have decisive effects on the system as a whole.[16] The existence of greater economic and financial competition among the industrial powers, moreover, also raises the question of whether the basis of their political-military alliances may not be eroded as well. In any event, to the degree that the international world economy can no longer be regarded as generally being subsumed under the policies and strategies of the United States, its integration, regulation and stability become correspondingly more complicated and problematical.