

S T A T E S
— A N D —
M A R K E T S

SECOND EDITION

SUSAN STRANGE

 **continuum**
LONDON • NEW YORK

Continuum

The Tower Building, 11 York Road, London SE1 7NX
15 East 26th Street, New York NY 10010

© Susan Strange 1988, 1994

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may not be reproduced, stored or transmitted, in any form or by any means or process, without the prior permission in writing of the copyright holders or their agents. Except for reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency, photocopying of whole or part of this publication without the prior written permission of the copyright holders or their agents in single or multiple copies whether for gain or not is illegal and expressly forbidden. Please direct all enquiries concerning copyright to the Publishers at the address above.

First published in Great Britain 1988, reprinted 1989 and 1993

Second edition first published 1994

Reprinted 1997, 2000

Reprinted 2003

Reprinted 2004

British Library Cataloguing in Publication Data

A CIP catalogue record for this book is available from the British Library

ISBN 978-0-8264-7389-9

Library of Congress Cataloging-in-Publication Data

A CIP catalog record for this title is available from the Library of Congress

Chapter 1

The Conflict of Values and Theories

This is not a conventional textbook. Students are often given books to read which tell them what they are supposed to know, or else what they are supposed to think. This is not like that. It is going to suggest to you a way to think about the politics of the world economy, leaving it to you to choose what to think. It will leave you free to be an arch conservative or a radical Marxist, to think about the world problems from a strictly nationalist point of view or, more broadly, as a citizen of the world. You can be a free trader or a protectionist. You can favour monetarist discipline or Keynesian pump-priming. You can even decide that technological change is going too fast and needs to be slowed down because 'small is beautiful', or you can look forward to a brave new world in which technology can actually help solve some of the endemic problems that accompany the human condition. Before you there is not a set menu, not even an *à la carte* menu, but the ingredients for you to make your own choice of dish and recipe.

This is partly because I believe profoundly that the function of higher education is to open minds, not to close them. The best teachers are not those who create in their own image a crowd of uncritical acolytes and followers, obediently parroting whatever they say or write. The best are those who stimulate and help people with less experience in and exposure to a subject than themselves to develop their own ideas and to work them out by means of wider reading, more informed discussion and more disciplined thinking.

At the very start, we must clarify our ideas about the nature of theory in social science.

Theory in social science

There is a great deal of confusion about the nature of theory concerning the working of the international system, political and economic. This has resulted in a lot of 'theoretical' work which is not really theory at all, in the sense in which that word should be used and is defined in dictionaries (i.e. 'a supposition explaining something, especially one based on principles independent of the phenomenon to be explained', *Concise Oxford Dictionary*).

I preface my approach to international political economy by making four negative assumptions about what is *not* theory and three positive assumptions about what *is* theory.

10 The Study of International Political Economy

The negative assumptions

Firstly, a great deal of social theory is really no more than description, often using new terms and words to describe known phenomena, or to narrate old stories without attempting theoretical explanations. Putting one event after another without explaining the causal connection, if any, cannot count as theory. Sometimes there are indeed theories underlying the narrative which are so taken for granted that they are not even made explicit.

Secondly, some so-called theory in international studies merely rearranges and describes known facts categories or in new taxonomies. This is not to say that a fresh taxonomy may not be necessary to the elaboration of a new theory. But the taxonomy by itself does not constitute an explanation and therefore does not qualify *per se* as a theory. The same is true of using new terms or words to describe known phenomena.

Thirdly, simplifying devices or concepts borrowed from other social sciences or fields of knowledge have often had their pedagogic uses in teaching, for getting across to students or readers a certain aspect of individual social behaviour. Examples are the story of the prisoners' dilemma, or a demand curve, or the graphic representation of the concept of marginal utility. But none of these by themselves explain the paradoxes or puzzles of the international system. Their current appeal to some teachers, I suspect, is that they offer a politically and morally neutral explanation (indeed, an exculpation) for the recent failures and inadequacies of the international organizations dominated by the United States in which post-war America put so much faith. Their appeal to students lies in their simplicity; it confirms what their common sense already tells them, which is that individuals are apt to act selfishly. But they are simplifying devices, not theories of social behaviour. They do not help to explain the actions of corporations, of political parties or of states in a global political economy. They do not even constitute evidence that would be relevant to a theory — in the way in which a map of the world might be relevant evidence for, say, a theory of continental drift and the existence of Old Gondwanaland. Moreover, those in the other disciplines who have developed such pedagogic devices are usually under no illusion as to their usefulness to policymakers or the possibilities of their practical application to real-life situations.

Lastly, the development of quantitative techniques applied to international studies has not advanced theory. The choice of what is to be counted is too arbitrary and the determination of what is causal and what is coincidental is too subjective to provide a basis for explanation. For the most part such methods have been used only to substantiate platitudes and to reinforce conventional wisdom concerning historical patterns of state behaviour in relation to other states.

Positive assumptions

The first is that assumption theory must seek to explain some aspect of the international system that is not easily explained by common sense. It must serve to explain a puzzle or a paradox where there is some aspect of the behaviour of individuals, groups or social institutions for which a simple explanation is not apparent. It is not necessary to look for a theory to explain why people try to leave a burning building. It is necessary to find a theory to explain why they patronize shops on one side of the street more than the other. International relations started with the puzzling question: why did nation-states continue to go to war when it was already clear that the economic gains made in war would never exceed the economic costs of doing so. Theories resulted. International political economy today addresses another puzzling question: why do states fail to act to regulate and stabilize an international financial system which is known to be vitally necessary to the 'real economy' but which all the experts in and out of government now agree is in dangerous need of more regulation for its own safety? Theories result. By contrast, the common use of the term 'information revolution' does not usually reflect good theory. While it notes rapid technological change, it does not postulate a clear causal connection, supported by logic or evidence, between that technological change and social change — change in political or economic relationships so great as to result in a redistribution of power and/or wealth. It does not, therefore, advance our understanding or add anything to our capacity to make causal connections and to see the consequential effects of certain phenomena.

Second, theory need not necessarily aspire to predict or to prescribe. This is where social science differs from natural science. Natural science can aspire to predict — though it does not always or necessarily do so. Much science, from astronomy to microbiology, enlarges understanding of what happens without being able to offer conclusive explanations of why it happens. Social science can never confidently predict because the irrational factors involved in human relations are too numerous, and the permutations and combinations of them are even more numerous. The one social science that has most notably aspired to predict is economics. But its record of success is so abysmal that it should make all those that seek to emulate the economists and to borrow from them try something else. Economists are particularly bad at prediction when it comes to the world economy because many of the basic theories regarding international trade and exchange rates are based on assumptions that no longer hold good in the present state of the integrated world market economy.

As to prescription, that is a matter of choice. Whether the theorist chooses to proceed from explanatory theory to policy prescription is up to him or her. He or she need not necessarily apply theory to policy-

12 The Study of International Political Economy

making, since policy-making necessarily involves value judgements and risk assessments that are exogenous to theory and that are better made by practical policy-makers than by irresponsible academic theorists.

Thirdly, theory should be scientific only in the sense that the theorist respects the scientific virtues of rationality and impartiality and aspires to the systematic formulation of explanatory propositions. The title 'social science' is only justifiably used to remind us that, although our subject lies closer to our emotions than the origin of rocks or the composition of molecules, and although it has to do with subjectively important questions concerning power and wealth, we must nevertheless still try to preserve a 'scientific' attitude to our studies. Indeed, many of the problems regarding theory and social science stem ultimately from the inferiority complex of social scientists towards natural scientists and, more specifically for us, the inferiority complex of political economists towards the apparent rigour of economic 'science'.

The nature of international relations

These prefatory remarks are particularly necessary because I think the literature of contemporary international political economy has, firstly, been too much dominated by the American academics and has therefore been permeated by many hidden and even unconscious value-judgements and assumptions based on American experience or on American national interests; and, secondly, because the contemporary literature, with certain rare exceptions, has been predominantly directed at far too narrow a set of questions.

Let me explain that last point a little. You will find that most of the conventional textbooks and most of the more specialized works of an analytical nature are directed primarily at what is properly called the *politics of international economic relations*. What that means is that it is directed at those problems and issues that have arisen in the relations between nations, as represented by their governments. The agenda of topics for discussion follows closely the agendas of inter-state diplomacy concerning major economic issues. These would include issues like the rules of the game in trade, the terms on which investments are made across national frontiers, the ways in which currencies adjust to one another and balance of payments deficits are financed, and the ways in which credit is made available through international capital markets and by international banks. These are some of the issues that have dominated international economic diplomacy over the last twenty years or so. You could call them the West–West issues. They have engaged the attention of the affluent industrialized countries of North America, Western Europe and Japan — roughly speaking the members of the Organization for Economic Co-operation and Development (OECD).

Since the mid-1970s or a little earlier, some writers about the politics of international economic relations have added what could be (and often are) called North-South issues. These include the amount and conditions on which aid — development assistance, so-called — in the form of grants or concessional loans are made available by rich countries to poor ones; the means by which volatile commodity prices could be stabilized and possibly raised; the means by which technology can be acquired by governments and enterprises in poor countries from governments and enterprises in rich ones; the ways in which new and insecure states can insulate themselves from the pervasive dominance of Western ideas and values purveyed by wealthy and powerful Western media — films, television, radio, newspapers and wire services, not to mention advertising. Even though the South — the poor, developing countries — has not had much success on any of these issues, they have been added to the formal agenda of international economic relations. They have thus been added to the list of things that students of international political economy are supposed to know about.

Then there are the East-West questions, issues arising out of the relations between the OECD countries on the one hand and those of the Soviet bloc — or more widely, members of the organization popularly known as Comecon (more properly titled the CMEA, or Council for Mutual Economic Assistance) — led by the Soviet Union. Though often separate, these East-West relations could be bracketed with OECD relations with the other great socialist country, the People's Republic of China (PRC). These issues are different in that there is still little real attempt at an East-West dialogue as there has been, however unproductive, at a North-South dialogue. The policy questions here have been mainly debated not between the OECD group and the CMEA group but between the dominant power on each side and its respective allies.

Logically, the politics of international economic relations should also complete the circle of combinations by including issues between the East and the South, between the major socialist countries and the less developed countries, or LDCs. But these links are often excluded, chiefly because there is neither much interest in, nor much information on them, in the United States.

Even at their most extensive, the 'directional' or 'azimuthal' agendas that exist are still far too restrictive and so do not really qualify as the study of political economy. The literature on the politics of international economic relations reflects the concerns of governments, not people. It tends always to overweight the interests of the most powerful governments. Scholars who accept this definition of the subject thus become the servants of state bureaucracies, not independent thinkers or critics.

What I am suggesting here is a way to synthesize politics and

14 The Study of International Political Economy

economics by means of structural analysis of the effects of states — or more properly of any kind of political authority — on markets and, conversely, of market forces on states. As Martin Staniland has rightly observed, it is not enough to say (as I and many others have done) that politics takes too little notice of economics or conversely, that economics takes too little notice of politics (Staniland, 1985). Realizing that there is a connection between the two is not enough. As Staniland says, appreciating that in poker there is a connection between a card game and winning money is not the same as knowing how to play poker and win the game! Many people have written of the need to achieve a synthesis. Few have achieved one.

The main problem in attempting such a synthesis lies in the very nature of economics and politics. Economics — as every first-year student is told — is about the use of scarce resources for unlimited wants. How best to make use of those scarce resources is fundamentally a question of efficiency. The question is, ‘What is the most efficient allocation of resources?’ Supplementary to it are a whole lot of related questions about how markets behave, which government policies are best, and how different parts of the economic system function — always in terms of their efficiency or inefficiency. ‘Market failure’ of one kind or another, for example, is the subject of much economic inquiry and research.

Politics, though, is about providing public order and public goods. In some universities, indeed, the department of politics is actually called the department of government. Students of politics are expected to know about conflicting theories of what sort of order is best, and how it is to be achieved and maintained. They are usually expected to know a good deal about the political institutions of their own country — and of some others. Some may choose to specialize in the study of world politics. But here too the ruling questions tend to concern the maintenance of order and peace and the provision of minimal public goods, together with the management of issues and conflicts arising between them. The study of trade relations between states, for example, is frequently justified, explicitly or implicitly, on the grounds that these may give rise to conflicts of interest, and perhaps to trade wars, and that these may spill over into military conflicts. There is very scant historical evidence to support such an assumption, but the reason for including such issues in the study of world politics is revealing. Almost all the standard texts on international politics assume the maintenance of order to be the prime if not the only *problématique* of the study.¹

The consequence is that each discipline tends to take the other for granted. Markets are studied in economics on the assumption that they are not going to be disrupted by war, revolution or other civil disorders. Government and the panoply of law and the administration of justice are taken for granted. Politics, meanwhile, assumes that the economy

will continue to function reasonably smoothly — whether it is a command economy run according to the decisions of an army of bureaucrats or a market economy reflecting the multiple decisions taken by prudent and profit-maximizing producers and canny consumers. Politics in the liberal Western tradition recognizes a trade-off between order and liberty and between security and justice — if you want more of the one, you may have to sacrifice some of the other. But only rarely does it take in the further dimension of efficiency — the ability of the sustaining economy to produce the wealth necessary for both order and justice. If you want both more wealth *and* order, must justice and liberty be sacrificed? That *problématique* is addressed by the radical left; especially has this been true of the Latin-American writers of what is called the bureaucratic–authoritarian school who have suggested that there is a connection between political systems and party alignments in developing countries and the expansion of a capitalist market-oriented economy and the income distribution patterns that it tends to generate. But on the whole it is still true that most political science assumes a rather static economic backcloth to politics and that the dynamism so apparent in the real economic world is too often overlooked (Strange, 1970: 304–15).

That cannot be said of many distinguished writers who have come to political economy from outside the main streams of liberal economics and politics. Robert Cox, for instance, came from the study of industrial, labour–management relations and the comparative study of labour movements in different countries. He has followed up some seminal and much-quoted articles with a magisterial work, *Production, Power and World Order* (1987), that seeks to analyse the connections between the three levels of the world system, the social and economic relations resulting from production structures, the political nature of power in the state, and, overall, the nature of the prevailing world order. Development economists like Gunnar Myrdal, Dudley Seers, Gerald Helleiner, Arthur Lewis, Walt Rostow, Hans Singer and Al Hirschman — not to mention Raul Prebisch — have been well aware of the impossibility of divorcing politics from economics. So have the historical sociologists like Michael Mann, Jonathan Hall, Christopher Chase-Dunn and others, following a mainly French tradition drawing on the work of Francois Perroux and Fernand Braudel. We also owe great debts to the economic historians who have followed the trails blazed by Max Weber, Joseph Schumpeter, Karl Polanyi, Simon Kuznets and Carlo Cipolla. Not least in their contributions to the further development of international political economy are the business historians on the right — Alfred Chandler, John Dunning and Leslie Hannah — and the radical historians on the left — Immanuel Wallerstein, Michael Barrett Brown, Ernst Mandel, Fred Block and Teddy Brett.

16 The Study of International Political Economy

But for the rest, all we have, so far, are competing *doctrines* – sets of normative ideas about the goals to which state policy should be directed and how politics and economics (or, more accurately, states and markets) *ought* to be related to one another. This is enough to satisfy ideologues who have already made up their minds. They may be realists who want to think narrowly about the means and ends of national policy at home and abroad; or they may be liberal economists who want to think about how the world economy could be most efficiently organized, or they may be radicals or Marxists who want to think about how greater equity and justice could be achieved for the underdogs.

What we need is different. It is a framework of analysis, a method of diagnosis of the human condition as it is, or as it was, affected by economic, political and social circumstances. This is the necessary precondition for prescription, for forming opinions about what could and should be done about it. For each doctrine has its own custom-built method of analysis, so planned that it leads inevitably to the conclusion it is designed to lead to.

Thus it is that students of world politics or of international political economy are often asked to choose between three set menus.² The way the subject is often presented to them does not allow them to pick an appetizer from the realists, a main course from the liberals and a dessert from the Marxists or radicals. Nor is there any real debate between the authors of the set menus. Each begins their analysis from a particular assumption that determines the kind of question they ask, and therefore the answer they find. They are like three toy trains on separate tracks, travelling from different starting-points and ending at different (predetermined) destinations, and never crossing each other's path.

What we should *not* try to look for, because it does not exist and therefore cannot be found, is an all-embracing theory that pretends to enable us, even partially, to predict what will happen in the world economy tomorrow. The ambition in the social sciences to imitate the natural sciences and to discover and elaborate 'laws' of the international system, patterns so regular they govern social, political and economic behaviour, is and always has been a wild goose chase. Much valuable time and strenuous effort has gone into it and most of both the time and the effort could have been better spent on re-learning some of the basic axioms about human vice and human folly, about the perversity of policies and the arbitrariness of coincidences. This is not to say that a social 'scientist' should not be as fiercely uncompromising in the search for truth as any physicist or geologist. But it is a different kind of truth and it is not best served by aspiring to the unattainable or promising that which cannot in the nature of things be delivered.

What we have to do, in short, is to find a method of analysis of the world economy that opens the door of student or reader choice and

allows more pragmatism in prescription; and, secondly, a method of analysis that breaks down the dividing walls between the ideologues and makes possible some communication and even debate between them.

I believe it can be done. We have to start by thinking about the basic values which human beings seek to provide through social organization, i.e. wealth, security, freedom and justice. We can then recognize that different societies (or the same societies at different times), while producing some of each of the four values, nevertheless give a different order of priority to each of them. All societies need to produce food, shelter and other material goods; but some will give the production of wealth in material form the highest priority. All societies will be organized to give the individual some greater security from the violence and abuse of others, both from others within that society and others from outside it. But some will put order and security first. Indeed, the two great advantages of social organization over life in individual isolation is that association with other humans both increases the possibility of wealth and adds to personal security. Social organization does, however, entail certain choices regarding freedom, or the individual's right to choose; and regarding the relative justice of one set of arrangements over another. An isolated individual like Robinson Crusoe has no problems with these two values of freedom and justice; the only limits on his freedom of choice are set by nature and his own capability. His own liberty is not constrained or compromised by someone else's. Nor does any question of justice arise — except perhaps between his claims to life or resources and those of plants or animals — for there is no other human claimant on resources whose claims need to be arbitrated.

Once you have a society, therefore, you have arrangements made which provide *some* wealth, *some* security, *some* element of freedom of choice for the members or groups of them, and *some* element of justice. These basic values are like chemical elements of hydrogen, oxygen, carbon and nitrogen. Combined in different proportions, they will give quite different chemical compounds. In the same way, a cook can take flour, eggs, milk and fat and make different kinds of cakes, pancakes, biscuits or cookies by combining them in different ways and different proportions.

Societies therefore differ from each other in the proportions in which they combine the different basic values. That was the simple but important point behind the desert-island tales in the prologue. Ideal societies, too, will differ, just as real ones do, in the priority given to particular basic values and in the proportion in which the different basic values are mixed. Plato and Hobbes wanted more order; both lived in troubled and chaotic times. Rousseau and Marx wanted more justice; both were offended by the inequalities they saw around them. Adam Smith, Maynard Keynes and Milton Friedman all thought — despite

18 The Study of International Political Economy

their differences — that it was important to generate more wealth. Hayek and John Stuart Mill wanted more freedom — though the trouble with freedom is that, more than the other values, it often involves a zero-sum game: more freedom for me means less for you; national liberation for one ethnic group may mean enslavement for others.

Thus, whether we are anthropologists studying a society remote in every way from the one we are familiar with, or whether we are comparative political economists comparing, let us say, socialist societies and market societies, or whether we are international political economists studying a world system that is both a single global social and economic system and, coexisting with it, a series of national societies, we can in each case apply the same analytical method of political economy. What values, we can ask, do these arrangements rate the highest? And which do they rate the lowest? Secondary to that, there are the old questions of all political analysis, ‘Who gets what out of it? Who benefits, who loses? Who carries the risks and who is spared from risk? Who gets the opportunities and who is denied an opportunity — whether for goods and services or more fundamentally a share of all the values, not only wealth, but also security, the freedom to choose for themselves, some measure of justice from the rest of society?’

The definition, therefore, that I would give to the study of international political economy is that it concerns the social, political and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein. Those arrangements are not divinely ordained, nor are they the fortuitous outcome of blind chance. Rather they are the result of human decisions taken in the context of man-made institutions and sets of self-set rules and customs.

It follows that the study of international political economy cannot avoid a close concern with causes. Consequences today — for states, for corporations, for individuals — imply causes yesterday. There is no way that contemporary international political economy can be understood without making some effort to dig back to its roots, to peer behind the curtain of passing time into what went before. Of course, there is no one ‘correct’ interpretation of history. No historian is an impartial, totally neutral witness, either in the choice of evidence or in its presentation. But that does not mean that history can be safely ignored. Nor should it be too narrowly or parochially conceived. There may be just as much for Europeans and Americans to learn from the political and economic history of India, China or Japan as from that of Western Europe and North America. One important lesson that is too often forgotten when the history of thought — political thought or economic thought — is divorced from the political and economic history of events, is that perceptions of the past always have a powerful influence on perceptions of present problems and future solutions. Happily, I think, this acute

awareness of the historical dimension of international political economy has now taken as strong a hold in American scholarship as it has always had in Europe. Because Europeans live in places where they are surrounded by reminders of the past — a past that stretches back, not a few hundreds of years, as in even the longest white-settled parts of the United States, but thousands of years — it is easier for Europeans to remain sensitive to this historical dimension. Now, a generation of American political economists share that sensitivity.

Thirdly, besides present arrangements and past causes, international political economy must be concerned with future possibilities. In my opinion, the future cannot be predicted; but it cannot be ignored. What, the political economist must ask, are the options that will be open in future to states, to enterprises, to individuals? Can the world be made wealthier? Safer and more stable and orderly? More just than it used to be? These are important and legitimate questions. Such questions inspire the interest of many people in the subject. Some of these people will not rest until they think they have found the answers. Others, less sure, will be content to clarify the issues and the options, knowing that their personal opinion of optimal solutions will not necessarily carry the day in the real world of politics and markets, but feeling that nevertheless they have a moral responsibility to attempt a cool and rational analysis based on reading, listening and thinking. Although final decisions may be taken in the real world on the basis of value preferences and power relationships, perceptions and ideas also play some part and these at least can be susceptible to rational presentation of the costs and risks of alternative options. To my mind, the difference between the normative, prescriptive approach to international political economy and the reflective, analytical approach is a matter of personal temperament and individual experience, training and so forth. There is no right or wrong about it. The study of international political economy, like that of international relations and foreign policy, has room for both.

The way things are managed, how they got to be managed in that particular way, and what choices this leaves realistically open for the future, these three aspects or *problématiques* of political economy are implicit in the semantic origins of the word 'economics'. It derives from the Greek *oikonomia*, which meant a household — typically in the ancient world, not a small nuclear family but rather a patriarchal settlement of an extended family and its slaves, living off the crops and flocks of the surrounding land. The management of the *oikonomia* thus included the choices made in cropping and in breeding, in the provision of security from attack or robbery, in the customary relations between men and women, old and young, the teaching of children and the administration of justice in disputed matters. In other words, it was rather more about politics than economics.

20 The Study of International Political Economy

'Political economy' as a current term in French, Italian or English only came into general use towards the end of the eighteenth century, when it came to mean, more narrowly and specifically, that part of political management that related to the prosperity of the state and the ordering — as we would say — of its 'economic' affairs. It was, in this more restricted sense, related to the nation-state of modern times, that Adam Smith, whose *Wealth of Nations* appeared in 1776, understood the term. In fact, before Adam Smith, the French had shown a more active interest than the English in political economy. French rulers and writers had already perceived the close connection between the wealth of the nation and the power of the state. Like Thomas Jefferson in America, the French physiocrats of the eighteenth century thought that agriculture was the basis of national wealth and saw the management of agriculture as the first *problématique* of political economy. Adam Smith, on the contrary, saw trade and industry as the basis of national wealth, narrow mercantilism as the chief obstacle to its growth and the *problématique* of political economy as how best to achieve this while defending the realm and managing the currency. History proved Smith right and the physiocrats wrong, so that it was in Scotland and England that the main debates of political economy in the next century were conducted, not in France.

And it was the British too who were mainly responsible for letting the term 'political economy' fall into disuse for more than half a century, until about the 1960s. The subject had become so complex and arcane that when a book appeared in 1890 that set out to explain what went on in economic matters in simple, everyday terms that anyone could understand, its author, Alfred Marshall, coined a new word to distinguish it from political economy. He called his book *Principles of Economics*. Only in the 1960s did the study of political economy (outside of radical left-wing circles) once again become both popular and legitimate. And then it was more because of a concern with the management of the world economy than with the management of particular national economies. A seminal book by an American economist, Richard Cooper, appeared in 1968 called *The Economics of Interdependence*. It developed an argument in favour of multilateral co-operation, especially by industrialized liberal democracies led by the United States, on the grounds that the full benefits of international economic integration and interdependence in trade and finance would be lost if there were a failure so to coordinate national policies as to find an agreed and efficient way of managing the world economy³.

Cooper's lead was followed more readily by American scholars interested in international organization than by his fellow economists. By the early 1970s, they began to ask why it was that the apparently stable and set 'rules of the game' that had prevailed in international

economic relations in the 1950s and 1960s seemed to be less and less observed in the 1970s. The erosion of what came to be called — in a rather strange use of the word — international ‘regimes’ became the dominant *problématique* of international political economy in the United States. As defined by Stephen Krasner in an edited collection of papers devoted to this theme, regimes were ‘sets of explicit or implicit principles, norms, rules and decision-making procedures around which actor expectations converge’ (Krasner, 1983).

Krasner’s original argument in introducing the papers was that regimes were an intervening variable between structural power and outcomes — an argument much closer to mine than to much of the subsequent American work on the subject of different international regimes. The latter has often tended to take the way things are managed in the international market economy as given, without enquiring too much into the underlying reasons of why it was certain principles, norms and rules and not others that prevailed. Or, if research did ask the ‘why’ questions, the range of possible explanations was too narrowly drawn. An influential study by Keohane and Nye of US–Canadian and US–Australian relations in the ‘issue-areas’ — another term drawn from international relations — of money and ocean management called *Power and Interdependence* listed the change in states’ relative political power, or in other words the political structure, as a possible explanation for regime change, but omitted changes in economic power and in economic structures, paying attention only to economic processes, which was a much narrower factor altogether (Keohane and Nye, 1977).

Concentration on international organizations and on the politics of international economic relations has tended to let inter-governmental relations overshadow the equally important transnational relations, that is to say, relations across national frontiers between social and political groups or economic enterprises on either side of a political frontier, or between any of these and the government of another state. Corporations, banks, religious leaders, universities and scientific communities are all participants in certain important kinds of transnational relations. And in such transnational relations, the relationship across frontiers with some governments will be far more important in determining the outcomes in political economy than will relations with other governments. For example, it is a recognized fact in business circles that decisions taken by the US Supreme Court, and sometimes by lesser courts, or by some federal or state agency of the United States, may be of crucial importance far beyond the border of the country. The ‘global reach’ of US government is one of the features of the contemporary international political economy that is easily overlooked by too close attention to international organizations and so-called international regimes.⁴

22 The Study of International Political Economy

If the omission or underrating of transnational relations — especially economic relations — was one important deficiency of political economy based on the regimes' *problématique*, another serious one was that it did not absolutely require the researcher or the student to ask whose power those 'principles, norms, rules and decisionmaking processes' most reflected. Nor did it insist on asking about the sources of such power: was it based on coercive force, on success in the market and on wealth, or on the adherence of others to an ideology, a belief system or some set of ideas?

By not requiring these basic structural questions about power to be addressed, and by failing to insist that the values given predominant emphasis in any international 'regime' should always be explicitly identified, the presumption has often gone unchallenged that any regime is better than none. It is too often assumed that the erosion or collapse of a set of norms or rules is always a bad thing, to be regretted, and if possible reversed. Such an assumption takes the *status quo ante* the erosion to be preferable to the *ex post* situation. But that assumption unconsciously overweights the value of order and stability over the other values, and especially the order and stability of international arrangements for the world economy designed and partially imposed in the period after 1945. It is easy enough to see why. These post-war 'regimes' were set in place by the United States taking a lead where no other state could do so. It was natural for American scholars to assume that these arrangements were admirable and well-designed, without questioning too closely the kind of power they reflected or the mix of values they inferred as desirable — not only for the United States but for all right-thinking people the world over.

By contrast, the approach that I am proposing, by concentrating on the authority–market and the market–authority nexus, and by directing attention to the four basic values of security, wealth, freedom and justice, ought to succeed in highlighting the non-regimes as much as the regimes, the non-decisions and the failures to take a decision, which, no less than active policy-making have affected — and still affect — the outcomes of the international political economy.

It is also more likely to reveal the 'hidden agenda' of issues that are of little interest to governments, where there is no international agreement, no organization, no secretariat to publicise the question and not necessarily any accepted norms or principles around which actor perceptions converge. The failure to do this — which also reveals the bias in favour of the status quo — is one of the major weaknesses of the regimes approach. For, among the many different ways in which power may be exercised in the international political economy — a question to which we now turn in the next chapter — the power to keep an issue off the agenda of discussion or to see that, if discussed, nothing effective is done about it, is not the least important.