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INTERNATIONAL ECONOMICS AND INTERNATIONAL RELATIONS

A CASE OF MUTUAL NEGLECT

Susan Strange

THE purpose of this article is to put forward a proposition which, if accepted as correct, seems to me to be of rather major importance to the academic study of international relations. It concerns the unequal pace of change in the international political system and in the international economic system, and the effects of this unequal rate of change on the international society, and on the relations of states with one another.

These changes have gone very largely unnoticed. There are two possible reasons why this has been so. Partly, they have crept up on us rather quickly in the last decade or so. And partly, many academics engaged in international relations, politics and history in these years have been absorbed and preoccupied with arguments about theory and methodology which have focused, far too exclusively, in my view, on the political and strategic relations between national governments, to the neglect of all else.

I believe that this neglect is already apparent from the state of the literature on international economic relations, and that it will become even more evident as time passes. There are some questions which are vital to the coherence and relevance of our view of the world to which we—the teachers and writers, that is, of international relations, politics, history, law and organisation—shall soon badly need the answers, but answers which, equally, we cannot safely leave to others to provide. The situation is also responsible, I believe, for a growing and as yet rather ill-defined uneasiness in the universities—or at least, in some of them—about the adequacy of international relations courses and about the gap between international relations and international economics. But it is one thing for a busy academic to be aware of a neglected void, and another to know how best it should be filled. To these practical questions I shall come later.

When I try to put in precise terms my basic proposition, from which the rest follows, I do not find it all that easy. For it is apt to sound as though I am only repeating the banal platitude that we are all closer together economically than we used to be. But what I have in mind is more specific than the increase in economic interdependence and interaction. It is that the pace of development in the international economic system has accelerated, is still accelerating and will probably continue

to accelerate. And that, in consequence, it is out-distancing and out-growing the rather more static and rigid international political system. Many economists and some bankers and the executives of international companies, observing this outgrowing process, are inclined to assume that the political system will have, as it were, to catch up: that it, too, is bound to change its character and become less firmly based than it was (and is) on the unit of the individual state and government. I am not persuaded of this. I can only see that in certain respects it will have to adapt and find adjustment mechanisms and synchronising devices—as it has before. How far these devices will substantially change the nature of the political system and the behaviour of states is, of course, the key question.

THREE KINDS OF CHANGE

There seem to be three main kinds of change which the developing international economy has brought about and which directly affect international relations.

First, there are the direct effects on states of their common involvement in the expanding international economic network. Richard Cooper, subdividing again, finds three different ways in which states are affected.¹ One is by what he calls the 'disturbance' effects—the increase in the disturbance, originating externally in some other part of the international economy, of some important part of the domestic economy—whether it is the level of employment, of prices, of interest rates, or of the country's monetary reserves.

Second, there are the hindrance effects, when the mutual sensitivity of national economies to each other slows down or diminishes the effectiveness of national economic policies—as when a credit squeeze and tight money policy which is intended to dampen domestic demand pulls in foreign funds which will tend (unless sterilised, insulated or counteracted) to frustrate the policy-makers' intentions.

And third, there are competitive or what used to be called 'beggar-my-neighbour' policies, by which states seeking to serve their own national economic interests (as by trying to control overseas investments, or by trying to regulate mergers and takeovers) coincidentally damage the national economic interests of other states, and thus risk creating new sources of international conflict.

Indirectly, all these changes have produced two kinds of response in the behaviour of states which therefore constitute a dynamic element in international politics as well as in economics. One response is co-operative, the other defensive, and I am not foolhardy enough to guess

¹ Richard Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community*. (New York, Toronto, London, Sydney: McGraw-Hill for the Council on Foreign Relations. 1968.)

which is the predominant. The co-operative response produces a steady expansion in international economic co-operation and organisation. 'The central problem,' to quote Cooper again, 'is how to keep the manifold benefits of extensive international economic intercourse free of crippling restrictions while at the same time preserving a maximum degree of freedom for each nation to pursue its legitimate economic objectives.' Let us leave aside the political observation that it is never so easy to get governments to agree on which objectives are 'legitimate' and which are not. The point here is that the expanding and pervading international economy is now the major innovative influence in the field of international organisation. Swaps, Special Drawing Rights, recycling of short-term funds, and a number of other recent devices invented by co-operative official minds, or adapted and restyled by them from the blueprints produced by idealistic reformers, were all in a sense forced upon governments, because there seemed no alternative way for them to continue to co-exist within the same economic system without losing some of its benefits.

The defensive response, however, has also been important. No contemporary analysis of state behaviour in international relations would be complete that did not recognise this and try to account for it. It follows logically that as governments tend to increase their concern with domestic welfare, including economic welfare, they will have to devise and to adopt new defensive weapons to protect this welfare should it be threatened or jeopardised from outside.

This is a big and complex subject. But perhaps one specific example will illustrate what I have in mind. The six governments of the EEC once upon a time proclaimed their intention to extend and increase their monetary co-operation with the ultimate objective of a common currency. But in practice, the pressures of the last ten years upon their respective central banks have led them to do almost the opposite. They have had to devise new weapons which a monetary economist sees as 'a material enrichment in the craft of central banking,'² but which research also makes clear were motivated by the desire to attain domestic economic goals '*even when such policies conflicted with the requirements of international balance*' (my italics). As Katz says, 'Central bankers in our generation have not been prepared to watch passively as international influences disturb the internal economy without regard to domestic priorities'.

The other general effect of these developments of the international economy is one of those differences of degree so great as to be a difference of kind. I do not count as changes in the political system the swapping

² Samuel Katz, *External Surpluses, Capital Flows and Credit Policy in the EEC, 1958-67*. (Princeton, N.J.: International Finance Section, Department of Economics, Princeton University, 1969.)

of roles among the actors in the system, the relative rise or fall of different states or the rearrangement of states in looser or closer groupings, or in new multipolar instead of bipolar patterns, and so forth. But it seems to me that the shape or structure of international society must be materially affected by a pronounced trend towards lopsided development. That is to say, when the economic system so favours the increasing wealth of a minority of developed national economies over the majority of less developed ones that it produces a list to port, so to speak, in the political system, then this can count as a political as well as an economic change. The label 'populist', attached first, I think, by Robert Cox³ to the states on the wrong side of the divide, is in this context an apt one, for it underlines the point that the growing inequality has produced a new basis of political alignment in international society—not strategic, nor religious, nor cultural, nor ideological—the consequence of which for the operation of that system neither we nor the economists can yet foresee.

THE STATE OF THE LITERATURE

My next point is that the study of international relations, in most universities at the present time—and not only in this country, is not keeping up very successfully with the changes I have tried very briefly to outline. Instead of developing as a modern study of international political economy, it is allowing the gulf between international economics and international politics to grow yearly wider and deeper and more unbridgeable than ever. This dichotomy is well reflected in the current state of the literature dealing with this middle ground—or perhaps I should say middle void—between the two, whether you call it the economic aspects of international relations or that large part of international economics that is susceptible and sensitive to political considerations.

From the international relations side of the void has come only a meagre contribution, except in certain specialised fields. Two such fields that come to mind are studies of international economic organisations, where a useful beginning has been made. I do not count in this context the 'company history' type of books written by international organisation-men, but such critical, analytical works, for example, as William Diebold's study of the Schuman Plan or Michael Kaser's of Comecon.⁴ The other is what could loosely be described as area studies—where it is so immediately and evidently impossible, in any serious analysis of international relations between pairs or groups of countries, to divorce

³ Robert Cox, *International Organisation: World Politics*. (London: Macmillan. 1969.)

⁴ William Diebold, Jr., *The Schuman Plan: A Study in Economic Cooperation 1950-1959*. (New York: Praeger for the Council on Foreign Relations; London: Oxford University Press, 1959.) Michael Kaser, *Comecon: Integration Problems of the Planned Economies*, 2nd rev. ed. (London: Oxford University Press for the Royal Institute of International Affairs. 1967.)

the economic and political aspects. I have in mind, for example, such studies as Richard Gardner's *Sterling-Dollar Diplomacy*, recently re-issued, Dennis Austin's study of *Britain and South Africa*, Trevor Reese's recent book on *Australia, New Zealand and the United States*, Arthur Hazelwood's *African Integration and Disintegration*, or Miriam Camps' *European Unification in the Sixties*.⁵

What is noticeably missing from the picture are more general studies of international economic relations—whether of problems or issue areas—treated analytically, with the political analysis predominating over the economic analysis.

These general questions have so far been very much left to the economists. And admirable and distinguished as their work undoubtedly is, it seems to me that when looked at from a critical international relations point of view it has shortcomings that perhaps are unavoidable, given the nature of the discipline. To put it bluntly, the literature contributed to the void by the economists suffers, first from a certain partiality for some aspects and questions over others, and, second, from a certain political naïveté in its conclusions. The partiality is shown particularly to the questions concerning international trade and international payments and to the mechanistic questions which they raise. With trade and payments, part of the fascination is probably explained by the opportunities for mechanistic analysis—roughly, how it works and what happens in the economic mechanism—and the availability of quantifiable data that can be subjected to model calculations.

It also happens that the study of economics is led and dominated by the United States, and that the national interests of the United States, both political and economic, are much concerned with both subjects—not only from a narrow national point of view, but also as what I would call the Top Currency country which by definition has a special concern with the preservation of order and stability in the international economic system. The result of this partiality in the economists' contributions is that what I might call the foreign economic policy analysis side of the subject has been seriously neglected. Gardner Patterson's book on discrimination in international trade and Gerard Curzon's on multilateral commercial diplomacy⁶ are valuable, but they are not enough. They

⁵ Richard M. Gardner, *Sterling-Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade* (1956; rev. ed., 1969); Dennis Austin, *Britain and South Africa* (1966); Trevor Reese, *Australia, New Zealand and the United States: A Survey of International Relations 1914-1968* (1969); Arthur Hazelwood, *African Integration and Disintegration: Case Studies in Economic and Political Union* (1967); Miriam Camps, *European Unification in the Sixties: From the Veto to the Crisis* (1966).

⁶ Gardner Patterson, *Discriminating in International Trade: The Policy Issues 1945-65*. (Princeton, N.J.: Princeton University Press. 1966.) Gerard Curzon, *Multilateral Commercial Diplomacy*. London: Michael Joseph. 1965. New York: Praeger. 1966.)

do not make up for the lack of a substantial literature on the theory of international political economy—not applied or descriptive international economics but a political theory of analysis and explanation. The result is that great gaps are left wide open to be occupied by popular myth and legend.

Why, for example, has there never been a general political study of international loans and debts to match, for later periods, Herbert Feis' *Europe, The World's Banker?* Why is the subject of economic warfare so neglected? Apart from the pre-war Chatham House study on sanctions, and Klaus Knorr's somewhat abortive attempt to get to the bottom of war potential, the only real contribution has been from Professor Medicott, an international historian.⁷ Again, though the political role of the oil companies has come in for some attention by Edith Penrose and others,⁸ the role of other large enterprises in international situations of conflict or association has had short shrift since the happy muck-raking days of the Left Book Club. Significantly, perhaps, some of these gaps left by the university economists have tempted distinguished non-university academics. I am thinking, for example, of two distinguished ex-financial journalists—Andrew Shonfield and Fred Hirsch—both of whom have pioneered new ground.⁹

My other criticism is that the economists' contributions to the study of international economic relations have shown political naïveté. Too often they write on international economic problems as though political factors and attitudes simply did not exist, and could be brushed aside as some kind of curious quirk or aberration of dim-witted politicians. When the economists tell you that it is all just a matter of *will*, of summoning up the necessary will-power, does it not remind you of those who used to say and write so glibly, forty odd years ago, that the League of Nations would be fine and all international problems could be resolved if only the members showed the necessary will to make the system work? Yet only recently, the Pearson Committee¹⁰ came up with the same kind of conclusion about aid and development. The problems are new, but the responses are the same old 'infantile internationalism'—if I may be allowed a perverted Leninism. Even Professor Cooper, whom I quoted earlier, is also inclined to lapse into the tell-tale Conditional Mood and

⁷ W. M. Medicott, *The Economic Blockade* (2 vols.) (London: HMSO and Longmans, Green. 1952 & 1959. History of the Second World War, United Kingdom Civil Series.)

⁸ Edith Penrose, *The International Oil Industry in the Middle East* (1968); Jack Hartshorn, *Oil Companies and Governments* (1967); Christopher Tugendhat, *Oil, the Biggest Business* (1968).

⁹ Andrew Shonfield, *Modern Capitalism*, 2nd rev. ed. (London: Oxford University Press for the Royal Institute of International Affairs. 1969.) Fred Hirsch, *Money International*, rev. ed. (Harmondsworth: Penguin Books. 1969).

¹⁰ *Partners in Development. Report of the Commission on International Development*, Chairman: Lester B. Pearson. (New York, Washington: Praeger; London: Pall Mall. 1969.)

to assume, despite a measure of pessimism, that the economic co-operation required to avoid catastrophe and conflict is no different in kind (*i.e.*, intrudes no more into perceived national interests) from the international co-operation required to control epidemics.¹¹

The bias of economics towards an over-optimistic view of international relations is not, perhaps, so surprising. In the first place, it tends as a discipline to exaggerate the rationality in human behaviour. Economic theory continues to assume it about economic choices, even when descriptive economics has shown how often the rationality is qualified and decisions influenced by non-economic considerations. How much more has international economic history shown that political choices on economic policies have seldom been motivated by carefully reasoned assessments of quantifiable economic costs and benefits, but rather by political aims and fears, and sometimes by totally irrelevant considerations and irrational emotions.

Indeed, the only thing I have ever found really dismal about the science is its habit of reducing individuals to units of a statistic, and then of jumping to the assumption in its model-making that at all times these units are fully interchangeable with one another. It is hardly necessary to warn any political scientist, let alone a politician or political journalist, of the dangers of allowing these intellectual habits to influence judgment about the behaviour of states in international society.

In short, the state of the literature is that it is inadequate and under-developed, from the political side, and lop-sided and subject to an optimistic and, I should personally judge, a dollar-biased skew on the economic side.

THE DAMAGE TO INTERNATIONAL RELATIONS

These weaknesses in the literature are more than just a regrettable omission, an unfortunate, missed opportunity. Unless they are soon made good, they are likely to be increasingly damaging and disabling to the whole study of international relations. If my initial assumptions are valid about the pressures which a fast-growing international economy is exerting on a more rigid international political system, it seems to me we shall soon need rather urgently to have a theory of international economic relations, a political theory which is consistent with whatever other sort of theory of international relations we individually find most satisfactory. If we do not somehow develop one, it seems to me that any work we do on the other frontiers of the subject, in theory, in foreign policy analysis, in strategic studies and in international organisation—even, indeed, in area studies—risks a damaging loss of contact and consistency with the real world of policy-making.

¹¹ *Cooper, op. cit.*, p. 279.

At the very least, perhaps, we can agree that there are a number of key questions in this middle ground between politics and economics to which we badly need the answers. Or—lowering our sights still more—that there are areas of *terra incognita* in which it would be helpful to us all if someone were to do some exploratory digging and to apply some careful thought.

One such area is integration theory. It is true that Ernst Haas and others have made efforts to find a theoretical framework consistent with contemporary problems and situations.¹² In European studies, especially, it was and is important to know at what point co-ordination and harmonisation of national policies became irreversible integration of a new multistate community, and to find some means of recognising this point. Perhaps if more attention had been paid earlier on to such general 'theoretical' questions of international economic integration, there would have been fewer among us to be taken in by the assertion made by the Brussels EEC Commission that adoption of a Common Agricultural Policy ruled out all possibility of divergent exchange rates.

Similar questions arise with a number of international economic organisations, whose real achievements we are in no position to assess or to fit into our other theories until we have tried to do more fundamental work on the nature of international economic relations in that issue area.

Out of a number of possibles let me pick three specific questions to which we badly need the answers.

It is now believed that the volume of Eurodollars is now about as big, at some \$40 billion, as the domestic money supply of each of the larger European states. And it is agreed that the market in Eurodollars is an international money market, unlike any national money market in that there is no lender of last resort and no authority capable of controlling the supply or exercising supervision over it. Extrapolating the trend even at a much shallower upward angle in the 1980s and 1990s, what does this do to the financial capability of governments? Some guidance from a coherent political theory of international currencies is urgently needed.

Again, we are all familiar with the propaganda of some of the leading multinational corporations—working in the vanguard of the capitalist revolution against the outworn shibboleths of nationalism, and all that. But we do not have to believe everything that IBM tell us to see that the activities of multinational corporations could upset some conventional ideas about the international political as well as economic system.

¹² As in Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford, Calif.: Stanford University Press. 1964. London: Oxford University Press. 1965).

So long as the theory of international trade, resting on the law of comparative costs, seemed to accord with reality, there was at least a close co-incidence between the structural form of the subject-matter of international economics and of international politics. The units were more or less the same. But what are the implications for the political system if the theory of international trade has to be replaced, as some American economists are now insisting, by a theory of international production? The calculation that international production (*i.e.*, the output of companies operating abroad) is growing at twice the rate of the GNP of the U.S. domestic economy, and at this rate will equal the aggregate of all national GNP's by the year 2000, should surely concern students of international relations no less than it does the companies themselves.

A third poser is the place in our conceptual framework (to use the posh phrase) of the recent growth in rule-making, standard-setting and market management undertaken wholly or partly extra-governmentally. A feature of this dynamic international economy is the pressures it exerts across frontiers on those with economic interests either in common or in opposition. I am thinking of such phenomena as the Berne Union of Credit Insurers which began, at least, extra-governmentally; of IATA negotiations on air fares; of informal arrangements to share the U.K. market for cheese, butter and bacon; of moves towards international negotiation of wage agreements directly between the unions and the managements. Two more examples from the past year are the International Association of Bond Dealers which responded to the lack of any inter-state supervision of the highly active Eurobond market by deciding to agree on its own ground rules. Another was the intrusion into negotiations on conventions covering oil pollution *à la* Torrey Canyon of the London insurance industry and the tanker-owners. The final agreement depended not only on governments but on the willingness of the hard-bargaining insurers to pay out up to \$10 million in compensation for a single disaster, and on the willingness of the tanker-owners to submit to autotaxation to produce a fund—known, rather endearingly I think, as 'Tovalop' (tanker owners' voluntary organisation on oil pollution).¹³

THE PRACTICAL QUESTION

When it comes to the practical question of how best the teaching of international relations can respond to the new demands made upon it by the accelerating spread and growth of the international economy, I doubt if there is a single valid answer. I certainly have not the qualifications

¹³ *The Economist*, December 6, 1969, pp. 91–93.

to give it. There has been far too little in the way of experiment and trial of alternative solutions by which to judge. In British universities, the explanation is given that departments are too small, and budgets too constrained, for such pioneering. But even in the best-heeled universities in the United States, surprisingly little has been done in this direction.

Some discussions that have recently been held among interested British academics, first at the Bailey Conference¹⁴ in London last January and then at Chatham House, have shown that there is not only a wide measure of shared concern about the problem, of dissatisfaction with present arrangements, but also of uncertainty about how best to change them. It seems to be quite widely agreed that there is now an area of international studies which requires familiarity with three kinds of economic knowledge—with economic theory and the concepts and methods necessary to it; with the functioning of economic mechanisms and institutions, both national and international, and with economic history. There is also agreement on the poverty of the literature, and on the prospectively growing need for university courses, whether of a general or a regional 'area study' type, to introduce subject-matter, with an added political ingredient, from what is now known as international economics.

The most common solution to the problem has been, and still is, the parallel course or joint degree, simply because it is the easiest and most feasible. One of the oldest and best-known British examples has been the Oxford P.P.E. (Politics, Philosophy and Economics) degree. The London B.Sc.(Economics) has similarly, and rather more flexibly than the Oxford model, tried to combine the disciplines of politics and economics, and, for specialists in international relations, some law and history as well. A more recent variation is the Cambridge Social Science Tripos, and there are other examples at a number of British universities.¹⁵

In each case, the chief weakness of the parallel course solution is that it inevitably tends to develop divergence rather than confluence of the component parts. The economics taught by the economists and the politics or international relations (and come to that the philosophy) have less and less relevance to one another, rather than more and more. Nor is any very serious attempt made from either side to relate the courses to one another. The economists do not even try to deal with the political aspects of international economic relations and international economic problems; and few political scientists even try to explore the economic dimension of international politics or diplomacy. The economic

¹⁴ The Twelfth S. H. Bailey Conference on the university teaching of international relations, held at the London School of Economics, January 1 and 2, 1970.

¹⁵ As a result of the meetings mentioned earlier, it is proposed to make a collection at Chatham House of course outlines and bibliographies which might be of use to university departments contemplating change or further development in this field.

historians are perhaps alone in attempting some sort of synthesis, and it is a pity for everyone that they are so few and comparatively far between.

Another point of fairly general agreement is that a grounding in basic economics is now needed for any serious student of international relations, and that it is better begun at an early stage. It is not only that the jargon of economics, or political science, becomes more and more alien to the ear of the other discipline—though, regrettably, this is quite an important consideration, but the habits and processes of thought are different. If students are not introduced quite early on to the intellectual exercises of both, they are apt to get too mentally stiff and unbending to take easily to them later.

Beyond the elementary stages, however, many international relations teachers would be as unhappy as I am to see the developing study of international economic relations left to the economists. The occasional brilliance of a politically astute general does not invalidate the old saying about war being too serious a matter to be left to the generals in the plural. Nor does the enlightenment sometimes shed by one brilliant economist make up for the overall effect of economists in the mass.

It follows that, at some stage, departments of political science, of international history or international relations (and, indeed, the centres or schools of area studies) will have to take their courage in both hands and attempt to build their own bridges across the gulf. The parallel course leaves it to the students to do this for themselves. But students, especially undergraduates, are by definition absorbed in absorbing, and this sort of innovative bridge-building is a pretty strenuous creative activity to ask of them. Not much help is to be expected from the economists. Most international relations teachers complain very bitterly in private about the difficulties they have experienced in getting the economists to meet them half-way or to undertake any serious collaboration on this middle ground. It must be said here that there have been and are some honourable and much appreciated exceptions to the generalisation—Professor James Meade and the late Eli Devons are two often mentioned, and there are a fair few among the younger generation of economists. But most of the rest manage to convey the impression that they regard consorting with other social scientists as a form of intellectual slumming. On the whole, they are blissfully and amazingly unaware of their own lack of judgment and expertise in political analysis, or of any subjective or professional bias that afflicts them—much more unaware, certainly, than the teacher of international relations is likely to be of his or her own inexpertise in economics.

Such bridge-building will be easier to do, and bridging courses easier to design and conduct, if it is somewhat specialised—by period, by region or by issue-area. The politics of international economic aid or the problems of regional economic co-ordination are familiar examples.

But I think it would be regrettable if some of the larger departments did not have a shot at more general courses. After all, we are not, most of us, very good historians; we do not know as much as we should about international law, about sociology, political theory and a large number of other things. But we do in practice attempt to teach students some part of them. Why not international economic relations?

The aim it seems to me is twofold. Primarily, in my view, it is to start off a new generation of bridge-builders better able than the older and middle-aged teachers to meet the economists on equal terms, to make a respectable and serious contribution to the literature, and better able, in their turn, to enlighten and instruct the generation now still at school.

There is also surely some broader political responsibility. It is true that the Foreign Office in Britain—rather noticeably more so than the American State Department—is inclined to show a lordly disdain for, and disinterest in, the academic study of international relations. There are a number of possible reasons for this attitude, some good and some bad, which need not be gone into here. But now, as a result of the accelerating international economy, and the changes which economic inter-dependence are bringing about, new questions concerning the nature of the national interest are constantly cropping up. Some are perhaps really old questions in a new form; some really are unfamiliar. And most countries, rich and strong, and poor and weak, are trying to answer them. Do we, for example, want more or less foreign investment? Of what kind, and how do we treat it? How big a payments surplus do we aim at? Is it a help or a handicap to operate a financial centre as large and volatile as London? What is a reasonable rate of inflation, a tolerable burden of foreign debt? The answers so far found, in Britain at least, have either fudged long and short-term considerations, or have been given out of a stock of conventional and rather dusty ideas from our vanished past. Officials have been too busy, politicians and the moguls of the mass media too afraid of unpopularity, to give much thought to finding new ones. There is little doubt in many minds, though, that the stock badly needs replenishing and refurbishing. Possibly the practitioners of foreign policy might pay more attention to the academics if they had something relevant and coherent to say on questions as crucial as these. For the latter building intellectual card-houses and playing academic word-games is not enough.

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