

**INTERNATIONAL POLITICAL  
ECONOMY YEARBOOK, VOLUME 1**

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# **An International Political Economy**

**edited by**

**W. Ladd Hollist**

**and F. LaMond Tullis**



**Westview Press**

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*International Political Economy Yearbook*

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W. Ladd Hollist  
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# Contents

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Introduction: An International Political Economy Policy and Research Agenda, <i>W. Ladd Hollist and F. LaMond Tullis</i> .....	1
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## **Part 1 The State of the Art**

1 International Political Economy: The Story So Far and the Way Ahead, <i>Susan Strange</i> .....	13
2 International Political Economy Research: What Is It and Where Do We Turn for Concepts and Theory? <i>W. Ladd Hollist and James A. Caporaso</i> .....	27

## **Part 2 Interpreting Continuity and Change in the International Political Economy**

3 Historical Development of the International Political Economy, <i>Christopher Chase-Dunn</i> .....	53
4 The Formation and Transformation of States, <i>Robert Solo</i> .....	69
5 Class Analysis of International Relations, <i>Stephen Resnick, John Sinisi, and Richard Wolff</i> .....	87

## **Part 3 Policy**

6 Muddling Through the Debt Decade, <i>Jonathan D. Aronson</i> .....	127
7 Industrial Crises and U.S. Public Policy: Patterns in the Steel, Automobile, and Semiconductor Experiences, <i>Robert S. Walters</i> ...	153

8	The Several Faces of the Multinational Corporation: Political Reaction and Policy Response, <i>Robert T. Kudrle</i> .....	175
9	The Third World and the Management of International Commodity Trade: Accord and Discord, <i>Jock Finlayson and Mark Zacher</i> .....	199
10	The Current View on Rural Development: Fad or Breakthrough in Latin America? <i>F. LaMond Tullis</i> .....	223
	<i>References</i> .....	255
	<i>Author and Name Index</i> .....	289
	<i>Subject Index</i> .....	295



# Tables and Figures

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## Tables

6.1	Debt and debt-servicing statistics for nineteen major borrowing countries .....	138
6.2	U.S. trade with selected countries in Latin America .....	145
7.1	World raw steel production and sources .....	155
7.2	Imports and apparent steel supply in the United States ...	155
7.3	World motor vehicle production and sources .....	155
7.4	U.S. retail sales of domestic and imported automobiles ...	156

## Figures

7.1	U.S., Japanese, and European production of integrated circuits .....	157
7.2	U.S.-Japanese trade in integrated circuits .....	159

# Introduction: An International Political Economy Policy and Research Agenda

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*W. Ladd Hollist and F. LaMond Tullis*

Part of the introduction to this first volume of the International Political Economy Yearbook is contained in the first two chapters of Part 1: "The State of the Art." In those chapters Susan Strange and Ladd Hollist and James Caporaso treat many of the issues that we would otherwise raise here. They explore what international political economy (IPE) is; what approaches and theories might broaden and deepen our understanding of the phenomena addressed; what perspectives seem inappropriate or misdirected; why neither international relations scholars nor mainstream economists can any longer claim status as senior partners in the community of scholars and policymakers interested in these issues; and more.

In this introduction we address three yet untreated concerns: Why is a series in international political economy warranted now and what will its agenda be? What is the inaugural volume's orientation and how do individual chapters figure in it? And what is planned for subsequent volumes?

## **An Agenda for the IPE Yearbook**

At the 1982 business meeting of the 400-member International Political Economy Section of the International Studies Association we proposed the series for which *An International Political Economy* is the inaugural volume. The response was enthusiastic. There are several reasons: International political economists desired a vehicle for exchanging ideas, an outlet for scholarly research papers, and a forum for policy debates. The commerce of social, political, and economic ideas in academe, government, and business had been increasingly couched in the language of "political economy" or "international political economy." Perhaps even more so now than then, political and social aspects of energy, trade, finance, debt, money, development, and other globally important "economic" phenomena cannot be denied importance even by economists. To almost all observers, the economic roots of regional and international conflicts and other events of "high politics" seem obvious.

Thus, one answer to why an IPE series should be started now is that an interested community of scholars and policymakers is sizable and growing. However, to so conclude is to beg more significant questions: Why has interest in international political economy now flowered, and what issues does it address?

As with most social science or policy perspectives, the resurgence of interest in international political economy is a product of our times. Ours is an era of structural transformation, with many enduring institutions or rule systems severely challenged. Some have already changed dramatically, and undoubtedly others will be similarly transformed in our lifetimes. Citizens of many nations sense this drama—some wish that its pace would quicken; others hope that continuities will somehow survive. John Naisbitt characterized this high drama, “We are living in the *time of parentheses*, the time between eras” (1982, 279).

The scope and depth of the transition we are experiencing is yet not entirely discernible. Some say that our global system is being fundamentally reordered. Others assert that some behavioral patterns and institutions have been and may yet be altered, but that some will undoubtedly remain little changed. Few claim to know what the resulting fabric of the emerging international order will be. However, numerous changes seem to be related.

The most obvious aspect of this transformation is the decline in hegemonic power of the United States, the resurgence of some Western European nations, and the rise of Japan, certain member nations of the Council for Mutual Economic Assistance (COMECON), Taiwan, South Korea, Brazil, other newly industrializing countries, and the Third World. The resulting shuffling of nations and other international actors is signaled by numerous developments. For instance, leadership in the international system is severely fragmented. Ecological, economic, and political problems that we now view as without solution may be so not because they are inherently unmanageable but because would-be leaders are unable to unite or govern politically and socially disparate nations, and groups within nations, to pursue the common or collective good. Both domestically and internationally, ours is the era of the “special interest.”<sup>1</sup>

Admittedly, in the international system the pursuit of “national self-interest” has long prevailed; this may be the one continuity in international affairs that wanes but never disappears. Still, hegemony has been achieved by some nations at some periods of time. And during such hegemonic eras rule systems or institutions have been raised to ameliorate some of our more combative interests.

Until recently the twentieth century was the stage for the rise to influence and eventual predominance of the United States. At the end of World War II, it deserved its title as the world’s hegemonic power. But unlike the predominance that had long been enjoyed by Great Britain de-

spite its recurring struggles with France and Prussian Western Europe, more immediate challenges to U.S. power arose and the United States's hegemonic leadership rather quickly started its decline.<sup>2</sup>

By the mid-1970s, Abraham Lowenthal's contention that the "special relationship" enjoyed by the United States relative to Latin America was eroding met with widespread agreement when it was published in *Foreign Affairs* (1976). He subtitled his article "Ending the Hegemonic Presumption." Since then the institution designed by the United States to cement that "special relationship," the Washington, D.C.-based Organization of American States (OAS), has become all but impotent. Other less developed nations assumed similar postures vis-à-vis the United States, challenging its hegemony (Krasner 1981a, 1981b) through cartels such as the Organization of Petroleum Exporting Countries (OPEC), international organizations (United Nations Conference on Trade and Development, the Group of 77, and the Non-Aligned Movement), and regional organizations.

During this same period the decline of the United States from its once undisputed role as the world's "banker" and financial leader became apparent. Charles Kindleberger, a widely respected international economist, observed:

An asymmetric or hierarchical system in which the United States acted as banker for the world; the ultimate provider, along with military security, of a market for distress goods; a source of goods in short supply, and of capital requirements; a monitor of the system of international money including the pattern of exchange rates; and a lender of last resort in crisis—such a system may be possible to contemplate in economic terms. *By the 1970s it was no longer in the cards politically.* Attacks on the system came from many sources: from within the United States where some industries, and most labor unions, joined farmers in asserting the *primacy of their parochial interests over the international interest of the system*; from radicals who insisted that U.S. professed action in the international interest was in fact a selfish imperialist one; from a stronger Europe . . . claiming an enlarged share of decision-making; and from the developing countries. [Kindleberger 1977, 413–414, italics added]

In short, the U.S. orchestrated Bretton Woods monetary and trade regime had by the early 1970s fallen on hard times. In principle that system may still have been workable, but it was unacceptable politically.

Johan Galtung, a widely known European observer of the international political economy, even more dramatically asserted this development. In November 1979 at a conference in Ojai, California, Galtung predicted that by the early 1990s the "control center of world capitalism" would depart the West and become centered in the Orient. Consistent with the conclusion of Kindleberger, but significantly less guarded in his rhetoric, Galtung contended: "A new world is coming. . . . Now this world is to my mind . . . a pro-

foundly capitalist world. Capitalism is not down and out. There is no crisis in capitalism. There is a profound crisis in the Western [read United States and Western Europe] position inside capitalism."<sup>3</sup>

Other notables have perceptively discussed the declining hegemonic role of the United States. Henry Kissinger's recognition that the once predominant, almost all encompassing U.S. influence has notably declined is evident in his lament that "power is no longer homogeneous." In 1973 he elaborated this sentiment by asserting that "military muscle does not guarantee political influence. Economic giants can be militarily weak, and military strength may not be able to obscure economic weakness" (Kissinger 1973). As if to further emphasize that the international role of the United States is now significantly changed, that the rules we established and policed since World War II are no longer widely accepted, Kissinger further noted in 1975: "Now we are entering a new era. Old international patterns are crumbling; old slogans are un instructive; old solutions are unavailing. The world has become interdependent [*not hegemonic*] in economics, in communications, in human aspirations" (Kissinger 1975, 1).

Obviously, much more could be said to affirm that U.S.-led hegemony is waning, and that the international order is in transition. For instance, we have not yet mentioned that the one-time nuclear monopoly of the United States was successfully challenged first by the Soviet Union and later by a growing number of other nations. Perhaps we should rehearse how industrial production and supporting financial institutions are progressively less concentrated in the West, particularly in the United States. Japan, Canada, Australia, Brazil, South Korea, Taiwan, Singapore, Hong Kong, Mexico, some COMECON nations, and even Mediterranean nations such as Portugal and Spain now successfully compete with the United States in certain manufactures (Galtung 1981, 114-115; Fröbel, Heinrichs, and Kreye 1980; Caporaso 1981). Moreover, other nations, most notably Japan and West Germany, compete favorably with the United States in the "high tech" information economy. These developments amply support Robert Walters's summary of our changing international political economy. With specific reference to steel, automobile, and semiconductor industries, he argues that we are experiencing a "transformation in production structures" wherein the "distribution of employment and capital within and between nations" and the "structure of international trade" are "altering the weight of different countries in important sectors of the international economy" (see Walters, Chapter 7, this volume).

A redistribution of the world's financial activity is also occurring. Japan is fast becoming a nation of banking giants. Financial institutions in newly industrializing countries are also becoming significant internationally. For instance, the Hong Kong and Shanghai Banking Company has experienced extraordinary growth. In 1980 alone it experienced an asset growth rate of

87 percent, moving it from its fiftieth ranking among commercial banks operating outside the United States to twenty-ninth position (*Fortune*, 10 August 1981, 220). Relatively speaking, the United States's financial star stands out less now that other financial institutions have come upon the global scene.

Other developments should be added to our list. The ongoing transition from an industrial to an information economy has been analyzed by many. The globalization of all economic activity is so widely perceived as to require but brief mention. At the same time, state intervention in most national economies is increasing rapidly. Many concur that "the second half of the twentieth century appears to be the era of the state" (Duvall and Freeman 1981, 223). Indeed, the state has become such an important economic actor in our contemporary international political economy that to ignore its role is to court trouble. Johnson argues that "there could be no more devastating weakness for any major nation in the 1980s than the inability to define the role of government in the economy" (Johnson 1982, 18).<sup>4</sup>

Perhaps now the foundation for our argument is sufficiently laid. We assert that the international political economy is experiencing structural transformation. U.S.-led hegemony is declining relative to its zenith in the 1950s and early 1960s, with many nations now challenging this economic and political leadership. States around the globe increasingly intervene in economic affairs. Special interests supersede previously accepted general rules and institutions of the U.S.-led international order. Transition is underway; much has and yet will change even though many institutions and enduring practices will likely continue.

The whole matter raises questions that are normative, empirical, and policy-political. As for *normative questions*, during watershed periods policymakers and scholars raise questions not usually broached when times are less turbulent. They get to the heart of moral philosophy,<sup>5</sup> questioning anew the order or organization of the international political economy. Works such as Robert North's *The World That Could Be* (1976) or Saul Mendlovitz's *On the Creation of A Just World Order* (1975) are read with interest. Many questions are asked. Upon what principles or ideals ought the society of nations to be organized? Shall we promote growth and opportunity or the satisfaction of the basic needs of all humanity? Shall competition and winning remain central to our world order philosophy, or shall we pursue a global as opposed to a national common good? Can humanity achieve peace through means other than the development of force sufficient to deter? How, if at all, might the international economy be organized to provide both initiative and opportunity for excellence on the one hand, and equality and symmetry among people and nations on the other hand? Can both objectives be achieved? Ought they to be jointly pursued?

*Empirical questions* also take on renewed saliency: What has been the structure of the international political economy? Is it significantly different now from what it has been in the past? Do contemporary developments strike at the heart of the international order, or do they have little impact? What are the major watershed periods in the known history of the international political economy? What triggered those transitions? What changed and what remained unchanged, and why? If structural transformation is now occurring, how should it be characterized? Why is this transformation occurring now? What outcomes might be expected? If a structural transformation is under way, who will likely establish new rules to govern the behaviors of nations?

Finally, pragmatic and trying *policy questions* also occupy the minds of policymakers and academic observers and advisors: If the international political economy is being transformed, what threats and what opportunities now confront us? What can nations do that will assure a win regardless of the gains and losses of others? Can a nation achieve policy goals in this transition environment singlehandedly, or will we need to fashion coalitions to assure desired results? How can a once-hegemonic power, if it cannot regain its former status, at least minimize its losses? How can those not formerly able to help fashion the international political economy achieve more influence now? Can that influence be made to last beyond the present unsettled period of transition? How can any nation gain structural power, or the capacity to establish the rules that govern international transactions? In the present reshuffling of nations in the global political economy, what will determine which nations experience upward as opposed to downward movement? Can one's nation influence this reshuffling process to its liking?

If only illustrative here, this sample of normative, empirical, and policy questions that have gained widespread interest in this era of transition is at the heart of the policy and research agenda on the international political economy. None yields easy answers; few have been subjected to sustained inquiry. Consequently, many preliminary answers are not entirely convincing; much remains to be done. Our goal for the *International Political Economy Yearbook* is to provide a vehicle for sustained inquiry and debate concerning this research and policy agenda.<sup>6</sup>

### The Orientation of the First Volume

*An International Political Economy* treats aspects of the policy and research agenda described above. Although individual chapters and the book as a whole contribute useful insights, we do not advance them as definitive or necessarily correct in their entirety. We do claim that they merit scrutiny and response.

Although we believe the chapter ordering to be appropriate, one need not read the book from front to back. For those interested in policy questions, Part 3, "Policy," may be a useful starting point. Those interested in empirical questions and interpretations of the changing international political economy may profit by beginning with Part 2, "Interpreting Continuity and Change in the International Political Economy," followed by Parts 1 and 3.

Part 1 assesses the state of the art of basic research and policy thinking on the international political economy. Susan Strange in Chapter 1 suggests that we are yet in the infantile stage of this "old-new" subject. She and Ladd Hollist and James Caporaso, authors of Chapter 2, concur that our concepts and theories are often inadequate to the policy and research agenda now confronting us. Strange, Hollist, and Caporaso all contend that formal economics offers much less insight than one might hope. Formal political science models and mainstream theories are similarly disappointing in answering the normative, empirical, and policy questions arising during the global transformation we are now experiencing.

This volume's authors suggest useful, alternative perspectives. If some of these perspectives are not as well known as Strange, Hollist, and Caporaso think they should be, they nevertheless are already arousing interest. Thus, Strange applauds the writings of development economists, economic historians, and some scholars and policy analysts who focus on transnational business. Hollist and Caporaso favorably reference the market-failure literature, inviting attention to Caporaso's treatment of that literature elsewhere (1984). They briefly discuss the conceptual and theoretical contributions of work in "economic and social history" (Polanyi 1944; Polanyi, Arensberg, and Pearson 1957; Davis 1973; Braudel 1967; Gerschenkron 1966; Wallerstein 1974a; North 1981; and Gilpin 1981) and "comparative social history" (Moore 1966; Eisenstadt 1966; de Jouvenel 1968; Tilly 1975; Anderson 1974a; and Skocpol 1979). Hollist and Caporaso also suggest that the conceptualization of international political economy issues and ideas ought to be grounded in the writings of older political economists such as Ricardo, Mill, and Marx. Discussion of these and numerous other candidate sources of concepts and theories are invited by them and us.

Part 2, "Interpreting Continuity and Change in the International Political Economy," builds upon Part 1. From three different perspectives contributors analyze the evolution and contemporary character of the international political economy. In each instance the concepts employed are strikingly different from mainstream thinking of political scientists and economists. Although criteria of parsimony and elegance are not overlooked, the interpretations are more substantive than formal, filled with considerations of institutional development significant in the international political economy now and historically.



Sociologist Christopher Chase-Dunn frames his interpretation in the context of a global political-economic system (Chapter 3). He attributes a central role to a division of labor in a world system comprised of interacting, sovereign nation-states. That perspective conditions his view of the historical development of institutions and rule systems now facing pressures that may lead to a structural transformation.

Economist Robert Solo (Chapter 4) focuses on the historical formation and transformation of states,<sup>7</sup> specifically European and North American states. He sees the state, if appropriately designed and focused, as the one institution that may allow us to steer the international political economy away from what he considers an otherwise unfortunate future.

Resnick, Sinisi, and Wolff, economists often labeled Marxist in orientation, offer yet another interpretive framework for understanding the international political economy, particularly the process of exploitation (Chapter 5). The organizing construct for their discussion is class. For the reader willing to pay the price of working through concepts and arguments too seldom read and understood, these authors provide otherwise unrealized insight into the workings of the international political economy. Although we are not uncritical of their interpretation of our changing world, we think that it ought not to be ignored, even though some will misunderstand it and others will denounce it vigorously.

Together these chapters provide alternative interpretations of the historical development of the international political economy and possibilities for further transition. They also provide conceptual tools and theories needed to make sense of empirical questions that are at the heart of any policy and research agenda.

Part 3, "Policy," consists of five richly substantive and policy-oriented chapters. Together they address two basic questions: How and why are decision makers around the world adapting to transformation in the international political economy; and what are the normative implications of their adaptations?

For instance, Aronson (Chapter 6) considers options confronting creditor and debtor nations as they "muddle through the debt decade." Walters (Chapter 7) describes U.S. private-sector and public-sector reaction to increasing competition in the steel, automobile, and semiconductor industries. He describes and explains likely reactions to such competition, and even ventures to suggest a preferred policy strategy. Kudrle (Chapter 8) describes and offers explanations of the several policy responses of less developed countries and the advanced market economies to the changes induced by the amazing expansion of multinational corporations around the world. Finlayson and Zacher (Chapter 9) explore the difficulties that less developed countries encounter when they try to organize themselves to collectively influence the management of international commodity trade. They describe