

Review Essay

Power and the Third World: Toward a Realist Political Economy of North–South Relations

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By introducing questions of power into the study of North–South relations, the recent books by Jeffrey Hart and Stephen Krasner fundamentally challenge the prevailing orthodoxy of dependency and world systems theory. Power and bargaining, these two authors tell us, matter both analytically and practically. Yet, in each study the origin, nature, and role of power is problematic. If Realism is to provide an effective alternative to economic approaches to international political economy it must derive specific interests from the concepts of power and the international distribution of power. I also argue that the New International Economic Order is part of a larger class of mercantilist strategies employed by various countries at particular moments in history to redress politically important economic imbalances. What is unique about the present North–South conflict is its multilateral character.

Jeffrey A. Hart, *The New International Economic Order: Cooperation and Conflict in North–South Economic Relations, 1974–1977* (New York: St. Martin's Press, 1983).

Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

Until recently, Realist scholars of international relations have seldom addressed the nature and origins of the North–South conflict. Certainly trends within the nonaligned movement and the rise of the Organization of Petroleum Exporting Countries (OPEC) were noted within the earlier literature, but differences between developed and developing countries were generally overshadowed by the superpower balance, and the rise and fall of international economic regimes largely focused on the needs of advanced

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industrialized states.¹ Most importantly, few Realists have attempted to explain the fundamental cleavage between North and South in terms of international power disparities.²

Rather, for at least the past two decades dependency and world systems theory have dominated scholarly inquiry.³ Economic processes inherent in the global capitalist system, according to these perspectives, exacerbate international wealth disparities and the skewed patterns of economic development and domestic class relations characteristic of Third World countries. While developing countries retain their individual political dynamics and conflicts, they are united by common impediments created by their peripheral position in the international division of labor. While not without their shortcomings, these “economistic”⁴ approaches have provided an important guide to both theory and praxis in the 1970s and 1980s.

Both Jeffrey Hart’s *The New International Economic Order* and Stephen Krasner’s *Structural Conflict* offer suggestive accounts of the politics of North–South relations, especially as manifested in the debate over the New International Economic Order (NIEO), from within the tradition of political Realism. By introducing questions of power into the study of North–South conflict, Hart and Krasner fundamentally challenge the prevailing orthodoxy of dependency theory. The politics of North–South relations, these two authors tell us, are not economically predetermined. Power and bargaining matter both analytically and practically.

Realist political economy has become increasingly popular over the last decade. This approach, along with political Realism more generally, is defined by three core or paradigmatic assumptions. Realists assume, first, that the international system is anarchic, or composed of sovereign states responsible to no higher authority; second, that states are rational, unitary actors; and, third, that states seek power and calculate their interests in terms of power.⁵

¹ Even as late as 1977, Robert L. Rothstein (p. ix) begins a study of the Third World with the defense that “This is a book in international relations. I note this fact here only because much of the subject matter covered trespasses on areas of concern that have not generally fallen within the traditional domain in international relations.”

² Precursors are Michael Hudson (1977) and Robert W. Tucker (1977). See also Robert W. Cox (1979).

³ The sociology of knowledge on Third World development and the major themes in dependency theory are discussed in Gereffi (1983: 3–49) and Smith (1985). The literature on dependency theory is voluminous, with many variants and internal disagreements. Two of the most important works are Cardoso and Faletto (1979) and Evans (1979). World systems theory, in many ways, subsumes dependency theory. See Wallerstein (1979) for a brief overview. As used here, “dependency theory” refers to both the dependency and world systems perspectives.

A second approach to Third World studies is the liberal development school, which tends to attribute the Third World’s relative poverty to poor economic policy choices. Particularly reprehensible, from this perspective, is the Third World’s reluctance to impose unqualified market mechanisms. Krasner cites Bauer and Yamey (1977) as the best known exponents of this view. The liberal development school is downplayed in this review because it lacks a central unifying, theoretical argument; as a result, it does not constitute a well developed alternative to dependency theory or the Realist framework outlined here.

⁴ Ashley (1983: 463) defines economism as “an exaggeration of the economic sphere’s importance in the determination of social and political relations and a corresponding underestimation of the autonomy and integrity of the political sphere.” Dependency theory is a form of what Ashley calls “variable economism,” where political outcomes are explained in terms of economic variables. Economistic theories by themselves are not inherently objectionable. The need for a Realist theory of North–South relations is not fundamentally stimulated by the failures of economistic theories, but by the importance of power, as demonstrated by Hart, and the success of realist theories of North–North relations.

Building upon these assumptions, Realist political economy has made its greatest progress in the study of North–North relations and the foreign economic policies of advanced industrialized countries. Focusing primarily on international economic structures (Gilpin, 1975; Krasner, 1976) and regimes (Krasner, 1983; Keohane, 1984), Realism provides a substantial challenge to Marxist and other economic theories of North–North political economy.

By examining power disparities between developed and developing countries, Hart and Krasner begin to fill an important void in Realist thought and provide a glimpse of an alternative Realist theory of North–South relations. This is to be applauded. Theoretical diversity and competition is the most likely avenue to understanding.

Two related problems, however, emerge from a consideration of these two books. First, in each study the origin, nature, and role of power is problematic. This is not a unique attribute of the two books under review. The ambiguous nature of power, and the relationship between power and interests, remains the central conundrum of Realist inquiry. “Classical Realists,” such as Hans Morgenthau, postulate that countries seek to maximize power, that one and only one strategy for maximizing power exists, and that this strategy can be referred to as the “national interest.” It is this linking of power and the national interest which allows Realists to explain national policies and international outcomes. The ambiguity of the national interest (Wolfers, 1952) and, as is often the case, the existence of more than one “power maximizing” strategy, however, has led this formulation of the link between power and interests into scholarly disfavor. As Robert Keohane (1986: 183) notes,

sophisticated contemporary thinkers in the Realist tradition . . . understand that interests cannot be derived . . . from the external [i.e., power] position of states. . . . Realist analysis has to retreat to a “fall-back position:” that *given state interests*, whose origins are not predicted by the theory, patterns of outcomes in world politics will be determined by the overall distribution of power among states.

In this “neorealist” perspective, then, the link between power and interests is severed. This, I argue below, is a mistake, a turn in the wrong direction. As Hart’s study reveals, power and interests are inextricably linked. If Realism is to provide an effective alternative to economic approaches to international political economy, it must derive *specific* interests from the concepts of power and the international distribution of power.

Hart’s analysis is clearly situated within the growing Neorealist school. While acknowledging that power and interests are intertwined, Hart attempts to keep the two concepts analytically distinct. Interests are primarily derived from domestic political considerations, and hence the political actions of domestic actors pursuing economic interests. Power, on the other hand, is a determinant of bargaining outcomes when interests conflict, or a *means* to a given end. Alternatively, Krasner finds interests embedded in and derived from power. As a result, he is more firmly placed within the tradition of classical Realism. Yet, Krasner’s derivation of interests is, as I attempt to demonstrate below, open to question. In sum, Hart follows his “sophisticated” contemporaries down the wrong road. Krasner sets off on the right track, but errs. I suggest an alternative formulation of the link between power and interests in section V.

⁵ Several different variants of these assumptions exist in the literature; all revolve around the same central themes. See the essays by Keohane (pp. 158–203) and Gilpin (pp. 301–321) in Keohane (1986); and Vasquez (1983).

Second, by misidentifying the source of the Third World's prevailing international weakness, and the interests which follow from it, both Hart and Krasner overemphasize the historical uniqueness of the present North-South conflict as manifested in the NIEO. I argue below that the NIEO is part of a larger class of mercantilist strategies employed by various countries at particular moments in history to redress politically important economic imbalances. What is unique about the present conflict and the NIEO is its multilateral nature.

I. The Scope and Nature of the NIEO

The NIEO is an effective tool for grasping the underlying nature of the North-South conflict and its principal dynamics. Both Hart and Krasner make effective use of this instrument. The Declaration and Programme of Action on the Establishment of a New International Economic Order was adopted in May 1974 by a special session of the United Nations General Assembly. The two documents contained a broad range of proposals and recommendations. In addition to reaffirming the principle of sovereign equality and demanding a greater decisionmaking role for Third World countries in international institutions, the Declaration and Action Programme contained the following specific proposals:

1. expansion of foreign aid transfers to 0.7 percent of Gross National Product in the developed countries as originally set forth in the second United Nations Development Decade, greater flows of emergency funds for food aid, disaster relief, etc., the forging of a link between the creation of Special Drawing Rights and development aid, and long-term credits, financial assistance, and International Monetary Fund (IMF) drawings on concessional terms;
2. renegotiation (i.e., reduction) of Third World debt;
3. recognition of the right of expropriation of foreign direct investment and the implied setting of just and adequate compensation by host governments;
4. greater control over Multinational Corporations (MNCs), particularly as regards profit repatriation and reinvestment;
5. greater access to Northern technology and the transfer of appropriate technology on more favorable terms;
6. creation of a Generalized System of Preferences (GSP) for Third World products and the reduction of Northern trade barriers on a nonreciprocal basis; and
7. Northern sanctioning of and support for international commodity agreements.

Three commonalities emerge from even a brief survey of the NIEO. First, the various proposals, as Krasner observes, are united by the principle of authoritative allocation of values, or greater governmental intervention in international markets. Yet, despite its demands and while posing a fundamental challenge to the liberal or market-based international economic regimes created during and after World War II, the NIEO is not a revolutionary program. Although it is an assault on global liberalism, the NIEO rejects neither capitalism nor integration into the global capitalist system. Akin to "social Keynesianism" or the social market economies advocated by the moderate European left, the NIEO would in fact sustain capitalism and the global market economy while modifying it so that the weakest members of the international system reap a larger share of the rewards.

Second, the majority of NIEO demands focus directly or indirectly on expanding capital transfers to the Third World and reducing foreign control and rents on capital

already present. This central theme is often overlooked and is important to the argument developed in section V below.

Third, the NIEO demands are inherently multilateral in nature. They all require substantial political concessions by the developed countries. Expanded foreign aid contributions and reduced Northern trade barriers, for example, require economically and politically costly action by the developed countries. Barring altruistic motivations, these concessions can only be obtained through collective Third World pressure on the North. Other NIEO demands approximate a contractual obligation among Third World countries necessary for overcoming the large- n collective action problems they face in attempting to regulate the international economy.⁶ This includes, for instance, the demand for greater control over MNCs. In the absence of multilateral agreement and control, each individual Third World country could attract substantial investment by offering only slightly less odious terms than others. In order for the behavior of MNCs to be altered, there must be either an explicit multilateral agreement among developing countries with some enforcement mechanism or a strongly and widely held norm. The same collective action problem confronts attempts to create and maintain commodity cartels. Conversely, many policies, such as Southern trade barriers, which can be unilaterally adopted by Third World countries have not become part of the NIEO.

II. Power, Interests, Cognition, and the NIEO

Jeffrey Hart begins *The New International Economic Order* with four questions (pp. xvii–xviii). Why did the NIEO become so important between 1974 and 1977? What impeded agreement between the developed and developing countries? Why were the developing countries relatively unified while their developed counterparts appeared polarized over several issues? And what do the NIEO negotiations tell us about the prospects for establishing an international economic system responsive to the basic human needs of impoverished people? These questions indicate the wide range of concerns addressed in this short, terse book.

Hart examines the first two questions early on. Not content with the simplistic view that attributes the resurgent North–South conflict to the success of OPEC, Hart argues that the NIEO emerged as a central issue in the mid-1970s because of the underlying structure of inequality and an increase in “turbulence” within the international economy. The latter concept is defined as an increase in (1) the number of effective actors; (2) the level of uncertainty about the nature of both domestic and international tradeoffs faced by states; and (3) the complexity and interdependence of the global economic system (p. 3). The lack of significant progress on the NIEO, on the other hand, “was more a matter of real and abiding differences over economic and political questions than of faulty organization of the talks themselves” (p. 31).

The prospects for an international economy which meets basic human needs is addressed only in the conclusion. In the short run, Hart declares, the issues and conflict which divide North and South are likely to persist. In the longer run, however, competition with the Soviet Union, the search for prosperous export markets, and values “will impell the industrial countries toward a more direct confrontation of the

⁶ Large- n collective action problems were central to Olson (1965). For several recent treatments in international relations, see Snidal (1985), Axelrod (1985), and Oye (1986).

issues raised by global poverty” (p. 154). Despite the absence of progress, then, Hart remains sanguine.

It is the third question, explaining the differences within the developed and developing country blocs, which occupies Hart’s attention and the majority of the book. The central theoretical structure revolves around three explanations of international regime change and foreign economic policy in individual countries: international power, defined as issue-specific capabilities; interests, “largely rooted in the Marxist tradition” and focused principally but not exclusively on the economic interests of domestic political actors; and cognition, defined “as the processing of information that occurs during and after the more basic mental process of perception” (p. 81) and indicated by changes in government or in the views of specific individuals within government (p. 85). While Hart recognizes that there “is no particular reason why these . . . approaches should be considered incompatible with one another” (p. 75), he self-consciously treats them as distinct and competing explanations—searching for cases where interest and cognition account for outcomes independently from either power or one another (p. 84).

The test of these three explanatory variables and the substantive discussion of the NIEO occurs at two levels. First, Hart surveys the major issues raised in the NIEO and the extent of progress on these issues between 1974 and 1977 (chapter two). He then, rather oddly given the above, tests only power as an explanation of regime change, finding that increased Third World power and favorable regime change coincide in only the monetary and foreign investment regimes. In the area of commodity trade, the regime changed but power capabilities did not. Just as importantly, the power of the Third World increased but the regimes remained stable in the areas of foreign aid and debt relief, although Hart concedes that here capabilities increased “only in the sense that . . . weakness became strength because of the economic or strategic interests the developed countries had in preventing the collapse of certain Third World economies” (p. 74). In light of these anomalies, Hart concludes that international power resources provide only a limited explanation of regime change.

Second, Hart examines the foreign economic policies toward the NIEO of a “representative sample” of 14 Latin American countries⁷ (chapter four) and 19 members of the Organization for Economic Cooperation and Development (OECD) (chapters five and six). In the Latin American sample, three clusters of countries emerge: (1) Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay, who accord relatively low priority to issues of purchasing power and higher priority to increased access to markets in developed countries and debt relief; (2) Ecuador, El Salvador, Guatemala, Honduras, Peru, and Venezuela, who attach lower salience to issues of access and debt relief and higher salience to stabilizing and increasing purchasing power; and (3) Jamaica and Panama, who for reasons never fully explained place greater stress on international monetary reform (p. 96).

Both power, as indicated by economic size,⁸ and interests, derived from the level of industrialization and nature of commodity exports, account for the difference between the first and second clusters according to Hart. Unfortunately, the measures of power and interests used here correlate rather highly and the findings are overdetermined. Despite Hart’s intentions, no definitive results can be drawn on the relative importance

⁷ The criteria by which this sample was chosen or why it is representative are never discussed.

⁸ Hart never defines economic size in his discussion of Third World countries. I infer from his discussion of the OECD countries that he is using domestic market size as his definition and GDP as his indicator.

of either factor. Hart concludes that “within Latin America, at least, power . . . and changes in domestic interest probably operate in tandem to produce changes in foreign policies toward international economic regimes” (p. 98). Finally, Hart also finds that the ideology of governing elites (cognition) accounts for the varying diplomatic activism of the sample countries: the more leftist the government, the more time and expertise they devote to the NIEO.

Among the developed or OECD countries, Hart reveals an important split between the Netherlands, Norway, and Sweden—who supported a number of specific NIEO proposals—and the Federal Republic of Germany, Japan, Great Britain, and the United States who opposed the program. In the most rigorous analysis of the book, he concludes that economic size (GDP) and wealth (GDP per capita) are negatively related to support for the NIEO, although the results are not strong and considerable variation exists around these tendencies as evidenced by the relatively rich but small European countries. Small countries, Hart suggests, are both more flexible, and therefore better able to adapt to whatever disruptions the NIEO might create, and better placed to win support within the Third World by free riding on the predictable opposition of the larger countries. As in the sample of Latin American countries, power and interests are closely interrelated (p. 112). Again, it is impossible to draw any clear conclusions on the relative explanatory power of these two competing concepts. Finally, through an examination of the Federal Republic of Germany, the Netherlands, France, and the United States, Hart argues that some of the remaining variation within the OECD countries can be accounted for by changes in government (his proxy for cognition) and domestic political and social structures.

Hart’s investigation of the policy differences toward the NIEO within both the developed and developing country blocs is the most original and important research of the book. On the other hand, the analysis fails to yield any clear analytic conclusions on the relative importance of power and interests as competing explanations of foreign economic policy. By treating these concepts as distinct and independent variables, Hart imposes narrow limits on the explanatory power of each. Power becomes merely an explanation for bargaining outcomes between countries *given* interests, playing no apparent role in the formulation of interests (with one exception, see below). Yet, the most striking, and perhaps unintended, conclusion of this book is the extent to which power and interests are intertwined.

Hart is clearly aware of this problem. Despite his intention of testing them as competing explanations of the NIEO, he occasionally equivocates on the degree of independence possessed by the two variables. And in his discussion of the pro-NIEO stance of the small OECD countries, Hart takes a step toward deriving interests from power: small countries can free ride. Yet, he makes this link only tentatively and does not develop the full implications of this insight for the volume as a whole.

Power and interests, it appears then, are interrelated. The problem for Realist political economy lies in specifying the relationship between these two concepts, a problem which Hart, and neorealists more generally, do not directly confront. As a result, his analysis and results are often ambiguous. Realism promises more.

III. Political Weakness and the NIEO

Where Hart paints with a fine brush, detailing progress on the various issues which comprise the NIEO and differences within the OECD and Third World, Krasner uses a broad brush and bolder strokes. Often at the expense of subtlety, he concentrates on the

underlying principles of the NIEO and treats North and South as undifferentiated and unified wholes. Nonetheless, Krasner's "impressionism" ultimately yields a more telling portrait of the NIEO than Hart's "pre-Raphaelitism."

Unlike Hart, Krasner is explicitly concerned with developing a Realist political economy of North-South relations. He contrasts this perspective sharply with economic approaches—among whom he classifies basic human needs, conventional liberal, and interdependence arguments—which "trace Third World demands [for an NIEO] to economic failure" (p. 110). The NIEO, according to Krasner, poses two anomalies for such approaches. First, if political demands are related to economic performance, why did the call for an NIEO emerge only after decades of relative prosperity and increases in real standards of living in the Third World? Second, why did "the Third World . . . not react negatively to OPEC, even though oil price increases led to higher trade deficits for almost all LDCs and greater debt ratios for high- and middle-income developing countries?" (p. 110)?

Rather than seeking to maximize only economic wealth, Krasner assumes that Third World countries—like all states—are concerned with political vulnerability and threat. As a result, they desire power and control as well as wealth. What distinguishes developing countries from others, however, is that their national political regimes are "profoundly weak both internationally and domestically" (p. 3). Krasner argues that developing countries are both relatively small (as measured by GNP) and by necessity involved in the international economy. They are, in other words, externally constrained. Developing countries cannot alter the external environment they face and only the very largest can possibly exit or withdraw from the international economy (pp. 32–38). Unlike the small European countries discussed by Hart and by Katzenstein (1985), who turn their international weakness into strength by rapidly adapting to the vicissitudes of the international economy, developing countries are also domestically weak. Where "highly mobile, flexible, and diverse factors" (p. 39) of production are necessary for successful adaptation, Third World countries are characterized by social rigidity (pp. 39–40), and as weak states lacking the ability to extract resources from their societies (p. 41) and relying more heavily on indirect trade taxes than industrialized countries (p. 46).

Given their desire for power and control and their structural weaknesses, one strategy open to Third World countries, Krasner argues, is to challenge market-oriented international regimes and to adopt new or support existing regimes which authoritatively allocate values between countries. Authoritative international regimes are attractive for developing countries "because they can provide more stable and predictable transaction flows . . . [and] may also provide a level of resource transfer . . . [they] could not secure through market-oriented exchange" (p. 5). Thus, Third World demands for an NIEO are interpreted by Krasner as an attempt to replace liberal or market-oriented international regimes with an authoritative alternative more attractive to internationally and domestically weak countries.

The variegated success of the Third World in challenging global liberalism, Krasner further argues, is a result of three factors: (1) the nature of existing international institutions; (2) the ability of developing countries to formulate a coherent set of ideas; and (3) the power and attitude of the North, particularly the United States. As a hegemonic leader, the United States created a series of international organizations embodying its interests and veiling its domination. As its power began to wane after 1960, the United States could no longer control the institutions it had spawned. Yet, its commitment to these organizations remained strong. Not until the late 1970s, after over a decade of

mounting frustration with its international offspring, did the United States begin to withdraw support. "The early 1970s were thus a particularly propitious moment for the Third World," Krasner writes, "because the North, especially the United States, continued to support universal international organizations but had lost the ability to control their agendas or programs" (p. 60).

With the growing popularity of dependency theory during the 1960s, particularly among Latin American scholars and politicians, Third World countries obtained for the first time a coherent worldview combining analysis and praxis which both identified the origin of their relative poverty and unified the diverse interests of the group. Consequently, Krasner argues, "[t]he South's ability to present an effective analysis of the global economy enhanced the unity of the developing countries, weakened the capacity of the North to defend the liberal order, and facilitated the formulation of specific policy proposals" (p. 81). When this newfound theoretical coherence blossomed in the early 1970s, it reinforced changes already underway as a result of America's declining hegemony.

While declining American power and an emerging worldview explain the underlying dynamics of the NIEO, the nature of existing international institutions is the most proximate and perhaps important determinant of success. "The most important general institutional structure for the Third World," Krasner writes, "has been the acceptance of the claim that all sovereign states are equal" (p. 59). With the universal acceptance of this claim, the international power of otherwise weak developing countries has been greatly magnified. Within the general principle of sovereign equality, however, specific institutions differ in the degree of access accorded to developing countries. The United Nations General Assembly, with its one country—one vote rule, has been the most common type of international institution in the postwar era according to Krasner (p. 79). In such cases, the Third World has been able to present its demands effectively, argue its case, and often meet with some measure of substantive success. Perhaps the best example is the United Nations Law of the Sea conferences, which Krasner examines as one of six cases in Part II of the book, where the Third World triumphed over the North in the final treaty, ultimately forcing the United States to exit from the agreement (and thereby weaken the nascent regime). Not all institutions, on the other hand, grant similar access. The IMF, World Bank and other international financial institutions have weighted voting systems which favor the developed countries. The Antarctica regime is based on a treaty which limits membership to countries with either a permanent station or extensive research activities on the continent. In these and other similar regimes, the Third World has experienced considerable difficulty placing its demands on the negotiating table and almost no success in achieving significant changes in international regimes.

Krasner advances an important and consistent Realist analysis of North–South relations. And to this reader, at least, the argument of the book is reasonably persuasive. More importantly, Krasner surmounts the shortcomings of Hart's volume discussed above in one jump of analytic insight: *both the interests of individual countries and the deep political divide between developed and developing nation-states are derived from differences in power.* Nonetheless, there are two shortcomings in *Structural Conflict* which detract from the book: one minor issue brought into relief through comparison with Hart and a second of greater importance.

First, by emphasizing the role of international institutions as an intervening variable between power and outcomes, Krasner adopts what he has defined elsewhere as "modified structural Realism" (see Krasner, 1983). From the perspective of classical

Realism, this focus on access to international institutions creates what Imre Lakatos (1970) terms a “degenerative research programme,” an unfortunate state of affairs where an ad hoc hypothesis not drawn from the logic of the theory is required to account for a perceived anomaly. Such maneuvers should be used only as a theorist’s last resort. Unlike Hart, Krasner does not rigorously develop the concept of power as an explanation of bargaining outcomes. Although the issues they examine are not identical, given the partial support found by Hart for issue-specific power capabilities as an explanation of Third World success on the NIEO, similar findings could be expected in Krasner’s cases. Moreover, in this context access to international institutions could be reconceptualized as one form of bargaining power. If successful, an analysis which conceived of power as both a source of interests and a determinant of bargaining outcomes might be equally persuasive, and more parsimonious.

Second, and most importantly, the relationship between Third World power and interests is not as clear and straightforward as Krasner seeks to depict it. On the one hand, Third World countries are not as homogeneous or domestically weak as Krasner asserts. As the Newly Industrializing Countries (NICs) demonstrate, and as Krasner acknowledges (p. 42, fn. 19), at least some developing countries are aggressively flexible. Conceptually, Krasner identifies adaptability with the “democratic corporatism” of the small European countries (see Katzenstein, 1985) characterized by a relatively strong state presence orchestrating the necessary societal consensus (pp. 44–45). The NICs may constitute an equally adaptable form of “state corporatism.” In addition, at least one other path to adjustment exists for Third World countries. “Weak” states unable to extract significant resources from their societies may nonetheless be able to achieve adjustment by directly imposing international market forces on their economies. Where the stronger French state responded to the oil shocks of the 1970s by deepening its involvement in the international market, the weaker American state eventually decontrolled oil (i.e., withdrew from or reimposed the market), allowing higher prices to pass through to the consumer (Ikenberry, 1986). While such a strategy will most likely work better in some issue areas than others, there is no a priori reason why Third World states cannot engage in market-led adjustment as easily as their developed counterparts. Indeed, that developing countries have no option but to allow international market forces to pass through into their domestic economies is a central tenet of dependency theory. Third World states may actually be more effective at market-led adjustment than the weak states of the North as societal resistance, to the extent that it occurs, can often be more effectively met by governmental coercion. The variation across Third World countries on this score, however, is likely to be great. Third World countries are not all alike. Their sources of domestic strength and weakness need to be considered more contextually if this line of argument is to be sustained.

On the other hand, small countries may not be as internationally weak as Krasner asserts either. If small countries cannot control their environment, they do possess offsetting options to free ride on international regimes not available to larger countries. Because they account for relatively small shares of world trade, Third World countries have been able to take advantage of steadily lower tariff levels in the North while offering few reciprocating concessions in the GATT.⁹ Likewise, Third World countries

⁹ Interestingly for this argument, where Third World countries have constituted a relatively large share of the world market, such as in textiles, the developed countries have been less willing to tolerate free riding. See Aggarwal (1985).

have been able to devalue their currencies, often fixed to the currency of their largest industrialized trading partner, without the fear of retaliation that confronts larger countries. In short, the ability to free ride may actually enlarge the options available to the Third World. Smallness, in other words, constitutes another form of power—albeit one difficult to measure.

None of this is meant to imply that Third World countries are as strong or flexible as developed countries. It does suggest, however, that the link between smallness, social rigidity, and weak states, on the one hand, and the demands of the NIEO, on the other, is more tenuous than Krasner acknowledges.

IV. Power, Interests, and Progress

As Hart demonstrates, power and interests are linked or interrelated. In practice, their very real effects are difficult to untangle. Yet, by treating power and interests as analytically distinct forces, Hart and his neorealist contemporaries effectively limit the explanatory power of power. Rather than placing it at the center of analysis, as in classical Realism, power becomes a residual explanation important only when given interests cannot account for the observed outcome.

Depicted in this stark and admittedly simplified form, the difference between neorealist and economistic explanations of international politics, and specifically of North–South relations, is substantially reduced. Sophisticated writers from within the dependency or world systems perspective, such as Cardoso and Faletto (1979) or Wallerstein (1979), begin with economically derived interests but do not completely ignore power considerations—although they do assume that power differentials largely derive from economic processes. The real difference between neorealism and economism, then, reduces to the degree of divergence between power and its economic base and, more importantly, the content of the assumed interests. In Hart's analysis of the role of power in regime change (pp. 62–74), in which the North–South cleavage is assumed or taken as given, the difference is rather small.

If Realism is to form a true alternative to economistic approaches to international relations, the analytic distinction between power and interests must be dismantled and interests must be derived from the concept of power. Classical Realists, who adopt this mode of analysis, theorize about the relationship between interests and power in three ways. First, some Realists derive interests inductively from the behavior of nation-states. Perhaps the best example of this approach is Krasner's earlier book, *Defending the National Interest* (1978), in which he argues that American state leaders possessed a clear and transitive set of preferences in the raw materials issue area which did not vary with the transient individuals who held office and was not reducible to the interests of any group(s) in society. This approach is typically problematic, however. To be accurate, the inductive method must be nearly comprehensive in its examination of cases. Comprehensively derived inductive “national interests,” on the other hand, cannot then be used to explain past policy choices, except by tautology. To his credit, Krasner avoids this trap, but it clearly places limits on the approach's utility.

Second, and as briefly discussed above, Realists assume that nation-states seek to maximize power as a result of the anarchic and self-help based international system and posit that one and only one power-maximizing course of action exists (see, for example, Morgenthau, 1978). The problem of course, which has been discussed too often to bear repeating in detail here, lies in the ambiguity of the key concepts of power maximization and national interest which allows virtually any policy seemingly to confirm the theory.

Third, Realists derive interests of specific countries (or groups of countries) from the often issue-specific power differentials between them. The difference between the second and third approaches may appear slight at first, but it is nonetheless important. Where Morgenthau and others focused on national power and posited the existence of a national interest, this approach utilizes more disaggregated conceptions of power and allows for several possibly conflicting issue-specific interests.¹⁰ This is the direction taken by Krasner in *Structural Conflict*. It is also found in Robert Gilpin's *U.S. Power and the Multinational Corporation* (1975). This third approach is, I believe, the most promising for understanding the relationship between interests and power. By focusing on the distribution of power within the international system, it can potentially explain a greater range of international behaviors through increasingly sophisticated understandings of how differences in power vary across issue areas and affect individual countries. Its propositions are likely to be less "grand" and more proximate and contextual. Finally, its "mid-level" propositions are likely to be easier to test given the greater number of cases available at the level of individual countries and specific issue areas.

Krasner's *Structural Conflict* embodies the strengths of this third approach to understanding the relationship between power and interests and can usefully serve as a guide for future theorizing. As I argued above, however, Krasner's derivation of Third World interests from power is suspect. I would like to suggest in the following section an alternative and, it should be emphasized, highly tentative framework for understanding the relationship between power and the NIEO.

V. The Newest Mercantilism

In theorizing about the North—North political economy, Realists have profitably drawn upon earlier "mercantilist" writers, who were fundamentally concerned with how the power positions of subordinate countries could be improved relative to dominant powers by manipulating international markets.¹¹ From this perspective, the goal possessed by Great Britain in its challenge to the Netherlands in the 17th century and by the United States and Germany in their challenge to Britain in the 19th century is not substantially different from that held by the Third World in its struggle with the developed countries today. Each challenger was relatively weak and sought to overcome this weakness by intervening in the international economy and turning its forces to the country's own advantage.

In this analysis, as in all Realist studies, states—not individuals or domestic groups—are the unit of analysis. It is also assumed, given the above discussion, that states are motivated by issue-specific considerations of national power. The current North—South conflict, as well as earlier mercantilist struggles, are primarily economic in nature. State goals, then, should be identified with the pursuit of economic power. Accordingly, and in no particular order, states should seek to diversify their economies and lessen their dependence on others, thereby reducing their vulnerability to economic coercion,¹² and obtain a larger share of the gains produced by economic exchange—or what might also be termed the relative gains from trade.

In the pursuit of economic power, countries may seek to manipulate the international

¹⁰ On the problem of conflicting issue-specific interests, see Mastanduno (forthcoming).

¹¹ The classic statement is by Friedrich List (1977).

¹² Power and the exchange process are best discussed by Blau (1969: particularly 124). See also Baldwin (1985).

economy in numerous ways, although most of the relevant possibilities can be considered as variants of two ideal-type strategies: free trade in goods and transfers of factors of production, assumed here to be limited to capital and labor.¹³ In their effects on global and national welfare, these two strategies are near-perfect substitutes (Mundell, 1957). Even the extreme theoretical result of factor price equalization derived from the Heckscher–Ohlin theory of international trade, indicating the perfect integration of all national markets and the exhaustion of the potential gains from trade, can be shown to follow from transfers of factors. Yet, despite their similar welfare effects, goods trade and factor transfers differ substantially in their economic power implications.

As the pure theory of international trade demonstrates, albeit under fairly restrictive assumptions (see Robinson, 1978: 213–222), all countries can increase global and national welfare by adopting free trade and specializing in the production of those goods in which they possess a comparative advantage. Assuming only two factors of production, this strategy bifurcates the international economy. Even though the goods produced by countries change over time with consumer tastes and technology, labor-abundant countries will always specialize in relatively labor-intensive commodities and capital-abundant countries will specialize in capital-intensive goods.¹⁴ Each country will trade with all others until all potentially profitable trades are exhausted; even at this point, however, countries will still differ in their factor endowments (but not factor returns) and specialize in their respective areas of comparative advantage.

While all countries enhance their welfare through specialization and trade, economic power differentials between labor- and capital-abundant states are exacerbated. First, countries increase their dependence upon one another and, rather than diversifying their economies, become in fact more specialized. Second, labor-intensive products are typically agricultural and primary commodities or manufactured goods in the last stages of their product cycles. They generally produce little value added, utilize existing technology, and—perhaps most importantly—create relatively few positive externalities or beneficial spinoffs for the country. Capital-intensive goods, on the other hand, are usually high value added manufactured goods early in their product cycles. Through learning or by stimulating technological innovation, such goods often produce significant positive externalities. The founding of the first steel mill eases the way for a second. The construction of a railway or road to transport products from one firm

¹³ It would be appropriate to substitute land for either capital or labor in the following discussion or include it as a third factor of production. The latter route would divide countries into three basic categories: labor-, land-, and capital-abundant states. The argument is developed in the traditional 2×2 model for simplicity. In addition, land is less easily transferred than either labor or capital; a point which would make the argument below unnecessarily confusing. One might, however, want to conceive of land as the principal factor being transferred in imperialism or war. In adopting the 2×2 model, the analysis is driven toward treating the North and South as relatively homogeneous blocs, a point I criticize Krasner for above. A more refined analysis would classify countries by their degree of factor abundance or disaggregate capital, labor, and land into more specific factors of production.

It is important to recognize that factor endowments are historically determined social artifacts. In the long run, they are the result of social and political choices and events. In the short run, however, factor endowments are largely fixed. Thus, to explain the policy choices available to an economic power-seeking state at any moment in time, factor endowments can be considered as “given.” One should not make the mistake, however, of confusing the static nature of the short run and the fluid nature of the long.

¹⁴ This finding of the Heckscher–Ohlin theory of international trade is relatively robust; even if the traditional assumption of constant returns to scale is relaxed, as is done below, the pattern of trade will still be determined by factor endowments. See Helpman and Krugman (1985).

creates access for others as well. Likewise, the training of a semi-skilled or skilled labor-force benefits all potential entrepreneurs in the region. While debate continues on the magnitude of these and other external economies, capital-intensive manufacture appears to create greater beneficial side effects for a country than labor-intensive production. As a result, while any discrete exchange between labor- and capital-abundant countries is nominally "equal," countries which specialize in capital-intensive production reap *over time* a disproportionate share of the gains from trade. As capital-intensive production expands greater externalities are created which, in turn, stimulate another expansion of production, and so on. Capital-abundant countries, in other words, enjoy a virtuous cycle of higher relative growth. Conversely, countries which specialize in labor-intensive production acquire fewer positive externalities and long-term benefits, thereby reducing their relative gains from trade (Lake, forthcoming).

Alternatively, factors of production can be transferred between countries. This can occur through unrequited transfers where capital or labor is conveyed from one country to another with no direct payment by the recipient; plunder or genuine foreign aid are two noteworthy examples. Factor transfers can also be stimulated indirectly, through the market, by manipulating rates of return. Consider the simpler case of unrequited transfers first. According to the Rybczynski theorem (1955), transfers of factors will affect the pattern of production within a country: to use an empirical illustration, an increase in a country's capital stock expands production of the capital-intensive good and contracts production of the labor-intensive good. The converse holds for increases in labor. Labor-abundant countries wishing to diversify their economies and reap a larger share of the relative gains from trade should, therefore, seek to transfer capital to themselves directly. This expands the production of the capital-intensive good at home, diversifying the economy and increasing the positive externalities enjoyed by the country, while reducing production of the capital-intensive good in the more capital-abundant country. Unrequited transfers of capital to the labor-abundant country, moreover, reduce incentives to trade and lessen the dependence of the state on others. In sum, by transferring capital to the labor-abundant country, economic power differentials are reduced or, at the extreme, shifted in its favor.

A country can also stimulate inflows of factors by manipulating rates of return to either capital or labor. Several avenues are open. A deflationary monetary policy will raise interest rates and attract foreign capital. Subsidized immigration will expand the labor supply. For labor-abundant economies, import protection is also a common tool for increasing capital inflows. Assume that trade in goods is relatively open and that factor prices are tending toward international equality. Under these circumstances, increased import protection in a labor-abundant economy will, according to the Stolper-Samuelson theorem (1941), increase real returns to capital (the scarce factor used intensively in the imported good) and decrease those to labor (the abundant factor used intensively in the exported good). With the reduction in trade, labor will begin to emigrate and capital will flow into the country. As with unrequited transfers of factors, domestic production will shift to the capital-intensive industry.

A market-led transfer of capital, however, may create fewer economic benefits than unrequited capital transfers or trade in goods. First, market interventions may introduce inefficiencies and social deadweight losses into the national economy. Second, ownership of capital is typically not transferred to nationals of the recipient country under a market strategy. Foreign interest payments and profit repatriation, as a result, form a drain on the national economy not present in unrequited transfers. Yet, this

burden may not be as onerous as it appears. The terms of market-led capital transfers are a subject of continual renegotiation (Moran, 1974). Because the returns on capital are usually earned only after the transfer has occurred, the recipient can often shift the initial agreement to its advantage. Foreign bonds or loans can be defaulted upon—as occurred more often in the 19th century and the Great Depression of the 1930s than is often recognized. A loan and its interest can be written down, as has frequently occurred in the early 1980s. Foreign direct investments can be nationalized. While interest and profit repatriation may still occur, the initial magnitude of the financial drain can be reduced. In addition, if the greater capital-intensive production generated by the capital inflow creates sufficient external economies, the social deadweight losses and the drain formed by foreign rents may be offset or fully compensated.

Thus, market-led transfers of capital to a labor-abundant country will also diversify the national economy and increase its relative gains from trade, although their effects may be less pronounced than those of unrequited transfers because of social deadweight losses, interest payments, and profit repatriation. And because foreign nationals retain control over the capital, the economic dependence of the labor-abundant country may not be lessened. Yet, the net effect will still be to reduce economic power disparities between capital and labor-abundant countries.

For labor-abundant countries, the choice between relying on trade in goods and factor transfers is determined by national goals. If such states are concerned only with their economic utility, they should be indifferent between free trade in goods and transfers of capital. If labor-abundant countries are pursuing economic power, on the other hand, they should seek both unrequited and market-led transfers of factors, even though the latter may reduce their economic welfare compared to free-trade levels through the introduction of social deadweight losses.

Historically, economic challengers have seldom pursued free trade policies. Rather, they have typically engaged in both forms of capital transfers. As Frederic Lane (1979) has noted, plunder, piracy, and reparations, several of the more obvious forms of unrequited transfers, were all well established instruments of economic statecraft at one time. And during their rise to power, Great Britain, the United States, Germany, and others all protected their domestic economies and enjoyed considerable market-led inflows of foreign capital from the dominant power. In the process, the challengers increased their capital stock, diversified their production, and increased their share of the relative gains from trade.

These patterns are repeated in the present international political economy in only a slightly different guise. Many Third World countries today pursue similarly protectionist measures in their unilateral foreign economic policies (Balassa, 1971; Conybeare, 1983) and attract considerable sums of foreign capital (Frieden, 1981). The NIEO, a form of negotiated plunder or reparations, reflects a direct and multilateral strategy designed to transfer capital to Third World countries and increase their economic power. The NIEO attempts to mandate unrequited capital transfers through increased foreign and development aid, the expropriation of foreign investment, and reduction of Third World debt. In framing other demands, such as those concerning improved control over MNCs (especially to make sure they bring more capital into the country than they take out) the Third World also seeks to reduce the rents which might otherwise be withdrawn from their economies. The demands for favorable access to Northern technology can also be interpreted as an attempt to improve the efficiency of existing capital. Several demands within the NIEO fit this interpretation less well: the GSP and commodity cartels, for instance, seek to increase the benefits of goods trade

and will have little impact on factor transfers. Not coincidentally, the North has been more forthcoming on these issues than on many others. Nonetheless, the tentative framework proposed here suggests that the NIEO can be understood as part of a larger mercantilist strategy designed to increase the Third World's economic power.

In this view, the uniqueness of the NIEO lies not in its goals, but primarily in its multilateral nature. As noted above, those issues included within the NIEO and politicized in the North–South debate either require substantial negotiated concessions by the North or are designed to overcome the large-*n* collective action problems confronting the South. The NIEO seeks, in other words, to mobilize the collective power of the weak. This last point is central to an explanation of the multilateral character of the NIEO. In the post-1945 era, the international system has experienced a proliferation of small, relatively labor-abundant, sovereign states, few of which possess the unilateral capability to extract unrequited transfers of capital. The one exception to this rule may be foreign aid, which in turn is largely funneled to Third World states of special, “strategic” importance to one of the two superpowers. Unable to rely on unilateral strategies of unrequited capital transfers, Third World countries have sought to band together to overcome their individual weakness. The uniqueness of the NIEO, however, should not blind us to its commonality with other, earlier mercantilist strategies.

Thus, Third World countries appear to support the NIEO not because they are small, socially rigid, and saddled with weak states, but because their desires for economic power combined with their abundant labor necessitate increased capital inflows. Through the authoritative allocation of values, and more specifically capital transfers, Third World countries seek to diversify their economies, lessen their economic dependence, increase their relative gains from trade, and in sum, expand their economic power.

For converse reasons, the opposition of the advanced industrialized countries is predictable. To the extent that the economic power of the South is strengthened, the North's is weakened. As a struggle for power, the North–South conflict is indeed structural, endemic to the international system, and likely to endure. As Krasner concludes, “The kinds of demands embodied in the call for a New International Economic Order will not disappear, because the structural conditions that prompted them are enduring characteristics of the international system” (pp. 294–295).

Conclusion

This review has used the recent books by Jeffrey Hart and Stephen Krasner as a “staging area” for two larger arguments. The first concerns the question of how to study power and the relationship between power and interests in international relations. Both Hart and Krasner wisely avoid deriving a single national interest from a highly aggregated conception of national power. Along with the growing school of neorealists, Hart largely assumes interests and treats power as an explanation of bargaining outcomes. Krasner attempts to derive interests from a more issue-specific or less aggregated conception of power. This last approach, I argue, promises to be the most theoretically fruitful avenue for understanding the nature of power and its relationship to the behavior of states.

Second, I have argued that the NIEO is part of a larger class of mercantilist strategies designed to transfer capital to relatively labor-abundant countries and thereby increase their economic power. Seen in this light, the NIEO is part of a long historical tradition

in which subordinate countries seek to manipulate the international economy for national political ends. The uniqueness of the NIEO, then, lies in its multilateral nature, which I suggest follows from the proliferation of small and relatively weak states in the post-1945 period.

It is too early, I believe, to judge Realism's potential as an explanation of North-South political economy. Hart and Krasner take only the first, but nonetheless important, steps. Realist political economy needs further theoretical and empirical refinement. The arguments developed in this review are suggestive, I hope, of the directions this research needs to take.

Ultimately, the true worth of a theory can only be assessed relative to its rivals. The prevailing economic orthodoxy on North-South relations of dependency and world systems theory may, in the end, provide the superior explanation. Or, a third alternative may emerge which appears superior to both dependency and Realist theories. The outcome is unknown. Yet, the discipline of international relations may be fortunate in lacking a dominant paradigm of scholarly inquiry. Theoretical competition, in this case, may prove to be a boon to innovation. It may also generate new insights into how the very real problems of poverty in the Third World can be solved.

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