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Interdependence and Class Relations: A Long View Perspective on the U.S. and Latin America

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Interdependence and Class Relations:
A Long-Term Perspective on the United States and Latin America

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This paper presents a long-term perspective on U.S.-Latin American relations in the context of the historical evolution of uneven development between North and South. Seen from this perspective, the major difficulties facing U.S.-Latin American relations are more serious than the current macroeconomic adjustment to the debt crisis that threatens the developing region's nascent democratic governments. They are even more comprehensive than the dramatic trade and industrial restructuring that will have to take place if Latin America is eventually to repay its international debt. Rather the debt crisis is symptomatic of a more general problem: the global failure of post-World War II sociopolitical and economic institutions to coordinate a transition to global interdependence--the new paradigm that has internationalized the previously domestically based relationships between production, distribution, consumption, and investment. This failure is particularly worrisome given that post-World War II domestic social pacts in both North and South were rooted economically and institutionally on this domestic articulation between wages, profits and productivity. What is currently in question then, is: Under what possible scenarios can we expect societies on opposite sides of the North-South divide to move now, as they did in the post-World War II era, toward stable interdependent capitalist growth, which can provide the material bases for broad social compromises among economic classes?

I will explore these issues using formal and historical-comparative methodologies. First, a formal modeling framework is presented for evaluating the dynamics and contradictions of "global regimes of interdependence." With this framework, we can distinguish between global regimes, including the rise and fall of Pax Britannica and Pax Americana. The model is then shown to correspond to data for the last one hundred years for the U.S.-Mexico situation and other key cases.[1] The North-South conditions of the 1940s, which allowed for the postwar global

expansion and class compromises, are reviewed as a basis for comparing the choices faced in the 1980s. Toward this goal, the model is also used to identify possible future regimes of interdependence. Three choices are evaluated: neo-liberalism, neo-protectionism, and managed interdependence. I will show that major institutional changes both within and between the North and South will be required to coordinate two key processes: (1) the rebuilding of stable and sustained North-South growth, and (2) the renegotiating of domestic social compromises. Since this complex task must be pursued in the qualitatively new environment of interdependence, most countries in the hemisphere will be unprepared for what lies ahead.

Global Regimes of Interdependence

A "global regime of interdependence" model has been developed for analyzing the dynamic relationship between (1) global economic development through successive uneven patterns of North-South production, trade, and financial interdependence, and (2) patterns of institutionally constrained strategic collective action among capitalists, workers, and states. The framework is a synthesis of economic "surplus" approaches to international modeling and comparative sociopolitical institutional analyses, and presents global economic development and class-state relations as rooted in rational-choice strategic analysis.[2]

A regime of accumulation can be defined as the administered relationship of production, distribution, consumption, investment, and growth; that is, the cycle that encompasses production, distribution of the product into wages (and non-saved profits for consumption), and profits accumulated for investment in more productive technology. A global regime of interdependence is the reiteration of this dynamic relationship across national economies, including international industrialization, trade, and net capital flows. Within a global system, possible macroeconomic and sectoral paths of growth between countries often overlap. International economic structures set limits on possible domestic interactions between class and state. In a dialectical fashion, class strategies for attaining their material interests (wages and profits), as well as state policies in a

variety of areas (macroeconomics, trade, capital flows, technology) determine directly (through investment patterns) and indirectly (through patterns of derived demand) the evolution of particular nations as well as of the international system.

The framework for analyzing the evolution of global regimes of interdependence consists of (1) a three-sector, two-class, North-South model of growth, trade, and capital flows, and (2) a time-discounted model of strategic interactions among capitalists, workers, and states over the setting of income distribution. (See Appendix.)

Economic Parameters for Global Interdependence

A model is developed for two countries, North (N) and South (S), with two basic classes, capitalists and workers, and three sectors: capital goods (K), durable consumer goods (CD), and non-durable/primary goods (ND). These sectors are differentiated by varying levels of productivity (defined through coefficients of output per worker and per unit of capital). These key productivity parameters, along with relative international levels of wages and profit mark-ups, allow us to determine the global pattern of comparative advantage and thus trade. Capital flows are incorporated to balance international payments[3] (and thereby allow for the equalization of profit and growth rates across countries), and to balance savings/investment relations within countries. With this framework we can measure North-South interdependence as the degree of internationalization within each element of the economic cycle of capitalism.

Setting basic economic parameters of the model constrains the range of possible strategic distributional arrangements between classes and states, and thus limits the possible patterns of global accumulation and interdependence. With the use of the production, trade, and capital flow parameters, the structure of the world economy across North and South is shown to undergo a series of fundamental changes. The shift in relative productivity and the resulting international division of labor with respect to the three sectors (K, CD, and ND) are shown to delineate key phases in the stability and dynamics of the world economy and the material basis for class

compromises and hegemonic political orders across nation-states (Fig. 1). The existence of a domestically consumed wage-good sector is shown to more readily allow for class compromises than an internationally traded wage-good sector, in which distribution and demand must be coordinated internationally. Of critical importance, then, is whether a given pattern of accumulation is based primarily on domestic sources of demand or whether accumulation and reproduction are externally oriented.

Sociopolitical Parameters for Strategic Interaction

To complete the entire North-South model by determining all the key variables in the system, I have formalized the class struggle by which the distribution between wages and saved profits, and thus the level of consumption and the rates of accumulation and growth, are determined. Capitalists and workers each choose strategies that will maximize their projected future welfare. The resulting pattern of income distribution depends on the above set of international economic parameters (represented through relative sectoral productivities) as well as a set of national and international sociopolitical parameters (represented through relative discount rates) within which strategic interaction takes place. The sociopolitical parameters (or discount rates) are based on the relative organization of classes and class/state relations, including relative organizational breath and cohesion of each class; state capacity for the enforcement of capital-labor accords; and state capacity for the regulation and direction of the economy.

These sociopolitical parameters constrain the range of possible expectations concerning the enforcement and regulation of time-discounted strategic distributional arrangements between classes and states.[4] The resulting strategically arrived at pattern of income distribution may or may not correspond to a class compromise, a condition of broad consent to the hegemony and stability of capitalist relations of production. A class compromise implies that workers will consent to capitalist relations of production if, given the structure of the economy and their discount rate, it is in the best interest of capitalists to save and invest in a way that satisfies the material interests of

workers. Of crucial importance to whether a class compromise can exist is the relation between discount rates and productivity: if class discount rates exceed the productivity of the economy (D > P), then conflict is likely. If, on the other hand, productivity of the economy exceeds discount rates (P > D), then a class compromise is possible.[5]

Dynamics of Regime Evolution

The evolution of global regimes of interdependence, as well as variations in national experiences within regimes, can be analyzed through their shifting compatibility and incompatibility of interests. A stable regime of global interdependence implies compatibility among a set of economic parameters, which can allow for continuous expansion along certain paths of uneven development, and a set of social parameters, which can enforce and regulate certain patterns of strategic interaction necessary for balanced and stable expansion. Under these conditions, the micro strategic behavior of different actors sustains a macro pattern of continuous reproduction.

A stable regime of global interdependence does not, however, necessarily imply that a wide range of actors have accepted this arrangement as the best possible outcome. Such a regime, referred to here as a "hegemonic regime of interdependence," can occur when stable international economic growth is accompanied by satisfaction of the material interests of at least a critical block of workers and capitalists, thus allowing for political legitimacy and stability within countries.[6]

The rise and maintenance of a stable global regime with parametric compatibility are by no means assured. Similarly, there is no a priori reason to expect regular, cyclical dynamics in the rise and fall of regimes. Instead, the relationship between strategic interactions and the transformations of the parameters within which they take place need to be understood. During periods of compatibility, strategic struggle takes place within established parameters. During the maintenance of a regime, there is a tendency for positive cumulative causation, whereby the success of the economic structures legitimize the social structures for strategic interaction.

Decline in a regime occurs when either the economic parameters for reproduction or the social parameters for interaction begin to shift in contrary directions and new strategies are adopted that change further one or both parameters. A crisis ensues as a pattern of parametric decay and negative cumulative causation occurs. Such a crisis usually results in a period of strategic struggles over the restructuring of parameters. During such periods, the raw relative-power capacities of social groups become crucial.

Regime Types and National Variations

The emergence of a particular global regime type and its evolution can thus be seen a function of the juxtaposition and compatibility between (1) Economic parameters, which allow for capital accumulation and reproduction to be primarily based either internally within countries or internationally across countries, and (2) Social parameters, which allow for the regulation of accumulation and strategic interactions resulting in either long-term hegemonic compromises (the solution when P > D) or a conflictive and imposed equilibrium (the solution when D > P).

From this parsimonious description, we can create a two by two table that describes the multiple possible variations in regime types (Fig. 2). Each combination of economic parameters, arrayed by rows, and of sociopolitical parameters, arranged by columns, defines a type of regime of interdependence. Regimes in the upper row are internally oriented, while regimes in the lower row are externally oriented. For regimes in the right-hand column, the economic parameters of the productivity of most economies exceed the discount rates of class members (P > D), allowing for the possibility of class compromises. For regimes in the left-hand column, discount rates exceed the productivity of economies (D > P), creating a situation where class strategic interaction is likely either to break down into open conflict or be controlled only through the domination of one class over another.

As displayed in Fig. 1, during the Pax Britannica and Pax Americana regimes the international division of labor was characterized by the production of both capital goods (K) and

consumer durables (CD) in the North, while the South produced first non-durables (ND) during Pax Britannica and later CD during Pax Americana (as well as in the current regime transition). The shifting role of the manufactured wage in the division of labor, as well as the level of development of social parameters, have played a crucial role in making possible a stable regime with compromises. Pax Americana was a special case in which the easy articulation between domestic wage-good production and equitable income distribution was made even more possible given the social institutions emerging at the time. When wages are traded internationally, however, there is no easy articulation between national wages and profits; social institutions must be more developed to coordinate production and income distribution across countries. This development did not occur during Pax Britannica and is seriously in question in the current regime transition.

The reconstitution of a new regime to replace the Pax Americana can proceed in a variety of directions. The current neo-liberal path promises high growth through greater internationalization of the production of wage goods and increased income inequality. This growth is predicated on a reduced scope of existing sociopolitical institutions, thus raising discount rates and increasing the difficulties in reaching class compromises. The neo-protectionist attempt to reestablish domestically based accumulation will most likely produce a drop in global productivity within existing social institutions, thus also hindering class compromises. Managed interdependence is based on both greater internationalization of CD production and an expansion of North-South sociopolitical institutions, which increase global productivity and decrease global discount rates. Only this regime can generate global growth while enhancing the likelihood of class-compromise solutions to income distribution.

Global Regime Dynamics in Historical Perspective

In this section I will compare the operation and crisis of the two major historical regimes of accumulation, Pax Britannica and Pax Americana. I will also examine the 1940s as a basis for understanding the 1980s, and will explore the choices for alternative regimes.

The Pax Britannica Imperialist Regime Of Interdependence

Our analysis begins with the "classical imperialist" regime of interdependence (1870s to 1920s) and the nature of its crisis. This regime was characterized by production of capital and consumer durable goods in the North and of non-durable goods in the South. During this regime, economic parameters allowed for rapid growth, based on a vast extension of a North-South division of labor (which was driven by the large differences in sectoral productivity across countries). World trade grew much faster than world production at a rate not equalled until the waning of Pax Americana.[7]

These uneven economic parameters were accompanied by underdeveloped social institutions, and thus high discount rates, which produced intense class strife and an unequal distribution of income. While this regime of interdependence exhibited economic durability and produced rapid growth, it was not a global hegemony based on class compromise. The regime was eventually unsustainable as class struggle continued within and over the given social parameters and as economic crisis developed due to difficulties in regulating expansion between production and consumption in the context of uneven international development. The North exhibited tendencies toward underconsumptionist crisis and capital export, while southern growth was essentially extroverted, producing mounting balance-of-payments and debt-servicing difficulties.

In particular, accumulation and reproduction in the North were based on the quasi-articulation between the capital goods and durable consumer goods sectors. Wages and non-saved profits were spent on durable consumer goods once nondurable consumption had been satisfied according to Engel's law. The level of domestic demand, however, was not sufficient to maintain a rate of output growth high enough so that the export of manufactured goods was crucial to this pattern of reproduction, as in the British case described by J. A. Hobson and Rosa Luxemburg.[8] With a relatively lower rate of profit, northern capital sought more profitable investment

opportunities in the periphery, à la Lenin.[9] The period saw the rise of unions, which were able to capture a strategic level of wage increases. In the formal model, this result can be obtained if low capitalist and high worker discount rates occur with a concomitant improvement in productivity.

U.S. data for this stylized period show how the gap between productivity (hourly output per worker) and real wages in manufacturing increased until the 1930s, when a countertendency began that continued into the post-war era. The transformation in the relative growth of real wages occurs simultaneously with a qualitative jump in the rate of unionization of the work force.[10] In the South, accumulation was based on primary exports to the North. The savings derived from profits and from low wages that were not consumed in the primary sector were spent on importing manufactured consumer goods. Direct foreign investment and loans from the North were geared primarily to the development of infrastructure for exporting primary goods, serving to alleviate the South's balance-of-payments deficit. Conditions for class compromise were precarious due to the orientation toward export demand. Downward pressure was exerted on wages because of the lack of relation between domestic wages and demand, which were both hindered further by the low level of worker organization. Within our formal model, this means that a very high discount rate for workers exists, which can lead to the possibility of direct confrontation with capitalists. The uncertainty of whether a pro-worker revolutionary outcome or an anti-worker authoritarian outcome will result, however, may be so high as to discourage workers from pursuing a confrontation.

Raúl Prebisch described the pre-ISI pattern as resulting in deteriorating terms of trade for the South, which exported primary goods in exchange for manufactured goods from the North.[12] While technological improvements in northern technology led to increased capital-output ratios, the related lowering of production costs was not translated into lower export prices. Rather, this new "surplus" was captured and distributed between northern profits and unionized worker's wages, in part because of the relatively greater strength of labor in the North. Technological improvements in the South's export sector, however, resulted in lower export prices; as the northern consumption base rose, the Engel effect began to work against a growth in demand for southern exports. The

consequence of this international division of labor and this pattern of distribution was a secular deterioration in the South's terms-of-trade and balance-of-payments deficits, which, in turn, had to be financed through increased foreign investment or borrowing.

During this period, Mexican real-wage increases lagged relative to productivity growth.[13] As Porfirian exports rose, so did imports,[14] while terms of trade continued to favor Mexico's major trading partner, the United States.[15] As the trade surplus shrank,[16] the level of borrowing increased.[17] Eventually, the imperial regime of interdependence proved unsustainable as class struggle continued and as the economic crisis developed. The lack of articulation between production, distribution, and consumption in the North led to underconsumptionist tendencies, an export of capital, and a declining relative rate of profit. This rise of fordist mass production technology without mass distribution was prone to disproportionality.[18] Southern accumulation was essentially outward-oriented and vulnerable to global cycles and secular in the decline in terms of trade, producing mounting balance-of-payment and debt-servicing difficulties; furthermore, this pattern of accumulation was characterized by domestic market stagnation and growing income inequality, creating the conditions for open conflict among class factions. The ensuing global crisis of the 1930s quickly evolved into a generalized cycle of economic and social degeneration and open strategic struggle over the future of these parameters.

From Global Crisis to the Formation of Post-World War II Regimes

The crisis of the 1930s produced the steepest decline of output growth in the history of capitalism. It also resulted in new economic and sociopolitical structures crucial to the strength and longevity of the postwar pattern of growth, the strongest and most sustained in the history of capitalism. From this crisis arose a new North-South economic structure, the most important components of which were the massive expansion of capital goods capacity in the United States and the rise of import-substituting manufacturing in many parts of Latin America. Politically, this period was characterized by workers' increased militancy and organizational strength, an enhanced

corporatist organization of labor and capital, a greater articulation of the state with organized class interests, and a growth in state regulation of production and distribution in the economy. The global concentration of power at the end of the war also allowed for unprecedented institutional development geared toward transnational economic growth and exchange.

Rather than a result of conscious planning by actors, this new global parametric compatibility was a particularly fortuitous result of an economic restructuring forced on North and South by the collapse of the old productive order and a social institutional restructuring that emerged from open strife among classes and state. The strategic goals and intentions of these social actors during this difficult period were thus not necessarily the same as the stable outcomes that eventually emerged.

We must first investigate how shifting parametric conditions allowed for a recalculation of key short-term class and state interests and how this happened to coincide with a path of long-term transnational reproduction and growth. What new international parametric changes and strategic processes allowed the post-World War II pattern of interstate and class strategic relations to be established? The economic and social parameters for strategic interaction in the Pax Americana regime differed from those of the previous Pax Britannica regime in three important ways: (1) Through import-substituting industrialization (ISI) a CD sector now existed in the South as well as the North, setting up the possibility for the domestic production and consumption of high-wage goods and thus a potential complementarity between wages and profits; (2) Discount rates were substantially reduced through the formation of unions and corporatist organizations, a new legal structure for enforcing capital-labor accords, and the institutionalization of state intervention in macroeconomic, trade, debt and industrial policies; and (3) There existed a newly formed international monetary, financial, and trading system, specific to the global needs of the time, that allowed for northern financing of ISI-generated balance-of-payments deficits in the South.

With these new parameters in place, the stage was set for class and state strategic interactions that produced, and were based on, the long-run viability of a rapid, albeit uneven, pattern of North-South expansion. This postwar expansion was based primarily on domestic

sources of growth, which enjoyed support from key hegemonic blocks of union workers and large firms in the North, and urban ISI workers and firms in the South. In the South, these patterns could be found in post-Cardenas Mexico, Brazil under Vargas, and Peron's Argentina, as well as Korea and Taiwan in the early stages of their development.[19]

Relations between the United States and the developing world were also transformed dramatically in the aftermath of this global crisis and war. The 1940s, for example, saw the last major negotiations between Mexico and the United States on debt, foreign investment, trade, and industrial policies. These negotiations affirmed an international division of labor within which was generated the most rapid, albeit uneven, growth across any two countries on opposite sides of the North-South divide for over a quarter of a century. Furthermore, unlike the North-South regime around the turn of the century, this pattern of growth could be based on, and could allow for, strategic support of at least an important block of capitalists and organized workers. What we saw in this postwar pattern was thus a complementarity between the micro-strategic motivations of a variety of actors and the long-run macroeconomic and political stability of the North-South system.

How could a North-South pattern of growth, trade and distribution, and class compromises have been strategically arrived at and set in motion in the postwar period? The answers include the following: (1) The global depression and World War II created the conditions for solving the particular collective-action problem on the previously defaulted debt and the expropriation of foreign investments, allowing international capital circulation to be reestablished, (2) The global depression and war initiated and absorbed an important part of the costs of international industrial and trade restructuring, which allowed for the initiation of a new, more dynamic and efficient international division of production and trade, and (3) The shifting international structure of production was needed for the development and legitimation of domestically rooted national social pacts, state/society institutions for economic intervention, and relatively stable political regimes in both North and South.

The period from the 1938 oil expropriation to the 1942 debt and the 1947 trade and industrial agreements was crucial for the establishment of a framework for future relations between

Mexico and the United States. These agreements set the basis for the operation of complementary domestic and international patterns of economic and sociopolitical development during the postwar era. During the 1940s, all the basic areas of the international relation--debt and investment, trade and industrial restructuring, and regulatory and distributional issues--were either linked explicitly or formulated within a common policy perspective. Furthermore, each of these three strategic interactions were complementary to one another long-term.[20]

Seen in this historical light, the crisis of the 1980s is clearly not the first time that the North and South have faced a significant problem in internationally reorganizing their debt, trade, and industrial relations. In the 1940s, a new set of international and domestic class relations were established and sustained. These relations were the basis for the long-lasting economic pattern that placed the United States in the central hegemonic position--that is, hegemonic in that it could oversee the reproduction of a stable global capitalist growth and the stability of class relations both domestically and transnationally. Later in the postwar era, however, these arrangements would produce new internationally oriented financial, investment, and export groups that undermined the regime that served them so well.

The Pax Americana Hegemonic Regime

The reconstitution of a postwar international division of labor arose from a new configuration of economic structures, social forces, and state structures that also allowed for certain class-compromise strategies. The new North-South division of labor (in which North exports capital goods, K, instead of consumer durables, CD) made possible an increase in global trade that was also compatible with domestic growth. Given new global productive structures consisting of CD sectors in both North and South, it became possible to solve the internal social-demand problem via domestic means. New domestic social institutions were able to regulate consumption and investment and thus allow for a lowering of discount rates and more stable long-term North-South interactions. These multiple conditions allowed for the possibility of domestic

solutions to class strategic struggle that could reinforce conditions in the other country. Yet the international regime could be sustained precisely because economic reproduction was primarily domestic. This pattern of reproduction continued for most of the postwar period despite the existence of relatively weak international institutions which, while sufficient for regulating a domestically based international hegemonic system, would later prove inadequate to the challenges posed by greater internationalization of reproduction.

In the North, accumulation and reproduction were based on a clear distinction between capital-goods and consumer-goods sectors. Through a variety of institutionalized state/society mechanisms, a class compromise emerged that allowed for a complementary growth in real wages which, when spent on durable consumer goods, increased capacity utilization and thus increased the derived demand for capital goods. Each increase in northern wages thus led to a higher multiplier feedback on CD and K demand and to growth in the North. As total profits also grew, they were reinvested in capital goods that embodied innovative technology, and thus increased productivity and maintained steady growth.

While capitalists kept reinvesting at home through savings from moderate and stable profit rates, they also invested abroad at more risky yet higher profit rates. Financial institutions and corporations with multinational potential could use savings not invested in the North for investment in the South which, as ISI proceeded, was becoming profitable. These investments increased the demand for capital goods exported to the South in continuing exchange for southern primary goods under improving terms of trade for the North. While ISI thus resulted in a reduction in CD export production and employment, it also increased K export production and employment. Fortunately for this North-South pattern of reproduction, the pressure for northern employment could also be satisfied by greater CD demand from northern wages and profits according to Engel's law.

U.S. relative growth of real wages to productivity increased after the war and depression,[21] and the relative real wage increases of the period correspond with a shift toward the consumption of durable goods.[22] Profit rates reached their peak in the mid-1960s, [23] as rates of productivity growth also reached their peak.[24] Meanwhile, U.S profits derived from overseas

activity were relatively stable in the early postwar period,[25] shifting as U.S. direct foreign investment increased.[26]

Table 1 presents the result of a sources-of-growth analysis conducted from input-output matrices of the United States and Mexico spanning the years 1947-1982 (see Appendix). The data show an expansion in domestic demand that reached its peak in the late 1960s. A corresponding drop in the ratio of imports and exports to GDP also occurred.[27]

In the South, ISI, begun during the world depression and World War II, was carried out behind high tariff rates imposed by southern states on manufactured consumer goods. Tariffs in the South increased the price of CD goods above the international level but also allowed for protection rents to be distributed as profits and wages. CD goods were absorbed by southern urban consumption out of non-saved capitalist profits and union wages. Market growth led to high-capacity utilization and thus high profit rates. Employment was determined by the capital-labor ratios of the imported capital goods specific to the North. Despite the lower savings rate in the South and chronic balance-of-payment deficits, growth continued as net investment and foreign exchange were augmented in the short run through continued direct foreign investment in ISI industries and through foreign borrowing.

Given these new international conditions, the southern state could engineer the structure of other relative prices to maintain a certain pattern of growth. In Mexico, agricultural sector prices were usually kept low as a subsidy on urban food consumption, which also allowed urban income to be spent on manufactured consumer goods. There was also typically an overvalued exchange rate, which allowed for the cheap importation of capital goods but placed a burden on primary exports. Both of these policies created a lower relative profitability in the countryside and a resulting relative disinvestment in domestic ND production and those ND exports that were not sufficiently profitable. The decapitalization of rural areas, along with the capital intensity of manufactured production, exacerbated employment deficits in the South and kept the rate of urban, especially non-union, wages low.[28]

A narrow class compromise in the South was nevertheless possible because this pattern

created a complementarity of wages and profits in the urban CD sector. The imposition of a tariff resulted in the transfer of a CD sector to the South and increased southern employment. Greater demand for the CD goods produced behind tariffs resulted in a protection rent that could be distributed among wages and profits. A one-time explosion in growth was thus possible, and it could continue as long as markets kept expanding faster than increases in costs (either wages or capital goods). Increased import demand for capital goods, combined with slowing exports of ND due to lagging northern demand and decreasing terms of trade, resulted in balance-of-trade deficits that had to be financed through direct foreign investment and bank lending. This financing was feasible due to the higher rate of return in the South.

The relative growth of Mexican postwar real wages and productivity oscillated.[29] The moving average trend shows an early postwar lag in real wage growth, high levels of increase in the 1960s, and then a decline following the reduction in productivity growth in the 1970s. The results of the sources of growth analysis for Mexico (Table 1) reveal a shift toward domestic sources based on demand expansion, particularly private demand in the 1960s. Import substitution is much more important in the early years with export expansion gaining inverse prominence in the later period. This shift in importance of the external sector is also seen in the ratio of imports and exports to GDP.[30]

The structure of total Mexican trade and its trade with the United States were relatively stable until the 1970s, when important changes occurred.[31] Primary product exports began to lag behind manufactured imports just as the terms of trade shifted against Mexico.[32] Trade deficits began to grow,[33] increasingly financed by large net inflows of foreign capital as the stock of foreign debt rose dramatically.[34]

The Crisis of Pax Americana and a Regime Transition

This pattern of international reproduction could continue as long as the relative international

conditions for production, trade, and capital flows, and the pattern of class strategies, remained relatively constant as growth proceeded. While the pattern proved to be very resilient economically and politically, important problems did appear that had their roots in the very dynamics set off by this pattern of reproduction.

In the North, the steady-state process could continue as long as domestic aggregate demand for CD, and K goods from domestic real wages and global profits, continued to grow at a proportional rate, maintaining market growth and high levels of capacity utilization, profits, investment and productivity.

In the United States, a crisis developed when a secular fall in northern productivity occurred at the same time that real wages continued to rise, contributing to a fall in profit rates. As the northern rate of incremental growth in the capital/output ratio slowed to below that of the historic discount rates of capitalists and workers, class struggle intensified. Workers increased their militancy to boost their wages. Capitalists followed a strategy of disinvestment in the North and increased their foreign investment at the same time that the South's capacity for trade competition rose, thus increasing the relative potential for southern profit.

Growth in the South could continue as long as the following statements were true: domestic aggregate demand kept increasing, maintaining saved profits high enough for investments in new import-substituting industries that necessitated importing more complex and costly northern capital goods; balance-of-payments pressures from increasing costs of imports could be alleviated by continuously increasing the value of exports; and/or foreign (savings) investments were sufficient to cover both the southern domestic shortfalls in savings and the balance-of-payments deficit. High levels of foreign investment and debt were accumulated during this period, granting foreign creditors an increasingly greater claim to future foreign exchange and profits of the South.

A generalized crisis developed, however, as market growth slowed, reducing accumulation to levels insufficient to finance the purchase of advanced capital goods; deficits in the balance of trade accelerated due to deteriorating terms of trade for ND exports and increasing costs of importing expensive K goods for ISI; the level of borrowing for financing balance-of-trade deficits

and new investments accelerated beyond historically acceptable debt to GDP and ratios of debt servicing to export growth; and, finally, a "debt crisis" occurred when northern financial institutions began to quickly disengage from continued lending. Under these present conditions, growth cannot proceed on a steady-state path and must be readjusted to the constraint of debt servicing and repayment.

Table 1 shows the decreasing importance of Mexican domestic sources of growth and the virtual exhaustion of ISI during the late postwar period. While productivity growth slowed, attempts were nevertheless made to sustain increasing real wages.[35] The timely boom in oil exports was accompanied by a rapid rise in imports of both consumption and capital goods. As non-oil exports fell and the trade deficit swelled, however, servicing payments also rose, plunging the current account deeper in the red.[36] Accelerating increases in net capital inflow were nonetheless sustained through 1982, after which they were dramatically reversed.

Failed Regime Transition and Debt Crisis

It must be pointed out that while the postwar pattern of accumulation and reproduction was being exhausted in the late 1960s, a fresh set of conditions was also emerging that appeared capable of setting the basis for a transition to a new pattern of accumulation based primarily on the internationalization of CD production.[37]

Given these trends, northern industrial and financial capitalists sought to increase their capital flows to the South, in some cases through co-investment projects with large amounts of southern private and state capital. Flows of both MNC and northern private bank capital increased in an attempt to position northern and southern capitalists to profit from the continued southern growth and a transition to the export of CD goods from South to North.

While serious problems in this hegemonic regime of interdependence emerged when the postwar parameters could no longer sustain domestic sources of growth, these parameters also allowed for greater international exchange. As northern fordism and southern ISI faltered,

capitalists showed greater interest in inte onal investment, debt, and trade. These new strategies in turn resulted in a shift in economic parameters, which encouraged even greater internationalization. Meanwhile social parameters were still primarily compatible with domestically based reproduction. This disjuncture between a globalizing economy and domestically oriented institutions lies at the root of the failure to finance a transition toward an international division of labor.

The ensuing debt crisis is having severe implications for the global regime of accumulation. The South has changed from a net capital importer with a trade deficit, on whic distributional compromise was sustained, to net capital exporter producing a de surplus through the collapse of real wages, consumption, and imports. The North, on the other hand, has shifted from being a net capital exporter with a trade surplus to being capable of absorbing a dramatic drop in exports and employment, incurring a trade deficit and being a net capital importer.

Mexico's traditional trade deficit and positive capital account and net inflow of capital swelled in 1970. After 1982, however, all these trends were dramatically reversed, with net capital outflows, as a percentage of GDP, reaching much higher levels than historic inflows. To help finance this capital transfer, a huge trade surplus was obtained through a drastic reduction in imports and a rapid increase in non-oil exports.

These developments also have serious implications for the U.S. economy and society. Due to a fall in Latin American imports and an increase in their exports between 1981 and 1984, the U.S. trade position with Latin America shifted from a $7 billion surplus to a $16 billion deficit, making this drop the single largest contributor to the U.S. trade deficit during this period.[38] The drop in export production and increase in import competition have resulted in an estimated net loss of over one million jobs in the manufacturing sector.[39] While there has been a net capital inflow to the United States from Latin America as a result of the debt crisis, this "gain" to the financial sector is nevertheless substantially less than the loss in export revenues to the U tates as a whole.[40]

Even in the midst of the present generalized crisis, however, the possibility for a positive restructuring of the international division of labor can be shown to exist, whereby the South becomes an exporter of consumer durable goods and the North specializes more in the production of capital goods. The economics of comparative advantage suggest that this scenario can provide for new sources of global efficiency and growth. The fundamental issue facing the North-South relation is a determination of the pattern of debt repayment and the distribution between classes and countries of possible gains from increased efficiency in the global reallocation of production. A series of alternative regimes can be shown to allow for the existence of stable patterns of macroeconomic reproduction, each of which has different financing, restructuring, and distributional requirements. In all of these regimes, however, the maintenance of class compromise can be shown analytically to be very difficult, if not impossible.[41]

Three qualitatively different regime possibilities can be distinguished that delineate the choices now available to societies in the North and South: (1) neo-liberalism; (2) neo-protectionism; and (3) managed interdependence. Each regime has different implications for growth and distribution in the North and South. Yet only managed interdependence allows for both international macroeconomic reproduction and the existence of class compromises and hegemonic stability across North and South. This regime, however, also necessitates more complex methods of international intervention and cooperation, as well as increased levels of class organization, within a more difficult strategic bargaining situation. The comparative dynamics results point to a serious dilemma for state policy managers and class actors on both sides of the North-South divide. This dilemma can be represented with the use of Fig. 3.

While the neo-liberal regime demands total market-based debt repayment,[42] it simultaneously promises new sources of growth through laissez-faire international restructuring financed through fresh debt and MNC investment. This regime, however, also promises the intensification of uneven development within and across both countries and the redistribution of income toward capital. Its implementation necessitates great flexibility, implying the rupture of key

class-compromise arrangements and the dismantling of pr us patterns of class organizations and apparatuses of state/society interaction. This inverse relatio hip between laissez-faire growth and density of class organization for individual nations has been noted by Mancur Olson.[43]

Neo-protectionism, on the other hand, reasserts the need for a nationally integrated economic base through either protectionism in the North or the complete continuation of ISI in the South. This approach would be the worst option in terms of accumulation and growth and would actually exacerbate distributional conflict among classes in the absence of a radical change in the social relations of production. Its implementation implies denser forms of social organization and state/society linkages to redefine the national economy. T s approach is also shown to require the most new financing and runs the greatest risk of resulting in a debt default.

Managed interdependence is shown to be the most beneficial to both North and South in terms of growth and equitable distribution.[44] Through production, market, and factor-sharing arrangements, this approach allows for the benefits of internationalization while distributing the generated efficiency gains among classes in a way that equilibrates international demand and investment at a sustained rate of growth. The pattern of debt repayment and net financial flows would be restructured and managed according this global growth criterion. Managed interdependence provides a fundamentally different outlo the current crisis that considers the orld economy to be the relevant unit of analysis and demonstrates a potentially hegemonic discourse within which to develop domestic/international economic policy. Yet this strategy would be the most politically difficult given the nature of nation-state/class relations institutionalized during the postwar period. The primary difficulty is that the relative organizing capacities of both states and classes must now be higher, both domestically and transnationally, in order to coordinate what must now be an international set of managed economic processes and class/state relations.

Conclusion

Seen in a historical perspective of global regime evolution, the 1940s and the 1980s emerge as key watershed periods for the comparative analysis of attempts to reorganize debt, trade, and industrial and class relations, which could be the basis for sustaining long-term reproduction. What is so different now that these same geopolitical neighbors find international complementarity so economically and politically difficult?

The eruption of the debt crisis in 1982 made obvious the fact that North and South have inherited a collective action problem that is much more complex and challenging than any since the beginning of the postwar era. The responses of the principal actors in both the debtor and creditor nations, however, indicate that the basic problems have not yet been squarely faced. These problems are the following:

• If the debt is to be eventually repaid, southern exports will have to grow at a much higher rate. This will necessitate new net capital infusions to finance a southern restructuring away from domestic production toward greater internationalization of consumer goods. Technology and investments will be required given the magnitude of the needed restructuring, medium-term debt relief, and new international inflows of capital goods.

• These efforts will encourage a significant restructuring by the North in both industry and the financial markets. The North will have to shift toward greater exports of capital goods and a displacement of some consumer-goods production to accommodate this new international division of labor. Reforms in the northern financial system will be also be required to absorb medium-term southern principal and interest-debt relief and to increase new long-term investments in the South.

What makes the current situation particularly complex, however, is the international nature of the relation between production and consumption. While this problem preceded the debt crisis, it is exacerbated by the current policy responses that further uncouple the postwar relationship between domestic production and consumption. Whereas in the Pax Americana regime and the era of class compromises wages were presented as a source of demand necessary for domestic economic growth, wages now are seen simply as costs in international trade competition and debt servicing.

The current neo-liberal path demands full debt repayment while promising new sources of growth, based on efficiency gains from a laissez-faire industrial and trade restructuring that are financed through new debt and MNC investments. Southern domestic wages and local demand have been slashed in order to generate a southern trade surplus and to shift national income toward capitalists. Consequently, northern exports to the South have also been reduced, while northern employment has been cut further due to increasing imports from the South and the transfer of northern MNC capital to the South. The resulting regime is maintained through a shift of income to capital in both North and South, diminishing the possibility of class compromises.

The neo-protectionist alternative, on the other hand, seeks to reestablish nationally integrated reproduction either through protectionism in the North or the completion of ISI in the South. An attempt would be made to maintain wages at current levels and generate domestic demand on this basis. This alternative was shown to be the worst option in terms of accumulation and growth, especially if accompanied by a debt default that would cut the South from damaged northern financial markets.

Only the managed interdependence strategy was shown to promise growth and efficiency gains from globalized production as well as class compromises. While it can be shown that such a relationship is theoretically possible, it would require a coordinated distribution of value-added, from increased gains from trade, to both capital and labor in North and South. Growth in international demand could be balanced through the sharing of production and markets on both sides of the border, producing interdependent growth with more equitable distribution. Furthermore, it is also possible to imagine the steps necessary to a effect a transition to a new parametric complementarity, both in terms of linked restructuring among a variety of economic spheres, as well as new domestic and institutional forms necessary for the international enforcement and regulation of this regime of reproduction.

The restructuring problems of the 1980s, however, demonstrate that the demands on domestic institutions and social organizations for the construction of complementary pattern of North-South debt, trade, and industrial relations are much greater and more complex than in the

1940s on the following fronts:

• While the postwar international economy allowed for a relatively easy compatibility between North (as capital goods exporter) and South (as primary product/nondurable goods exporter), the present international structure implies competition over a wide variety of consumer wages and intermediate goods.

• While the international economy of the postwar period allowed for domestically based class compromises (because wages for the most part were spent at home), the present situation implies the internationalization of wages such that compromises must be organized internationally.

• While domestic state and societal institutions in the North and South were capable of administering their respective domestic policies in the Pax Americana regime, in the current situation there is a disjuncture between the policy capacities of states and societies in North and South and the international demands of coordinating the interdependence of productive and distributional relationships.

• Finally, while the postwar restructuring costs had already been paid by a world depression and war, the very process of North-South restructuring, with its many potential losers and winners, will have to be the object of explicit political negotiation.

Thus while the range of debt, trade, and distribution issues faced in the 1940s and the 1980s may indeed be similar, the constraints, strategies, and alternative regime dynamics are indeed very different. The constitution of the postwar Pax Americana regime, in retrospect, thus appears to be a very fortuitous phenomenon that created the seemingly stable, yet fundamentally precarious, transnational pattern of reproduction that lasted until the late 1960s. A slightly more optimistic rendering of these events would suggest that (paraphrasing Gramsci)[45] we find ourselves caught between a dying world order and one not ready to be born.

Appendix to Hinojosa paper

Appendix : Constructing the Formal Framework

This framework is in the tradition of models of growth and income distribution,[46] in the related vein of neo-Ricardian trade theory,[47] and in the spirit of recent models of North-South relations.[48] While fixed coefficient technology and full capacity utilization will be assumed in the model, this can consistently be translated into a fixed incremental capital-output ratio model with the operation of Veerdoon's Law.[49] These conditions are not unlike most recent studies on Mexican and other developing coun ebt.[50] The comparative steady state dynamics approach used here is particularly well suited for analyzing the conditions and composition needed for the viability of long-range economic and political arrangements. In addition, the empirical multi-sectoral framework is within the postwar tradition of macro models for development policy.[51] Recent attempts to link international political economy relations with domestic class/state structures within North and South are given formal characterization here.[52] International and intertemporal differences in class organizational density and structures of class/state relations, shown to be crucial by Philippe Schmitter and Theda Skocpol,[53] are represented by variables in the system of equations.[54]

Model for International Reproduction

Assume three produced commodity sectors:

Department I — K = Capital Good to Produce ND and DC

Department II — ND = Non-Durable Consumer Good

CD = Durable Consumer Good

It will be assumed that each production process requires as input a particular unit coefficient of the capital good, K, as well as one unit of homogeneous labor, L, supplied by workers. The input-output representation of the economy is thus

Inputs		Outputs		
L	K	K	CD	ND
1	a1	k		
1	a2		cd	
1	a3			nd

where nd, cd, and k are physical output quantities per unit labor of commodities ND, CD, and K. This fixed coefficient framework can be easily extended into a fixed incremental capital-output ratio model without effecting the basic formal results.

To arrive at autarky prices, let both the annual rate of profit, r, and the real wage paid at the end of the production process, w, be equal across sectors. Let the price of K be p1 and CD be p2 where p1, p2, and w are measured in terms of the consumption commodity, ND, the numerare in this system of equations. Then the following equilibrium relations must obtain:

(I.1) $w + a1p1 (1 + r) = kp1$

(I.2) $w + a2p1 (1 + r) = cdp2$

(I.3) $w + a3p1 (1 + r) = nd$

w = wage per unit of labor
a = capital per unit of labor
r = rate of profit

Equation (I.1), for example, states that the value of gross output, per unit of labor employed in the capital goods process, k, equals the wage, w, plus the value of the capital good used, a1p1, plus profit at the rate r on that capital good value, (r)(a1p1). Equations (I.2) and (I.3) make analogous statements about the other two processes of production.

This system of three equations has four unknowns. We can begin to close the system by noting that p1, p2, r, and w exist in a specific relation to one another. On eliminating p1 and p2 from (I.1), (I.2), and (I.3), a particular wage-profit frontier can be drawn for given coefficients of production according to:

$$(I.4)\quad w = \frac{nd(k - a1(1+r))}{(a3 - a2)(1+r) + k} = \frac{nd(k - a1(1+r))}{k}$$

<< with a1=a2=a3 >>

Three basic wage profit frontiers can be drawn, and the system can be closed by choosing a point on the wage-profit frontier and all four unknowns will be specified. Below, we will specify that this point arises out of the strategic class struggle over the setting of wages and level of investment.

Under free trade conditions one can determine the specialization pattern of different economies, which face given international relative prices P1 and P2. Consider two economies that use the same methods of production for the three commodities K, DC, and ND. One economy is autarkic, while the other is open to free trade at international prices, in terms of the ND commodity, of P1 and P2 for commodities K and DC, respectively. The left column of Table A-1 shows the relation between the wages rate, the profit rate and prices that must hold in the autarkic economy; they are simply equations (I.1), (I.2) and (I.3) for the single country framework. The right column shows the corresponding relation for each industry that will obtain, in the open economy, if that industry exists. While all three relations in the autarky column must hold simultaneously, given that ND is being produced, either one or two of the industries may not exist in the open economy case. Since the commodities not produced domestically are imported in exchange for exports of

the commodity or commodities produced, it follows that the equations in the right-hand column are to be regarded as alternatives, not as relations that must hold simultaneously.

Table A-1

	Autarky	Free Trade
K industry	$w + a1p1(1 + r) = kp1$	$w + a1P1(1 + r) = kP1$
CD industry	$w + a2p1(1 + r) = cdp2$	$w + a2P1(1 + r) = cdP2$
ND industry	$w + a3p1(1 + r) = nd$	$w + a3P1(1 + r) = nd$

A simple steady-state growth formulation can be developed on this basis. We begin by assuming that savings out of wages are zero, while capitalists save a fraction s ($0 < s < 1$) of their profits. Net investment is here equal to ex post and ex ante net savings. Let the (positive) value of capital in any period be V. Then net investment equals gV (g = rate of growth) while ex ante savings equal srV. Hence in steady growth,

(I.5) $gV = (s/c)rV$

(I.6) $g = (s/c)r$

where c is the weighted average capital-output ratios of the three sectors: $c1 = a1/k$; $c2 = a2/cd$; $c3 = a3/nd$.

Model for Class Strategic Interactions

In order to close the above model, determining all the key variables in the system, we need to establish the dynamics by which a distribution between wages and profits is determined, and thus the rate of growth and level of consumption. The pattern of distribution will be shown to depend on the structure of the economy and the relative organization of classes and class/state relations. Given a particular set of these conditions,

it can be demonstrated that strategic struggle between capitalists and workers will result in the establishment of a particular pattern of distribution between wages and profits. The resulting distribution pattern may or may not correspond to what is called a "class compromise," a condition of broad consent to the hegemony and stability of capitalist relations of production.

Recent work has developed a framework for the analysis of strategic interaction between classes in the pursuit of their material interests in a one-sector growth model for a single capitalist economy.[55] They proceed deductively, first establishing that in capitalism, reinvested profits are a necessary but not sufficient condition for the improvement of workers' real wages. In the above one-country framework, this can be shown by recalling from I.6 that:

(II.1) $gV(t) = (s/c)rV(t) = (s/c)P(t)$,

such that

(II.2) $gW(t) = mP(t)$

and

(II.3) $gP(t) = (s/c - m)P(t)$

where the coefficient m represents the proportion of current profits that must be immediately transformed into wage increases according to a particular agreement between classes. Thus the growth in total wages, gW, is a function of the level of total net profits, P, a portion s of which capitalists save and must reinvest in the economy with a capital-output ratio of c if there is to be overall growth at rate g. Under capitalist relations of production, growth in wages also depends on capitalists honoring an agreement to continuously transform a portion of their profits into an increase in total wages.

Despite these inherently uncertain conditions it can be shown that, under particular circumstances, workers would find it in their interest to cor nt to capitalist relations of production, that is, to enter into a class compromise. I believe that given the uncertainty of

whether and how capitalists would distribute and invest their profits, the existence of any class compromise would have to be based on the following strategic agreement: "Workers consent to profits as an institution, that is, they behave in such a manner as to make positive rates of profit possible; and capitalists commit themselves to some rate of transformation of profits into wage increases and some rate of investment out of profits."[56]

The process by which a compromise pattern of distribution between profits and wages, and thus consumption and growth, may or may not be established can be modeled as a strategic game between workers and capitalists who operate with particular objective functions. In this game, the objective of each class is to maximize their material interests, discounted over a given time horizon, under the constraints given by the parameters of the economy and society, and by the chosen course of strategic action of their class opponent.

Discounting over a chosen time horizon is important because of economic and political risks inherent in this intertemporal game. The time horizon and the rate of discounting under which each class evaluates their possible future gains within an agreement is a function of the economic and political risk conditions at the time when strategic decisions are made. These conditions are specifically:

• The ordinary risks associated with returns on present and future investments. These risks depend on domestic and international economic fluctuations, patterns of domestic and international trade and investment competition, and trends in technical change, all of which affect the viability of firms, the possibilities of plant closings, capital flight, and so forth.

• The institutionalization of capital/labor relations and the likelihood that a compromise would be enforced by the state. The question here is whether the state would be able and willing to coerce capitalists and workers from deviating from a particular compromise. Included here is the ability and willingness of the state to help distribute the costs of

economi sks through direct subsidies and/or assistance in case of structural adjustment, unemploy nent, and retraining.

• The extent of bilateral organizations across classes that ensure compliance among their memberships and which prevent the free riding of groups not involved in the bargaining process. A high level of organization within classes also contributes the state's ability to coordinate and enforce particular agreements between classes and to distribute the costs inherent in policies of structural adjustment a change.

• To some degree, the uncertainty faced by capitalists is inversely related to that borne by workers. If wage commitments to workers are strictly enforeced, capitalists face the risks inherent in investment alone. If wages can be reduced below the terms of a compromise during problematic economic periods, much of the risk is assumed by workers.

• The strategic objective functions for workers and capitalists are formally expressed in equations (II.4) and (II.5), respectively. Workers must choose a level of economic militancy or wage demands, m, which mizes the current value of their future wages, E(W), discounted at rate dw over time horizon, h, where the expected path of wages, E(W), depends on the capital-output ratio, c, and capitalists' saving rate, s, as in equation (II.2). Capitalists, on the other hand, must choose a level of savings out of profits, s, which maximizes the current value of their future consumption discounted at rate dk over time horizon h for a given a with expected profits given by equation (II.3).

m = the rate of economic militancy of organized wage earners defined as the proportion of current profits that must be immediately transformed into wage increases in light of a particular agreement. A compromise is possible only on the condition that $0 < m < (1 + s/c)$.

c = capital-output ratio

s/a = rate of increase of output per unit of profit; maximal rate at which wages could grow under a compromise.

h = the horizon with which workers or capitalists consider the future

W = total wages

dw = workers' discount rate

EW = expected wages

Ck = capitalist consumption

s = rate of savings out of profit

dk = capitalists' discount rate

P = net Profits

EP = expected net profits

On the basis of these equations, two "best reply" theorems are developed given the assumption that one class knows what the other class has chosen for their strategic variable. Thus, for instance, if workers knew that capitalists chose to save at level (s), workers' best reply strategy would be to choose m*(s):

Workers' Best Reply Theorem

For all $h > H$, where H is some positive number,

$m^*(s) > (1 + s/c)$ if $dw > 1/c$ for any s,

$m^*(s) > (1 + s/c)$ if $dw > s/c$ or $s < dwc$,

$m^*(s) < (1 + s/c)$ if $dw < s/c$ or $s > dwc$.

Note that the workers' best reply strategy depends on the value of their discount rate, dw, compared to s/c. When dw > s/c, that is, when the discount rate is higher than the rate at which growth will occur given capitalist savings rate and the capital-output ratio, then the workers' best reply is maximal militancy. But when dw < s/c, that is, when output grows faster than workers discount the future, then workers would be better off choosing a strategy of compromise and waiting for future wage gains.

The capitalists' best reply theorem has a similar construction. When their horizon is sufficiently long, capitalists' best reply would be to invest as long as the rate at which they discount the future is lower than their return on their investment minus wage payments; otherwise they will disinvest.

Capitalists' Best Reply Theorem

$s^*(m) < 0$ if $dk > 1/c$ for any m

$s^*(m) < 0$ if $dk > (1/c - m)$ or $m > (1/c - dk)$,

$s^*(m) > 0$ if $dk < (1/c - m)$ or $m > (1/c - dk)$.

It must be recognized that these theorems represent the best reply of each class to the behavior of the other when the opponent is behaving in a set manner. The best reply strategy is the optimal strategy if the opponent is not acting strategically. As in a Nash equilibrium, both classes are responding optimally to the current strategy of their opponent. Yet classes do act strategically. The game must be modelled where each class takes into account not only the opponent's current actions, but also their likely response given one's own choice of action. Thus workers, for instance, must decide their level of m, which maximizes W, given that capitalist will respond with a strategy s*(m). Let this new maximizing level of m be m**. This level of militancy is optimal given that capitalists will then likely choose a level of savings, s*(m**), which is the capitalists' optimal response to a particular level of workers' militancy, (**m). This constitutes the Stackelberg solution to

the game with workers being the dominant player.[57] The solution with capitalists as the dominant player would have workers choosing the level of militancy m*(**s) as their best response to capitalists choosing (**s) as their level of savings.

A class compromise can be reached if a Stackelberg solution to strategic interaction exists that allows for the maximization of the material interests of both classes at rates higher than the rates at which they discount the future over a particular time horizon. Given a sufficiently long horizon, the probability of a class compromise solution depends on the relative discounts of workers and capitalists, dw and dk, and their relation to the economy's capital-output ratio c. There are four possible combinations to consider that will be useful in the latter analysis of the historical evolution of international regimes of reproduction.

$$(1)\ dw > 1/c,\ dk > 1/c$$

In this situation, capitalists and workers have discount rates higher than the productivity of capital. This can be due to a high level of uncertainty, shared by both classes, that any class compromise could not be guaranteed given the current socio-political institutions. A compromise would thus not be possible under these conditions, because workers would choose a high rate of militancy irrespective of capitalists' rate of savings, and capitalists would rather disinvest regardless of the level of workers' militancy.

$$(2)\ dw > 1/c,\ dk < 1/c$$

Workers here face a greater uncertainty than capitalists as to the probable outcomes of any strategic arrangement. Workers would be less certain of obtaining agreed wage increases than capitalists would be of obtaining a specified level of profits. Such a situation can arise when workers are poorly organized or have less influence over state decisions than capitalists. Due to their high discount rate, workers' best reply would be a strategy of high militancy. Capitalists' best response would be to invest as long as workers militancy is

sufficiently low such that $m < (1/c - dk)$. Given capitalists' threat of disinvestment, it is possible to conceive of a scenario where workers would choose a level of militancy below the point after which capitalist begin to disinvest. Beyond that militancy point, disinvestment would accelerate and workers would have to weigh the correlation of forces and political consequences of a direct confrontation with capitalists.

(3) $dw < 1/c, dk > 1/c$

In this somewhat inverse situation, capitalists are more uncertain than workers about the possible outcomes of a strategic arrangement. In this case, capitalists might decide not to follow their best reply strategy of total disinvestment if they fear the threat of increased worker militancy and the political consequences of divestment. In an interaction similar to case (2), capitalists could agree to a level of savings below which workers would increase their rate of militancy.

(4) $dw < 1/c, dk < 1/c$

Under these circumstances, both workers and capitalists are relatively confident that a compromise can be maintained. A compromise is possible if discount rates of both capitalists and workers are lower than the productivity of the economy. Under these circumstances, workers or capitalists could adopt their best reply strategy without the opponent escalating to a confrontation.

A compromise solution arising from any of the above conditions defines a pattern of relative prices, a point on the wage-profit frontier, a point on the growth-consumption frontier, and a subsequent pattern for the evolution of the structure of production between departments and for the pattern of employment.

Hinojosa notes

MacArthur volume

1. See Raúl A. Hinojosa Ojeda, "The Political Economy of North-South Interdependence: Debt, Trade, and Class Relations Across Mexico and the U.S.," Ph.D. diss., Univ. of Chicago, 1989.

2. The recent qualitative shift toward greater global interdependence is necessitating the abandonment of the traditional distinctions between and within the social science disciplines. In economics, new forms of internationalization have made the study of "closed" and even "open" economies obsolete and unrealistic given the necessity of understanding global linkages and feedback mechanisms across different national economies and their constituent parts. Similarly, in political science, neither the study of "comparative politics" across ostensibly unconnected countries nor the study of international relations, where the state is assumed to be the only principal strategic agent, will suffice to conceptualize the dynamics that transverse national economies and societies as well as the wide variety of societal actors now involved in these dynamics. Fortunately, however, the separation between the study of politics and economics is itself giving way to the reemergence of the field of political economy, its most ambitious expression being the political economy of interdependence. There is a renewed study of the political determinants of the closure of economic models as well as the application of rational choice methods (long the basis of economic theory) to the study of strategic political interaction. The "North-South Reproduction Regime" presented here advances the study of global political economies by conceptualizing the dynamic relationship between uneven global economic development and the strategic interaction among classes and states.

On page xx of their book Dependency and DevElopment in Latin America (Berkeley, Calif., 1979), Fernando Henrique Cardoso and Enzo Faletto describe

dependence as a condition where "accumulation and expansion connot find its essential dynamic component inside the system," where the primary source of accumulation is found outside the nation. A framework based on a global regime of reproduction allows an extension of this approach to a North-South scale. Given this framework, we can define the level of global interdependence as the degree to which more elements of the cycles of economic reproduction are shared internationally, thus increasing the importance of feedback and transmission mechanisms across nations.

3. Capital flows are determined by trade patterns and the relative domestic versus international financing of investment; including trade deficits and the servicing of foreign ownership of investments and foreign debts.

4. Given a particular set of these parameters, it can be demonstrated that strategic struggle between capitalists and workers can result in the establishment of a particular pattern of distribution between wages and profits. The model is given a formal strategic political dimension with the incorporation of recent work on rational choice analysis of class struggle under capitalism (see Adam Przeworski, Capitalism and Social Democracy [Cambridge, Eng., 1985]), extending this approach to an international scale across unevenly constituted socioeconomic formations. Such broadly conceived forms of uneven institutional structures for class-class, state-class, and state-state relations have at times been referred to as "modes of regulation" (see M. Aglietta, A Theory of Regulation [London, 1976]) and Structures of Accumulation; and David Gordon, Richard Edwards, and Michael Reich, Segmented Work, Divided Workers (Cambridge, Eng., 1982) within countries and international regimes between countries (see Stephen Krasner, Structural Conflict [Berkeley, Calif., 1985]).

5. While these relations are demonstrated formally in appendix 1, the intution is straightforward. If the future is discounted faster than the rate at which the economy can grow, then no solution is possible. If, on the other hand, discount rates are lower than the productivity of the economy, a solution can be found.

As long as wages increase at about the rate of productivity growth, then the wage share is constant and a distributional agreement can hold. If wages grow faster than productivity, then over time profits and future growth will suffer and the distributional pact will not hold. If, on the other hand, growth in wages lags behind productivity growth and the discount rate, the wage share will suffer and the distributional pact will be denounced by workers. Since data on discount rates is very hard to estimate, in this paper we will concentrate directly on data of the relationship between productivity growth and real wage growth.

6. In this perspective, the global hegemony of a particular regime of reproduction is not simply a function of the relative power of the hegemon state (as in Robert O. Keohane, After Hegemony [Princeton, N.J., 1984]). Rather, it is predicated on the macroeconomic stability and class-compromise viability of the regime of reproduction, as well as the existence of class organizations, state institutions, and state policies that are complementary across countries and can maintain key processes of the reproduction pattern.

7. See Walt W. Rostow, The World Economy: History and Prospect (Austin, Tex., 1978).

8. J. A. Hobson, Imperialism: A Study (London, 1938); Rosa Luxemburg, The Accumulation of Capital (New York, 1972).

9. V. I. Lenin, "Imperialism: The Highest Stage of Capitalism," in The Essential Lenin (New York, 1966).

10. U.S. Dept. of Commerce, Long-Term Economic Growth (Washington, 1966), Tables A165 and B72.

11. Paul Krugman, "Trade, Accumulation, and Uneven Development," Journal of Development Economics 8 (1981), 149-61, provides a similar stylized characterization of his period in his formal presentation of the shift from trade to financial patterns of North-South relations.

12. Raúl Prebisch, The Economic Development of Latin America: Its Principle Problems," Economic Bulletin of Latin America vol. 7, no. 1 (Feb. 1949).

13. INEGI, Estadisticos Historicos de México (Mexico City, 1985), Tables 5.1, 9.3

14. Ibid., Table 16.1.

15. Lance E. Davis et al., American Economic Growth (New York, 1972), 566.

16. INEGI, Estadisticos Historicos, Table 16.1.

17. Ibid., Table 18.10.

18. Aglietta, "A Theory of Regulation."

19. F. C. Deyo, ed., The Political Economy of the New Asian Industrialism (Ithaca, N.Y., 1987).

20. On the financial front, debt write-offs allowed for growth and the repayment of the remaining debt. This could then allow for future new lending, spurring and stabilizing the growth and development pattern that would soon follow. The resolution of the issue of oil property expropriations could similarly allow for future flow of foreign investment. Industrial and trade policies, while allowing for short-term development of domestic Mexican industry and a displacement of some actual and potential U.S. exporters, later allowed for a new pattern of capital goods exports and investment by multinationals in the import-substitution industrialization process.

21. U.S. Dept. of Commerce, Economic Report of the President (Washington, 1988), Table B-43; and U.S. Dept. of Labor, Handbook of Labor Statistics (Washington, 1983), Table 97.

22. U.S. Dept. of Commerce, Economic Report of the President (Washington, 1988), Table B-14.

23. Paul Corcoran, "Inflation, Taxes, and Corporate Investment Incentives," Federal Reserve Bank of New York Quarterly Review (Autumn 1977), 10.

24. U.S. Dept. of Commerce, Economic Report of the President, Table B-43; U.S. Dept. of Labor, Handbook of Labor Statistics, Table 97.

25. U.S. Dept. of Commerce, National Income and Product Accounts (Washington, 1988), Table 10.

26. U.S. Dept. of Commerce, U.S. Direct Investment Abroad (Washington, 1982); U.S. Dept. of Commerce, Survey of Current Business (Washington, various years).

27. U.S. Dept. of Commerce, Economic Report of the President, Tables B-2, B-21; INEGI, Estadisticos Historicos, Tables 9.1, 19.1.

28. W. A. Lewis, "Economic Development with Unlimited Supplies of Labor," The Manchester School 22 (May 1954), 139-91 provides a labor-market model that demonstrates this process.

29. INEGI, Estadisticos Historicos, Tables 5.1 and 9.3.

30. U.S. Dept. of Commerce, Economic Report of the President, Tables B-2, B-21; INEGI, Estadisticos Historicos, Tables 9.1, 19.1.

31. International Monetary Fund (IMF), Direction of International Trade (Washington, 1988), various issues.

32. INEGI, Estadisticos Historicos, Tables 20.14 and 20.15.

33. Ibid., Table 19.2.

34. Ibid., Table 19.17.

35. Ibid., Tables 5.1 and 9.3.

36. Ibid., Tables 19.2, 19.17, 20.14, and 20.15.

37. These new conditions arose out of a variety of trends initiated in the South during the latter postwar pattern of reproduction. They include learning by doing behind tariffs, MNC investment-led and debt-led transfers of technology, government investment, and infrastructure spending. In a cumulative fashion, the South increased its absorption, and its ability to absorb, important transfers of more efficient productive capacity for the export production of CD to the North, thus increasing the relative ratio of productivity to wage growth at a faster rate in the South than in the North. These shifts set in motion a trend in the relative wages of change in technical coefficients and wages across North and South that could potentially reach a point where relative costs converge and the advantage is overtaken by the South.

38. Average annual Mexican imports from 1979 to 1981 were $18.2 billion, but dropped to an average of $11 billion a year from 1983 to 1986, an average loss of $7.2 billion a year of $28.8 billion from 1983 to 1986. Since the United States accounted for about 65 percent of these exports to Mexico, the export loss to the United States can be calculated as $18.7 billion from 1983 to 1986. The drop in Mexican imports from the 1981 high of $23.9 billion to the 1983 low of $7.7 billion in 1983 as $16.2 billion, including roughly a $10.3 billion drop in U.S. exports.

Putting the effects of the debt crisis in perspective with the rest of the U.S. economic experience, between 1981 and 1984 the U.S. trade balance with Japan deteriorated by slightly more than $18 billion, with the deficit rising from $16 billion to $34 billion. During the same interval, the U.S. trade position with Latin America deteriorated by $23 billion, shifting from a $7 billion surplus to a $16 billion deficit. As a result of this deterioration, by 1984 the U.S. trade deficit with Latin America was larger than the U.S. trade deficit with Western Europe, the Organization of Petroleum Exporting Countries

PEC), or Canada. Only Japan and the four East Asian newly industrializing countries (NICs) taken as a group--Hong Kong, Korea, Singapore, and Taiwan--were running larger trade surpluses with the United States. Wharton Econometrics Forecasting Associates calculated that 70 percent of the worldwide decline in U.S. overseas sales between 1980 and 1983 can be attributed to falling demand in Latin America, and 55 percent of Latin America's $26 billion import reduction came at the expense of U.S. producers (see Wharton Econometrics Forecasting Associates, Trade Debt and Growth in Latin America [New York, 1985]). Latin American export growth has also affected the United States; the U.S. Dept. of Commerce estimates that 85 percent of the increase in Latin American exports went directly to the United States.

39. Estimates of the impact of the debt crisis on U.S. employment range from $1.1 million lost (see International Trade Commission, 1985), to $1.4 million lost (see Overseas Development Council, 1985). Using the well-known Lester Davis calculation of a loss of 25,000 jobs for every billion in lost exports, the immediate loss of U.S. jobs due to the collapse of exports to the Mexican economy from 1981 to 1983 is 260,000. Averaged over the 1979-1981 to 1983-1986 periods, the number of U.S. jobs lost is 180,000. If one also calculates U.S. jobs "displaced" from rising Mexican manufacturing exports from the average during 1979-1981 ($2.6 billion) to the increasing levels from 1982 to 1986 (a cumulative increase of $3.4 billion), 85,000 jobs displaced due to imports must be added to the 180,000 jobs lost due to a drop in U.S. exports to Mexico.

40. Figures 15 through 20 can also be used to calculate the relative impact of the Mexican debt crisis on U.S. industrial and financial sectors. Average annual servicing from 1979 to 1981 was $11.6 billion, rising to an average of $13 billion from 1983 to 1986 for a total of $53 billion. Since 1982, meanwhile, Mexico has borrowed close to $12.5 billion. Given that U.S. banks hold about one-third of these loans, $15.9 billion was paid to U.S. banks

and U.S. banks loaned Mexico approximately $4.1 billion from 1983 to 1986. The net capital inflow of $11 billion is thus much less than the total loss in U.S. exports of $18.7 billion for the same period.

41. Complete simulations of the dynamics of these three scenarios can be found in Hinojosa Ojeda, "The Political Economy of North-South Interdependence."

42. This analysis also applies to the recently announced Brady Plan, whose "voluntary, market-based" debt relief for continued "conditionality" is not seen as substantially altering southern net capital outflows.

43. Mancur Olson, The Logic of Collective Action (Cambridge, Mass., 1982).

44. This approach has alternatively been presented as "global Keynesianism," "international fordism," and a "North-South compact."

45. Antonio Gramsci, Letters from Prison, 1st ed. (New York, 1973).

46. M. Kalecki, Theory of Economic Dynamics (New York, 1965); Donald Harris, Capital Accumulation and Income Distribution (Stanford, Calif., 1978).

47. Ian Steedman, Trade Amongst Growing Economies (Cambridge, Eng., 1979); Luigi Pasinetti, Structural Change and Economic Growth (Cambridge, Eng., 1981).

48. Lance Taylor, Structural Macroeconomics: Applicable Models for the Third World (New York, 1983); Krugman, "Trade, Accumulation, and Uneven Development."

49. Harris, Capital Accumulation and Income Distribution.

50. Guillermo Ortiz and Jaime Serra-Puche, "A Note on the Burden of the Mexican Foreign Debt," Journal of Development Economics 21 (1986), 111-29; Leopoldo Solis and Ernesto Zedillo, "The Foreign Debt of Mexico," in Gordon W. Smith and John T. Cuddington, eds., International Debt and Developing Countries (Washington, 1985).

51. Taylor, Structural Macroeconomics; Kemal Dervis, Jaime de Melo, and Sherman Robinson, General Equilibrium M[illegible]ls for De[illegible]lopment Policy (Cambridge, Eng., 1982).

52. Krasner, Structural Conflict; John Gerard Ruggie, The Antinomies of Interdependence (New York, 1983).

53. Philippe C. Schmitter, Still the Century of the Corporatism?: Trends Towards Corporatist Intermediation (Beverly Hills, Calif., 1979); Theda Skocpol, States and Social Revolutions (Cambridge, Eng., 1979).

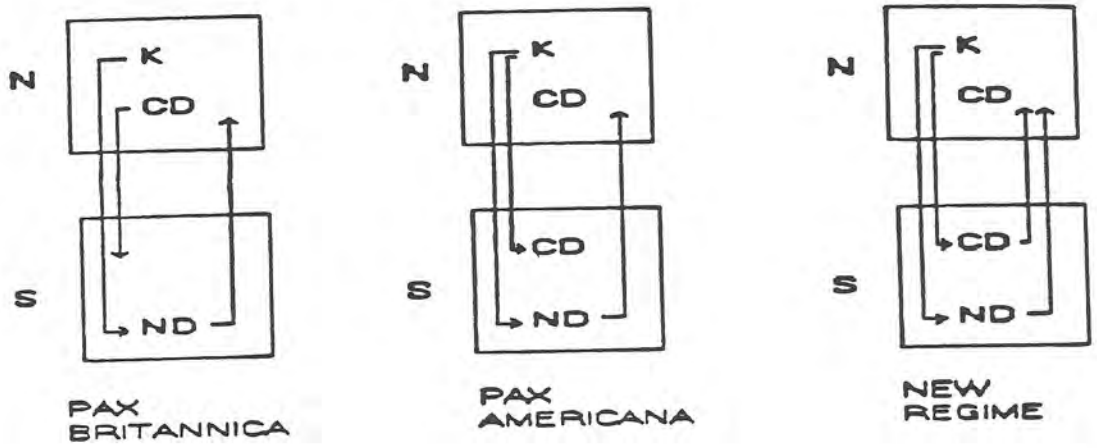
54. The specific historical development and dynamics of the U.S.-Latin America case are developed fully in Hinojosa Ojeda, "The Political Economy of North-South Interdependence."

55. Przeworski, Capitalism and Social Democracy.

56. Ibid.

57. H. von Stackelberg, The Theory of the Market Economy, trans. A. T. Peacock (London, 1952).

Figure 1. NORTH-SOUTH REGIMES OF INTERDEPENDENCE



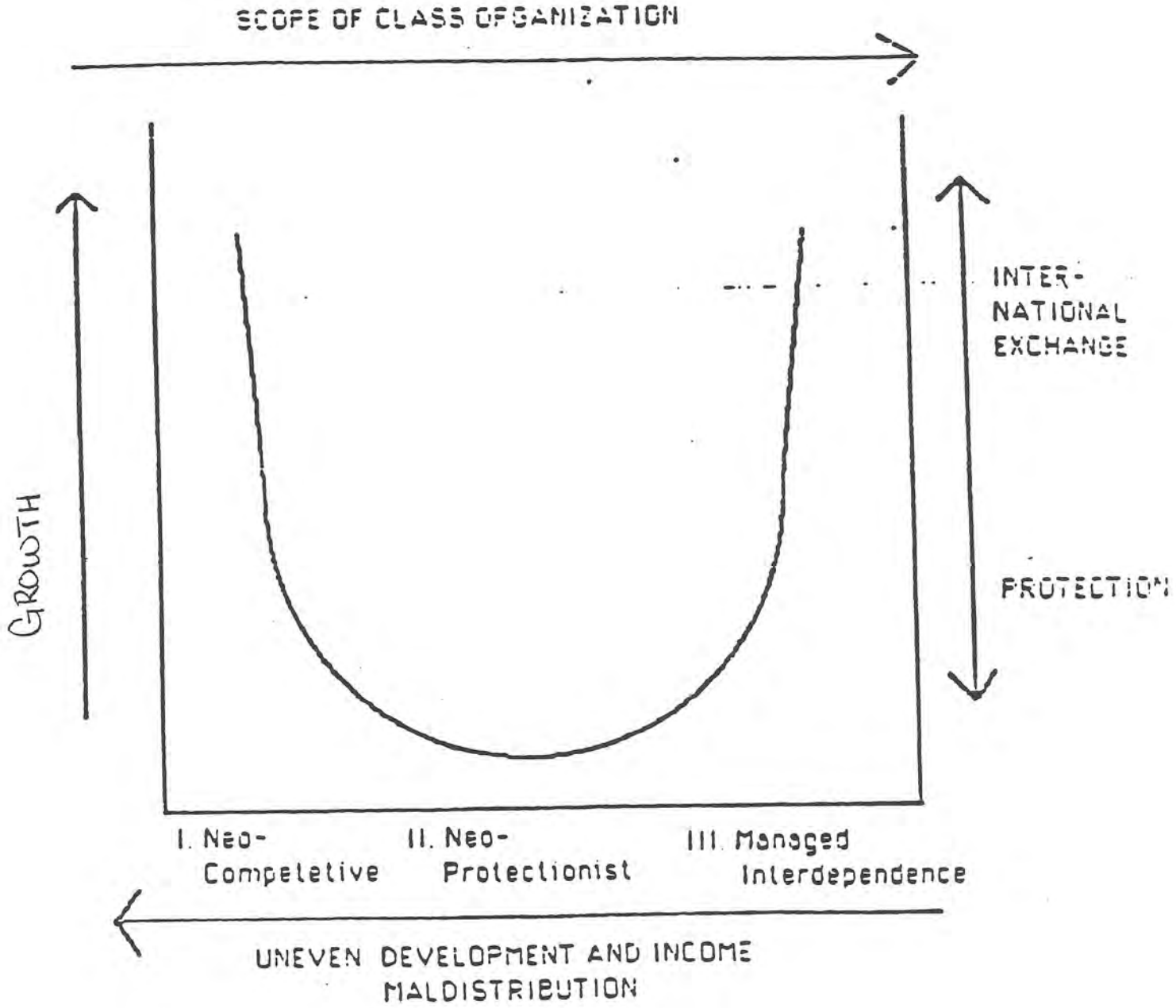
SOURCE: Author.

Figure 2. Variation in Regime Type

ECONOMIC PARAMETERS: Prime Source of Accumulation	SOCIO-POLITICAL PARAMETERS: Results of Strategic Interaction — CONFLICT & DOMINATION	COMPROMISE & HEGEMONY
INTERNAL	1-Early Capitalism 4ii-Neo-Protectionism	3-Pax Americana
EXTERNAL	2-Pax Britannica 4i-Neo-Liberalism	4iii-Managed Interdependence

Source: Author.

Figure 3.



Source: Author.