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 Governments, Economic Interdependence, and International Cooperation

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Introduction

Figuratively, the world has become smaller during the last two centuries. Revolutions in transportation and communication have made it possible to traverse great distances quickly and have allowed instantaneous contact between most points on the globe. Large numbers of people and enormous quantities of goods now move around the world quickly and easily. Since the Second World War, international commerce and exchange have expanded especially rapidly, faster even than global production and reaching ever new heights. Vast sums of money flow speedily from country to country, and a global around-the-clock capital market is almost at hand. These changes have led to the growth, too, of forecasts that this burgeoning international commerce would bring peace as well as prosperity. This optimism, a direct descendant of predictions made throughout the last two centuries, grows from the proposition that greater interdependence would bind nations so closely that they would cooperate rather than fight.

These hopes voiced during the last two centuries by proponents of a link between commerce and peace have other modern echoes as well. Since World War II, the belief that European economic interdependence and integration would lead to political cooperation and perhaps even political integration has appeared episodically. Similarly, the possibility that the nations of the Communist bloc would join international economic institutions such as the International Monetary Fund (IMF) has recently raised expectations of more extensive economic ties between East and West and of the potential, therefore, for more peaceful relations. In the last two decades, the rapid growth of international exchange, the relative decline of American economic power, and the growing impact of other nations' behavior on the U.S. economy have led American scholars to shift to a more explicit focus on international economic interdependence.

Yet concomitant with the expansion of international commerce and economic interdependence has been the growth of economic conflict. Friction between trading partners has increased, and fears about the rise of a new protectionism, even of renewed economic warfare, have also been heard. Ironically, it almost appears that a new mercantilism has arisen alongside the new interdependence.

Scholarly enterprise, not surprisingly, has followed history. For some 15 years now we have analyzed the crises brought on by interdependence, heard dire warnings about the imminent collapse of the international economic order, and worried a great deal about the economic conflicts among some of the advanced industrial societies.

In this chapter, I review the various links made between international commerce and economic interdependence and international cooperation. I briefly cover early arguments, not only because of their analytic ties to modern propositions, but also because they represent alternative formulations that must be kept in mind when assessing empirical studies of the implications of interdependence for cooperation. I specifically distinguish political liberalism (and its subvariant, republican liberalism), financial liberalism, neutralizing commercial liberalism, binding commercial liberalism, and sociological liberalism.

After assessing the assumptions underlying the various propositions, both early and recent, that link trade, interdependence, and cooperation, I discuss empirical work on the link between economic interdependence and international cooperation and address methodological issues associated with measuring interdependence.

Finally, I develop an argument about the ramifications of interdependence. I begin by delineating the nature of state interests and the relationship between state and society in order to establish the basis of a government's supply of protection. I hold that protectionism has been a price for liberalization (both internationally in getting nations to accept certain liberal arrangements and domestically in buying off those opposed to liberalization), that successful liberalization generates both protectionist and antiprotectionist interests, and that the process of negotiating trade liberalization generates protectionist bargaining chips necessary for achieving reciprocity in agreements. Finally, I argue that successful liberalization and increases in economic interdependence have generated new areas of conflict. Specifically, incongruent domes-
tic policies and practices have emerged as the central components of trade disputes in a world of low tariffs. And resolving such conflicts requires, in turn, ever greater levels of cooperation.

Political Liberalism: Commerce, Governments, and Peace

In its modern form, the argument linking peace with international commerce and economic interdependence dates from the late eighteenth century. The original argument was rich and multifaceted. For many, it represented not merely an analytic argument, but a political agenda.

The earliest proponents of the proposition that trade leads to peace were responding both to widespread mercantilist practices in the seventeenth and eighteenth centuries and to seemingly constant wars. Their concerns were international and domestic, economic and political. They advocated an end to mercantilist practices that included domestic economic monopolies and the exclusion of foreign goods.

The key element linking all these ideas was a particular set of views of the nature of people and of government. Theorists held that individuals in the state of nature managed to get along and work out mutually acceptable exchanges but that coercive governments then corrupted this idyll. Wars did not stem from rivalries between people. Rather, states coerced their citizens, and states fought wars. This distinction between intergovernmental and international relations is nicely captured in the words of free trade advocate Richard Cobden, who called for "as little connection as possible between governments, as much connection as possible between the nations of the world" (Hinsley, 1963:97). Holding that there existed "a natural disharmony between governments and states," liberals believed in "a natural harmony between nations and societies" (Hinsley, 1963:111).

This argument, a form of political liberalism, was part of a political agenda, at the heart of which was an assault on state power. Unconstrained monarchs engaged in self-serving ventures such as wars and imperialism, which only enriched the few and were not in the interests of the many. And unfeathered commerce, in this view, would serve to constrain the arbitrary exercise of state authority.

The nineteenth-century advocacy of free trade represented an attack on domestic as well as foreign policy. Among others, a new elite demanded an end to the concession of trading monopolies, and therefore it challenged the privileged classes who benefited from these bestowals (Jones, 1987). Moreover, dismantling such mercantilistic practices would entail constraining the power of the state and recognizing a variety of individual rights. In short, liberalism in the early part of the nineteenth century conjoined the call for international free trade with one for laissez-faire domestic policies.

Republican liberalism, whose advocates pressed for replacing monarchies with republics, constituted one variant of political liberalism. To Tom Paine, monarchy represented no less than "the enemy of mankind and the source of misery." If, throughout Europe, sovereignty were to be restored "to its natural and original place, the nation," then "the cause of war would be taken away" (quoted in Waltz, 1959:101). Kant and Rousseau, too, believed that because princes waged war in their own interests rather than in those of their people, representative governments would not wage wars.

A central assumption in this line of argument was that wars destroyed wealth and prosperity and was, therefore, not in the interests of individuals. At best, war benefited the few; it never helped the nation as a whole (Silberman, 1946:280). Thus, when intergovernmental relations "became relations between nations or peoples—war, which was materially profitless and absurd and morally wrong, would be replaced by free and peaceful economic competitions" (Hinsley, 1963:111).

In contrast, commerce created a wealth and prosperity that could be widely enjoyed and which therefore created an interest in peace. As John Stuart Mill put it, commerce was "rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it" (quoted in Silberman, 1946:66). Governments constrained by the wealth-seeking interests of individuals would not engage in materially destructive wars.

This conclusion relied on additional assumptions about the nature of and relationship between economics and politics. First, it presumed an individual interest in wealth and prosperity. Second, it presumed that wealth and prosperity were provided by exchange. Third, such commerce required the existence of domestic economic freedoms, which in turn rested on political ones. Hence, the very adoption of free trade necessarily entailed curtailing state power and making it responsive to the economic interests of individuals. And fourth, truly representative states would not be able to finance their wars through taxation, for the newly empowered citizenry would not approve of costly and unnecessary fighting.

In short, political liberalism held that governments would not wage wars because their constituents had no interest in doing so. Commerce, unfettered at home and abroad, would serve to constrain the actions of rulers. And this argument depended critically on the assumption that wars were invariably destructive of wealth and prosperity, which were the primary interests of the citizenry.

By the end of the nineteenth century, however, the argument's interlocking
components had all come into question. Observers began to reappraise the relationships between representative governments, international commerce, free trade, and peace and war. As a result, the benefits of a liberal world order no longer seemed indubitable.

First, it had become clear that democracies fought wars and engaged in imperial adventures. The British, for example, during the high point of domestic liberalism, fought in the Crimean War in the middle of the nineteenth century. Moreover, the democracies, like monarchies and autocracies, engaged in imperialism at the end of the nineteenth century.9

The links between representative governments, the absence of domestic regulation, and free trade also appeared to be problematic as liberals discovered that democracies were all too capable of imposing domestic regulations and trade restrictions. The original argument had held that since the vast majority of citizens benefited from unencumbered trade, whereas only a minority did so from mercantilism, representative governments would not restrict domestic or international exchanges. But in nineteenth-century Britain, a whole system of state intervention accompanied laissez faire (Koot, 1987:8). And in the twentieth century, the argument has been made that the workings of representative governments leave them open to the pressures of organized particularistic interests for protection rather than the unorganized general interest in unfettered trade.10

Moreover, the link between free trade and prosperity came to be questioned. If representative governments attended to their constituents' interest in wealth, then they would pursue those policies that ensured economic development and growth. And it came to be argued that nations that industrialized late could only do so through interventionist state policies, for the ability to trade on comparable terms required protection rather than free trade.11 In the nineteenth century, for example, the use of tariffs had allowed new industries to develop in the United States. This success then strengthened the claims made on behalf of protection and state intervention.12

In the twentieth century, proponents of state coercion expanded their position to hold that only those nonindustrial nations with governments capable of coercive direction could successfully obtain the material benefits of extensive trade. Only state power could keep labor costs down, restrain consumer demand, and ensure international competitiveness. The title of an essay by the economist Carlos Diaz Alejandro (1981), “Open Economy, Closed Polity?” captures the painful irony inherent in this position.

In short, the original liberal formulation was turned on its head, and coercive interventionist governance was argued to be consistent with, if not necessary to, growing international commerce. Friedrich List (1841) argued that protectionism was a prerequisite to free trade, because only protection would permit industrialization, itself a requirement for liberal commerce to occur.

After more countries modernized, then free trade between a set of industrial nations could replace the international monopoly of one such country, England.

Finally, the links drawn between the desire for wealth, commerce, and international cooperation also came under attack. German nationalists, epitomized by List (1841), argued in the middle of the nineteenth century that wars need not always be destructive but had, in fact, proved beneficial. Thus, an interest in maximizing wealth was consistent with engaging in war. Moreover, they averred, protectionism was not only a product of the desire for prosperity, but also a consequence both of war and of the hostile trade policies of other nations.

In short, by the end of the nineteenth century, each of the links in the original argument of political liberalism had been challenged. A national interest in prosperity could lead to protectionism. Even wars, the most extreme forms of international conflict, could be supported by the broad mass of citizens on grounds of self-interest. And representative states did interfere in international commerce, either because they, like monarchies, could reflect narrow interests or because such interference was deemed in the interests of the nation as a whole.

By the end of the nineteenth century, as it became increasingly obvious that the links between representative governments and both war and trade had proved historically tenuous, a new liberal formulation came to replace the original set of arguments. Still committed to free trade, the new liberalism abandoned the vision of domestic laissez faire in favor of a positive role for the state. In England, the very home of laissez-faire liberalism, the extension of the franchise had engendered working-class demands for social reform. It had become increasingly clear that individuals wanted government assistance as well as liberties and rights. A representative state became redefined as one that did more than simply protect property and provide security.13 By the end of the nineteenth century, English liberals had anticipated Keynes and other twentieth-century theorists and politicians in developing arguments on behalf of a positive role for government in domestic economy and society.14 Indeed, nineteenth-century liberals saw that monopolies and oligopolies could be a product not only of state direction, as had been true earlier, but of market concentration as well. Hence, they came to advocate a role for the state in combating economic centralization and so assuring competition.15

Neutralizing Commercial Liberalism: Economics and Conflict

A second strain of liberal thought stressed a different set of causal links between free trade and cooperation. According to this other logic, which also
dated from the early nineteenth century, unfettered commerce would bring peace by removing economic causes of international conflict. From the belief that war was born of economic competition and rivalry, theorists came to the conclusion that free trade would undercut these roots of hostility. If states went to war to enrich themselves through plunder and conquest, or in response to barriers established by others to protect those other nations’ markets, then eliminating these reasons for conflict would do away with its existence altogether. And indeed, liberals held, colonial competitions, imperial wars, and trade disputes had all been fostered by the existence of trade barriers and rivalries. On the other hand, they posited, nations would not fight over trade if all had access to the others’ domestic and colonial markets. Likewise, the ability to buy raw materials and goods would make colonialism and imperialism unnecessary. Some of the causes of war would be eliminated.

This particular strand of liberalism, a neutralizing commercial liberalism, focused on the economic bases of conflict. It presumed that conquest and plunder could enrich a nation as a whole, and so war was indeed a purposive self-interested activity pursued by nation-states. It held, too, that nations had, in the interest of self-defense, a reason for maintaining trade barriers in response to the actions of other states. In short, all of these constituted economic bases for international conflict.

In this view, free trade undercut the economic bases of conflict. Commercial liberalism neutralized these roots of discord. All the economic benefits to be obtained by conquest, plunder, and market control (using barriers to control a market, at home or in a colony) could be obtained by commerce. Exchange, not conquest, would secure the needs of the people without any of conflict’s attendant costs. Even if imperialism paid, commerce was cheaper. Thus, unfettered commercial access would do away with some of the roots of war.

In the 1930s, a revised version of this perspective was used to explain the apparent drift toward another European war. The great powers had created economic blocs from which they excluded their trading rivals. These restrictive practices led to the formation of political blocs, and since political and economic disputes were held to reinforce one another, war appeared the likely result. When World War II did, in fact, occur, the argument linking economic and military conflict provided one interpretation of its origins. Wanting to create a new postwar world, those who adhered to this view worked to prevent the reemergence of economic blocs (Gardner, 1956).

Today, in light of changing world circumstances, the proposition has been revamped yet again. Although states may no longer plunder for wealth, they may still need raw materials available only in other nations. In the wake of the oil crisis of the 1970s, the political implications of resource dependency reemerged as a source of concern. Countries with large populations, high levels of industrialization, and insufficient domestic supplies need access to other nations’ raw materials. They experience “lateral pressure” and become active participants in the international arena. They can obtain what they need by conquest or through trade. Hence, the most recent version of this perspective describes a world of nations with free access to needed resources as inherently more peaceful than one without it.

This hypothesis about the route to international cooperation is formulated only as the negation of one about the origins of international conflict. The key proposition posits that economic scarcity leads to conflict and war. The presumed negation avers that eliminating the causes of conflict will ensure cooperation. Unfortunately, the hypothesis that x causes y cannot be used to infer that the absence of x means the absence of y. The reason, of course, is that other causes of y may also exist. And since no statement necessarily logically implies its negation, one can find scholars who hold both views and those who accept only one or the other.

**Sociological Liberalism: Commerce as Communication**

A third element of liberal thought links commerce with international cooperation as a function of interaction. Rather than focusing either on state power and the need to constrain it or on eliminating economics as a cause of conflict and war, this line of reasoning rests on a view of trade as nothing more than one form of interaction and communication between peoples. The focus is not on the political or economic consequences of exchange, but on its immediate sociological consequences.

For sociological liberalism, free trade brings an increase in commercial links between peoples, and such ties are deemed to be inherently pacific. Hirschman (1977) demonstrates that such arguments were made on behalf of capitalism and against passions in the eighteenth century. In 1748, Montesquieu wrote that “wherever there is commerce, there the ways of men are gentle” (quoted in Hirschman, 1977:60). And William Robertson, writing in 1769, said, “Commerce tends to wear off those prejudices which maintain distinctions and animosity between nations. It softens and polishes the manners of men” (quoted in Hirschman, 1977:61). Others argued that exchange promoted peace because it led to the development of shared interests among peoples. But their emphasis was not on the development of common economic interests in trade. Rather, their logic held that the simple act of communication paves the way to international cooperation by increasing each people’s knowledge of others and their ways, customs, practices, and concerns. The
greater this familiarity, the more likely cooperation becomes. John Stuart Mill, for example, believed that contact with foreigners constituted a source not only of technical but also of moral progress and that trade provided such contact (Silbemer, 1946:66).

The view that trade, as a form of interaction, improves the prospects for peace received heightened attention as the nineteenth century's revolutions in the means of communication and travel spread and expanded the scope of international contact. Railroads, steamships, and telegraph lines increasingly linked far parts of the world. These changes all seemed to promise improved prospects for peace. For, as the prominent British author Henry Thomas Buckle wrote, "the greater the contact, the greater the respect." Referring more specifically to British-French relations, he declared that "every new railroad which is laid down, and every fresh steamer which crosses the Channel, are additional guarantees for the preservation of that long and unbroken peace which, during forty years, has knit together the fortunes and the interests of the two most civilised nations of the earth" (quoted in Blainey, 1973:20). Even in 1921, in the wake of the First World War, which occurred despite high levels of contact and interaction in Europe, one author could write that friendship between the people of two nations is woven out of innumerable transactions, large and small, between individuals in which both parties have benefited and which they desire to renew. And not withstanding all that is said to the contrary, in the vast majority of cases the parties to the transactions learn to respect each other's qualities—their uprightness, their shrewdness, their energy, and often also their forbearance and generosity.

This fabric of individual relationship is one element in the power of commerce to promote peace between nations. (Bosanquet, 1924:152–153)

Much like the early liberal advocacy of free trade as a means to peace, new recommendations flowed from these assumptions about the ramifications of improved communication and increased understanding among peoples. Both government policies and private programs tried to expand the scope of interaction between the citizens of different countries. The nineteenth century saw the convocation of conferences of every kind, the proliferation of international exhibitions and world fairs, and, in 1896, the establishment of the modern Olympic Games.

So strong was the belief in the power of contact to prevent hostilities that not even the outbreak of World War I discredited the ability of these proliferating meetings to encourage peace. On the contrary, some proponents of interaction blamed not the inefficacy of contact, but the lack of communication between the leaders of the disputing nations. More opportunity for them to have discussed their concerns, this logic held, would have made the difference. The solution for the future would be to establish a mechanism to ensure such talks, and the League of Nations was born.

This faith in communication as a means to understanding, and therefore to cooperation, continued. Although the League could not stop World War II, a new organization, the United Nations, was established to facilitate international dialogue. The postwar era has been replete with institutionalized and ad hoc summits intended to bring national leaders face to face. Not only political contact among governments, but also cultural and scientific exchanges among peoples have been promoted.

The modern version of the argument that communication leads to cooperation is associated with the seminal scholarly work in the fields of international relations and comparative politics done by Karl Deutsch and his students. Deutsch argues that interaction does more than improve understanding; it also generates community. He believes it essential to the development of a group consciousness and argues that the extent of social interaction defines the bounds of the community. Equating integration with interdependence, and both with transaction flows, he suggests that the growing relative importance of international commerce would lead not merely to international cooperation, but to the emergence of a new, integrated community of nations. Deutsch and his students focus on secular trends in transactions and on the relative levels of internal versus external communications. Their aim is to assess whether integration (here understood as the equivalent of interdependence) was declining or rising, especially as regarded the prospects for Western European integration in the 1950s and 1960s.

Although Deutsch considers changes in the absolute values of interchange to be of some importance, he especially emphasizes the importance of the relative role of international to domestic flows of communication. Presuming actors to have a fixed or finite ability to focus attention and to communicate and interact, Deutsch argues that the ratio of foreign to domestic transaction is critical. A declining ratio signals increasing self-preoccupation, insulation, and nationalism. In contrast, growing levels of international to domestic transactions create cosmopolitanism, integration, and international interdependence.

In an array of studies, Deutsch and his students come to bleak conclusions about relations among the Western allies. Deutsch's own analyses show that industrialization led to a concentration on internal communication and transaction and to a relative decline in international transactions (Deutsch and Eckstein, 1961, among others). Thus, after an initial flurry in which it appeared that there was some movement toward European integration, the data suggest that the trend toward integration appeared to be leveling off. An
Financial Liberalism: Mobile Wealth and Constrained Government

Still another argument about commerce and government and war can best be characterized as financial liberalism. This argument hinges on the growth of money and bills of exchange, which represent “movable wealth” (Hirschman, 1977:72–77, 81–88). Such wealth is invisible and can move quickly. And because of its mobility and fungibility, such wealth can elude the grip of greedy and capricious rulers. In Montesquieu’s words, bills of exchange allowed commerce to “elude violence, and maintain itself everywhere,” and as a result “rulers have been compelled to govern with greater wisdom than they themselves might have intended” (quoted in Hirschman, 1977:72). Moreover, the ability to exchange currencies also constrained princes from foolish policies, or made them self-defeating; as Montesquieu put it, “[foreign exchange] operations have done away with the great and sudden arbitrary actions of the sovereign or at least with their success” (quoted in Hirschman, 1977:74).

International transactions entail the exchange of currencies, which represent a form of mobile wealth that eludes the ready grasp of rulers. Movable capital thus constrains capricious rule in a way that fixed capital does not. The ability of individuals to shift their funds means that rulers have to be responsive to the concerns of owners of capital.

As movable capital is invested overseas, its owners develop broader interests. Someone “whose business interests are confined” is “parochial in his sympathies and outlook.” But investment generates a “stake” and an interest in the policies pursued within other nations (quotes from 1911 work of J.A. Hobson, quoted in Hall, 1987:131). Similarly, a modern variant of liberalism, one that recognizes the role of finance and capital flows, argues that high levels of investment preclude conflict, which destroys wealth and impedes the commerce that generates the income to repay loans. And the concomitant domestic argument is that bankers and financiers oppose war because it destroys the commercial underpinnings of finance as well as affects the confidence that financial systems require for their maintenance.

Binding Commercial Liberalism: Commerce and Interdependence

Finally, classical liberal thought provides one last argument about the peaceful implications of economic exchange. Adam Smith and especially David Ricardo argued that mercantilist policies did not enrich nations but free trade did. A nation would become wealthier by buying from abroad what others could produce more cheaply and by exporting what it could produce more cheaply itself. Increased wealth flowed not from self-sufficiency but from exchanges based on specialization. Exactly such a process had occurred within nations and would, the two economists predicted, occur between them. Commerce would lead to a division of labor with each nation exploiting its comparative advantage. All countries would serve and rely on one another, and peace would follow.

This conclusion is not unrelated to the other four strains of liberal analysis. It holds that economic exchange fosters not only mutual reliance but also awareness, especially the recognition of joint interests. Most basically, nations come to recognize that their own prosperity is dependent upon another’s. In the words of John Stuart Mill, “commerce first taught nations to see with good will the wealth and prosperity of one another” (quoted in Silberner, 1946:66). The self-interest of states, and of the people within them, becomes tied to commerce rather than war.

To the extent that this has occurred, indicators of economic interchange do more than capture the simple fact of interaction between parties; they also reflect a degree of mutual reliance. They show the extent to which a nation is open and sensitive to external influences, even the degree to which it is vulnerable to others. They measure economic interdependence.

From this perspective, conflict and war between interdependent nations becomes unthinkable and therefore impossible. War destroys commerce and is, even independent of the price of arms and soldiers, too costly to wage. In any war, the burden of conflict can come to include the damage wrought upon the entire nation’s standard of living. But in a world of interdependent na-
tions, war may also be impossible because such states rely upon others for important goods. With the acquiescence of their trading partners, they may still battle countries with which they do not trade, but they may simply be incapable of fighting those upon whom they rely for the requirements of life and, perhaps, even for the essentials for waging war.

This fifth argument implicitly characterizes interdependence in two different ways. Although both presume it to be one consequence of unhindered commerce, the salient characteristic of the international relationship differs. On the one hand, a nation’s increasing involvement in international transactions is seen as reflecting its greater openness to the international economy and therefore its heightened sensitivity to changes in the external environment. Alternatively, when described as the mutual dependence that comes from a division of labor, interdependence is viewed as the vulnerability of no longer self-sufficient states.

As interdependence grows, not only do nations become more sensitive to developments in other countries, but industrialists, traders, and financiers come to rely upon international exchange as well. This represents a domestic variant of the argument linking interdependence to cooperation. International commerce creates domestic interests in its maintenance. Exporters do not want their markets to disappear. Importers do not want their supplies to diminish. Foreign investors do not want to have their holdings confiscated. Bankers want trade and capital flows to be sustained so that loans will be repaid. In addition, since financiers know that war destroys the value of their assets (property) without affecting their liabilities, they consider conflict destructive (Withers, 1916: chap. 5). For all these reasons, interdependence is understood to generate a powerful case for its own maintenance.

Assumptions

The five classic liberal views about the relationship of interdependence and peace all assume that the interactions between states are mutual and symmetrical. This is implicit, for example, in the argument about the cooperative ramifications of communication, an inherently two-way phenomenon. Tourists journeying from one country to another affect both nations’ perceptions of the other. Those traveling not only observe a foreign country but are also seen by those whom they visit. Hence, there is no reason to assess imbalances in communication. The direction of mail flows or of other forms of traffic do not matter, for communication inherently involves interchange that affects both sender and receiver. The economic arguments also depend on an assumption of reciprocity. Their advocates, who developed them in response to mercantilism, understood that exchange could involve exploitation. They assumed, however, that unfettered trade would not generate exploitive relationships devoid of mutuality and symmetry. Their view assumes, again implicitly, that open exchange creates not dependence, but interdependence.

The four arguments that focus on the importance of commerce as such (and not as a form of communication) also assume the importance of wealth. They take as given that people and states care about economic welfare. Although their emphasis on the material appears to echo mercantilism, it differs in being conjoined with the belief that unfettered exchange maximizes prosperity. Hence, a concern with prosperity is believed to play a role in redirecting international politics away from conflict and war and into the cooperative realm of commerce and exchange.

This focus on wealth is conjoined with an emphasis on cost. Whatever the specific links drawn by different causal arguments, and whether they emphasize that commerce breeds cooperation or merely reduces the incentives for war, all the arguments that focus on commerce and exchange contain an emphasis on relative costs and benefits. War is costly, and exchange is beneficial. The prospects of commerce increase the costs associated with war, and the development of commerce creates a constituency to press the case for peace. As governments become more representative, the greater the degree to which those costs come to be included in political calculations and decisions and to be reflected in the political system.

Empirical Work

Ironically, despite longstanding interest in the relationship between economic interdependence and peace, there have been few direct tests of this link. Testing the various propositions that describe how interdependence actually generates international cooperation requires confronting problems of measurement and specification. In fact, studying this question empirically illuminates analytic and conceptual issues to which the theoretical literature does not provide a very good guide. As a result, empirical analyses have generated new distinctions and conceptualizations and often disagree strongly with one another.

Only a few studies look directly at the relationship between commerce and cooperation—most just describe the evolution of international exchange. Presuming the consequences that flow from commerce, many scholars have done no more than assess exchange trends as indications forecasting the probable future of shifts in international cooperation. For if growing international trade necessarily implies a developing division of labor, which in turn increases the
burden of withdrawing from commerce, then these trends directly capture the opportunity costs of conflict. Those who define community as communication have done similar studies, but rather than looking at trade patterns, they have investigated changes in relative communication as direct manifestations of community development.  

Market Integration or Concentration

Confronting the issues of what and how to measure has raised a variety of conceptual and definitional issues. Most basically, although scholars agree that interdependence grows along with increases in international commerce, they argue about whether all exchanges entail interdependence.

For some, the most important cooperative impact of economic interdependence is the development of a global market in which all nations specialize and global wealth is maximized. No nation could cut itself off from the market without experiencing some cost. Every nation would be linked to and dependent upon this market. This is a market-integration view of economic interdependence and is reflected in the arguments made about integrating largely autarkic nations, such as the former Soviet Union, into the world economy. Integration into a larger market itself generates incentives for international cooperation. And indeed, integration into a larger market requires that states reach agreements and cooperate about various matters, generating rules and regulations for commercial exchange.

For others, market integration does not represent an interdependence that generates international cooperation. If integrated markets were truly competitive, no individual nation would be specifically dependent on any other nation, for it would invariably find alternative suppliers and consumers. Thus, although no country might be able to cut itself completely off from all others, it could conflict with any particular nation with impunity. Indeed, international cooperation and conflict could fully reflect political calculations and could be made irrespective of economic calculations. At the same time, the market would be depoliticized in that it would not reflect politics or have any political implications. Hence, whereas some scholars would view the development of a competitive international marketplace as representing economic integration and interdependence, others would consider a truly competitive international marketplace, in which exchanges were both mutually beneficial and easily replaceable, assignifying a world with no interdependence.

In contrast with a market-integration view, others offer a market-concentration view of economic interdependence. For them, international exchange represents interdependence only if the international marketplace is closer to an oligopoly or monopoly. Indeed, interdependence actually depends on the existence of reciprocally costly oligopolies, because in such a world, nations have no alternative sources for their necessary purchases, prospects exist for extortion, and the exchanges themselves already constitute an exploitative relationship. Only in an oligopolistic world of small numbers does such mutual interdependence obtain and necessitate international cooperation. States must cooperate with others on whom they are economically dependent, and those others must reciprocate for the same reason. This view builds directly upon the argument that war is too costly in a world with commercial exchange; here, however, the costliness derives from the absence of a perfectly competitive market.

Level and Unit of Analysis

There also exist core disagreements in the literature on interdependence concerning the proper level and unit of analysis for study. This dispute grows largely from the existence of varying conceptualizations of economic interdependence and international exchange. And each perspective suggests a different focus of attention.

Interdependence can be an international characteristic. When world trade increases faster than world production, global interdependence also increases. And increasing global interdependence can be argued to lead to increasing global cooperation.

Alternatively, interdependence can be seen as inherently dyadic, as the mutual dependence of pairs of nations. States integrated into the world economy but not part of a bilateral relationship of mutual reliance are not, in this view, interdependent and are also not, therefore, pressured to cooperate with one another. For in a competitive world market, states could be deeply involved in global commerce without being bound to any particular nation or set of nations. They could always find alternative consumers and suppliers, and so bilateral political conflicts would in no way be constrained or inhibited by the existence of extensive commercial links between the feuding nations. Just as anyone can risk offending a storekeeper when other merchants sell at comparable prices, nations would in no way be constrained by their commercial ties. Cooperation is the result of the interdependence that characterizes the strategic interaction of dyads.

Most typically, interdependence is conceptualized as a national characteristic derived from international commercial exchange. Nations that export higher proportions of their GNPs are understood to be more open to the world economy—more interdependent—than those selling less abroad. They are part of an international division of labor. And interdependence characterizes the nation.
Finally, interdependence can be conceptualized as a national characteristic derived from economic relationships that entail potential costs, that make a nation sensitive, even vulnerable, to developments in, and actions of, other nations. Using this definition requires more than that exports and imports constitute a high proportion of GNP before a nation can be called interdependent. Rather, this understanding of interdependence emphasizes the concentration of both production and consumption. The economies of states that export a large variety of goods are hardly dependent on any particular product or on any specific trading partner. They may be linked to the world economy, but their diversification minimizes their vulnerability and even their sensitivity to external influences. To the extent that interdependence entails dependence, a concentration of exchange of a small set of goods with a small number of trading partners entails such reliance in a way that diversification does not. Indeed, the workings of comparative advantage in an open trading world would result in domestic specialization and an international division of labor.

What to Measure

The appropriate measurement of interdependence varies for these alternative conceptualizations. Those who focus on interdependence as an economic phenomenon limit their attention to trade and capital movements. In contrast, those who argue that cooperation grows from communication, of which commerce is but one form, look not only at overtly economic links, but at such indicators as mail and tourist flows as well.

Even among scholars who share a view of interdependence as a narrowly economic phenomenon, disagreement persists about what to measure. Those who define interdependence as sensitivity to the world economy consider most, if not all, exchanges to be salient. For this view, since all trade improves the welfare of the parties involved, everyone loses when the transactions disappear. Moreover, since all exchange leads both to some domestic specialization and to the partial reliance of the trading partners upon one another, breaking the relationship can prove costly.

Others do not see all exchanges as comparable. They define interdependence as mutual dependence, the reliance of nations on one another for something they cannot do without. Yet not all goods are necessarily critical. Nations can do without some goods more readily than others. Some imports constitute inputs essential to the functioning of the economy, others do not. A dependence on others for videocassette recorders is not the same as one for oil or computer chips.

Still others define interdependence as mutual dependence that creates mutu-
market. The effect should be to equalize interest rates.50 And indeed, the sensitivity and mutual responsiveness of capital and equity markets in advanced industrial societies have grown markedly, and these can be deemed to be measures of economic interdependence.

**Benchmarks: How to Measure**

The variety of ways in which scholars manipulate trade statistics clearly illuminates the conceptualization and measurement problems inherent in assessing integration and interdependence. Trade figures have been gathered and recorded longer than many other measures of economic, political, and social phenomena. Considered important in and of themselves, they have been used to measure a range of different concepts. Changes in trade between nations, for example, are taken to be indicative of changes in their relationship, of alterations in the division of labor between them. Hence, indices of trade are used in virtually all studies of economic interdependence and regional integration.51

Most scholars interested in the relative importance of trade to a national economy use a ratio of foreign trade (exports and imports) to national income as a measure of interdependence. By such measures, economic openness and interdependence were high during the middle of the last century and prior to World War I and then declined markedly. Following the Second World War, such ratios again rose, in many cases reaching or exceeding earlier levels by the 1970s.52

Yet a ratio of foreign trade to national income does not capture a bilateral view of interdependence. Such relationships can be indicated, however, by dividing the two nations' joint trade by the gross national product of one. Generating two such separate measures of interdependence from the same numerator provides comparable assessments of the importance of the bilateral trade relative to each nation's economy. An alternative measure of interdependence assesses trade between two nations relative to the total trade of each, again generating separate measures for the two states. In short, trade figures can be made relative to different benchmarks, and in some circumstances, different measures generate divergent assessments of interdependence, its growth, and its decline.53 Moreover, just as there are different measures of central tendency and variance, so there are different ways of assessing concentration.54

Assessing historical trends requires the use of temporally comparable data. In studies of foreign investment, for example, different definitions and conceptualizations can have dramatic consequences for assessing change over time. Analyses of foreign investment typically distinguish between direct and portfolio investment. The former involves direct control of subsidiaries rather than the mere ownership of stock. The issue of managerial control is central to an assessment of the implications of investment as generating economic interdependence, yet managerial control is difficult to assess, and there has been a good deal of historical debate about the bases of control, the distinction between direct and portfolio investment, and the relative magnitudes involved. Recent scholarship has shown that nineteenth-century corporations were often able to conduct their overseas business through unincorporated branches, and that diffuse stock ownership often coexisted with extensive management control by a small group of partners. These findings have generated quite different estimates of the relative importance of foreign direct investment in the period before World War I.55

**Dimensionality**

Some of the conceptual and methodological problems in the study of interdependence arise simply from the existence of different kinds of transaction flows. The most basic issue is the dimensionality of interdependence.56 It can, on the one hand, be seen as a unidimensional concept that has multiple indicators, which can be combined into a single metric that characterizes the degree of interdependence.

On the other hand, interdependence can have different, clearly distinct dimensions.57 The term can be used to characterize one market or many, and the many may be characterized by different degrees of interdependence. Examples abound. Capital markets are much more integrated than labor markets. States can open their markets to international trade while still encumbering international flows of capital.58 More important, low barriers to trade and to capital flows are not currently matched by equally low barriers to the movement of people (labor).59 If these different aspects of openness always grew together, or in tandem, then there would be little conceptual difficulty in combining multiple indicators into one measure of interdependence.60 But when they do not, then conceptual and measurement problems interact.61 In addition, certain kinds of transactions may vary inversely when, for example, they are substitutes for one another.62 Moreover, the relationship between the movements of different kinds of exchange can vary under different regimes. Capital mobility has different consequences under fixed than under floating exchange rates, for example.

In short, the existence of different factors of production, characterized by different degrees of international mobility, and the existence of markets characterized by different degrees of openness generate conceptual and measurement problems for assessing interdependence and its consequences. There
may be different degrees of interdependence along these different dimensions. And given the existence of varying arguments about the bases of interdependence, and of such distinctions as that between sensitivity and vulnerability, it becomes possible to distinguish interdependence by type and domain (sensitive financial interdependence but vulnerable-goods interdependence with no labor-market interdependence, etc.). Different indicators may be appropriate as measures of different kinds and facets of interdependence. And a good deal of theoretical development will be necessary if the political implications vary with the particular constellation of interdependencies.

But if interdependence generates cooperation because it changes the cost-benefit balance between cooperation and conflict, then any of the measures of interdependence may be appropriate, and they can even be used conjunctively. All of the measures capture the benefits of commerce and the costs of its disruption. And if what distinguishes them is the extent to which they measure cost, then the strength of the relationship between economic interdependence and international cooperation should grow with measures of interdependence that capture increasing cost. Thus, we should expect the weakest relationship for general measures of trade growth, and that relationship should strengthen as measures capture higher costs and benefits of trade. Thus, dyadic indicators and assessments, for example, should generate a larger estimate of the impact of economic interdependence.

Economic Interdependence and Cooperation

There are few studies that directly assess the link between economic interdependence and international cooperation. Moreover, they generate still more conceptual and measurement issues, and they generate contradictory findings.

Analyses of pairs of nations in the postwar era point to a significant relationship between trade and net cooperation—between, that is, total imports and exports and the frequency of cooperative events minus the frequency of conflictual ones (Polacheck, 1980; Gasiorek and Polacheck, 1982). But these studies also find that the nature of the good and the elasticity of demand are also important, for the exchange of some goods can be associated with conflict. Nations that import greater amounts of oil from Saudi Arabia direct less hostility toward it than those buying less; the more substantial the purchases, the lower the degree of conflict directed toward the producer of this essential good. In contrast, however, Saudi Arabia directs more hostility at those nations to which it exports more (Polacheck, 1980).

Domke (1988) tests a national, as opposed to dyadic, argument about interdependence and finds that there is sometimes an inverse relationship between trade, measured as a ratio of exports to gross national product, and a state’s involvement in war. Unfortunately, the empirical analysis works backward, assessing only years in which wars occurred and then determining whether belligerents tended to export less of their national product than those not involved in the same war. Although there is some support for the hypothesis, there are some wars, including both World Wars I and II, in which there is no relationship between trade ratios and involvement in these wars.

Studies of the impact of interdependence find that it, too, can increase conflict. Puchala (1970), in a study of Franco-German relations between 1954 and 1965, analyzes changes in indicators of bilateral trade, trust, and amity, all of which increased linearly through the decade. Cooperation, however, followed a different pattern. Whereas much of the period evinced dyadic cooperation, the years from 1963 to 1965 saw a growth in conflict. Puchala argues that this resulted from an increased “strain” or “load,” which this new and fragile relationship could not yet sustain. Implicit in this post hoc explanation for the unexpected result is the possibility that the growing ties between the two nations might be responsible for the increase in conflict.

A study by Gasiorek (1986a) is notable for recognizing not only the possibility that interdependence increases cooperation and reduces conflict but also the converse. Although he does not investigate whether interdependence has both effects (nor does he develop a logic for how and why it could have both effects), he does find that different measures of interdependence show opposite effects from one another. Some measures, such as import-price elasticity (used to assess the impact of domestic-price sensitivity) and long-term capital flows (relative to gross national product), show no effect on the degree of conflict directed at a nation’s trading partners. Others, however, are associated with growing conflict. Three measures of concentration of trade (import partners, of export partners, and of export commodities) directly affect the level of conflictual behavior (each is significant when it is the only one of the three included in the equation). Similarly, short-term capital flows (controlled for GNP) also directly affect conflict. By contrast, trade as a percentage of GNP has an inverse effect: it increases cooperation. That is, nations direct more hostility toward those with whom their trade is highly concentrated and toward those to which they are linked by extensive short-term capital flows. But the same equation also shows exactly the opposite result: the higher the ratio of a nation’s trade to its national product, the less conflict it displays toward its trading partners. As a result, Gasiorek concludes, as he hypothesizes, that interdependence can indeed increase both cooperation and conflict.

The developers of the GLOBUS models also consider the dual impact of interdependence in their development of a complex multi-equation model intended to simulate global processes. The model includes one equation link-
ing cooperation between pairs of states to their bilateral trade (their dyadic exports and imports as a percent of one's trade) and another linking conflict to a bilateral trade imbalance (the product of the ratio of bilateral imports to exports weighted by the ratio of one nation's total imports to total exports) (Smith, 1987:616, 618). The latter equation posits, in other words, that the more one nation imports from another, relative to what it exports to that other, then the more conflict it directs at the other country. That conflict is either mitigated as a function of the first state's overall trade surplus or magnified as a function of its overall trade deficit. In short, trade increases cooperation, but trade imbalances increase conflict. If an increase in trade results in an increase in one nation's trade deficit, then either an increase in cooperation or conflict is possible as a function of the relative effects.

The implications of these dual effects are captured in a simulation of the ramifications on U.S.–Mexican relations of an American provision of tariff preferences to third-world nations (Pollins and Brecke, 1987:524–531). The tariff concessions lead to a growth in trade that increases cooperation between the two nations. In the simulation, however, interdependence engenders conflict. This occurs because the growth of U.S. trade with Mexico, a result of the preferences, also increases the U.S. trade deficit with Mexico, and this increases hostility toward Mexico. A third equation in the model links hostility from one nation to a reciprocal response by the country toward which it is directed. So despite the positive effects on cooperation of the increasing dyadic trade and the improving Mexican trade balance with the United States, Mexico responds to increased American hostility. The positive impact of increased trade on cooperation is not only canceled out, but fully overwhelmed by the conflict resulting from the trade imbalance and subsequent reciprocation.

These studies illustrate the complexity of the hypothesis-testing exercise. Disagreements about the nature of the dependent variable and how to measure it build on extant disputes about how to assess interdependence. Moreover, the results are mixed, suggesting that economic interdependence can have dual effects. Indeed, it can increase conflict and cooperation simultaneously. Finally, the existence of numerous explanations of international conflict and cooperation suggests the importance of assessing the implications of interdependence while controlling for plausible rival hypotheses. Indeed, there is one rival explanation that can lay claim to explaining both cooperation and trade: hegemonic stability theory. In the early 1970s, scholars began a debate over the proposition that a hegemonic distribution of power leads to the creation of liberal international orders. This rival argument suggests that economic interdependence generates cooperation, but that a hegemonic power creates an international order characterized by increases in trade, economic interde-

pendence, and international cooperation. Although the theory has many variants and has come under a variety of assaults, it still poses a problem for arguments about economic interdependence. At the very least, empirical studies about the pacific implications of interdependence should control for this rival hypothesis and include both hegemonic and nonhegemonic periods.

Moreover, it is especially important to control for noneconomic bases of international cooperation and conflict. After all, the argument that economic ties reduce conflict and increase cooperation presumes the importance of the marginal changes in a cost/benefit calculus. And it may be that the existence of economic interdependence increases the costs of conflict. But there may be situations in which the presumed benefits are perceived to be so great that even the increased costs associated with an interdependent relationship do not outweigh them. And it may be that individuals and nations pursue prosperity, but that other national objectives outweigh them in specific circumstances. Hence, economic interdependence may be very important at the margins and so, at times, critical overall.

Finally, it is important (and this is discussed further below) to assess the significance of the reverse relationship, of the impact of international cooperation on commerce. There is, after all, the reverse argument that “trade follows the flag.” In this case, the existence of economic interdependence already presupposes international cooperation.

The net consequence of the foregoing discussion of measurement and empirical work is to suggest a need to assess theoretically the political implications of commerce. Without an understanding of the mechanics of the process by which private economic transactions are related to political decisions, no understanding of the relationship between economic interdependence and international cooperation is possible. Indeed, this suggests a pressing need to assess international economic relations in the context of the international political strategies of states.

Governments and Interdependence

The analytic link between economic interdependence and international cooperation necessarily depends upon assumptions about the causes and consequences of economic exchanges, about the nature of state interests, and about the relationship between state and society. International cooperation reflects relations between governments and thus requires some assessment about the nature of state interests. And since commercial transactions involve societal actors (individuals and firms), linking these with international cooperation requires the elucidation of the relationship between state and society.
The nature of the relationship between state and society is central to arguments about the political implications of trade and finance. The importance of this link is implicit in some of the propositions about commerce and cooperation and quite explicit in others. It rests on the simple fact that economic interdependence, because it entails commercial transactions, typically involves private actors. Unlike these individual economic ties, however, international cooperation exists between governments. The international links that develop from commercial exchange might have no effect on intergovernmental relations were states fully autonomous from society and unconcerned with issues of material welfare. Fluctuations in the business cycle, for example, had far less of an impact on international politics when the state was not charged with maintaining the health of the economy than in modern times, after that responsibility developed.

Below, I develop a set of arguments essential to understanding the link between economic interdependence and international cooperation. First, I argue that economic interdependence is a product of state policy and not an autonomous and independent development. Second, interdependence generates societal and governmental pressures both for its limitation and for its continued growth. And third, interdependence therefore generates new kinds of conflict and necessitates ever greater levels of international cooperation if it is to be maintained. In essence, I argue that the development of a division of labor between nations generates conflicts that states must manage in order to sustain and continue the process of global specialization and exchange.

**International Cooperation as Prerequisite to Economic Interdependence**

One of the state’s most basic powers rests in its ability to control access to its domestic society. Even weak governments have some ability to limit the movement of goods and services across borders. Governments not strong enough to extract income taxes can still collect customs duties on imports.

There is an immense variety in the actual forms of control that states both can and have exercised across border movements. They can regulate the entry of goods, capital, technology, information, and people. They can discriminate by categories of items as well as by their source. They can restrict the entry not only of capital and goods, but also of people; indeed, all nations have immigration laws. And although states most typically restrict what enters their borders, they sometimes put important controls upon what can leave. They can define allowable destinations for both their exports and their citizens. In the early part of the nineteenth century, for example, Britain attempted to limit the export of equipment and even the emigration of artisans who knew the secrets of the industrial revolution (Jeremy, 1977). In much the same way, the United States imposed bans on selling high technology to the Soviet Union during the Cold War.

Given that states have the ability to regulate entry and exit for goods and people, the growth of international commerce and exchange depends, at a minimum, on the acquiescence of governments. A necessary condition for international trade is the absence of prohibitive barriers to exchange.

In addition, the very existence of international exchange, especially on any sizable scale, necessitates not only that governments accept imports and permit exports, but that there be concrete cooperative arrangements between states as well. Trade between countries, in virtually all cases, presupposes the existence of commercial agreements between their governments. Moreover, states find it necessary to establish (or to join already extant) bilateral or multilateral arrangements to facilitate commerce and the transportation and communication upon which it depends. The delivery of mail across borders relies on the existence of an International Postal Union. The ability to make cross-border telephone calls necessitates not only the adoption of a standardized technology, but also the actual decision by countries to take part in this international network. Railroad travel between nations requires use of a common track gauge. Also important are the existence of exchangeable currencies and state guarantees of property rights. In short, since states can control entry into and exit from their nations, the existence of commercial links and economic interdependence reflects political decisions and the development of agreements and institutions that facilitate those links. Hence, any assessment of the political implications of commerce must necessarily take into account the cooperative underpinnings of trade.

The fact that commercial links depend on extant agreements between governments means that international economic transactions are often rooted in international politics. Indeed, governments often encourage traders and investors to move into particular areas. States also prevent their capital from funding others’ investments, especially by constraining the ability of foreign governments to float bonds in their domestic capital markets. In one analysis, Eugene Staley (1935:55) finds numerous instances of investments being used as “the tools of diplomacy.” When there exists international friction, he finds, investments tend to be the “servants,” rather than the “masters,” of diplomacy. Among the many instances he cites of governments influencing foreign investment are examples of direct participation, subsidies, guarantees, and the less concrete means of persuasion and inducement.

In some cases, states develop economic links to consolidate interests rooted in security considerations. Indeed, the political component of exchange underlies the evolution of the postwar economic order and of ties among the
Western Europeans, between Western Europe and the United States, and among Japan, Korea, Taiwan, and the United States. American leaders self-consciously sought to use commercial ties to forge an anti-Communist West. At the same time, they wanted to cut the links between Western Europe and the Soviet bloc and to sever the economic relationship between Japan and the Communist Chinese. Hence, the United States predicated its bestowal of foreign aid on the eradication of certain economic barriers and the acceptance of critical liberal economic principles.86

Governments and the Supply of Protection and Liberalization

Central to an understanding of liberalization and protection is the recognition that they are government policies. The nature of government policy and of the changing role of government are essential to an explanation of governments’ supply of both liberalization and protection.

Government policy inherently raises the prospect of protection because it creates cartelize international trade where a competitive market would otherwise exist. State actions may serve to transform their nations’ discrete producers into cartels. National policies may impose a uniformity, one that deviates from the expected market outcome, upon atomistic and unorganized individuals and firms. An excellent example is provided by agricultural policies, which turn an inherently competitive market involving millions of scattered producers and consumers into a cartel. Thus, what would be a competitive global market becomes an oligopolistic one in which nations, a relatively small group, speak for vast numbers of individual consumers and producers.

Moreover, modern governments have a larger role than that which troubled those who pressed for laissez-faire policies at the beginning of the nineteenth century. And with the greater role for government have come more reasons for states to limit economic interdependence and to control trade, even at the cost of conflict with other nations.

Well before the twentieth century, governments took a conscious responsibility to promote economic development. Governments rationalized the protection of infant industries as necessary for national growth. Policymakers came to see tariffs as more than revenue-raising measures and as more than acts intended to increase the material wealth of the state. They stressed instead the role of tariffs in national economic development, a role that could be guided by the government. Trade policy was thus subordinated to other governmental programs intended to foster development and generate growth.

But in contrast with earlier eras, when cycles of boom and bust were accepted as natural phenomena that governments could not affect, the twentieth century has seen the adoption of a perspective that holds states responsi-

ble for their nations’ economic well-being. Governments are expected to ensure economic growth, combat recession and depression, hold down unemployment, maintain price stability, and even take care of specific groups of citizens who need help.87 The problems in an economy are deemed national problems: the nation’s unemployment, the nation’s inflation rate, and the nation’s weakness in international competition (Fisk, 1989:195). And in response, the development of the welfare state has entailed the provision of a safety net to catch and support those individuals buffeted by the winds of economic competition.88

As a result, governments react to the domestic effects of growing economic interdependence. Increasing involvement in international exchange leads to domestic adjustment, the shifting of resources from the production of some goods to others. In response, state policies have addressed the concomitant loss of investments and jobs and the other problems of community dislocation. One result has been the provision of adjustment assistance, including programs to retrain and retile workers, as one element of the safety net. In addition, however, governments have provided some protection for industries suffering from foreign competition.89

This need to help those hurt by market forces is reinforced in societies with representative governments. Electoral pressures lead legislators to propose policies in response to requests for protection from foreign competition.90 Or, as a Democratic senator succinctly described this aspect of representation in 1883, “I am a protectionist for every interest which I am sent here by my constituents to protect” (quoted in Blackford and Kerr, 1990:206). Especially during recessions, governments are pressed to provide economic assistance, including relief from the vagaries of the global economy.91

Critical to this argument that representative governments are particularly likely to provide assistance is an assumption that those who seek protection organize and mobilize, but that those who benefit by maintaining and expanding interdependence do not. The current conventional wisdom holds that those who actively seek governmental relief get concentrated benefits, which make bearing the costs of organization worthwhile. By contrast, the expense of paying for the assistance to that injured subset of the population is diffused throughout the entire society, so there is little incentive for anyone to assume the concentrated costs of opposing protection. The direct conclusion, therefore, is that the specific group desirous of protection will always succeed in obtaining it, whereas the broader population interested in promoting trade and interdependence, unable to solve the collective action problem, will always lose.92

But governments supply protection even when there is no societal demand for it. One reason is to encourage the development of infant industries. An-
obtain those gains that accrue from increased efficiency. Their commitment to generating wealth means that they also pursue policies to ensure export competitiveness. And since states with export-dependent economies typically try to ensure the maintenance of competitive export sectors, international trade disputes now focus not only on classically protectionist policies, but on programs to aid exporters as well.

States pursue liberalization and protection in both good times and bad. Yet even in bad times, governments typically accommodate protectionists only at the margins. They do not want the aid given to those hurt by imports to come at the expense of exporters. In recessions, governments are concerned with restarting the engines of growth and so fear protectionism even as they find themselves lured by it. Moreover, some of their protectionist policies are intended to help their exports.

Liberalization and Protectionism

Protectionism as a Price for Liberalization

One implication of the evolving role of government is that protectionism is always likely to be present, to some degree, in one form or another. Thus protectionism has been part of the post–World War II liberal order from the beginning. In that sense, the so-called “new protectionism” is not new. And second, acceptance of some forms and degree of protectionism was the price for governmental acceptance of trade liberalization.

Many have pointed to a new protectionism and see dangers in the patterns of current international exchanges and extant interdependence. Yet such arguments do not recall that fears of protectionism have repeatedly punctuated the growing interdependence of the postwar period. In the 1940s, liberals worried about the residual trade barriers of the 1930s. In the 1950s and 1960s, they were troubled by the protectionist policies of the newly created European Economic Community. In the early 1970s, attention shifted to the rise of nontariff barriers (NTBs) and to the ramifications of the devaluation of the dollar and the oil price shock. In the late 1970s and early 1980s, alarm about growing protectionism stemmed from concern about the policies states might pursue in a prolonged global recession. The global recovery from the recession of the early 1980s offered no respite from worries about rising protectionism. The point here is twofold: the fear of protectionism is time-honored, and “free trade” never wholly prevailed during the postwar years. Rather, anxiety about potential departures from free trade principles and actual departures themselves have both been common.
From the very beginning of the postwar era, in fact, the international agreements to liberalize trade have entailed the acceptance of some protectionism. The United States accepted, for example, the British system of imperial preferences, which it had opposed since that system's inception in the early 1930s. The United States also accepted European quantitative restrictions on the importation of American goods, and in exchange the Europeans dropped such restrictions against one another. The logic of the American position derived from a belief that the Continent's ability to recover from World War II depended upon the renewal of intra-European trade and the development of an integrated market in Western Europe. Other exceptions to liberal trade principles included permitting customs unions and accepting various barriers intended to encourage economic development and deal with balance of payments problems.

In short, the postwar trading order legitimated protectionism from the outset. It accepted the protection of infant industries as an element of economic development. It allowed regional protectionism by permitting the existence of customs unions. It accepted protectionism to spur recovery in the form of special allowances made for Europe and Japan. It also permitted protectionist practices in cases of domestic injury. Although the essentially liberal elements of the postwar order involved a commitment to free trade, that commitment was in principle only. The new order constrained, but did not abolish, protectionist practices.

Protection in certain cases was accepted as part of the international order because states had a variety of objectives they wanted to pursue. They also recognized that the development of an international division of labor would entail adjustment costs and would generate immense internal pressures. Without the provision of acceptable forms of relief from those pressures, there would be no chance that states would lower barriers to trade and capital movements and so allow unfettered economic exchanges. The postwar era's movement toward liberalization was, therefore, tied to an acceptance of some limitations on interdependence.

Successful Liberalization and New Protectionism

Not only did post–World War II liberalization depend on acceptance of some protection, the very success of that liberalization has itself generated protection. The postwar order that promoted liberalization while accepting some protection did lead to the growth of international exchange. International trade has grown very rapidly, in most years surpassing the growth in global product (Rosecrance and Stein, 1973; Katzenstein, 1975). This spectacular growth in world trade, precisely what those who fashioned the world economic order in the late forties intended their work to accomplish, has meant a concomitant growth in most countries' proportion of national product involved in international transactions. Exports and imports now account for twice the proportions of American GNP that they did 20 years ago. Exports, which accounted for 4.4 percent of gross domestic product (GDP) in 1970, made up 8.5 percent of GDP in 1980; imports were 4.3 percent of GDP in 1970 and 9.9 percent in 1980. Other industrial nations also experienced an increase in openness (measured as exports and imports as a percentage of national product) during the decade of the 1970s.

Yet increasing interdependence may generate increased pressure for protection. Unless imported goods only represent inputs for production or are goods not produced domestically, the higher the ratio of imports to national product, the greater the pressure on domestic industries. Even if domestic economic growth is sufficiently rapid for no industries to feel material injury, increasing import penetration still hurts the relative position (market share) of domestic producers. Rising import levels pose no problem only when a country imports goods that are not indigenously available. When those goods are produced in the importing nation, however, the increasing penetration of foreign goods means a decline in the market shares of domestic producers. In other words, when a country imports goods that are produced domestically at a rate faster than its domestic economic growth, then domestic manufacturers of those products, although not experiencing any material injury, lose some of their domestic market share.

Of course, economic growth may also serve to dampen protectionist pressures, and the greatest protectionist challenges are most likely to arise in prolonged and severe recessions. Yet virtually all the protectionist pressures evident in the late 1980s predated the 1982 recession and continued unabated after recovery began. Even in good times, increased interdependence itself increases the demand for protection. As long as higher levels of imports include goods also produced at home, the growth in trade will create a need to adjust and, not surprisingly, will elicit protectionist pressures from those affected.

International exchange generates pressures for domestic adjustment, which is painful and often resisted. But the protection that flows from this resistance to adjustment reflects the very success of liberalization and the growth of international commerce. In other words, the very accomplishment of increased global trade is one cause of increased demands for protection.

Successful Liberalization and the “New Antiprotectionism”

The same pressures that increase requests for protection, however, also swell the demand for continued and greater openness. As societies become more open, they also have a greater stake in international commerce, for more...
firms and jobs come to depend on exports. In other words, growing interdependence increases a nation’s dependence on its exports and heightens the need to maintain access to foreign markets. The larger volume of transactions that constitutes increased interdependence also leads to a greater interest in international trade on the part of the financial community, which profits by intermediating these transactions and whose international loans can be repaid only if the value of international exchanges at least remains steady. Finally, imports themselves come to be linked with the health of the domestic economy. As the nation imports more, there are more and more people whose employment and wealth are associated with the sale and distribution of imported goods. And they have an interest in opposing protectionism.107

If there is an asymmetry between protectionists and internationalists, it is in their incentives to organize in order to bring pressure to bear upon the national government. Industries hurt by import competition invariably lobby for relief. Such interest group pressure is a standard explanation of and excuse for the enactment of protectionist policies (Baldwin, 1982, 1984; Frey, 1985). In comparison, the widespread interest in lower tariffs and increased trade is thought to be so diffuse that these interests do not organize and mobilize to fight protectionism. Hence, this standard argument only predicts protection; it cannot adequately explain trade liberalization.

Yet antiprotectionist forces do mobilize. It may be true that consumers who want to purchase cheap high-quality goods do not organize to oppose protection, but others, with more concentrated interests, those for whom the costs are not diffuse, do mobilize. Indeed, the number of firms and individuals that could be mobilized on behalf of freer trade expands as more of the national product is exported.108 Firms that export extensively, especially multinational ones that use intrafirm exchanges to provide components to divisions located in other nations, have an interest in liberalized trade (Allen and Walter, 1971; Helleiner, 1977; Pugel and Walter, 1985; Milner, 1987, 1988). Farmers, for example, emerged in the late 1970s as major supporters of American free trade policies. Perceiving their livelihood to be linked to exports, they have opposed protectionist legislation. Soybean farmers led the opposition to protection for cars, steel, and textiles (Auerbach, 1986), and corn farmers mounted an extensive campaign against domestic content legislation, which was strongly supported by organized labor (Auerbach, 1984). Again, interest in continued openness grows simultaneously with interest in greater protection.109

These twin effects of interdependence in heightening the desires for both openness and protection mark state as well as society. Specific interest groups lobby on behalf of and in opposition to protection.110 But the state also finds itself torn. On the one hand, it can secure political gains by slowing and easing the costs of adjustment and can reap, as well, the potential benefits of some mercantilistic practices (if it can get away with them). On the other hand, it can ensure improvements in the nation’s welfare through improved efficiency.

Liberalization and Protectionist Buy-outs

Not only did postwar liberalization depend on accepting some forms of protection, but the very process of advancing interdependence often requires some protection as well. After all, if postwar liberalization initially depended on some toleration of protectionism, and if the success of liberalization also generates protectionist pressures, then the ability to press for further liberalization depends critically on buying off those who could defeat domestically attempts at further liberalization. The historical record of trade liberalization provides an excellent example.

Postwar trade liberalization has been accomplished by a successive series of negotiating rounds intended to lower further barriers to trade. Yet each such international agreement entails more domestic adjustment. Those already hurt by foreign competition and those who fear that their competitive margin might be negotiated away both have an incentive to mobilize politically in an attempt to forestall further liberalization. The need for governments to develop winning coalitions in favor of new agreements and greater interdependence can therefore necessitate their buying off protectionist elements.

Many new forms of trade restraint developed in the postwar period precisely because of this need to buy off protectionists in order to maintain momentum on behalf of trade liberalization. Rather than control imports by raising tariffs or imposing quotas, for example, nations have devised voluntary export restraints (VERs) to give the importing nation some relief without actually raising classical barriers to trade (tariffs). The exporting nation obtains the windfall from the higher prices it can secure for the sale of a limited number of goods. Typically, domestic producers, as a group, lose no ground, and foreign ones, also as a group, maintain their market share.111 VERs have, in fact, paved the way for trade liberalization (Bergsten, 1975:171). Beginning in the late 1950s, such arrangements were necessary to quiet the American textile industry’s demands for protection. In 1957, the first VER with Japan made possible an extension of the Reciprocal Trade Agreement Act (RTAA) and the Dillon Round of trade negotiations that followed. The negotiation of the Long-Term Arrangement on Cotton Textiles (LTA) in 1962 made possible the Trade Expansion Act and the subsequent Kennedy Round. An expansion of the LTA to wool and other fibers, in the Multifiber Arrangement of December 1973, was required to ensure passage of the Trade Act of 1974.
which authorized the U.S. president to proceed with the Tokyo Round negotiations.\textsuperscript{112} In the late 1970s, steel was added to textiles as an industry that needed to be bought off.

Not only has the U.S. government had to buy off specific industries in order to ensure continued liberalization, but each new American trade bill has also entailed either tightening extant procedures or devising new ones to help those hurt by trade competition.\textsuperscript{113} Indeed, American trade policy did not, until 1962, officially recognize that tariff liberalization could proceed beyond the point at which imports could compete with American products. American trade policy was predicated on the concept of tariff reductions, but not to that point at which American producers might be displaced in the American market. Only in the Trade Expansion Act of 1962 was there official recognition and acceptance of the fact that liberalization brought adjustments that involved the displacement of American producers in certain fields. In fact, the 1962 act included provisions for adjustment assistance, rather than protection, as a way of helping affected firms and workers. Although some ways of providing relief involve erecting barriers and others provide financial assistance to help the dislocated adjust to other productive activities, the enactment of any relief measures points to the necessity for representative governments to shield firms and individuals from having to fully face the consequences of foreign competition.

Thus, what many see as the creeping growth of protectionism simply represents the side payments necessary to sustain and continue the degree of openness that has already been achieved.\textsuperscript{114} Certainly such measures slow the process of adjustment. But they also provide the compensation required if firms and workers are to accept the kinds of dislocations that come with the growth of an international division of labor.

In the postwar era, the growth of protectionism in tandem with trade illuminates that there are different kinds of mercantilistic practices. Some are intended entirely to prevent exchange between societies. During the Cold War, even as the United States pressed for increased interdependence among Western nations, it maintained an embargo on the export of certain high-technology items to the Soviet Union. But other mercantilist practices actually presume the existence of exchange and interdependence. Here, too, policymakers’ intentions can vary. In some cases, states try to ensure asymmetric dependence. In others, they want to increase the relative gains from trade. And in still others, they hope to limit the pace and scope of adjustment. In this last instance, mercantilism is a defensive reaction to the growth of interdependence rather than an offensive action intended to cause harm.\textsuperscript{115} Hence, its use can be consistent with continued growth in trade and can direct and channel the growth and evolution of economic interdependence.

Since World War II, tariff levels, especially among industrial nations, have continually declined, particularly as applied to the goods whose manufacture is marked by low cost differences. Indeed, the growth of world commerce has been dominated by the exchange of similar goods between developed countries.\textsuperscript{116} At the same time, as tariffs have declined, other barriers to trade and other practices distorting commerce have clearly become manifest and have increased in number. International agreements now control trade in textiles, steel, and automobiles, among other products. Yet states whose industries suffer material injury have typically acted to freeze levels of imports and so contain pressures for adjustment rather than protect their industries more fully by keeping out foreign goods altogether. States have sought not to reduce trade, but to manage its growth and consequences. Moreover, protection to an injured industry (in whatever form, even as adjustment assistance) has been used as a side payment in order to make continued liberalization possible in other areas.\textsuperscript{117} As a result, international trade has continued to grow even in the presence of such practices. Given the levels of global trade and the nature of current protectionist practices, the alternative to a vision of unfettered free trade and a global division of labor is not autarky (no trade), but managed or organized trade.

Protectionism and Negotiating Trade Liberalization

Some protection, then, has represented a domestic side payment for increased liberalization. But the very process of negotiating international agreements to liberalize trade is itself fraught with protectionist pressures. The growth of commerce and interdependence depends on negotiated agreements between states, and such agreements come at a price, one that often includes protection.

The strategy pursued during the postwar period to increase trade has been to obtain agreements dealing with extant problems. Early negotiating rounds dealt with tariff levels. But even as tariffs came down, new issues arose. The Kennedy Round of trade talks in the 1960s was specifically intended to deal with the new problem posed by the emergence of a European customs union (the European Economic Community, EEC). The Trade Expansion Act of 1962, the basis for American negotiating authority in the Kennedy Round, was intended to restructure America’s economic relationship with the EEC. Yet almost immediately upon completion of these discussions, the United States began to plan for still another set of talks, this time in order to deal with nontariff barriers and those issues left unresolved in the Kennedy Round. The United States wanted negotiations to focus on such domestic practices as government procurement and customs-valuation procedures. Similarly, disap-
appointed in the results of the Tokyo Round became apparent in the early 1980s, even before the 1979 agreements had been fully implemented, when the United States shifted its focus to a new set of issues, including trade in services, trade in high technology, agricultural trade, and trade-related investment criteria. Despite the accords reached and the liberalization achieved since World War II, therefore, concern about the state of the trading order remains constant, for there are always issues to be added to the agenda.

In addition to liberalizing commerce and increasing interdependence, these negotiating rounds have served a number of other important purposes. First, they have produced agreements substantially liberalizing trade. Second, they have been useful devices for forestalling the domestic advocates of protectionism. Ex ante, governments have been able to argue that instituting new protectionist measures should be postponed while nations await the results of ongoing talks. Ex post, governments have been able to maintain that establishing specific protectionist measures would violate various international agreements.

But the negotiating rounds also pose problems. Each successive set of discussions has taken longer than the previous one, has lasted until just before the expiration of legislatively granted negotiating authority, and has invariably been marked by crises. Although such conferences do allow technicians to hammer out the details of new agreements, they also serve to politicize trade and transform certain issues into matters of major national concern. Moreover, legislation authorizing the negotiations has provided a focal point for the concerns and efforts of protectionists. In the United States, for example, Congress has strengthened the ability of domestic industries to seek and obtain relief each time it has authorized the president to enter negotiations and offer trade concessions (Goldstein, 1983). Indeed, the trade talks generate as much protectionist fervor as they do commitment to liberalization. Ironically, this consequence stems also from the negotiating positions of governments, which, in order to obtain the best deal possible, have an incentive to stress their need to assuage domestic protectionists.

Further, the emphasis on reciprocity in trade negotiations, even as it helps move adherents toward freer trade, also engenders protectionism. Reciprocity, a hallmark of international trade talks since the United States reintroduced the concept in the Reciprocal Trading Act of 1934, is a two-edged sword. A nation that unilaterally disarms itself economically is in no position to bargain and obtain concessions from others. Great Britain discovered this in the middle of the nineteenth century, when it offered to all nations the concessions it had just made to France in the Cobden-Chevalier Treaty of 1860. Having nothing more to offer other states, Britain, not surprisingly, found it quite difficult to negotiate subsequent trade agreements (Stein, 1984). So, not surprisingly, nations arm themselves with protective tariffs that can be negotiated away and, in the hope that they will never be used, adopt restrictive measures contingent on the failure of others to liberalize further.

Yet bargaining chips raise problems for every erstwhile free trader. The very process by which legislatures provide them in anticipation of negotiations brings protectionists out of the woodwork and can help to legitimize their arguments. It also commits legislators to a position from which they may find it difficult to extricate themselves. Moreover, not only can the actual use of bargaining chips poison the negotiating atmosphere, but a nation can also be stuck with them if the attempt to bargain them away does not succeed.

The classical economists who advocated free trade recognized that it would make sense to retaliate against the protectionist practices of other nations in order to open up their markets. As Adam Smith argued in The Wealth of Nations, "There may be good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of" (Smith, 1797/1968). After all, the gains from the openness to be obtained in the future would more than compensate for the higher costs of goods in the interim. But whether retaliation and closure made sense depended on the probability of securing the desired changes in others' practices.

Some governments may actually have a comparative negotiating advantage if they can turn domestic protectionist forces on and off. Governments that are too committed to free trade, or whose people are, may find that they negotiate inferior bargains. A perennial problem for the American government is its difficulty in convincing typically skeptical foreigners that the demands of its domestic protectionists are real and that only concessions by other countries can prevent the United States from adopting protectionist policies and practices. At the same time, of course, foreign governments, not wanting to be perceived by their own societies as giving in to American demands, prefer to wait until the last minute before completing a new agreement. This way, they can explain to their home audiences that whatever concessions they made were necessary to forestall American protectionism. As a result, the United States has typically been forced to the brink of instituting new protectionist measures before successfully completing new trade agreements.

The problem, of course, is that such routinized theatrics involve a fair amount of discord, and politicians require tremendous skill in crisis management in order to avoid disaster. Access to its home market is a nation's most powerful negotiating lever for securing access for its exporters to foreign shores. But threatening a trade war in order to get others to open their borders more fully runs the risk that one might actually occur. Nonetheless,
economic brinkmanship intended to maintain economic deterrence and sustain progress in trade liberalization is the historical norm.

Government, Domestic Policies, and International Economic Conflicts

Not only have protectionism and economic conflict been elements of the processes of liberalization and increasing economic interdependence, but the growth of interdependence has itself brought new conflicts to the fore. Progressive liberalization has led to new disputes and a substantially altered agenda for subsequent negotiation. Typically, these new conflicts are also related to the role of government in the economy.

The most important fact of twentieth-century political life is the increased size and role of government, including its intervention in the workings of the marketplace. Classical trade theory was developed in an era in which tariffs provided the basic economic policy lever for central governments. Free traders argued that doing away with the distorting effects of tariffs would lead to the maximization of global economic welfare as nations came to specialize in certain products, used their resources optimally, and exchanged goods and services freely. In other words, the abolition of tariffs would allow competition in a free and undistorted marketplace. Yet in the twentieth century, the range of government distortions of the marketplace has been as great as the range of government policy itself, and as governments have grown, so has the spectrum of distortion. As a result of the success of liberalization and the growth of interdependence, the entire array of national economic policies has become the basis for economic conflicts among nations.

As tariffs declined with successive rounds of negotiations during the post-war era, the agenda for trade liberalization shifted. In the past, advocates of free trade saw their task as eliminating tariffs and discriminatory trade treaties. Liberalization was accomplished through successive efforts to reduce tariffs; nondiscrimination was achieved by constructing an ever growing network of states linked with trade treaties that included unconditional most-favored-nation (MFN) clauses (Stein, 1984). But as tariff levels came down, the focus of trade negotiations shifted to so-called nontariff barriers (NTBs) (Olechowski and Sampson, 1980). Governments' domestic policies had become the critical issue of trade politics.

By generating both negative and positive externalities for producers, government policy changes the nature of doing business in a myriad of ways. Governments can increase the cost of doing business by making producers internalize the costs of what had been externalities. They can, for example, require that producers bear the costs of eliminating pollution. Alternatively, governments can lower the expenses associated with production through policies that externalize private costs and make the public bear them. And by altering the costs of doing business, governments can affect international competitiveness and shape the nature and extent of international trade.

The advanced industrial nations, having largely done away with tariffs, increasingly find themselves embroiled in trade disputes that result from incongruent domestic policies. More and more often, industries confronting foreign competition point to domestic policies as the cause of their problems. They argue that they are harmed by their own government's policies, while foreign companies benefit from the policies of their governments. The resolution of such disputes lies in the coordination, conciliation, or harmonization of the wide range of government programs that affect the costs of producing traded goods and services. For this reason, scholars distinguish between such negative steps as the removal of barriers and restrictions and such positive ones as establishing institutions for developing common policies (Tinbergen, 1959; Pelkmans, 1979).

Incongruent Domestic Policies

MACROECONOMIC POLICIES

The incongruent domestic policies that generate international economic conflicts include macroeconomic policies, which affect the exchange rate and therefore relative trade competitiveness. Not surprisingly, the impact of currency appreciation in increasing imports and reducing exports generates protectionist pressures. It can also lead states to urge others to change policy in order to relieve both the exchange rate problem and the trade conflict it engenders. In the 1980s, for example, the net impact of the combined macroeconomic policies of the advanced industrial nations was, for many years, a very highly valued dollar and an enormous U.S. trade deficit. As a result, a group of advanced industrial nations complained about the American budget deficit. The United States, on the other hand, pressed Germany and Japan to pursue more expansionary domestic policies. Economists and politicians have advocated macroeconomic policy coordination as a means of dealing with the problems of divergent macroeconomic policies.

TAX POLICIES

International economic conflicts derive not only from the effects of macroeconomic policy on exchange rates, but also from the direct consequences of fiscal and monetary policies on relative competitiveness. The differences between one nation's tax code and others' revenue policies, for example, can
cause international friction. The original General Agreement on Tariffs and Trade (GATT) agreement of 1947 distinguished between direct taxes, which governments can neither assess on imports nor rebate to their own nation’s exporters, and indirect taxes, which can be rebated on exports and levied on imports. The United States relies primarily on direct taxes; Japan and many European states use indirect ones. This places the United States at a dual disadvantage. American exports to other countries often cost more than other nations’ products for two reasons: because pricing must cover U.S. taxes, which are not rebated, and because an indirect tax is assessed upon the goods when they enter the foreign market. On the other hand, imports to the American market are often cheaper than domestic goods because their home-country taxes are rebated to the producing firms and because the United States does not assess an indirect tax on imports. These tax practices explain a great deal of the price differential between Japanese and American cars in their respective markets (Nevin, 1983).

Concern about incongruent tax codes focuses not only on the treatment of internationally traded goods, but also on how countries tax different domestic industries and sectors. National tax codes are giant mazes of incentives and disincentives, all of which channel investment. The effective tax rates on American industries vary widely (Jorgenson and Sullivan, 1981; Batten and Ott, 1985), and every proposed tax reform brings forth lobbyists concerned with maintaining specific tax preferences. American heavy industry was the major beneficiary of the 1981 Reagan tax bill, whereas the 1986 tax act favored high-tech over heavy industry, and the Sun Belt over the Rust Belt (Drew, 1985; see also Klott, 1985). Differential tax treatment can favor some industries and regions at the expense of others in much the same ways that tariffs and subsidies can affect the relative competitiveness of industries between as well as within nations (Bond and Guisinger, 1985). ^32

MICROECONOMIC POLICIES

International economic disputes have been rooted also in incongruent microeconomic policies. Government regulations, for example, change the costs of doing business and so can affect international competitiveness. And incongruent policies, whether the regulations differ or whether one nation regulates what another does not, can generate frictions. ^33

The emergence of pollution as one major issue in the advanced industrial societies has come to affect international economic and political relations. As a result of environmental concerns, governments in the developed nations adopted policies intended not only to clean up extant pollution, but also to prevent as much as possible from occurring in the first place. Such programs increase the costs of production, and firms operating under environmental regulations operate at a competitive disadvantage. Developing countries, whose companies have the advantage of no such requirements, see environmentalism as a luxury of the already rich. They interpret the call for broader environmental protection as an attempt to constrain third-world industrialization and growth. ^34 The resolution of such disputes through the harmonization of environmental standards has proven difficult given different nations’ varying levels of industrialization, tolerances for pollution, social priorities, and physical circumstances. ^35

Solving international economic disputes rooted in different regulatory policies such as those involving environmental pollution entails not only harmonizing standards but also agreement on the means of allocating the costs. Pollution, like other externalities, is a problem whose consequences are not part of a manufacturer’s calculus. Governments can deal with such problems by socializing some proportion of the cost, or they can force producers to internalize the expense and bear the burden. Countries can have common pollution standards and still end up in economic disputes if they allocate the financial burden in different ways. In the case of environmental policy, and as part of dealing with different practices, the Organization for Economic Cooperation and Development (OECD) adopted the “polluter pays principle” (Rubin and Graham, 1982).

Although the incongruent domestic policies that can give rise to international economic disputes may not have been adopted with a protectionist or distortionary intention, states may disagree nonetheless about the consequences of the programs in question. ^36 The agricultural dispute between the United States and Europe has focused on European export subsidies and American price supports. But the range of governmental practices in the United States that affect competitiveness includes, for example, the entire American system of university agricultural extension. Similarly, the United States has complained about industrial policies in Western Europe and Japan, but it does not recognize its own military budget, which many Americans view as an unreasonable burden for a nation whose allies spend less on mutual security, as an industrial subsidy. ^37 Others do.

Unintentionally protectionist programs may be rooted in social philosophies or public goals. The United States, for example, prohibits the use of child labor, and AFL-CIO president Lane Kirkland has argued that American workers should not be asked to compete on equal terms with firms in nations that allow them to use child labor (“This Week with David Brinkley,” ABC-TV, 4 September 1988). ^38 Resolving international economic conflicts rooted in such different social philosophies has proven difficult.
Political Structures and Incongruent Domestic Policies

Differences in the structures of governments can also create difficulties that did not arise during the era that tariffs constituted the major agenda item of those trying to liberalize trade. Tariffs, which circumscribe a national market, are almost always an element of central government policy. But as incongruent domestic policies create international economic conflicts and become the focus of international efforts at harmonization and trade liberalization, the practices of subnational governments become increasingly salient. This complicates negotiations between nation-states with different governmental arrangements. Harmonizing procurement policies by providing access to foreign bidders, for example, is complicated by the autonomy of state and local governments and their protectionist practices. Most American states, for example, have “Buy American” requirements, which give preference to domestic producers (Weidenbaum, 1983:25–27). In short, when differences in governmental structure generate policies that affect relative competitiveness and access, they can become the basis for hard-to-resolve international economic disputes.

Internal political arrangements can have international ramifications and can lead to conflict between different political systems. The differential ability of federal and centralized systems to control subnational governments provides an illustration. In the middle 1980s, President Reagan responded to foreign pressure and announced his support for legislation that would force states to abolish certain accounting practices if they would not voluntarily reform them. At issue was California’s use of the unitary method of taxation. Foreign governments had bitterly complained about, and threatened to retaliate against, California’s use of this method, which required affiliated corporations that operated as a unit to report their worldwide business income. California then taxed that proportion of a firm’s worldwide income deemed to be California-related. As of the middle 1980s, California was the only major taxing jurisdiction in the world to use this method, and foreign governments, especially Great Britain, had threatened sanctions in response. California finally reformed its tax code by allowing corporations to make a “water’s edge election,” in which they only had to report their income in the United States rather than worldwide. The United States (and Germany, too) has found it necessary to restrict the role of subnational governments in order to resolve international economic disputes.

Even absent structural differences, variations in national views about the proper role of government in the domestic economy can also pose problems for the harmonization of policies. Governments can be distinguished by the degree to which they intervene in the marketplace and in their nation’s eco-

Economic Interdependence and International Cooperation

Society, Culture, and International Economic Conflicts

International economic conflicts also emerge from different social and cultural practices, and resolving such disputes through harmonization is still more difficult. Again, U.S.–Japanese trade relations provide an example. Although Japan maintains very low tariffs, foreigners have a difficult time selling there, in part because Japanese business relations are built upon a very tight network that outsiders have rarely successfully breached. As a result, the substantial liberalization of Japanese trade policy, much of it accomplished through American government pressure, has done little to improve sales of foreign goods and has therefore affected gross trade flows only slightly. Changes in government policy do not necessarily translate into changes in business practices or consumer behavior, and Japanese consumers strongly prefer to buy from domestic producers. Like government policy, cultural and social practices and habits can also become the basis for trade disagreements in a world of low tariffs.

As a result, attempts to harmonize the different practices that affect competitiveness have led to international pressures on governments to change many of their nations’ normal practices. Adherence to a philosophy of senryu koraku (struggle first, enjoy later), for example, is evident in the longer working hours and fewer vacation days of Japanese than of American workers. The scope of societal variations that can affect trade and cause friction is so great that some American officials have even suggested that Japan needs to change its culture. And in one attempt to resolve trade conflicts with the United States, the Japanese Labor Ministry actually began a campaign to
bring Japanese work practices into line with American ones (Jameson, 1985a; Rowen, 1986; Jameson, 1985b). Ironically, those working in the Leisure Development Center charged with encouraging Japanese employees to make greater use of leisure time were themselves working overtime on that job (Wysocki, 1986). The Japanese have also pressed the United States to change its ways. A report that emerged from U.S.–Japanese discussions about each nation’s structural impediments to trade, for example, called upon the United States to upgrade its educational system.  

Economic interdependence and policy harmonization may have profound implications for cultural differences. The desire to maintain cultural distinctiveness was the basis for Canadian demands to exclude cultural industries (such as publishing) from a free trade agreement with the United States. And the likely impact of a free trade agreement on Canadian society (rather than economy) was central to the ratification debate in Canada. As harmonization comes to encompass the whole range of public policies, cultural sensitivities will become increasingly important.

**Customs Unions and Incongruent Domestic Policies**

The nature and range of the economic conflicts that can arise in the wake of tariff reductions and the problems inherent in harmonizing domestic economic policies in the modern world are exemplified by the experience of the European Economic Community (EEC). The formation of the EEC—the acceptance of a common external tariff—represented a commitment to reducing internal barriers to trade and placed a premium on the harmonization of domestic policies. The desirability and necessity of maintaining the EEC put tariffs and quotas out of bounds as appropriate means for dealing with domestic economic problems. Nevertheless, a complicated arrangement of accepted subsidies was built into the EEC in order to cement the union.

Moreover, the formation and evolution of the EEC led to the disappearance neither of nontariff barriers nor of incongruent domestic policies. The Community has a central institution with a bureaucracy and some legitimacy in a context of states having adopted a common tariff barrier. Yet the European Community Commission and the European Council have both expressed concern about such barriers as continue to exist within the EEC (Korn, 1981; also see Page, 1980). The dream of a unified European marketplace has remained unfulfilled, and the problem of incongruent domestic policies haunts the Community, despite the permanent institutional arrangements available to promote harmonization. Current plans finally and fully to integrate Europe into one market by 1992 entail the elimination of thousands of national statutes (Economist, 1988).  

Interdependence, competition, the vagaries of the market, and the role of government combine to ensure that economic conflict remains. Even a customs union focuses attention on the source of the most serious economic problems that plague the international exchanges between its members. More important, it generates pressures on its members to harmonize their policies, and it creates an institutional backstop to prevent them from slipping back down the road of classical trade barriers.

**Theory and Policy**

The foregoing analysis of the implications of economic interdependence provides an understanding of both the course of recent events and the consequences of different policy paths. It does not generate unambiguous policy imperatives, although it does provide insight into the course of future events.

One policy implication of the foregoing analysis is that it is difficult to make net assessments of trends toward liberalization or protection. Because liberalization and protection are conjoined, both can be present, and there will typically be a debate about whether the glass is half full or whether it is half empty. Because liberalization itself entails some protectionism, and because successful liberalization generates new areas of trade conflict, scholars have had a difficult time pointing to a single trend and have even seen opposing ones. Some see the liberal order as threatened and endangered. They point to increasing protectionist buy-outs and the rise of nontariff barriers. Yet others emphasize the continued growth in trade and the successes of past negotiating rounds, each of which has tackled progressively more difficult issues. And in assessing the negotiating rounds, scholars cannot decide whether to emphasize the creation of new rules in areas previously unaffected by international trade agreements or to emphasize the conflicts during the negotiations, the loopholes in the rules, and the areas still left untouched (Krasner, 1979).

This simultaneous growth of both liberalization and protection is not merely a global phenomenon; it can be found in the policies of individual states. The seemingly contradictory policies pursued by the United States, for example, also become understandable in light of the foregoing analysis. During the 1980s, the United States both adopted protectionist measures and pressed nations to pursue free trade. It retaliated against others’ protectionist practices in the name of liberalizing trade, even as others castigated its own slide into protectionism. All of these are the logical results of the conflicts created by interdependence. The American desire for liberalization is genuine. And liberalization requires negotiated agreement that in turn requires reciprocity and
compromise. Without closure or the threat of closure, mutual openness cannot be achieved. And without side payments to buy off domestic opponents, trade liberalization in a representative polity is difficult to achieve.

Moreover, even as the United States pursued such multilateral avenues as trade negotiations, it also negotiated bilateral free trade agreements, which were often castigated by free traders as discriminatory arrangements that undercut the prospects for multilateral liberalization. Yet liberal trade is the product of bilateral arrangements. The free trade era of the 1860s began with the Cobden-Chevalier Treaty. What prevented this bilateral agreement from being a classic mercantilist instrument was the inclusion of an unconditional most-favored-nation clause and the fact that both Britain and France proceeded to sign such agreements with other states. The result was a network of states linked by bilateral treaties that all included MFN clauses. New adherents joined because it was in their interest to trade with these nations on the best terms available. In effect, the discrimination against outsiders (i.e., the least favored nations) provided the impetus for negotiating such agreements. The requirement of reciprocity in such treaties meant that each new agreement liberalized the entire network of trade relationships.

The first GATT negotiating round in 1947 was really a set of bilateral agreements between 22 countries. Its unique feature was that the negotiations were pursued simultaneously in one place and that all the bilateral agreements included the same set of initial articles as well as unconditional MFN clauses. Since then, the negotiating rounds have become more multilateral, but the key negotiations remain bilateral.

It is not surprising, therefore, that nations have gone outside GATT both to resolve trade problems and to further the cause of trade liberalization. Measures such as the VERs discussed above have been negotiated bilaterally, outside GATT. And free trade areas, such as that between Canada and the United States, have also been negotiated outside GATT. The slowness in working out a new international agreement on trade in services has also led to negotiated bilateral agreements.

The foregoing analysis provides no new prescription, only an understanding that discriminatory practices are not necessarily threats to the prospect of liberal trade. Rather, they are the necessary requisites for trade liberalization. Bilateral and small-group agreements that can establish a critical mass and create an incentive for new adherents are important mechanisms for liberalizing international commerce. And discrimination, in the form of customs unions, free trade areas, and preferential arrangements, has continued to be an accepted means of trade liberalization. That is the history of the evolution of GATT and the EEC.

Both the growth of commerce and the resolution of economic conflicts rooted in economic interdependence require international cooperation. Such cooperation need not be multilateral, it need not involve international institutions such as GATT, and it need not require agreement on broad liberal principles. And achieving the requisite cooperation and agreement to resolve conflicts sometimes requires threats and retaliation. And this makes possible an understanding of the existence of illiberal practices in the service of liberalism.

In addition, the analysis here of economic interdependence and international cooperation also holds implications for understanding the relations between the West and the Soviet Union. Historically, two arguments have been made regarding optimal American policy toward the Soviet Union during the Cold War. First, George Kennan's original vision of containment laid out a defensive policy limited to economic and political means. Kennan argued that the United States could increase the costs and strains to Soviet society and the Soviet empire by sustaining economic and political pressures against the Soviet Union. Yet the reverse argument, that contact and openness should replace containment, underlay the policy of détente. Openness, increasing commercial contact (and for a Deutscher, human contact), would moderate the Soviet Union and increasingly integrate it with others.

The arguments made for both economic containment and détente contain problematic assertions yet can claim ultimate vindication. The argument for economic containment was clearly wrong in its forecast that containment would lead to Soviet collapse within a decade to one generation. And its correctness after four and a half decades must be tempered with the confounding consequences of the pursuit of détente.

The détente argument is problematic, for Soviet economic openness did not do away with Soviet adventurism and the presumed economic burden did not deter Soviet entry into Afghanistan. And yet Gorbachev's domestic and international actions were entirely consistent with the requisites of developing economic exchange on a substantial scale. The development of extensive commerce required both a political transformation, the international cooperation that underlies the development of economic interdependence, and an internal economic transformation of Soviet policies and practices.

But the foregoing analysis of the implications of the growth of economic interdependence also makes clear the painful challenges that lie in the path of Soviet integration into the global economy. Any substantial growth of trade with the West will require a wholesale transformation of Soviet society and polity as well as economy. This will be painful, and it is likely to be resisted. As important, the adoption of markets and the growth of market exchange will generate numerous pressures for adjustment, which in a more representative political system will create pressures to manage and control the pace of
integration into the world economy. And although the need to harmonize will initially lead to the adoption of Western models and mimicry of the West (Soviet institutions and practices have little legitimacy, as they are widely perceived to be inefficient failures), it is likely that there will be increasing opposition and resentment within the Soviet Union. It may be necessary in the short term, as it was with Western Europe and Japan after the war, to allow the Soviets to avoid certain reciprocal commitments and for the West to accept some degree of Soviet protectionism. But the process of their economic integration will be long and difficult and will itself lead to economic conflicts with the West. Moreover, the Soviets' need to conjoin liberalization with protection in order to control the nature and pace of adjustment will make it difficult to ascertain the course of Soviet policy. Just as there are disagreements about continued liberalization among Western nations, and just as the United States follows contradictory policies, so, too, will the Soviets simultaneously pursue market liberalization and what will appear to be socialist protection. Some will see a Soviet trend toward liberalization, while others will point to protective practices and doubt both the Soviets' commitment to liberalization and their ability to adopt appropriate policies. Such vacillation is part and parcel of the implications of economic interdependence.

Conclusion

Economic exchange and interdependence presuppose international agreement on minimally required rules of the game, generate direct benefits, and create domestic groups interested in the maintenance and growth of international commerce. Although this does not ensure peace, it does mean that the presumed benefits to be derived from conflict must be so great as to outweigh its costs, including the foregone gains from trade. Commerce and interdependence do make war less likely.

Yet economic interdependence serves also to generate international economic conflict. The very success in lowering tariffs among nations and the resultant growth in world trade raise new areas of conflict and eventually bring the problem of incongruent government policies to the fore. When nations' domestic policies diverge, it is possible to have "unencumbered trade" that is not free trade, that many in the society find unfair, and that can become the basis of international conflict. Success in lowering tariffs thus places the burden on states to harmonize those policies that affect the production of traded goods. Further liberalization entails the never-ending process of harmonizing domestic policies.

Yet the increasing liberalization of international exchange and the corollary growth of economic interdependence also generate pressures for heightened cooperation, for there are enormous economic costs in allowing trade disputes to become trade wars and in allowing economic competition to spill over into political and military competition. Hence, states deal with conflicts either by negotiating protectionism in order to manage trade cooperatively or by reaching new international agreements designed to coordinate or harmonize domestic practices. Although the former may represent a limitation on continued liberalization and domestic adjustment, and although the latter may be preferable from the standpoint of economic efficiency, both represent increases in international cooperation. And indeed, negotiated protection in some sectors has been one element of continuing liberalization in others. Thus, world trade has continued to grow, and governments have embarked on new agreements and negotiations, even as certain forms of protection have survived.

The increasing interdependence of advanced industrial societies brings not only growing intimacy, but a greater potential for discord as well. Nations are not unlike couples, who can only fight about how to squeeze a toothpaste tube if they are living together. Fights about educating and raising children occur only after a couple has conceived a child. Couples intimate enough to have had children can still get divorced. Resolving the disputes that grow from familiarity generates higher levels of intimacy and interdependence. Indeed, the economic problems and conflicts that plague relationships among the major trading nations are, in part, a reflection of those states' very successes in establishing an open world economic order and strengthening interdependence. Increasing interdependence between nations, like increasing intimacy between individuals, brings new conflict and requires greater adjustments and accommodations. Growing interdependence generates conflicts, and resolving them entails greater cooperation.

Notes

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1. Belief in the cooperative ramifications of economic links provided one of the underpinnings of Nixon and Kissinger's pursuit of détente, for example. Still more recently, scholars have even argued about the value of commercial exchanges and their implications for developing "vested interests in peace" among the participants in the Arab-Israeli conflict (Arad and Hirsch, 1981; Hirsch 1981; Arad, Hirsch, and Tovias, 1983).

2. The set of works associated with the reemergence of the topic includes Cooper (1968, 1972), Morse (1970, 1972), Rosecrance and Stein (1973), Waltz (1970), and Young (1969). Work in the middle and latter part of the decade includes Katzenstein (1975), Keohane and Nye (1977), Little and McKinlay (1978), Reynolds and McKinlay (1979), and Rosecrance, Alexanderoff, Koehler, Kroll, Lacqueur, and Stocker (1977). For more recent evaluations, see Jones (1984) and Little (1984). Most of these works are characterized by an emphasis on economic considerations. Some evolved from earlier studies of international organizations and regional integration.

3. For the view of mercantilism as an integrated doctrine with perspectives on both domestic and international political order, see Buck (1942). Many liberals also advocated an end to imperialism and colonialism and favored reductions in military spending, if not outright disarmament.

4. For Hirschman (1977), this represented an argument on behalf of interests as constraining the passions of rulers.

5. The phrase "republican liberalism" comes from Keohane (1990); Nye (1988) refers to this as "democratic liberalism." I consider republican liberalism to be a variant of political liberalism, for some saw commerce as constraining state power and the arbitrary use of state authority independent of the particular form of government. In other words, they understood commerce to constrain even nonrepresentative governments.

6. For works on Kant's views of international relations, see, among others, Doyle (1983a & b, 1986), Gallie (1978), Hinsley (1963), Hoffmann (1965), and Waltz (1959, 1962).

7. This view was maintained most eloquently in the early twentieth century by Angell (1913, 1921).

8. Some, such as David Ricardo, James Mill, John Ramsay MacCulloch, John Stuart Mill, Michel Chevalier, Henri Baudrillard, and Gustave de Molinari, thought that free trade would make war less likely; others, including Jean-Baptiste Say, Richard Cobden, Frederic Bastiat, and Charles Dunoyer, believed that it would end war altogether (Silberman, 1946).

9. The impact of political systems on the propensity for war has been extensively studied. For a starting point for tracing the literature see Doyle (1986).

10. This literature has been dubbed the endogenous tariff literature. Entry into the field can be obtained through essays by Baldwin (1982, 1984), Frey (1985), and the superb critical survey by Nelson (1988).

11. The decisive importance of state intervention in assuring industrialization for latecomers is stressed by Gerschenkron (1962).

12. The great German mercantilist, List, discussed briefly below, developed his protectionist ideas in the United States, where he published a book on the American political economy (List, 1827).

13. The famous distinction between negative and positive liberty is made by Berlin (1969).

14. Ruggie (1982) dubs the conjunction of domestic interference in the market with international free trade "embedded liberalism."

15. Mill (1873) epitomized this liberal shift away from laissez-faire doctrines. This changed perspective is evident also in the works of T.H. Green, D.G. Ritchie, J.A. Hobson, and L.T. Hobhouse (Bullock and Shock, 1956:xxiii ff., and part 5).

16. Here, they did not contrast free trade with the alternative of autarky and self-sufficiency, but with imperialism and colonialism.

17. One of the reasons given, for example, for the resumption of war between Britain and France in 1803, following their having signed a peace treaty at Amiens in 1802, was the absence of any commercial agreement in the peace treaty (Bosanquet, 1924:24–26). For a Marxist such as Lenin (1917), imperialism was rooted not in mercantilistic practices, but in capitalist competition.

18. The phrase "commercial liberalism" comes from Keohane (1990). He uses it to encompass the general view that commerce promotes cooperation, and he distinguishes a sophisticated from a naive variant of the argument. I argue here that there are different arguments made by liberals as to why commerce would induce cooperation or reduce conflict, and so I distinguish between a neutralizing and a binding variant of commercial liberalism, as well as offer a strong that emphasizes the role of finance.

19. Richard Rosecrance (1986) argues that some governments have adopted the strategy of being "a trading state."

20. Echoing List, Keynes pointed out that protection in self-defense made sense: "Separate economic blocs, and all the friction and loss of friendship they bring with them, are expedients to which one may be driven in a hostile world where trade has ceased, over wide areas, to be cooperative and peaceful and where are forgotten the healthy rules of mutual advantage and equal treatment. But," he went on, "it is surely crazy to prefer that" (quoted in Eichengreen, 1984, 373; also see Gerrard, 1988; Willoughby, 1982b).

21. This view was held by American secretary of state Cordell Hull. For a sophisticated 1930s version of this argument, see Staley (1939).

22. Lateral pressure is a concept developed by Robert North (Choucri and North, 1975). A fuller development of his argument is in North (1977). For other discussions of the conflictual impact of resource scarcity in the modern world, see Orr (1977) and Russett (1981–82).

23. This problem, discussed further below, plagues the literature linking commerce
and war. Hall (1987) argues that "liberalism can only survive if it takes geopolitics seriously" (p. 134), which entails a recognition that the "state system continue[s] to be able to generate social conflict in its own right" (p. 137).


25. The critical implication of this perspective for an understanding of the causes of war is that it implicitly treats conflict as an inherent product of misunderstanding or misperception. When familiarity and knowledge of others exist, conflict can be avoided and cooperation assured. If conflicts of interest arise, they must be rooted in inaccurate perception or misunderstanding. Further, this argument bears some relationship to the view in economics that self-interested actors with full information consume all Pareto-improving exchanges, leading to a world in equilibrium, with no actor having a unilateral interest in changing position. For modern neoclassical economists, the basis of conflict lies in imperfect information. For a discussion of the centrality of misperception to liberal arguments about international relations, see Stein (1990).

26. Blaizey (1973:20) points out that Buckle, who "thought foreign travel was the greatest of all educations as well as a spur to peace," died of the typhoid that he contracted while traveling in the Middle East.

27. The view that communication was essential even led to the invention of new languages intended to be truly universal and not reflective of any nationality. A German priest, J.M. Schleyer, developed Volapuk in 1880. Within a decade, it had both a million students and a rival, Esperanto, which was invented in 1887 by a Russian who hoped it would reduce the feuding between the Polish, German, Yiddish, and Russian speakers of his region. It was not long before supporters of the two universal languages were feuding with one another (Blaizey, 1973:22-23).

28. There are, for example, European Community (EC), economic, Arab, and American-Soviet summits, among others. In the 1984 U.S. presidential campaign, Democratic candidate Walter Mondale proposed annual American-Soviet summits on the model of the economic ones. Mondale was attacking President Reagan’s failure to have met even once during his first term with the Soviet leader. Ironically, President Reagan proceeded in his second term to meet annually with his Soviet counterpart.

29. In their work, trade and investment are just two of the indicators used for interaction and communication. They also gathered and assessed an array of others, including mail flows, telephone calls, and migration. Deutsch’s own work focuses on a range of issues: the role of communications (Deutsch, 1966b, 1968), transactions in general (Deutsch, 1960, 1964), and trade in particular (Deutsch, Bliss, and Eckstein, 1962; Deutsch and Eckstein, 1961). Key works by his students on these same issues include those by Alker and Puchala (1968), Katzenstein (1976), Puchala (1970), and Russell (1963b, 1971). For a critique by a Deutsch student, see Young (1969). For the work of another Deutsch student that epitomizes the link between Deutsch on integration and the focus on interdependence in the 1970s, see Katzenstein (1975). For a formalization of Deutsch’s argument, see Zinn and Muncaster (1987). For the interest of Deutsch and his students in an array of indicators, see Russell, Alker, Deutsch, and Lasswell (1964).

30. Deutsch is aware of this. Hence, he sometimes emphasizes that there must be value compatibility as well as a multiplicity of interactions (Deutsch, 1969:103–104). On more and less contact as the bases of different kinds of war, see Wright (1965b:381).

31. Hirschman (1977) points out that before Montesquieu, Spinoza also had emphasized the importance between different kinds of wealth. This section draws upon Hirschman’s analysis.

32. An alternative formulation also exists. Liberals argued, and Marxists adopted some of these arguments, that foreign investment leads to conflict and generates intervention in other nations and war between capital-exporting nations. It does so not because it is in the interests of the nation as a whole, but because it is in the interests of a particular segment of the business and financial community, which usurps the control of state power for private gain. The anti-Semitic variant of this argument refers to the role of "international Jewish finance capital" (Hall, 1987:132). Finally, one can also make the argument that the fungibility and mobility of capital can make financial interests indifferent to political conflict because of its ability to move to safe havens.

33. Given the indirect nature of economic competition, a nation linked to the international economy can be affected by events in countries with which it does not trade. Two states that produce and export the same commodity, for example, are sensitive to the other’s fortunes, as when the prices obtained by American farmers reflect the harvests in other major agricultural exporting nations.

34. Historical lore is full of contrasting characterizations of particularistic interests that favor war because it improves their economic circumstances.

35. Even more basically, they assume the existence of market exchange and of money (Gilpin, 1977).

36. This argument can be conjoined with one holding that modernization necessarily entails an emphasis on the accumulation of wealth by both individuals and governments (Morse, 1976b). Modernization itself leads to a concern with material welfare and a resulting shift in political priorities from the "high politics" of national security issues to what is often taken to be, at least by diplomats and statesmen, the "low politics" of trade and investment (Morse, 1970).

37. Moreover, given the variety of analytic links in the assorted arguments discussed above, virtually any empirical work relevant to one perspective is irrelevant to another. Indeed, given that some of the arguments linking commerce with cooperation are really negations of propositions linking scarcity to closure and conflict, there are assessments, not discussed here, that have focused entirely on this latter link.

38. Given the multiplicity of indicators of communication, scholars paid a good deal of attention to the issue of their covariation and pioneered the use of factor analysis in international relations. Some of their empirical studies also focused on issues of less direct concern to the question of interdependence, such as whether elite attitudes covary with aggregate measures.

39. Olson (1982) refers to the formation of an economic and political union as "jurisdictional integration."

40. The argument is comparable to that made about relations between firms. Companies, too, are interdependent in the sense that they interact in a competitive market...
and are affected by changes in market conditions. Yet they are not interdependent in that they do not interact strategically with one another and remain unaffected by the decisions of any specific competitor.

41. Even in a perfectly competitive market in which there are alternative suppliers and consumers, some costs may remain either in the process of shifting commercial partners or from the shrinking size of the market that international conflict might bring.

42. This phenomenon of trade increasing faster than production is necessarily matched for at least one of the nations involved. Note that the inverse relationship is not necessarily true. The trade openness of individual nations can increase without a concomitant increase in the openness of the international system as a whole.

43. This view of interdependence is consistent with a game-theoretic conceptualization. Tetteault (1988:431–433) distinguishes between systemic interdependence and bilateral interdependence. For a general argument that strategic interaction should be seen as another level of analysis, see Stein (1990).

44. Some discuss openness without linking it to the concept of interdependence; see Grassman (1980), Beenstock and Warburton (1983), and Kar (1983). Still others distinguish the interconnectedness implied by transactions from the reciprocal costs implied by only some transactions (Keohane and Nye, 1977). Since exchange implies some division of labor, transactions themselves can be seen as capturing a dimension of interdependence, which Rosecrance, Alexandroff, Koehler, Kroll, Lacqueur, and Stocker (1977) refer to as horizontal interdependence.

45. The same kind of question arises about asymmetries in trade balances, about whether creditors and debtors will be comparably affected by conflict and whether, therefore, they are equally free to threaten to disrupt the relationship.

46. Keohane and Nye (1977:9), for example, define what they call sensitivity interdependence as responsiveness to external changes but do not see all exchanges as entailing the reciprocal costs that they see as underlying interdependence. For Keohane and Nye, exchange that entails reciprocal costs is a prerequisite not to vulnerability but to sensitivity interdependence. Where sensitivity entails responsiveness, they see vulnerability as entailing an inability to reduce externally imposed costs through a change in policies. Their distinction is not precise enough to recommend an unambiguous measurement strategy. Moreover, their conceptualization of complex interdependence differs from their discussion of economic interdependence. The former is a political construct that presumes the international political consequences of the latter.

47. Kenneth Waltz (1970, 1979) is the strongest and most consistent exponent of the view that there is no interdependence in the modern world. He advocates a conceptualization of interdependence as vulnerability and mutual dependence, and he criticizes those who view it as sensitivity. In keeping with this view, he analyzes data measuring nations' reliance on critical raw material imports such as oil. But Waltz (1979) also adopts a definitional analytic argument holding that great powers in an anarchic international system, because they are functionally equivalent units between which there cannot have developed a division of labor, cannot possibly be interdependent. Were they to be interdependent, they would no longer be great powers.

48. Many economists assume the existence of interdependence and focus on the international transmission of macroeconomic policies under different exchange rate regimes. For a review, see Hellin, Padmore (1985).

49. More generally, under those conditions in which free exchange should result in the equalization of factor prices, price comparability is a good measure of interdependence. For Rosecrance, Alexandroff, Koehler, Kroll, Lacqueur, and Stocker (1977), transactions measure horizontal interdependence, whereas cross-national responsiveness to changes in factor prices constitutes vertical interdependence. For Gasirowski (1986b), horizontal interdependence applies to countries with similar levels of development and factor endowments, whereas vertical interdependence refers to relationships between nations at quite different levels of development and with different factor endowments. For discussions of factor price equalization and European integration, see Tovias (1982), Gremmen (1985), and van Mourik (1987). Also see Mokhbar and Rassek (1989).

50. For studies by political scientists, see Rosecrance, Alexandroff, Koehler, Kroll, Lacqueur, and Stocker (1977) and the subsequent exchange about it (Tetteault, 1980; Rosecrance and Gutowitz, 1981; Tetteault, 1981). For work by economists, see the review essay by Obstfeld (1986). Also see Cumby and Mishkin (1986), Cumby and Obstfeld (1984), von Furstenberg (1983), Glick (1987), and Mishkin (1984). Note that even so specific an empirical emphasis as the consequences of openness can be assessed in different ways. It is possible to analyze the consequences of capital mobility, and so to assess changes in capital mobility itself, by comparing either asset yields (interest rates) across countries or the relationship between savings and investment. The latter approach originated in an important paper by Feldstein and Horioka (1980).

51. Indices of financial and monetary interdependence are less widely used, largely because of the paucity of good data, especially for the years prior to World War II. Kar (1983) argues that a measure of financial openness is the ratio of gross financial flows (inflows and outflows) to national income. This captures the importance of external financial transactions relative to the size of the domestic economy and is quite similar to the ratio of international exchange (imports and exports) to national income, a measure that is used to measure trade openness. Kar criticized Grassman (1980), who, for reasons of data availability, instead used a ratio of net (rather than gross) capital flows (i.e., the current account balance) to national income.

52. Writing a decade and a half after the end of World War II, Deutsch and Eckstein (1961) emphasized the declining importance of foreign trade. More than 10 years later, Rosecrance and Stein (1973) and Katzstein (1975) found that ratios of trade to income had continued to grow after the war and had reached new heights. Grassman (1980) fit trend lines to the century-long pattern of decline and growth and found no unambiguous trends. All these studies used a ratio of trade to national income. Beenstock and Warburton (1983) suggested that "real openness" should be measured by a ratio of trade to national income and that the ratio should be adjusted for price movements. This, they demonstrated, unambiguously shows that by the 1970s, openness exceeded earlier levels.

53. For a discussion of this regarding Western European trade and integration, see Clark and Welch (1972).
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Pact toward the United States than vice versa, presumably because the Warsaw Pact nations benefited more from the trade (Gasiorowski and Polachek, 1982).

67. Domke (1988) also uses two other measures, both of which predict less well a nation’s likelihood of being involved in war at any particular time. One of these is the change in the proportion of exports to GNP; the other is the residual observation from a regression of export proportion onto GNP. This latter variable is intended to control for the fact that great powers tend to have large economies and, in general, trade proportionately less of their GNP’s than smaller powers.

68. Domke’s (1988) analytic discussion is richer than his empirical analysis. He develops three links between commerce and war, but the data and analysis are insufficiently precise to capture the subtlety of the various arguments he delineates linking trade decisions to war.

69. Here, the data on conflict behavior is weighted for both intensity and the percentage a country’s trade conducted with the target nation.

70. A study by Sayrs (1989) separately regresses the amount of cooperation and the amount of conflict on measures of trade and finds that trade can affect one without affecting the other. The study is also notable for controlling for plausible rival explanations, for disaggregating and separately estimating effects on economic as distinguished from military cooperation, and for separately estimating relationships for high- and low-volume traders. Yet the analyses are not well rooted theoretically.

71. A good place to begin entry into the literature is through the discussions by Snidal (1985) and Conybeare (1987).

72. Rosecrance (1973:chaps. 14 and 15) develops a hierarchical model of national interests in which security and ideology are pursued as objectives ahead of material wealth. See also the discussion of lexicographic preferences in Stein (1990:chap. 4).

73. For recent empirical work that finds such a relationship, see Pollins (1989a & b). Also see Summary (1989).

74. For an explanation of foreign economic policy, including trade, investment, and foreign aid, in the context of a state’s grand strategy, see Skalies (in progress). For an argument that the implications of economic interdependence vary with the degree of threat in the international system, see Papayoaou (in progress).

75. The exceptions provided by state enterprises and government loans are so marginal as not to matter.

76. Conversely, the absence of a link between state and society might mean that links between two governments would have no repercussions on either’s society or domestic economy. International political accommodation achieved by a royal marriage, for example, would not affect the divisions between the two societies. A domestic version of this phenomenon is evident in consociational democracies, in which elites reach agreements that have no fundamental repercussions on divisions within the society.

77. Not surprisingly, reliance on import taxes is more prevalent among developing countries than among developed countries (Stein, 1984). Moreover, one implication of lower tariffs is higher domestic taxes (Rousslang, 1987).

78. Border control can, of course, be imperfect; smugglers can always evade it. On
the other hand, the scope of smuggling cannot be the basis for any substantial growth of exchange and interdependence.

79. There were cases, especially in the nineteenth century, when commercial openness was coerced rather than achieved voluntarily (Stein, 1984).

80. During the economic crisis of 1981–1982, the Polish government declared martial law and, for a time, unplugged from the international phone system so that information about its domestic problems would not reach the West.

81. The overall argument being made here is akin to that made about the existence of a market presupposing a minimal government that provides and enforces a structure of property rights and enforces contracts. Stein (1990:chap. 2) discusses the role of regimes in providing coordination, especially in areas that facilitate transportation and exchange.

82. Keohane (1990) characterizes arguments that recognize the importance of rules and institutions for international relations as “regulatory liberalism.” He argues that this is separate from liberal arguments about the effect of trade, which he dubs “commercial liberalism.” He calls the synthesis of these two “sophisticated liberalism.” The argument I make here is that commerce depends on an institutional political infrastructure.

83. The conjuncture of this view with an argument that commerce and exchange require political stability and certainty can lead to the conclusion that peace generates trade, rather than the other way around. Yet the commerce generated by peace, or cooperative bilateral relationships, is itself consequential in changing subsequent calculations of the costs and benefits to be derived from cooperative or conflictual policies.

84. The global debt crisis of the 1980s illuminated the political basis of capital flows as it became clear that the exposures of national banks varied. The Europeans held more Eastern European debt; the United States had lent more to Latin America. If capital flowed only on the basis of rates of return, such a pattern would not have been likely to occur. It may be that such a pattern reflects differential information, but then this, too, reflects the past history of political (and geopolitical) links and ties. The basic political links between nations, together with government encouragement of banks to make certain loans, largely explain the distribution of exposure.

85. See the analysis in Skalnes (in progress). In fact, studies show that economic links do play a role in deterring attacks on one’s allies (Russell, 1963a; Fink, 1965; Huth and Russett, 1984; Papayoanou, in progress). Convincing one’s opponent (not to mention one’s populace) of the strategic importance of another nation or area often entails developing a broad array of other ties with that country. Wright (1965a) shows that conflicts with higher costs are less likely to escalate.

86. For an example of American views, see Gardner (1956) and Pollard (1985). For a history of economic links and the forging of the Pacific alliance, see Borden (1984). For a general discussion and postwar examples of trade being subordinated to security, see Holsti (1986). For nineteenth-century examples as well as more recent ones, see Stein (1983).

87. For an intellectual history of evolving conceptions of unemployment, see Garraty (1978).

88. This responsibility exists virtually independent of the form of government, and it increases with the degree of industrialization and economic development. Indeed, one can imagine a modern explanation for authoritarian governments in precisely these terms. Whereas in earlier times monarchies could avoid numerous responsibilities, the very range of modern governmental responsibilities seems to require authoritarian solutions. If a government is to be held responsible for maintaining employment, then there exists a logic for its grabbing control of aspects of the means of production and politicizing decisions about resource allocation by removing some of them from private hands.

89. Adam Smith recognized that opening a domestic market to foreign competition would lead to suffering, especially by the owners of fixed capital, who could not dispose of such wealth without substantial losses. He argued, therefore, that such changes “should never be introduced suddenly, but slowly, gradually, and after a very long warning” (Smith, 1979:471).

90. One implication is that political enfranchisement and increasing political participation had important consequences for trade policy during the nineteenth century (Milward, 1981).

91. For articles linking protection with the business cycle, see Gallarotti (1985), Gourevitch (1986), McKeown (1984), and Cassing, McKeown, and Ochs (1986). The implication of the argument in this entire section is that protection is manifest even in good times and even absent a societal demand for it.

92. That politicians are more responsive to specific electoral threats than to potential electoral promise can also be explained with the psychological findings that losses loom larger than gains (Kahneman and Tversky, 1979).

93. In the late 1980s, a Pentagon study urged government support for the semiconductor industry on just such grounds (Sanger, 1987). An economic basis exists for such support in some cases (Thompson, 1979).

94. Although NATO was formed in 1949, its member nations still duplicated one another’s defense industries in 1990. They have been willing to outspend the Warsaw Pact on conventional forces and to allow duplication, but have been unwilling to standardize equipment and allow specialization and interdependence. Trade liberalization has even been suggested as a means to weapons standardization (Wolff and Leebaert, 1978).

95. South Korea used quotas on the importation of foreign movies in an attempt to ensure the development and survival of a domestic film industry. Companies were allowed to import only four movies for every film they produced. In response to American complaints, the Koreans replaced this requirement with one that importers contribute to a fund for the promotion of domestic film production (Janeson, 1984; see also Pagano, 1985). French and Japanese industrial policies aimed at ensuring the existence and survival of native producers of certain goods provide other examples. Johnson (1965) develops a theory of protection by positing a "preference for industrial production."

96. Even though the market for microelectronic applications is growing, governments have become concerned with the market share of foreign producers and with the risks of relying on others for such products. The United States and Western Europe
have responded with a variety of measures. The European reaction is described in Becker (1983).

97. Indeed, there is a long-standing recognition in economic theory of a logic for some degree of protection. But most economists nonetheless opposed protection on practical and political grounds (Humphrey, 1987). A modern example of an economic basis for protectionism is provided by strategic trade policy; for reviews see Stiglitz (1989) and Richardson (1990).

98. They argued that their subsidization of research and development at Airbus was equivalent to Pentagon military contracts awarded to U.S. civilian aircraft manufacturers.

99. There is a massive literature on industrial policy. For discussions of different kinds of national industrial policies, see Diebold (1980), Katzenstein (1985), McKay and Grant (1983, and the rest of this special issue of the journal), and Pinder (1982). On Japan, see Wheeler, Janow, and Pepper (1982) and especially Johnson (1982), who argues that the role of the Japanese state has been similar to that of other late industrializers, that of a "developmental state" taking on "developmental functions."

100. Cooper (1987:250–251) points out that many factors can influence comparative advantage: "It would be absurd to pretend otherwise and to treat each geographic area as a tabula rasa with natural endowments but with no social or political system."

101. Much the same is true of foreign investment. States want foreign investment yet regulate it. For a typology of regulation, see Reich (1989).

102. Such programs include export credit arrangements. For a discussion of the competition among industrial nations in providing export credits, and their tortuous path to an agreement, see Moravcsik (1989).

103. These observations are as true of weak as of strong states. Political scientists have recently distinguished between states strong and autonomous enough to impose their views of their nations' interests on society and those unable to do so. Implicit in this literature is the view that weak states pursue protectionism because they cannot resist the demands of domestic protectionist forces, whereas strong states can impose adjustment. Yet there are research traditions that emphasize state strength relative to market forces rather than to domestic interest groups. Strong states can then be seen not as ones strong enough to impose adjustment but as strong enough to resist market forces in a way that weak penetrated states cannot. Dependency theorists, for example, emphasize this kind of weakness and argue that some third-world states are so weak that they cannot resist market adjustment. Analytically, there is no reason to expect any systematic relationship between the strength of a state and its choice of particular policies. Strong states are likely to be more interventionist and activist, but this can be to ensure the competitiveness of exports. Weak states can be penetrated by exporters as well as by domestic firms whose products compete with imports.

104. The literature on the new protectionism is vast. For examples, see Balassa (1978), Krauss (1978), and Salvatore (1987). Concern about the trading order is evinced by, among others, Aho and Bayard (1982), Long (1978), and Tumlir (1978–1979). For a review of the revival of protectionist thinking in Europe, see Kahler (1985).

105. This discussion makes clear why there is no consistent correlation between hegemony and openness. A hegemonic United States could not impose openness; in fact, it acceded to many departures from liberal principles. Yet slow liberalization did accompany a rapid growth in trade. The decline of American hegemony has not meant either the return to closure or the end of efforts at further liberalization, for the relative economic decline of the United States does not change the fact that there remain benefits to be gained from further liberalization and costs from closure.

106. Demands for protection are sector- and industry-specific and therefore vary with the economic performance of particular industries. Some industries, of course, can perform poorly even in periods of general growth, whereas others can do well during recessions. Overall, however, the business cycle matters in that the performance of most industries varies with it. For a discussion that links the business cycle to old versus new regions, see Cassing, McKee, and Ochs (1986). The demand by labor for protection may also vary with such circumstances as whether, for example, the work force is growing and the demand for labor exceeds union membership (Wallenstein, 1987).

107. Even as auto workers and producers pressed for import constraints in the 1980s, dealers and distributors of imported cars opposed them. An association of foreign car dealers organized against such protectionism. In developing countries, also, domestic interests with ties to imports have opposed protection (Amelung, 1989).

108. Governments that want to fend off protectionist demands can also encourage efforts on behalf of free trade. The Reagan administration did this during its battle against domestic content legislation. For an analysis of antiprotectionism and American foreign trade policy, see Destrée and Odell (1987).

109. Much the same case can be made about the liberalization of capital markets. Some interests oppose foreign investment; others encourage it. Encarnation and Mason (1990) argue that capital liberalization in Japan cannot be understood as a product of American pressure, but that its timing and substance were dictated by local oligopolists with an interest in technologies controlled by foreign firms.

110. Frieden (1988) argues that American foreign economic policy in the 1930s reflected the struggle between those domestic economic actors with preferences for internationalist policies and those favoring isolationism.

111. Unlike a tariff, which provides the increased domestic price of goods to the importing nation's government as revenue, a VER, which also raises the domestic price, allows the exporting companies to pocket the difference.

112. For a discussion of the international politics of textiles, see Aggarwal (1985).

113. Ironically, though, the protection provided often tends to be illusory. Each extension of the original RTAA and each passage of an entirely new trade act have entailed tightening old procedures or instituting new mechanisms to provide relief from imports. Yet once the trade bill has been passed, the procedures for obtaining relief have tended to work slowly and even to stall without providing any (Goldstein, 1983, 1986). An even broader argument holds that national crises have tended to generate expansions in government's power to regulate trade (Tight, 1985).

114. Such side payments can be argued to reflect the redistribution necessary for liberalization to represent a Pareto-superior improvement.
trade and capital flows have shifted dramatically. In the past, they held that trade
imbalances determined capital flows and exchange rate movements. The current con-
ventional wisdom is that capital flows drive trade imbalances.
130. Bergsten (1975) argues that an overvalued dollar better predicts protectionist
pressures in the United States than does the business cycle.
131. Economists emphasize the reduced ability of domestic macroeconomic policy
to affect outcomes in an economy open to external economic forces (Cooper, 1973;
Lindbeck, 1978). My own emphasis is less on the state’s loss of autonomy than on the
international economic and political impact of divergent policies and practices in a host
of domains. Dissenting economists have noted that coordination can sometimes be
counterproductive (Rogoff, 1985) and can depend critically on adequate knowledge of
the economic links between economies (Frankel and Rogoff, 1988).
132. Japanese business leaders have campaigned for reductions in corporate tax
rates, pointing out that in 1982 and 1983, Japanese firms paid an average of 51.3
percent of profits in corporate taxes, whereas American firms averaged 33 percent
(Los Angeles Times, 17 September 1984: pt. 4, p. 3). Ironically, American business leaders,
in campaigning for accelerated depreciation, have emphasized that the cost of capital is
lower in Japan (Albertine, 1985; see also Behr, 1984). Not surprisingly, the U.S. tax
reform package was followed by changes in other industrial nations’ tax laws. And
liberalization of capital markets in Europe was followed by pressures for tax harmoniza-
tion (Isard, 1990).
133. The United States became embroiled in a dispute with Canada when it deregulat-
ed its trucking industry and the Canadians left theirs unchanged. There had been no
conflict as long as both countries imposed similar trucking regulations. Similarly,
problems accompanied the drive to deregulate financial markets, an effort that spread
from one industrial nation to another in the 1980s and led to international efforts to
coordinate banking regulations (Kapstein, 1989). Antitrust policy provides an excel-
 lent example of the impact of different national conceptions of what is legal. U.S.
antitrust policy does not allow American firms to cooperate in overseas marketing. Yet
Japanese traders do things in the United States that would be illegal for American
companies to do abroad. This led Mike Mansfield, the American ambassador to Japan,
to urge a change in America’s “antiquated antitrust laws” (Jameson, 1985c). Not only
do antitrust policies vary, so, too, do the prospects for judicial relief. Whereas the U.S.
Supreme Court ruled that foreign governments could sue for punitive damages under
American antitrust laws, Great Britain denied the request of a U.S. court for evidence
related to monopolistic practices, arguing “it is axiomatic that in anti-trust matters the
policy of one state may be to defend what it is the policy of another state to attack”
134. The relative cost of environmental regulations may also drive decisions about
where to locate plants. The industrial-flight hypothesis argues that firms leave indus-
trial countries because of increasingly tough environmental laws. The pollution-haven
hypothesis argues that firms are drawn to underdeveloped societies with the most lax
environmental laws. But empirical studies have not found much evidence of any
impact of environmental laws and policies on either firm location or general trade patterns (Leonard, 1988; Tobey, 1990).

135. The Japanese have even justified tariffs on environmental grounds. They argue that to prevent environmental problems, such as landslides, they need to nurture sturdier trees by thinning their forests. To ensure that essential thinning occurs, they argue, they must maintain a domestic market for Japanese lumber. Hence, they keep a tariff on forestry products (Jameson, 1985d).

136. Indeed, it is possible to argue that measures adopted for the purpose of protection, such as minimum quality standards or requirements that products be labeled to identify national origin, have a valuable nonprotective role for both consumers and producers (Falvey, 1989).

137. This argument can be made, for example, about a Houdaille Industries trade complaint about unfair Japanese competition in the machine tool industry. Houdaille had charged that Japan’s industrial policy provided its producers with an unfair advantage. One could retort, however, that the Japanese were only compensating for the implicit industrial policy embodied in Defense Department policies that had aided the American machine tool industry during the 1950s (Holland, 1989).

138. The economist J.E. Meade points out that the United Kingdom subsidized the consumption of milk, which was produced at home, while taxing the consumption of wine, which was produced abroad. Was this "an inadmissible interference with . . . optimization," he wonders, or "a legitimate case of social economics and diseconomies" (Robson, 1980:100–101).

139. The broad array of institutional differences can encompass such elements as the structure of labor and capital markets and the nature of government policy instruments. See Black (1982), Rybczynski (1984), Vittas (1986), and Katzenstein (1977).

140. There have been some cases of internal tariffs, tariffs within a nation. The French physicists supported free trade "primarily because they desired the freedom of domestic trade" (Gide and Rist, 1913:29).

141. Moreover, the existence of rampant local graft and corruption gives some indication of the difficulty of enforcing equal treatment provisions for local procurements.

142. Rogowski (1987) demonstrates that nations that trade a great deal are more likely to have systems of proportional representation because, he argues, nations that are very open to the international economy must have policy stability, continuity, and consistency—hallmarks of systems marked by proportional representation.

143. This discussion draws upon California, State Assembly (1986).

144. Problems can also arise between nations with similar political systems when each locates the authority over a particular issue at a different level of government. In the middle 1980s, a dispute broke out between the United States and Canada over lumber. At issue was the stumpage fees that lumber companies pay landowners to harvest timber. In Canada, 95 percent of the timberland is owned by provincial governments, which set the stumpage fees. In the United States, public timber forests are federally owned. The United States used different procedures for setting stumpage fees than did the provincial governments of Canada, and American lumber executives pressed for protection against what they considered subsidized Canadian lumber exports (Martin, 1985).

145. For discussions linking ideology and national competitiveness, see Lodge and Vogel (1987).

146. For a contrast of American and British approaches to regulation, see Vogel (1986).

147. More broadly, the American preoccupation with Japanese practices of all kinds reflects these pressures for harmonization. Many American firms eagerly seek the key to Japanese success and want to duplicate it, whether it entails the nature of inventory practices (e.g., just-in-time delivery of components) or the organization of work (e.g., quality circles). Eventually, the United States may obtain national health insurance because American corporations come to oppose the American Medical Association and press for the socialization of an expense that they bear but which few of their overseas competitors do.

148. Abbott and Totman (1981) distinguish between levels of barriers to trade. Tariffs and quotas are first-level barriers, government policies and practices are second-level barriers, and cultural patterns and social attitudes are third-level barriers.

149. The average Japanese worker works 200 hours more a year than the average American worker.

150. This provides another example, like that involving stumpage fees (see footnote 144 above), in which a national government does not have control over a policy that another country wishes to see altered. In the United States, of course, education policy is in the purview of the states, which often turn it over to local school districts.

151. The successful agreement to negotiate free trade with Canada in the late 1980s contrasts with three earlier twentieth-century efforts, all of which foundered.

152. For an analysis of the tortuous and limited movement toward fiscal harmonization in Europe, see Puchala (1984).

153. Distortionary governmental policies can be a problem even within a single country. Cities and states within the United States compete for industries and jobs by offering tax inducements and/or freer regulatory environments. States’ differential tax practices affect the relative competitiveness of firms. When discussing state support for Research Triangle Park (a development intended, in part, to maintain a state presence in the computer industry), the North Carolina legislator, and future governor, James Hunt said that, in effect, North Carolina was telling the Silicon Valley that it did not intend to let the computer chips fall where they may. Just as competition continues between nations, so will it continue between nations. The economic competition between states remains bounded, however, because of the overarching power and authority of the federal government.

154. No knowledge of means-ends relationships provides policy prescriptions unless societal goals are presumed. Moreover, knowledge need not bring with it an ability to control if it is not related to the policy levers at the disposal of government, if the causal impact of policy levers is small relative to other factors, or if events are not reversible.

155. Dunn (1987) makes the same kind of case about trade in automobiles, that it
was not as liberal in the 1950s and 1960s as many think, nor as protectionist in the 1980s as some claim. For another argument that does not despair of recent events, see Strange (1985). More broadly, see Willoughby (1982a).

I would argue that a similar argument can be made about the latter part of the nineteenth century, an era that most scholars characterize as increasingly protectionist. They point to the adoption by many European states of new tariff acts that called for higher duties, to a decline in trade relative to gross national product, and to the tariff wars as epitomizing an era of closure. Yet the tariff wars broke out in the midst of trade negotiations, and most trade treaties were renegotiated when they expired and new ones were also struck. What is striking about the period is the degree of international trade that was sustained during an extended depression in which a number of the European states began to industrialize.

156. The MFN clause transformed trade, an inherently invisible private good, into a collective one (Stein 1984, 1990:208).

157. This proved to be especially fortunate when the planned International Trade Organization (ITO) was stillborn.

158. Free trade classically entailed two components, lowering or removing barriers to trade and doing away with discrimination. Yet the classic discriminatory instrument, the bilateral trade agreement, became the vehicle for nondiscrimination when unconditional most-favored-nation clauses were incorporated.

159. It may even be the story of the evolution of events in North America, as Mexico responded to the U.S.—Canadian free trade agreement by expressing its interest in similar discussions. It is also the story of various preferential arrangements, such as those that the European Community has negotiated with various countries.

160. Although he emphasized the ideological component of frustrating Soviet designs and stressed the limits of totalitarian rule, his argument contained an economic element as well.

161. The issue is more complicated, because various hybrid possibilities also existed (e.g., military containment conjoined with increasing commercial exchange).

162. Indeed, some would argue that détente was linked to a new offensive era in Soviet diplomacy.

163. Although the entire chapter, including this section, was written before the demise of the Soviet Union, the analysis holds.

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