CHAPTER IV: The Bases of National Economic Power

Economic wealth is convertible into several kinds of power and influence. As we have seen in Chapter III, it is a basis of military power. It figures as one foundation of international prestige. In the conduct of international propaganda, foreign intelligence, and bribery, it is an indispensable subsidiary to skill. It is also a basis of national economic power, of what the Germans call *Wirtschaftsmacht*, which is the subject of the present chapter. The questions to be asked are: What exactly is national economic power? How does it become effective? What are its bases? How can these bases be promoted? How do big and little, and rich and poor states differ in the bases of economic power? Do national economic systems affect the economic power of states? Logically, we must begin with defining national economic power—a subject that has received far less analytical attention than national military power—and with identifying the types of uses to which economic power gives rise, and then deduce the foundation on which it rests.

There are two sides to national economic power. One, the active side, is concerned with what a country can do to other countries; the other, the passive side, concerns a country’s ability to limit what other countries do to it. From the first point of view, national economic power is the ability of a state to benefit itself, using economic or financial policy, by hurting or threatening to hurt, benefitting or promising to benefit, economically weakening or strengthening another state. From the second viewpoint, national economic power is a state’s ability to limit such use of economic power by other states against itself. Overall, a country’s economic power is a net sum. In the following, unless otherwise specified, the term economic power refers to its active, outward-reaching form. Passive power will be examined automatically, because one state’s low passive power is the condition of another state’s active power.

The benefits a state derives, or its government intends to derive, from employing economic power can be political and military as well as economic. Thus, A may obtain diplomatic support on certain international issues, or seek a military ally regarding actual or potential conflicts, by offering to buy more of B’s exports, to sell B more of a scarce good, or to extend loans or gifts to B. A may threaten B with equivalent disadvantages should the latter cease to give diplomatic support or to remain an ally. A may want to damage B, an actual or potential opponent, by acts designed to reduce the latter’s economic or political basis for military or economic power. Or A may want to strengthen B, a diplomatic supporter or military ally, by acts designed to improve the latter’s power.

National economic wealth is not the same as national economic power. Wealth to be sure, is an asset used internationally for a vast range of pure exchanges in which things of equivalent value are being traded; wealth is then power only in the technical sense of ‘purchasing power’. As understood in this book, national economic power is engaged when wealth or economic policy are deliberately used for modifying the behaviour or capabilities of other states, or, in the case of ‘market power’, for extracting monopolist or monopsonist gain to the detriment of other states. This element of intent is crucial to the exercise of power. There may be haggling, but there is no politics in a purely economic exchange. There is politics in the exercise of economic power.

The following three phenomena are not exercises of national economic power. First, we exclude uses of foreign economic policy that, although instrumentally suited to the exercise of power, are adopted only to satisfy a domestic interest. Thus, protective import tariffs may be introduced to benefit the interests of politically influential domestic producers, to shape national production capacity in the interest of economic military potential, or to curtail domestic unemployment. Any effects on other states are purely incidental; there is no intent to wield power internationally. These
essentially inward-directed policies are studied in books on international trade theory and policy.

Second, we exclude a part of what François Perroux calls economic dominance. According to Perroux, as the real world is one of unequal business firms, so it is one of unequal national economies, some dominant and some dominated. A dominant economy is one that, because of its large size (in terms of its GNP, advanced stage of development, and large share of international economic transactions), will affect other national economies of lesser size and development more than it is affected by them. In relation to the GNP, the dominant economy’s foreign trade and financial transactions are less important, although important to the economies of other countries. In other words, dominance in this sense exists when economic events and domestic economic policies in A persistently and substantially affect economic events and policies in B more than the other way around. Thus, Perroux regards the present American economy as the world’s dominating economy of first rank. Changes in the dominating economy’s price levels and structure the rate of employment, investment, and economic growth, and so on, radiate out to, and strongly impinge on, lesser economies, the impact being the greater, the more that foreign economic and financial transactions are important to them. But in these instances there is no will to achieve these consequences; there is no exercise of economic power.

Third, strictly commercial or quasi-commercial exchanges do not, in our opinion, involve economic power, unless they are affected by monopolist market power. For example, no use of power takes place when two trading states negotiate an exchange of exports without any insertion of threats or blandishments designed to affect the behaviour of the other side. Although the actors are governments, the transaction is equivalent to a commercial contract between private firms. When the United States purchased the Louisiana territory from France in 1803 for $12 million, Florida from Spain in 1819 for $5 million, and the Virgin Islands from Denmark in 1917 for $25 million, it used wealth, but there was no application of economic power. In the late 1960s, the United States was troubled by the increasing illegal use of heroin smuggled in from abroad. About 8 per cent of the supply was estimated to originate in Turkey. In May 1971, the United States concluded an agreement with the Turkish government that enabled it to buy the entire poppy crop, thereafter inducing Turkish farmers to switch to less lucrative substitute crops. The United States agreed to pay for the purchase of the 1971 poppy crop and to refund the Turkish government for compensating farmers for shifting to other outputs. (Turkey cancelled the agreement in 1973.) This transaction, although again involving the use of wealth, was not a use of economic power. Such power would have come into play if the United States government had achieved Turkish compliance by threatening a reluctant Turkish government with cuts in economic aid or by bribing a reluctant government with the promise of increased aid.

In order to elucidate the foregoing definition of national economic power, both the instruments and the consequences of power require additional description. The exploitation of market power for monopolist commercial profit is a distinct and familiar use of economic power. It is analyzed extensively in economics treatises, and in the following we will concentrate on less familiar uses of economic power.

As elaborated in Chapter 1, the distinct purposes of applying national military power (putative) are, first, to threaten injury to an opponent, or to continue hurting him if force is already in use, and, second, to take or defend some contested objective by sheer power. These purposes may also be pursued indirectly by giving military support to another country. National economic power can be used in precisely the same ways. First, it may be employed coercively, by threatening to hurt another country economically, or by continuing hurtful sanctions already in force. Or, in the case of positive sanctions, the promise of economic reward is held out in an attempt to influence a foreign government’s actions. Second, economic power can be applied to damaging or weakening another country without any coercive attempt to make another actor do something he would not otherwise do. Four subcategories of this use can be distinguished: (1) causing another country’s losses in income, employment, investment, and economic growth, or inducing or reinforcing inflationary or balance-of-payments pressure, in order to generate political discontent and disunity; (2) reducing another country’s military economic potential either by producing general effects as discussed under (1) or by minimizing the development of capabilities specific to military production (e.g., armaments industries and industries especially supportive of armaments production); (3) interfering with an ongoing military mobilization or war effort by measures causing general effects as discussed under (1) or by curtailing the import of essential inputs (e.g., raw materials or fuel) and thus causing bottlenecks in production; and (4) reducing another state’s economic power by the generally weakening measures discussed under (1), or by reducing specific sources of economic strength (e.g., monopolist or monopolistic positions). Third, and conversely, various economic measures can be used to strengthen another state (1) by promoting its income, boosting its rates of employment, investment, and growth, or helping it to damp down inflation or to relieve balance-of-payments pressures; (2)
by promoting its economic base for military strength; (3) by assisting its effort of military mobilization or war; and (4) by bolstering its national economic power. Finally, like any other form of power, national economic power can be used to inflict punishment, not for purposes of coercion, but for strictly emotional satisfaction.

The instruments through which states can exercise economic power for these purposes are extremely varied. They may be used either to impinge on particular commodity markets, enterprises, and industries or to influence macroeconomic conditions, for example, GNP economic development, or general price level in the other state. These instruments include foreign commercial, investment, and aid, and foreign exchange policies; but they can also include domestic policies, for example, fiscal, monetary, taxation, and immigration, provided they are employed deliberately for this purpose. In the following, only the principal instruments will be considered.

I. (a) A reduces imports from B by means of an embargo, import duties or quotas, foreign exchange control, or other restrictive measures, including the closing or restriction of transit facilities. A reduces B’s exports to third countries by subsidizing and dumping its own competitive exports, by concluding long-term trade agreements with third countries, by putting pressures on third states to restrict imports from B, and so on.

(b) A acts to increase B’s exports by the opposite measures of those mentioned under (a).

II. (a) A acts to reduce B’s imports by an export embargo or other export restrictions, by refusing or curtailing credits and other aid to A, by prevailing on third states to act in a similar restrictive fashion, and, under exceptional circumstances (e.g., in time of war), by restricting transit and by blacklisting exporters to B in third countries.

(b) A acts to increase B’s imports by using the same policies for reverse effects.

III. (a) A benefits employment, investment, and economic development in B by means of public loans or gifts, promoting direct private investment in B, and by extending technical assistance.

(b) A acts to reduce employment, investment, and development in B by the opposite measures.

Among several other ways of exercising economic power, the following are worth mentioning:

IV. (a) A acts to put B’s international currency position under pressure by selling holdings of B’s currency, inducing short-term capital movements from B or by other techniques.

(b) A acts to relieve pressure on B’s international payments position by reverse measures.

V. A harms B by running up trade deficits, by repudiating or suspending service on debts owed to B, or by confiscating, freezing, or putting various adverse pressures on enterprises B owns in A.

VI. A penetrates B’s economy by means of direct investments, cartel arrangements, technical assistance, or bribery, and uses positions of influence thus acquired in order to harm or benefit B.

As even this summary list reveals, some policy instruments can be used for achieving different effects, and the same effect can be achieved by several policy instruments applied singly or jointly.

What are the bases of the putative economic power of states? Clearly, as army divisions per se are not military power, so GNP’s or national wealth per se are not economic power. The putative economic power of states has four bases: (1) economic strength; (2) the will to use this strength for power purposes; (3) the skill of applying this strength for such purposes; and (4) the international reputation of a state to use its economic strength for exercising power.

Economic Strength

The main bases of national economic power consist of the volume and structure of a state’s foreign economic transactions. The sheer magnitude of a state’s foreign economic transactions is clearly one element of national economic strength. A country accounting for 30 per cent of world exports and imports and of world exports of capital and technical assistance tends to enjoy far greater leverage than a country accounting for only 3 per cent. However, it is disadvantageous from this point of view that a state’s trade and capital exports are also large relative to its GNP. If its trade is large in these terms, the country is susceptible to economic pressure from the outside. In other words, while a large volume of trade relative to the GNP tends to provide leverage for application to other states—an important constituent of active economic power—it also tends to reduce passive economic power. Thus, the United States is superior to the United Kingdom not only because American trade is larger, but also because American trade is much smaller than Britain’s in relation to its GNP. The more a society is dependent on foreign trade and capital transfers, the more of its welfare is at stake in cross-boundary transactions. Because volume of foreign trade relative to size of GNP is one source of structural vulnerability, it is interesting to note how greatly countries differ in this respect. Thus, in 1972, Israel’s exports plus imports were the equivalent of
89 per cent of its gross domestic product, Jamaica's 80, and Denmark's 58 per cent. At the other extreme, the percentage was 12 for the United States, while—in the middle range—it was 43 for West Germany and 44 for Great Britain.

Size of foreign trade varies mainly with size of population, degree of economic development, and degree of international economic specialization. The implications of population size and stage of development are obvious. Even though India is a poor country, it has a larger foreign trade than Switzerland, which is rich; but Switzerland's foreign trade per capita is a multiple of India's. Clearly also, a country's foreign trade will tend to vary with the extent to which it is engaged in the international division of labour. This variable, in turn, is principally the consequence of trade policy (e.g., free trade versus protectionism), of endowment with natural and other resources, and of size of territory (i.e., internal transportation costs, like international transport costs, act as an equivalent import duty). A country's ability to acquire leverage from capital export is also in part a consequence of size (i.e., GNP that reflects size of population and degree of economic development). If we assume funds for foreign investment and aid to come from savings and taxes, or, more generally speaking, from economic surplus above private and public consumption and capital maintenance the size of these funds, given the rate of savings and taxation, depends on the size of the GNP.

Economic power, however, is a matter of structure as well as magnitude. In order to serve the purposes of economic power, a country's economic capabilities and economy must have certain structural characteristics, just as such a special (but different) economic structure is needed for the production of military strength. Two structural dimensions are important, one concerned with comparative inelasticities of demand and supply, and the other with the relative concentration and dispersal of trade geographically, and with its commodity composition.

If we concentrate on the ability to alter international merchandise, service, and capital flows, a state would be structurally equipped with an ideal base for exercising economic power if (1) it exported things in urgent demand abroad while importing things regarding which its own demand was highly elastic and (2) it held monopoly control over the supply of things demanded by foreign importing countries and monopoly control over the goods foreign countries have to export. Structural conditions also impinge on the ability of states to export capital. Whatever the size of the GNP, the propensity to restrain consumption, public or private, is an important factor. In other words, the less the outside world can do without its exports, without its domestic market, and without its capital, the greater a nation's economic strength will tend to be.

There are of course, no states in the real world ideally meeting these structural descriptions. For a few years following World War II, the United States came close to the ideal base. But this resulted from evidently exceptional circumstances. The bulk of the world was then impoverished and economically disorganized. In any case, the more a state's international economic position approximates the ideal structure, the stronger it will tend to be in terms of economic power. Conversely, the less it approximates the specified characteristics, the weaker a state will tend to be.

However, the inability of any country singly to dominate world trade overwhelmingly does not necessarily foreclose national economic power. Presumably, no state is ever interested in exercising such power vis-à-vis the entire outside world at once, but rather vis-à-vis a particular state or group of states. The structural desiderata are not, therefore, as exacting as the ideal type suggests. Potential and actual economic power reside in particular actor relationships. From this viewpoint, relevant trade structure can be measured by comparing degrees of concentration in the trade of countries, both in terms of commodities and partners. In a classic study, Albert Hirschman showed how during the 1930s Nazi Germany managed to concentrate her trade on a few small trading partners (especially in eastern Europe), and used the resulting leverage for political purposes. The trend is expressed in the accompanying tabulation.

INDEX* OF TRADE PREFERENCES FOR SMALL OR LARGE TRADING COUNTRIES
(Numbers above 100 indicate preference for small trading countries.)

<table>
<thead>
<tr>
<th></th>
<th>1932</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports of Germany</td>
<td>125.0</td>
<td>151.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>118.7</td>
<td>116.8</td>
</tr>
<tr>
<td>United States</td>
<td>122.5</td>
<td>125.1</td>
</tr>
<tr>
<td>Japan</td>
<td>68.4</td>
<td>68.4</td>
</tr>
<tr>
<td>Exports of Germany</td>
<td>125.0</td>
<td>162.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>126.3</td>
<td>116.0</td>
</tr>
<tr>
<td>United States</td>
<td>112.2</td>
<td>116.7</td>
</tr>
<tr>
<td>Japan</td>
<td>97.2</td>
<td>124.2</td>
</tr>
</tbody>
</table>

*Constructed by means of the Gini coefficient; that is, the square root of the sum of the squares of the fractions of trade with each state times 100.

Unfortunately, comprehensive statistical studies of the comparative concentration of commerce in the contemporary world are unavailable. But we can proceed by logical deduction. A country's exports and imports can be more or less concentrated in terms of the number of trading partners. At the theoretical extremes, A can ship all its exports to one country or alternatively distribute them equally to all importing states, and the same with its imports. Similarly, A can only export one good or a very large number; the same with imports. The more scattered and diversified a state's exports and imports, the less will tend to be its ability to use trade flows for power purposes, and the less will also be its vulnerability to having such power exerted against it. Clearly, there is safety in diversification of goods and partners. On the other hand, a high degree of concentration in terms of the range of goods and partners is per se a condition of both economic power and vulnerability. Whether it is the one or the other depends on the relative intensities of demand and elasticities of supply, as explained above. For example, in 1970, Japan bought one-fourth of all Australian exports (mostly coal, iron ore, and bauxite) while exporting $540 million worth of manufactured goods to Australia. Whether Australia could use this substantial concentration of trade as a lever of economic power would depend on whether Japan relies more on Australia's exports than Australia relies on her imports of Japanese goods.

Two factors tend to diminish such dependencies, one related to commodity substitution and the other to substitution among trading partners. There are today fewer particular commodities for which acceptable substitutes do not exist than was formerly the case. It is a characteristic of the trade between industrial societies—which has been expanding in recent decades appreciably more than the trade between industrial states and less developed countries that the same type of good is both exported and imported. Automobiles, for example, are exported and imported by all the large industrial countries. Only two classes of commodities lack easy substitutability, one that is composed of goods whose production requires innovative leadership at the technological frontier (e.g., computers), and one that includes certain natural materials (e.g., petroleum and manganese). The extent to which production of these commodities confers monopolistic advantage on an exporting state depends on, first, its essentiality to importing countries and, second, the degree of the exporting country's monopolist market power.

Time is also a critical factor, because it affects the ability to organize or expand the production of substitutes.

Regarding substitutability among exporting countries, there is an important difference between the exercise of economic power and military power. In the event of a military conflict between A and B, the number of other states militarily supporting A or B is not usually large; participation tends to be costly. In the event of a purely economic conflict, however, it is usually in the interest of most other states to provide the opponents with alternative markets and sources of supply. For instance, if A places an embargo on B's exports, B will attempt to shift its exports to other markets. This would impose some difficulties of adjustment, but no further ill effects if A, still needing the type of goods it had imported from B, switched its purchases to other sources of supply. On the other hand, B's position would be weaker, and A's stronger, if B had an important high-cost export industry for which A had been the sole or principal outlet. In that case, A's embargo would compel B either to subsidize his export goods or to suffer unemployment in its export industry, the latter having an income-depressing effect necessitating a shift of resources to other fields of production. This example, which can be paralleled by one involving A's resort to an embargo of its own exports to B, points up the importance of structural factors and size of market. A holds a degree of economic power over B only if A's trade is worth something to B, in that it is important in scale and irreplaceable or hard to replace, and if B is more economically dependent on A than the other way around.

In this connection, there are two kinds of international events that have, recurrently and weightily, affected opportunities to wield economic power. One is interstate war that may interfere with access to markets and sources of supply, thereby creating special economic vulnerabilities. There are then fewer competitive sources of supply and competitive outlets for exports. The other involves the impingement on the business cycle. A worldwide economic depression will decrease export markets, as happened spectacularly during the 1930s, and strong inflation in major exporting countries could reduce commodity supplies available for import, either event somewhat reducing the ability of countries to shift to alternative trade partners.

International currency reserves and gold are significant to the distribution of international economic power. Governments require international monies in order to settle any net imbalance in their aggregate payments account with other countries. A country issuing an international key currency has an appreciable advantage from this point of view, as had the United States in the 1960s. Other governments normally maintain official reserves or foreign money to cover regularly or irregularly recurring deficits. Irregular imbalances can occur as a result of shifts in the demand for a state's exports,
sudden changes in capital movements, crop failures, war, or similar exogenous disturbances. Because the International Monetary Fund may help in the event of serious pressure, many governments now tend to maintain smaller reserves of their own than caution requires. In principle, copious foreign exchange reserves (or gold) clearly can play a part in exerting or resisting economic pressure. A’s foreign exchange hoard is important if it wants to sell B’s currency in order to put that currency under speculative pressure, if it wants to shift imports from B to a country whose exports cost more, or if it wants to cut exports to B while unable immediately to find substitute markets. Similarly, B’s international currency reserves are an important asset when A cuts off its imports from B, and B does not find satisfactory alternative markets, or if it must pay higher prices in order to replace imports embargoed by A. If B owns insufficient reserves under such circumstances, its industries that depend on exports and imports will suffer with possibly multiplying consequences to employment and income; or B may have to borrow foreign currency from third countries on possibly unfavourable terms.

Not rarely, a weak reserve position will curtail a government’s capacity to engage in warfare at home or abroad. In 1956, when Great Britain and France, in collaboration with Israel, attempted to recoup the Suez Canal, a precipitate flight from sterling was important among the pressures that brought this military intervention to a quick end, especially because the United States government pointedly refused monetary assistance. In April and May 1971, when the Pakistani government was engaged in suppressing a secession movement in East Pakistan, its reserves were dwindling rapidly because export shipments slumped, and an international financial consortium, established to cope with Pakistan’s aid requirements and external indebtedness, suspended aid. If resistance had not collapsed when it did, the depletion of reserves might have cut seriously into the government’s ability to continue its military action. In 1971, accumulating balance-of-payments deficits in the United States brought about a negotiated realignment of major currency values, depreciating that of the dollar vis-à-vis the surplus countries. This experience signalled a diminished international ability of the United States to finance the exercise of military power abroad. On the other hand, accumulating large international reserves for various emergency purposes, or for strengthening a state’s ability to wage economic warfare—contingent purposes that may not arise—is definitely expensive. Hoarding means foregoing the use of the sequestered funds for purchasing imports, and decreased imports mean either less consumption or less investment.

The foregoing analysis indicates how a state can increase its putative economic power generally and vis-à-vis particular countries. It can boost its potential economic power by promoting its economic development relative to other states. Japan, which achieved exceptional growth rates throughout the 1960s, clearly had more such potential power at the end than at the beginning of the decade. However, the degree to which relative economic development enlarges economic power depends crucially on structural conditions. Within limits (including costs) imposed by endowment with natural and other productive resources, a state can shift resources so as to lessen its economic dependence on other countries and to increase their economic dependence on itself. Within such limits, it can also cultivate monopolist and monopolist market power. It can, for instance, develop superior technologies, giving it, at least temporarily, a degree of monopoly over the international supply of certain goods and services.

A state can also attempt to extend its control over resources and markets by forming monopolist or monopolist arrangements with other states or by becoming a member of a regional bloc or customs union. Thus, states have in the past attempted joint regulation of the international supply of raw materials (e.g., rubber and tin) and are doing so now (e.g., petroleum, sugar, and coffee). Alternately, groups of private enterprises have set up private international cartels in order to control markets of manufactured products at home and abroad. A currently interesting development of market power is the European Economic Community (EEC), which now constitutes the world’s largest territorial unit in international commerce. Such economic integration between states enlarges the size of international economic transactions, which is one determinant of economic power; and it also tends to extend the limits within which the structural requirements of such power can be promoted. On the other hand, the Council of Mutual Economic Assistance (COMECON), established by the Soviet Union and most Communist countries in eastern Europe and Mongolia, affords lesser advantages from the viewpoint of external economic power, because the national economies concerned have not been merged in an internal free-trade area. Such power advantages as it might afford originate in the facilitation of policy coordination among these states.

To the extent that schemes for concerted the economic policies of independent states provide a basis for enhanced economic power, this power is, of course, shared and has, as experience shows, a brittle foundation, because the diverging interests of members impede cohesion. This holds true of the EEC, which combines a high degree of economic with a
low degree of political integration. Member states frequently differ on the merits of particular policies. Cohesion tends to be especially weak when no one member has superior economic size, and decisions are made, formally or informally, on the basis of unanimity, for such a configuration maximizes the veto power of each member. Cohesion will tend to be stronger if one member predominates in economic size and enjoys a position of leadership or domination based on political, military, or economic power. The predominant state may then be able to wield the bloc's economic power for its own or for more or less shared purposes. The less the leading state needs to bargain with (i.e., make concessions to) member states, the greater its ability to determine decisions.

In addition a state can enhance its general economic power by bolstering its putative economic power vis-à-vis particular countries. Thus, A can concentrate more of its trade on B, making itself more important to B as an importer and exporter, by giving B preferential access to its market, by offering exports at preferential prices or on attractive credit conditions, or by offering long-term trade contracts on favourable terms. In doing so, A may pay attention to structural factors, as by concentrating on exports for which it has a degree of monopoly power and B's demand is very inelastic, and by concentrating on imports regarding which A enjoys or can build up a degree of monopoly power and for which its demand is elastic. Or A may be able to increase B's dependence by bringing about and exploiting penetration of B's economy by means of fostering direct investment and by bribing officials and businessmen. Or A may export capital to B on favourable terms and induce a degree of international indebtedness that makes B unattractive to other exporters of capital.

### UNITED STATES DEPENDENCE ON MINERAL IMPORTS

**per cent imported**

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1970</th>
<th>(estimated) 1985</th>
</tr>
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<tbody>
<tr>
<td>Aluminum</td>
<td>64</td>
<td>85</td>
<td>96</td>
</tr>
<tr>
<td>Iron</td>
<td>8</td>
<td>30</td>
<td>55</td>
</tr>
<tr>
<td>Lead</td>
<td>39</td>
<td>31</td>
<td>62</td>
</tr>
<tr>
<td>Manganese</td>
<td>88</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>Potassium</td>
<td>14</td>
<td>42</td>
<td>47</td>
</tr>
<tr>
<td>Tin</td>
<td>77</td>
<td>n.a.</td>
<td>100</td>
</tr>
<tr>
<td>Zinc</td>
<td>38</td>
<td>59</td>
<td>72</td>
</tr>
</tbody>
</table>


As a result of industrialized societies' inelastic appetite for natural materials, whose supply is naturally limited because they are derived from non-renewable sources, the future will augment opportunities for exercising economic power on the part of major exporting countries. The accompanying table gives some estimates of increasing United States dependence on imported materials. Such dependence is even greater in Western Europe and Japan. The latter, for instance, is the world's third largest steel producer, but imports 96 per cent of its iron ore and 83 per cent of its coking coal. This heavy import dependence of most industrial countries extends to energy. Among major countries, only the Soviet Union and China are basically self-sufficient. Western Europe and Japan must import over 90 per cent of their oil supplies. United States imports of oil are estimated to rise rapidly in the future. With fuel needs of the highly industrialized states expanding exponentially, worldwide consumption increasing as a result of economic and population growth, and new technologies unlikely to replace fossil fuels significantly before the end of the century, these dependencies will benefit the potential power position of the exporting states. Even now, the Soviet Union and Rhodesia account for most of the world's chrome ore; Chile, Peru, Zambia, and Zaïre for most of the world's copper; Malaysia, Thailand, and Bolivia for 70 per cent of the world's tin; and Australia, Mexico, and Peru for 60 per cent of the world's lead supply. Less than ten countries supply the bulk of oil exports.

In other connections, the impact of the big international and multilateral business corporations will claim our attention. For instance, they play a part in the economic penetration of states from outside. Yet, as we will show in Chapter IX, they cannot be regarded as more than a negligible instrument or base of economic power. The vast majority of these firms are American, Western European, and Japanese. In the case of private American and Western European corporations, governments have no or only very limited control over them for purposes of exerting economic power abroad, although governments may apply economic and other powers to benefit these firms in their foreign operations. From this point of view, government influence is relevant to some extent when governments are part-owners of such corporations, and to a greater extent when such corporations are public. In the case of the Japanese, co-operation between government and business is closer than in the West; there is no violence, however, of the use of this connection for purposes of wielding economic power.
Finally, the economic domination of one state by another remains to be clarified. Evidently, the concept refers not to an occasional relationship but to one that has a degree of continuity. Domination does not exist just because one state possesses the economic bases of superior economic power over another state. Putative economic power, like putative military power, can become actualized in particular relationships through three mechanisms: (1) A purposely applies economic power to weaken B economically; (2) A applies economic power by threatening B with economic reprisals or by offering economic rewards for compliance with a request; (3) B's behavior is influenced by the mere anticipation that if he pursues actions detrimental to A's interests A might resort to the exercise of economic power. Clearly, economic domination occurs if A deliberately and regularly resorts to actions identified under (1) and (2). But A's mere ability to take such measures does not involve B's economic domination. The problem is trickier when it comes to mechanism (3). Clearly again, once A has had frequent recourse to mechanisms (1) and (2) vis-à-vis B, B may be dominated by the sheer anticipation of further such acts if he should cross A's interests. This is how continued domination will normally operate. But if B has not been subjected to A's economic power via mechanisms (1) and (2), it will be affected through mechanism (3) only if A, by repeated and recent power plays against other states, has displayed a strong predisposition to resort to its economic power. The less A has displayed such a propensity, the less B will be influenced and dominated by A's economic power. Should A have no such propensity, no influence will occur. In any case, economic domination is strong if A deliberately cultivates the actualization of its economic power vis-à-vis B. Economic domination will be weaker if A has frequently succeeded in actualizing its economic power against C and D, but not against B. Economic domination does not arise at all if A, despite vastly superior economic strength suitable as a basis of economic power, lacks any reputation for seeking to exploit this capacity, that is to say, for transforming it into economic power.

The above analysis of the economic bases of economic power implies (and we need not spell out) the various ways by which weak states can attempt to reduce their susceptibility to economic pressures. The overall purpose of such measures by B will be to diversify participation in competitive international markets for both its exports and imports, to maintain its own competitive standing in these markets, and thus generally to avoid or minimize relations of unequal economic dependence.

**Non-economic Bases of Economic Power**

The non-economic bases of national economic power will be discussed only briefly, because a fuller explanation would mostly repeat what has been said about the corresponding bases of military power in Chapter III. The same general factors apply.

It goes almost without saying that statecraft is a critical asset in wielding and accumulating putative economic power. The following skills are germane to recognize international opportunities for applying or augmenting economic power; to identify policies that will maximize national economic power per unit of effort, or cost; to act diplomatically in the use of economic threats and blandishments; to coordinate the pertinent activities of different parts of the government; to maximize domestic support and minimize domestic opposition to the employment and accumulation of national economic power. All these tasks can be done well or badly.

There will be no economic power without the organized will to use economic strength. As is true of the resort to military strength, government perceptions of the need for, or the advantage of, bringing economic power to bear depend crucially on the emergence of particular interstate situations. But, similar to the corresponding foundations of military power, the following predispositions of society tend to support the will to engage in the aggressive or defensive exercise of economic power: (1) the predisposition to favour an aggressive use of national power vis-à-vis foreign countries that act to frustrate the pursuit of 'national interests'; (2) the degree of national solidarity that governments can appeal to in the exercise or build-up of economic power; (3) the disposition to follow the lead of government in matters of foreign policy, including foreign economic policy; and (4) the support of special interest groups expecting sectional benefits from the augmentation of economic power. Against such support, of course, is the opposition of special interest groups expecting to lose by economic power plays. However, while the first two predispositions are often important in the exercise of military power, they are much less so in the use of international economic power, except in defence against a very dramatic situation. Ordinarily, the use of economic power is less likely to precipitate public attention than the use of military power. By the same token, the inattentive disposition to support government policy as a matter of accepted legitimacy tends to be more important when economic power is being exercised than when military might is being brought to bear.
The fourth source of public support for wielding economic power is important when influential elites and publics expect benefits to accrue to themselves. But the economic costs of organizing and wielding economic power will naturally tend to reduce support. Sectional and aggregate national costs may be distinguished from this viewpoint. Sectional costs, of course, may be balanced more or less by sectional gains. For example, if the government attempts to build up economic power by restructuring the economy along certain lines, the owners of some productive resources will gain relatively to the owners of resources that are depreciated. Similarly, if economic power is applied, for instance, by embargoing imports from another country, domestic producers previously competing with these imports will gain while consumers will lose. The political weight of the gainers and losers, of course, depends not only on the size of the gains and losses; differences in the access to and exercise of political influence on government will largely establish the political weight of the affected interest groups. However, there are two factors that tend to give advantaged groups a greater incentive than disadvantaged groups to use political influence. One factor results from the notorious fact that the disadvantages are often diffused (as in the case of consumer interests), while the advantages are concentrated (as in the case of business profits). The second factor results from the fact that when the power-oriented policy is contemplated the likely beneficiaries are frequently more aware of the consequences than are groups that will eventually suffer.

The matter of aggregate net costs (or gains) to society as a whole is extremely complex. Beyond question, the build-up of national economic power entails costs, possibly very considerable, to the extent that it requires policies conflicting with measures to preserve or augment wealth or income. Also beyond question, the wielding of economic power is costly whenever it calls for diverting trade or capital investments from the channels indicated by purely economic criteria. If economic aid is extended in the form of gifts or uneconomic loans, the necessary funds will come one way or another, usually by way of taxes, out of economic surplus above current consumption. Unless unemployed resources can be put to work for the purpose, all costs involve losses in income and a lowering of economic growth by interfering with the economic allocation of resources and perhaps reducing domestic investment. When imports cost more than the prevailing world prices, or exports are sold below the prevailing market, worsening terms of trade involve losses in national real income. But the question is whether or not all parts of society are aware of the costs of wielding economic power, and, if so, whether or not these costs are accepted in expectation, justified or not, of the ultimate net national gains. Whether or not overall economic gains will actually accrue is an empirical matter; and the expectation of such gain can turn out to be illusory, because the exercise of economic power becomes more costly and/or less effective than anticipated, or because other intervening conditions inhibit the generation of gains.

The expectation of gain by some groups may of course, prove realistic, even though aggregate losses are incurred (e.g., when only certain groups benefit from doing business with or in a dominated economy). If these groups are part of an elite that has a powerful influence on government, effective support (or demand) of policy will be strong. That, of course, is a matter of sectional gain. However, when the beneficiaries of sectional profit are members of the elite and can bring substantial public influence to bear, they may be in a position to play down the cost and to persuade the public to form illusory expectations, as has often happened in the acquisition and maintenance of a colonial empire. Again, slanted information and evaluation may prove effective as the policy in question is being carried out, because the distribution of the accruing costs is diffuse or because the country concerned is experiencing rapid economic growth that may be attributed to it, although in fact the growth is less than it would have been without the cultivation of economic power.

But governments will receive support in the employment of economic power, although no overall economic gains or losses are anticipated, as long as compensating non-economic gains are expected and sufficiently appreciated. Such gains can involve various values, for instance, a military advantage, an unsqueamish sense of power, the satisfaction of punishing a disloyal ally, or plain gratification derived from a quarrelsome or meddlesome international posture. In this case as well, support of government is determined by who values what and how much, by who expects to share in the costs and to what extent, and by the distribution of political influence of those doing the calculating. Again, support will diminish as the policy is implemented if the accruing gains turn out to be less than expected, and the costs incurred more. Public support is especially apt to wane when the costs are large and salient, as, for example, when foreign economic aid is extended. Thus, even as the United States embarked on giving a huge volume of economic and military aid to many states after World War Two, Alben Barkley, leader for the administration in the House of Representatives, complained about '... opening the Treasury to every country in the world'. By the 1960s, the American public and its political representatives showed
increasing fatigue in the matter of foreign aid, and about one third of all personnel handling foreign aid, just prepared materials supporting government policy for presentation to Congress. But even when the economic burden is relatively diffuse, public cost-consciousness may increase and undermine policy support. This is especially likely if, given the size of the economic surplus, competing demands on its use are very pressing. Interest groups, representing these competitive claims, will become more sensitive to the cost of using economic power internationally and, whatever their basic access to political influence, will bring it increasingly to bear. Cost-consciousness is sensitized, furthermore, when the costs are salient and the expected benefits are uncertain, vague, or, at best, exceedingly diffuse. Support for foreign aid is also precarious for these reasons when aid is given to help countries develop. In the United States, weak support of aid has been attributed to the absence of a sizable domestic constituency; and this absence is caused in considerable part by the diffuseness and the uncertainty of anticipated benefits. In order to counteract this erosion of public support, governments may attempt to curtail the salience of the costs. In the United States, this has been attempted by channelling aid through many different government agencies; thereby impeding congressional efforts to cut down total aid appropriations. Finally, changes in the domestic balance of power are apt to modify government evaluation of costs and gains.

Economic Power and Types of States

Can one associate differences in economic power with types of states? The multiplicity of actors affecting national economic power makes it unlikely that simple, clear-cut associations abound. If we begin with the economic base, size and overall wealth (or degree of economic development) suggest themselves at once as criteria of classification. Indeed, one would expect small or poor, especially small and poor, countries as a group to compare unfavourably, as far as the economic base is concerned, with big or rich, especially big and rich, countries. This expectation follows from the fact that the magnitude of foreign economic transactions is important to the economic base for economic power, and that this magnitude is a product of size and wealth. Wealth and a high and rising level of economic development bring other assets. One is versatility of resources and flexibility in the allocation of productive factors, which is an advantage when trade is disrupted and when it is necessary to restructure foreign trade to achieve economic power. Another asset is the relative ease in the generation of a large economic surplus from which exports of capital and aid can be drawn.

Nevertheless, it is easy to exaggerate the importance of national wealth and size as bases of economic power. In the late 1960s, Japan and the large west European nations were often referred to as important world powers that were based not on military strengths but on their great and rapidly growing trade and wealth. Such speculations neglected the importance of political will in the generation of economic or military power. They also neglected two other considerations. First, to the extent that wealth and size are associated with a large volume of international economic transactions, they do facilitate active economic power; but wealth also tends to reduce passive economic power. No country is less vulnerable to foreign economic power than a poor and self-sufficient one. Prior to the industrial revolution, most countries had a low economic dependence on the outside world. On the other hand, contemporary Japan and West Germany, for instance, are highly dependent on foreign sources of energy and raw materials. When some Arab countries put pressure on them in 1974 by curtailing oil exports, these rich countries quickly submitted. Large geographic size tends to increase passive economic power, because larger extents of territory tend to be associated with possession of various mineral deposits, soils, and climatic conditions.

Second, national economic power depends on structural factors of supply and demand. The chief structural conditions favouring active or passive economic power involve, as we have seen, imports that are relatively nonessential and permit a degree of monopolist power, and exports that are essential to other states and enjoy a degree of monopolist power. Regarding the essentiality of imports, poor countries, which are virtually self-sufficient in food and clothing, are as a group less vulnerable than rich countries, nearly all of which import vital raw materials, fuel, semi-manufactured, and manufactured goods. Haiti, Malagasy, and China are more self-sufficient than Japan, Britain, and Luxembourg. However, less developed countries that are bent on rapid industrialization, or are in urgent need of modern arms, have greatly advanced their economic dependence. Their imports have become less compressible, especially if they have largely eliminated luxury imports; and this will have increased their dependence on exports (or loans and gifts).

Concerning the possession of monopolist or monopolist advantages, it is clear that monopolist power is impossible for poor and small states. It takes a big and rich country to account for a large proportion of world imports in any commodity market. On the other hand, the distribution of
monopolist advantages shows no regular association with size (in terms of population) and degree of economic development. To be sure, monopolist positions based on rare skill and pioneering technology are possible only in very developed countries. But the latter are at no advantage as a group regarding natural resources. Size, in terms of area rather than population, is once more a modifying factor here. To give some examples of monopolist positions in poor countries, Chile enjoyed a world monopoly in nitrates before World War One. At the present time, Zaire, Zambia, Chile, and Peru have the bulk of the world’s rich copper deposits. Several Arab states, Iran, and Venezuela account for the vast bulk of the world’s oil exports. Indeed, in the very important case of petroleum, the monopolist advantages of less developed states are associated with an extraordinarily price-inelastic demand in most of the rich countries.

However, three conditions tend to put the poor countries at some disadvantage compared with rich countries, and these burdens increase their vulnerability to the exertion of economic power. One is the high proportion of primary products in their exports. As a class, such exports tend to fluctuate in price and in volume more than do exports of industrial goods. This fact—often combined with a low price-elasticity of supply—makes export receipts more unstable and causes a weakness when export proceeds slump. This effect is reinforced, secondly, by the additional fact that the exports of those states are more concentrated, that is, involve fewer commodities, than are the exports of highly developed economics. Finally, even though their export earnings tend to be relatively unstable, less developed countries—other than those with large oil exports—tend to have smaller foreign exchange reserves in relation to imports than do the highly developed countries as a group.

There is, however, one additional classification of states that has considerable bearing on the bases of national economic power. How do states operating centralized command economies, usually called Soviet-type economies, compare with capitalist states with market-type economies? The effects of geographic and population size, and of relative level of development, of course, cut across this distinction. But there are relevant and significant differences in policy and institutions.

First, most countries with Soviet-type economic systems, in particular the Soviet Union and China, have been pursuing trade policies designed to keep foreign trade relatively small in relation to their GNP. Unless political conflict interferes, they have also tended to favour states with the same fundamental political and economic system. Historically, it is clear that Communist regimes preferred a degree of self-sufficiency, because they were wary of far-reaching economic interdependence with capitalist states and they were evidently prepared to pay for more autonomy by foregoing the gains obtained through a greater degree of international specialization (which was not, however, fully understood). This restriction on participation in world trade redounds to these countries’ passive economic power; but while it permits less usable leverage against them, it also tends to reduce the leverage they enjoy against other states.

In the early 1970s, several Communist countries, including the Soviet Union and China, began to expand their trade with the capitalist economies. How this will affect societal vulnerabilities depends on the structure of expanding trade. For example, the Western European countries and Japan would become more vulnerable to the exertion of foreign economic power if they imported increasing quantities of fuel from the Soviet Union in exchange for manufactured consumers’ goods or capital goods. The traditional anxiety of Communist governments to avoid economic as well as military vulnerabilities will probably continue to operate. Second, Communist states have a monopoly over foreign trade. This puts their governments in a favourable position to shape the structure of exports and imports within the limits of economic feasibility, to fix export prices lower and import prices higher than world market prices, to favour one foreign country over another, and to conclude long-term export and import agreements. A state monopoly over foreign trade is also an advantage in using any elements of monopolist and monopolist power that its exports and imports may enjoy in the world market. In other words, these states enjoy administrative institutions far superior to those of capitalist countries for waging economic warfare or supporting other countries economically. Third, because countries with Soviet-type economies are usually politically authoritarian, their governments tend to command more political power than governments in capitalist states to impose the economic costs of exercising economic power upon their populations. This holds true of the costs of pushing foreign trade into uneconomic channels; and it likewise holds true of their ability to curb private consumption, provide for a large economic surplus, and extend foreign loans and aid. This is not to say that their governments are themselves insensitive to the costs of wielding economic power, because resources employed for these purposes are unavailable for investment or defence. Nor can they be completely indifferent to the economic aspirations of the societies they rule. But unless the ruling groups are themselves divided on these matters, they do tend to possess incomparable authority regarding the use of economic resources. Fourth, states
maintaining Soviet-type economies are remarkably insulated against depressive or inflationary pressures coursing through the rest of the world economy, and—not having freely convertible currencies to begin with—they are also immune against adverse currency speculation. This ability to ward off external economic impulses is rooted in the fact that the economic life of these states is not as organically interlinked with the world economy as are the economies of capitalist countries. On the other hand, Soviet-type economies have not rarely suffered from painful shortages in the planned domestic production of essential supplies, and their governments were then compelled to seek relief in world markets. Thus, Soviet-type economies have repeatedly experienced drastic deficiencies in food production partly resulting from their inability to provide collectivized farmers with a proper incentive structure, from slighting agriculture in the allocation of investment, from the incompetence of central bureaucracy in dictating particulars of farm production, and also in part from basically unfavourable natural conditions (e.g., climate and soil fertility). Thus, the Soviet Union, China, and East Germany have been compelled from time to time to make unusually large imports of food.

The advantages available to states featuring command economies are, of course, significant for economic power only when associated with size and a fairly high degree of economic development, or when they act in concert. By themselves, Bulgaria and Albania fail in size from this point of view. The Soviet Union has such a base, and China’s will grow as she becomes more developed. Whether or not the institutional assets of these states are used for exercising economic power is, of course, a matter of will that, as mentioned, is affected by the opportunity costs of doing so. Nazi Germany, which possessed some of these advantages of a command economy (e.g., state-trading), although remaining formally capitalist, engaged in the large-scale application of economic power—especially vis-à-vis the primarily agricultural countries of eastern Europe—and, incidentally, was greatly assisted in doing so by the Great Depression of the 1930s. The Nazi government evidently had the necessary will. However, as will be seen in Chapter VI, the Communist states have not made extensive use of their institutional advantage for applying economic power.

**Monopolist Market Power**

While our focus has been on national economic power that can be used internationally to achieve a variety of objectives, market power is, of course, used primarily and routinely for increasing economic profit. Monopolist market power is used to extract special profits from customers. In capitalist societies, private enterprises possess and exploit international market power for private gain, although society may benefit indirectly from improved terms of trade. However, a number of monopolist firms are public in largely capitalist countries (e.g., Italy and France); and in most less developed countries, they are either public or operate under tight government control. Furthermore, when governments, including those of capitalist states, manipulate foreign trade restrictions for the purpose of improving the terms of trade (i.e., getting more imports per unit of exports), they are also using international market power, only in this case pertaining to aggregate exports and imports.

On the basis of the historical record, it can be assumed that when acting rationally governments tend to exploit international market power for economic gains as a matter of course unless restrained by the following conditions: (1) ignorance of the existence of market power; (2) market uncertainties that make it difficult to design a trade policy calculated to improve the terms of trade; (3) expected effective retaliation by other states; (4) the likelihood that short-term gains will be offset by long-range disadvantages (e.g., stimulation of the production of competitive goods abroad); (5) undesirable political side effects; and (6) a countervailing interest in benefiting another country or countries.

Regarding monopolist market power in reference to particular commodities, Judge Learned Hand once remarked: ‘Some are born monopolist; some achieve monopoly; others have monopoly thrust upon them’. Monopolist advantage can indeed be achieved by superlative technological innovation, marketing skill, and large financial resources. But these monopolist positions tend to be fleeting and unstable in the modern world, because, sooner or later, equally resourceful competitors will be attracted by the rewards of monopoly. But, as we observed above, a particular historical concatenation of circumstances is bringing about or increasing world shortages of important natural materials, especially petroleum; and the states that will thus be given monopolist positions are ‘born monopolists’ that have monopoly ‘thrust upon them’. ‘As a result of this windfall, they will be able to collect vast amounts of what economists call ‘rent’.

The case of oil is here the most critical and interesting. The bonanza of the oil-exporting countries—particularly those in the Middle East and North Africa—would be copious even if they competed among themselves. But the major states organized an international monopoly—the Organization of the Petroleum Exporting Countries (OPEC)—in 1960, and have thereby established the basis for extracting
even more gain. This will naturally be at the expense of all
importing states, including most less developed countries. But
the bulk of the profits will be obtained from the rich indus-
trial societies. There are no international norms prohibiting
monopolist profiteering, just as there are none prohibiting
other exercises of economic power. And in view of the earlier
record of the capitalist societies, especially of the big oil com-
panies, it will be hard to blame the oil-exporting countries for
taking everything the market will bear. Of course, if they are
prudent, their governments will be considerate of long-run
as well as short-run benefits and not—by means of exacting
exorbitant prices—fasten the day when new competitive
sources of energy will appear in reaction to rising energy
prices and seriously impair the favourable position of the oil
exporters. The latter will also be aware that this position rests
in considerable part on the preservation of OPEC unity.

Some Conclusions

Like all power, national economic power is relative. It is
relative to the economic needs and vulnerabilities of other
countries. And furthermore great economic power can be
balanced by economic counter power. Moreover, the signifi-
cance of the international distribution of economic power
depends on the international distribution of other kinds of
power and influence, including military strength. After all, a
state pressed by adverse economic power might seek relief by
resorting to military power. However, on the whole, the two
patterns of power distribution do not grossly diverge, except
for economic power derived from natural resources. This is
so because size is an asset behind either form of power, and
so is economic capacity. To be sure, the economic strength
suitable to underpinning military and economic power is not
the same. But there is substantial overlap. The United States
and the Soviet Union are the two military superpowers. The
former is also the supreme economic power, and the latter is
surely among the leading economic powers. However, there
is a gross divergence between military and economic power
in the case of the oil-exporting countries. This is so precisely
because the basis of economic power is in these cases not
man-made but rather results from the lottery of nature.

Is there in fact an international balance of economic
power as there is a balance of military power? Some writers
deny this. Such views rest on the assumption that national
wealth and economic power are the same, and on the
attendant failure to distinguish between co-operative non-
zero-sum and conflicting non-zero-sum uses of economic
resources. It may be practically difficult to measure and
compare the economic power of states. But rough approxi-
mations are feasible in principle.

In the past, the economic wealth and power of states
have undergone frequent and substantial changes mostly at
a consequence of conquest, economic growth, or economic
decay. The history of the late Ottoman Empire and of recent
Spain are as striking examples of decay as that of Japan since
the Meiji Restoration is one of almost fabulous economic
rise. The power of England, the first ‘workshop of the world’,
declined as newcomers joined the ranks of industrial states.
Future differences in economic development alone are bound
to modify the present international balance of economic
power. Imagine the impact if China, given her large and
growing population, manages two or three decades of rapid
industrialization. The economic growth of any of the larger
societies now comparatively underdeveloped will make itself
felt in the world’s balance of power unless rapid economic
advance entails disharmony and instability, as frequently tends
to happen under conditions of swift change. Consolidation of
states could likewise greatly alter the world map of economic
power. This could happen if the EEC, possibly joined by Brit-
ain and some smaller European countries, achieved tighter
political and economic integration.

And then, of course, there could be disturbing shifts
in economic as well as other kinds of power resulting from
changes in the political and cultural conditions that affect the
will to apply power. As observed in Chapter III concerning
military power, current changes taking place in the affluent
Western societies may profoundly affect their ability to mus-
ter and utilize power of any kind.