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

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

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

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

The Marxist Perspective

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In summary, Lenin argued that the inherent contradiction of capitalism is that it develops the world and plants the political seeds of its own destruction as it diffuses technology, industry, and military power. It creates foreign competitors with lower wages and standards of living who can outcompete the previously dominant economy on the battlefield of world markets. Intensification of economic and political competition between declining and rising capitalist powers leads to economic conflicts, imperial rivalries, and eventually war. He asserted that this had been the fate of the British-centered liberal world economy of the nineteenth century. Today he would undoubtedly argue that, as the U.S. economy declines, a similar fate threatens the twentieth-century liberal world economy, centered in the United States.

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

A Critique of the Perspectives

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

In the first place, they are based on assumptions about people or society that cannot be subjected to empirical tests. For example, the libleading concern of states. From the seventeenth century on states have pursued conscious policies of industrial and technological development. Both to achieve stable military power and in the belief that industry provides a higher "value added" (see Chapter Three, note 26) than agriculture, the modern nation-state has had as one of its major objectives the establishment and protection of industrial power. As long as a conflictual international system exists, economic nationalism will retain its strong attraction.

Critique of Marxist Theory

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

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

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

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

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

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

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

On the other hand, a communist or socialist economy has no inherent *economic* tendency to expand internationally. In a communist economy, investment and consumption are primarily determined by the national plan and, moreover, the state has a monopoly of all foreign exchange.[11] A communist economy may of course have a political or strategic motive for exporting capital, or it may need to invest abroad in order to obtain vital sources of raw materials. A Marxist regime may also find it profitable to invest abroad or to engage in other commercial transactions. Certainly the Soviet Union has been rightly credited on occasion with being a shrewd trader, and Ralph Hawtrey's point that the advent of a communist or socialist government does not eliminate the profit motive but merely transfers it to the state has some merit (Hawtrey, 1952). Nevertheless, the incentive structure of a communist society with its stress on prestige, power, and ideology is unlikely to encourage the economy's expansion abroad. The tendency is rather for economics to be subordinated to politics and the nationalistic goals of the state (Viner, 1951).

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

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

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

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

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

In addition, Lenin was wrong in tracing the basic motive force of imperialism to the internal workings of the capitalist system. As Benjamin J. Cohen has pointed out in his analysis of the Marxist theory of imperialism, the political and strategic conflicts of the European powers were more important; it was at least in part the stalemate on the Continent among the Great Powers that forced their interstate competition into the colonial world (Cohen, 1973). Every one of these colonial conflicts (if one excludes the Boer War) was in fact settled through diplomatic means. And, finally, the overseas colonies of the European powers were simply of little economic consequence. As Lenin's own data show, almost all European overseas investment was directed to the "lands of recent settlement" (the United States, Canada, Australia, South Africa, Argentina, etc.) rather than to the dependent colonies in what today we call the Third World (Lenin, 1939 [1917], p. 64). In fact, contrary to Lenin's view that politics follows investment, international finance during this period was largely a servant of foreign policy, as was also the case with French loans to Czarist Russia.[12] Thus, despite its proper focus on political change, Marxism is seriously flawed as a theory of political economy.

Three Challenges to a World Market Economy

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

The Process of Uneven Growth

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

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

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

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

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

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

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

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

And, finally, Kuznets argues that "major wars are associated with the emergence in the course of modern economic growth of several large and developed nations" (Kuznets, 1966, p. 345). A century of uneasy peace had been possible because, during much of the period, there was only one large advanced country generating economic growth. The emergence of other industrialized and growing societies, especially Germany after 1870, eventually led to hegemonic war. The emergence of several large economically developed countries is the necessary, if not sufficient, condition for the occurrence of world wars. "In this sense it was a century of Pax Britannica that ended when the leading country could no longer lead and impose its peace on such a large part of the world" (ibid.). It seems impossible to say more than this about the connection between economic growth and military conflict.

Market Economies and Foreign Policy

Another Marxist criticism of a market or capital society is that it tends to pursue an aggressive foreign policy. Liberals, of course, take the opposite position that capitalist economies are fundamentally pacific. For example, Joseph Schumpeter in his essay on imperialism argued that capitalists are antibellicose and modern wars are due to the holdover of precapitalist "vestigial" social structures (Schumpeter, 1951). In a truly capitalist society, he maintained, the foreign policy would be pacifist.[13] Marxists, liberals, and nationalists have long debated the issue of whether economic interdependence is a source of peaceful relations or a source of conflict among nation-states. Liberals believe that the mutual benefits of trade and the expanding web of interdependence among national economies tend to foster cooperative relations. They believe, as Norman Angell tried to demonstrate in his famous *The Great Illusion* (1910), written four years prior to the First World War, that war has become unthinkable because it is antithetical to modern industrial society and does not pay. But for nationalists, trade is merely another arena for international competition, because economic interdependence increases the insecurity of states and their vulnerability to external economic and political forces.

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

The basic assumption of Marxists and economic nationalists, on the

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

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

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

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

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

The third factor affecting the political results of trading relations is the degree of homogeneity or heterogeneity of industrial structure, which in turn determines the composition of imports and exports (Akamatsu, 1961). Although it is true that industrial nations trade more with one another than with nonindustrial countries, when nations have highly homogeneous or even similar industrial structures and exports, competitive trading relations and commercial conflict frequently result in periods of economic stagnation (Hicks, 1969, pp. 56-57). By the same token, heterogeneity of industrial structure tends to produce complementary trading relations. Thus, the heterogeneity of the industrial structures of Great Britain and other nations in the early and mid-nineteenth century resulted in generally harmonious trading relations. As other nations industrialized by the end of the century, commercial conflict became intense. The same phenomenon may be observed in the contemporary era, as rising industrial powers such as Japan and the newly industrializing countries (NICs) overtake and surpass the United States.

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

The Significance of Welfare Capitalism

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

> It goes without saying that if capitalism could develop agriculture, which today lags far behind industry everywhere, if it could raise the standard of living of the masses, who are everywhere still poverty-stricken and underfed, in spite of the amazing advance in technical knowledge, there could be no talk of a superabundance of capital. This "argument" the petty-bourgeois critics of capitalism [read Kautsky] advance on every occasion. But if capitalism did these things it would not be capitalism; for uneven development and wretched conditions of the masses are fundamental and inevitable conditions and premises of this mode of production (Lenin, 1939 [1917], pp. 62-63).

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

TABLE 1. Nullification of Marxist Laws by Welfare States

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

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

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

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

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

Welfare Capitalism in a Non-Welfare Internationalist Capitalist World

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

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

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

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

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

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

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

Hirschman suggests that this must have been an uncomfortable thought for Marx, who until his dying day was so frequently disappointed in his longing to see the coming of the revolution. In Hirschman's view, this explains why Marx focused on European capitalism as a closed rather than an open economy and why he failed to develop a theory of imperialism even though one would have expected this of him as an assiduous student of Hegel. As Hirschman points out, Hegel anticipated all subsequent theories of capitalist imperialism.

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

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

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

The modern welfare state and protectionism have developed to cush-

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

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

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

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

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

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

Conclusion

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