

"Economic Interdependence &
International Conflict"
Edward Mansfield, ed.
Univ of Mich Press: 2003

Pax Mercatoria and the Theory of the State

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No idea is more enticing to policymakers and academics alike than the proposition that economic interdependence encourages peaceful international relations. Policymakers are gratified that trade is a policy lever that governments can influence. Academics are encouraged by the (relative) ease of constructing long time series of bilateral cross-border transactions in goods for most countries. On top of this, economists tell us trade is economically efficient. Policymakers, scholars, and consumers should all be thrilled that trade and peace are robustly correlated.

This is why it is essential to submit the pax mercatoria hypothesis to severe scrutiny, both methodologically and theoretically. This chapter does the latter and focuses on one particular theoretical issue to which few scholars have given serious attention: what is the theory of the state that provides a plausible mechanism linking private trade to public conflict behavior? The first section argues that this question deserves attention. The second section outlines three general approaches to state-society relations and discusses the implications of these for empirical research. The third section concludes and calls for research that includes more meaningful tests, informed by more explicit theories of state-society relations.

The Need for a Theory of the State

Why are governments at all influenced by interdependence in their crisis or conflict behavior? Why should a government that has a political dispute with another government be restrained in the way it pursues that dispute if its citizens trade a lot with the citizens of the adversary state? Or, alternatively, why in

some cases should trade impel a government to raise the level of conflict behavior in a dispute? What do societal preferences and activities in the commercial area ultimately have to do with the way the state formulates and pursues its foreign policy objectives?

These questions have been neglected in the research on interdependence and conflict, largely because scholars doing the empirical work have not devoted sufficient attention to elucidating the theory of the state that guides their thinking. Almost no attention has been given to theorizing the relationship of the state to society that might give rise to particular forms and intensities of interstate conflict behavior. This is supremely ironic, since trade (an activity carried out primarily by private actors) is said to influence the tendency to resort to force (a decision implemented by agents of the state). How do trading interests come to prevail on the state machinery to influence the basic course of foreign policy?

To complicate theoretical matters, there are two apparently opposing propositions that have received sustained testing in the empirical literature. One is that interdependence *causes* or, more likely, *inflames* violent interstate disputes (Waltz 1970). The other claims that interdependence *dampens* disputes (Gartzke 1998; Oneal et al. 1996; Polachek 1980). Now, these seem to be mutually exclusive propositions, at least for a particular temporal and spatial domain, unless we mean something different by interdependence in each case.¹ Yet few studies have spent much time theorizing the state-society relationship that could potentially provide a causal mechanism. Empirical spadework has far outstripped theoretical specification. This is unfortunate. It not only leads to an uninformative tallying of papers that support one proposition over another but also misses an opportunity to explore the *varieties* of state-society relationships and the *kinds* of interdependence that can contribute to serious interstate disputes.

The empirical project has largely been stylized as a “realist” versus “liberal” horse race. When it is formulated in this way, scholars are missing rich opportunities to specify the nature of state-society relations that link private profiteering with national foreign (even military) policy. After all, the conception suggested by most neorealist analysis—that conflict behavior is largely the outcome of national governments formulating and pursuing national objectives independently of the interests of civil society, in a strategic confrontation with an adversary—is but one possibility in which the state is conceived as largely autonomous from societal demands. But studies of interdependence cry out for an explicit consideration of the links that bind a state to its society. How we conceive of these links has profound implications for research.

Theories of the State

The Autonomous State

One theoretical possibility is the autonomous state assumed in neorealist thought (see, e.g., Skidmore 1993).² Statist theories posit the state itself as possessing goals distinct from the immediate demands of the society over which it rules. The inspiration for much statist thought is plausibly Weberian. In sharp contrast to Marx (discussed subsequently), Weber asserted that the state cannot somehow be reduced to an extrapolitical phenomenon. On the contrary, the state is useful for those operating in markets precisely because its incumbents obey a logic quite different from that of utilitarian exchange. The ideal-typical bureaucracy is a meritocratic, corporately coherent entity in which individual and corporate goals are incentive compatible. Corporate coherence and autonomy from private entrepreneurial groups require that individual incumbents be to some degree insulated from the surrounding society: in the Weberian tradition, statist are willing to assume that governments (even democratic ones [Nordlinger 1981]) have a significant degree of autonomy from civil society—sufficient autonomy, at any rate, that we can understand major foreign policy decisions as relatively unconstrained by civil society’s current attitudes or preferences. In this view policymakers are active, determined individuals who shape the patterns of societal demands, manipulate political resources and alignments, and may even in some circumstances act contrary to the demands of well-endowed private actors.³

It remains to specify just what the autonomous state is trying to achieve. Neorealists stress security above all other objectives, but more eclectic realists suggest that “ideological goals related to beliefs about how societies should be ordered” could drive the United States to resort to the use of force (Krasner 1978, 14). With Vietnam in mind, Krasner argues, “It was the ability of American leaders to free themselves from societal constraints . . . that allowed them to define and pursue ideological goals in a nonlogical manner, even though this activity weakened the fabric of American society” (16).

Mainstream realists, however, view national security as the prime goal of an autonomous state and argue that trade creates externalities that can ultimately threaten security (Gowa 1989; Grieco 1990). In this view, the state, or in some models the nation as a whole, bears the “costs” of interdependence in terms of national security. Foreign policy-making is guided by the “national interest” and either insulated from societal demands or fully consonant with society’s long-term interests. There is no need here to examine the role of domestic soci-

etal groups in foreign policy formulation. The assumption of state autonomy overrides domestic political and societal constraints.⁴

Theories of the state that rest on assumptions of autonomy from societal forces and the dominance of security in the autonomous state's utility function plausibly link trade and conflict behavior by examining a specific kind of interdependence: *vulnerability* and *extremely asymmetrical relative gains*. Vulnerability interdependence involves serious costs to one party of an interruption to the economic relationship with a potential adversary state (Keohane and Nye 1977). The essence of vulnerability interdependence is the high cost *for the state or the nation as a whole* of substituting an alternative trade partner in the event of a dispute. A good indicator of this kind of vulnerability interdependence would be price elasticities for essential or strategic goods traded between the two economies. If a country's purchases from a particular trade partner are fairly inelastic with respect to price (typically the case with, e.g., petroleum), we can infer it is quite costly, or perhaps not even possible in the short run, to switch to an alternative supplier. Hirschman's writings supply good reasons to expect the politicization of such relations (Hirschman [1945] 1980). What this mechanism does not imply, however, is that trade per se (imports plus exports as a proportion of gross domestic product) engages a national interest. The state, in this conception, is hardly concerned if The Gap is vulnerable to an interruption in jeans deliveries from Guatemala.

If extreme relative gains can create externalities that threaten security one might expect an autonomous state to take preemptive actions that could escalate into violent interstate conflict to deal with these externalities. This is, however, an inherently weak argument, since security externalities are said by some realists to deter trade in the first place (Gowa 1994). Moreover, trade probably accounts for a small proportion of the differential productivity growth that some scholars suggest leads to major power conflicts (Gilpin 1981). Studies that rely on such mechanisms should at a minimum control for the obvious non-trade sources of conflict: differential domestically generated productivity gains and growth rates. To suggest that these are the result of *trade* (and not domestic innovations that lead to economic efficiencies, as emphasized by North and other institutional economists [North 1981]) is probably unwarranted.

Other kinds of models are also consistent with (indeed, depend on) the assumption of an autonomous state free from societal constraints to pursue the "national interest." James D. Morrow's suggestion (this volume) that states that govern highly interdependent economies have a fuller range of "signals" they can use to inform their friends and adversaries of their intentions is one such model. The clarity and hence usefulness of such a signal decline if civil

society interferes in the state's attempted transmission. On the other hand, some models emphasize that various forms of societal constraints that render a signal costly (e.g., sending the signal entails electoral risks) are precisely the reason that certain governments can signal more credibly than can others. Perhaps there is some optimal degree of autonomy that allows certain states to capitalize on the signaling value of trade interdependence, but it is useful to be explicit about the state/society relationship that underlies a model of this kind.

It seems plausible that intensive trading relationships have a positive impact on the information environment in which autonomous states design and execute security policy. After all, economic interdependence necessitates contact on several levels: across members of civil society (private contracting), between civil society and official circles (passing inspections, paying duties, applying for import licenses), and at the government-to-government level (trade negotiations, trade-dispute resolution). It is completely consistent with theories that assume a high degree of state autonomy to attribute the pacific influence of trade to better information, which reduces the possibility of miscalculation and unnecessary conflict escalation.

All of these arguments assume and ought explicitly to theorize a state relatively free from societal constraints to pursue the national interest even if this means that civil society—or some segment of it—bears the costs. It is crucial in empirical work to be sure data on interdependence is relevant to security arrangements, if that is what theory suggests autonomous states are responding to. This approach contrasts strongly with society-centered theories of the state, discussed in the following section.

Society-Centered Theories of the State

The major theoretical alternative to an autonomous state able to fashion foreign policy autonomously is a governing organ that is highly constrained by societal forces. Scholars have long recognized that state-society relations, particularly those that link states and entrepreneurial elites, are crucial (Gerschenkron 1962). Three plausible kinds of societal constraints seem most pertinent to the interdependence-conflict connection. Each of these approaches involves different assumptions about just how the state is constrained and therefore has different implications for empirical testing.

Median-Voter Theories

One way to think about how governments go about foreign policy-making is that it is an extension of domestic politics, which we can think of as influenced

by the range of "voter preferences." Electoral logic in these models suggests that governments will be influenced by the preferences of the median voter. In a polity stripped for simplicity's sake of social or economic institutions, democratic governments should be expected to adopt policies that reflect the preferences of the bulk of the electorate. Governments in this model attempt first and foremost to retain office and thus choose policies that maximize political support. Economic interdependence is first and foremost an electoral issue, rather than a security dilemma. Facing an electorate with free-trade proclivities, governments that need to worry about reelection will foster trade and avoid conflict escalation.

The mechanism offered by Christopher Gelpi and Joseph M. Grieco (this volume) is an example of a median-voter approach at work. They hypothesize that the *interaction* between democracy and trade should reduce conflict escalation. The logic depends on the assumption that, given an electoral constraint, democracies are relatively more likely than autocracies to foster growth (highly appealing to the median voter) and trade (likely to produce growth). Trade is therefore conceived of as a public good. Democratic leaders, ever cognizant of the preferences of most voters for growth and employment, are worried about the *macroeconomic* effects of trade disruption.

It should be obvious that the state in this model is radically constrained in a very positive way: democratic governments find it in their best interest to avoid disruptive international conflict. They do well by doing good, that is, by catering to the demands of electorally empowered (but unorganized) voters who want growth. In contrast to the models discussed subsequently, trade produces a public good, not simply a private benefit (and certainly not a negative security externality).

This approach has very little to say about vulnerability interdependence. It is most plausibly tested with broad interdependence measures such as imports plus exports as a proportion of gross domestic product (GDP). It almost certainly is correctly specified as an interaction model, in which democracy *enhances* the pacific qualities of trade. But it is based on a naive notion of societal constraints on foreign and foreign economic policy; after all, models of trade policy-making in democracies rarely depend on median-voter assumptions. Indeed, if the argument is correct, why don't trade barriers among democracies immediately fall to zero? The answer usually lies in group politics of some kind, explored in the models that follow. Finally, because it views trade as a public good, this approach cannot consider more sophisticated models that speak to the distributive consequences of liberalization and closure (e.g., Rogowski 1989) and the coalitional bases for policy choice.

Pluralist Theories

Various forms of pluralism overcome some of the weaknesses of the median-voter approach. Pluralism recognizes groups, rather than individual voters, as the most important unit to influence policy. Groups are a means of articulating interests of various sectors of society and representing those interests to government. Power is dispersed throughout society rather than concentrated within the state. Individuals have various identities, but, crucially, they join together to express their interests to government, which reflects on these and takes the various pressures into account in the public interest. In optimistic versions of pluralist theory, no single interest can come to dominate the policy-making process.⁵

Some form of pluralist theory lurks behind liberal explanations of the pax mercatoria. Rather than positing public-goods effects of trade, the assumption more often is that traders gain from undisturbed trade. *Traders*—not "the state," not "the public"—face opportunity costs when lucrative trade relationships are disrupted. Hence they organize to defend their collective interests in maintaining peaceful relations. In formulating policy, the state is most receptive to those groups that are best organized and endowed politically.⁶ Assuming industries comprising the traded-goods sector are well organized, this approach predicts the "pacific effect" generally attributed to liberal theory.

Empirical work based on some form of pluralist theory should do more than repeatedly test the statistical relationship between trade and international conflict escalation. If the logic of the argument is correct, then we might also expect countries with large traded-goods sectors to be connected with appeasement policies. Countries that are highly interdependent should be especially bad at deterring, because the threat of force is not credible, and it is not credible because of the domestic interests that are pressing for peace. (Contrast this with the ability of the unconstrained state to send sensitive signals and thus to deter in James D. Morrow's formulation.) The nature of the assumptions linking state and society will have a significant impact on outcomes. For pluralist models, researchers should be looking for evidence that anomalous cases—in which conflict escalates contrary to expectation—are plausibly cases of deterrence failure. The research agenda might then turn to the question of the conditions under which a societally constrained state can credibly deter undesired policies of a potential adversary with whom trading relationships are significant.

As is the case with median-voter approaches, pluralist theory can probably be roughly captured by using traditional measures of interdependence (imports plus exports as a proportion of GDP). The idea of using this empiri-

cal measure is that it very roughly picks up the size (though not the organizational capacity) of trading interests within a polity. A more sophisticated empirical treatment would include some measure of political organization of the traded-goods sector. One way to do this is to look at industrial concentration. Where few firms dominate the major industries within the traded-goods sector in a bilateral trading relationship, a pluralist story can be told about their ability to overcome problems of collective action and lobby the government to moderate its conflict behavior in order to protect the sector's opportunity to profit.

It is also important to note that liberal pluralism usually assumes that traders prefer to be left alone to trade peacefully without government interference. Critics have for decades questioned this halcyon assumption. Polanyi ([1944] 1957, 140) is one of many to note that markets depend on state action: "The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism." In whose interest *laissez-faire* shades into *puisque-faire* has long been the domain of Marxist/Leninist theory, discussed following.

Marxist Theories

It is truly ironic that empirical studies of interdependence and conflict have barely acknowledged the possibility that Marxist/Leninist theories might have something interesting to say about the mechanisms that link economic policy and foreign policy. Lenin was clear about the linkages; Marx himself was less so, although theorists drawing from his insights have since fleshed out a theory of the state that speaks directly to the empirical problem.

Societal constraints of a particular type are central to Marxist thinking (Miliband 1969). Two broad categories of Marx-inspired theories of the state have developed. Both point to tight linkages between the state and the capitalist class. "Instrumental" approaches generally derive from Marx and Engel's position in the Communist Manifesto that the state is nothing but an Executive Committee for the bourgeoisie. "Structural" Marxists, on the other hand, see the state as somewhat more autonomous and able to foster the accumulation of capital with greater effectiveness than private capitalists themselves (Kolko 1969; Magdoff 1969; Poulantzas 1973). Structural Marxists posit the relative autonomy of the state as necessary to ensure the long-term interest of the capitalist class. In both instrumental and structural versions, the state is seen as distinct from society, but nonetheless as epiphenomenal; that is, the state is essentially a superstructure that serves to rationalize more fundamental forces stemming from class relations based on the means of production.⁷

Marxist thought is most explicit about the likelihood that "the state" is subject to capture by capitalist interests. Though this is clearly a society-centered approach, gone is the assumption of the liberal median voter for whom the government attempts to generate "public goods." Gone, too, is the liberal assumption that trading interests are essentially pacific; Lenin's writing exposed the simplicity of such an unqualified assumption. Indeed a possible hypothesis inspired by Marxist/Leninist thought is that, under certain conditions, governments are constrained to intervene, sometimes with a show of force, because of certain firms' preferences or, more structurally, to further the capitalist project generally. Such a formulation might expect conflict to break out on the periphery of the capitalist world, among capitalist competitors (as predicted in Lenin's *Imperialism*) or between a capitalist power and a highly resistant developing region (e.g., the Opium Wars).

Here, we would expect possibly forcible intervention on behalf of threatened trading or investing interests or in areas where economic interdependence (or, in Marxist terms, exploitation) lags far behind its potential. Conventional wisdom views the nineteenth century as the paragon of these dynamics: European governments were called on to intervene to enforce property rights, protect nationals, keep ports and shipping lanes open, and enforce sovereign debt repayment to private creditors on more than one occasion.

Implications for Research: Where Do We Go from Here?

Society-centered approaches assume that state policies "reflect vested interests in society" (Collander 1984, 2), while theories based on state autonomy posit decision making and policy formulation based on independent preferences of those individuals collectively authorized to govern. Research that links high foreign policy with patterns of civil-society interactions cannot avoid being explicit about whether, to what extent, and how states are bound by societal preferences.

I have argued that a theory of the state should inform the empirical expectations we choose to test and hence the evidentiary commitments we make. The relatively autonomous state, for example, is far more likely to be influenced by the possibility of vulnerability interdependence than broad-based but highly diffuse mutual trade. Since the autonomous state is so crucial to realist theory, it is essential that better measures of vulnerability be tested. One possibility is to look at trade elasticities, which give a general sense of how costly it would be to substitute one trade partner for another. Another is to look more carefully at the products being traded and attempt to gauge just how

strategically important they are to "national security." Weapons, strategic materials, and fuels are a good starting point, but such a list would have to be sensitive to technological change over time. It may be possible to create an index of interindustry trade that would be related inversely to vulnerability (since similar goods could in a pinch be supplied from one's domestic industrial capacity). Even if data availability makes it difficult to retain a global data set, it is worth eliminating observations from our analyses in order to test more precise specifications of the autonomy-vulnerability argument.

One might want to explicitly test a conditional argument that hypothesizes that autonomous states react to greater vulnerability with more highly conflictual behavior than do less autonomous, more societally constrained states. Here, the *interaction* of autonomy and vulnerability would predict a higher incidence or intensity of military conflict. If we want to capture the strength and activism of the state, it may be possible and desirable to include measures of the size of the public sector as a proxy (Carnoy 1984).

It is important to keep in mind that not all theories that assume state autonomy involve expectations about vulnerability interdependence. Broad-based economic relations could change the information environment in which autonomous states operate, in ways that might resemble more pluralist arguments but are logically distinct. Autonomous and constrained states might still differ in their ability to deter given high levels of interdependence. If Morrow's signaling argument is correct, high degrees of autonomy interacted with broad-based trade dependence should lead to deterrence success (such governments have a nuanced set of clear policy signals at their disposal), while highly constrained states should fail to deter when broadly entangled in trade interdependence (the cost to civil society is so prohibitive as to make any threat incredible).

The alternative to a statist interpretation is not simply "liberalism." There are many ways in which governments are constrained in foreign policy-making by civil society. Whether we choose to see the state as responding to a *public* interest or a *particularist* interest is a central analytical choice with empirical implications. Median-voter approaches suppose governments moderate their foreign policy behavior to provide macroeconomic benefits; pluralist models modify this proposition by looking at the political power and access of specific groups. Marxists link government behavior directly or indirectly to the interests of the capitalist class.

Each of these approaches requires more nuanced evidence than to date has been brought to bear. Pluralist models typically specify only one relevant

group—"traders"—when they regress total imports plus exports as a proportion of GDP on conflict behavior. Of course, such a measure does not get at the *organizational capacity* of traders to influence policy. Data on industrial concentration within a bilateral trading relationship would help. An even more complete specification might include the weight of interests specifically interested in or prepared for escalation—military spending as a proportion of GDP, for example. Once again, I am aware that data are limited, but I would advocate developing these more nuanced models that reflect the relationships actually theorized even if it means observations have to be dropped from the analysis.

Finally, we need to consider models that respect the obvious fact that normative and institutional differences affect state-society relations over space and time (Spaulding 1991). If we are prepared to think through how evolving institutional arrangements and ideas have altered how governments relate to the governed, we will be in a position to contextualize any observed regularities by period and region. Global generalization may not be nearly as interesting as variations based on distinctive state-society relationships.

NOTES

1. But see studies that argue that the relationship is not consistent over time (Barbieri 1996; Gasiorowski 1986).
2. The "state" here refers to individuals with the authority to make national public policy decisions, that is, public officials and the government (Ikenberry 1986; Mastanduno, Lake, and Ikenberry 1989). This meaning is narrower than in some accounts (e.g., Katzenstein 1978; Krasner 1978) in which the state is practically synonymous with the national political arena (Jackman 1993, 62–72).
3. The state has the ability to neutralize active opposition to its policies. Special privileges, office, and public recognition provide one way (Staley 1935, 289). The state can also change the ways actors understand particular issues, ultimately convincing them of the best course to follow (Krasner 1978, 81).
4. This is intentionally a stark presentation of "state autonomy" so as to facilitate contrast with society-centered approaches discussed later. For a more nuanced theory of the semiautonomous state, see Peter Evan's (1995) account of "embedded autonomy."
5. Neoutilitarians of various stripes have of course extended this happy model of balancing interests to examine models of various forms of capture, which typically injects various degrees of inefficiency into economic policy-making. See, for example, Bates 1981.
6. In some versions of pluralist theory, "policy networks" are the central unit of analysis that explain policy outcomes. See Smith 1993.

7. Other Marxist theorists emphasize the suffusion of the state throughout civil society (Gramsci 1971). Althusser (1971) sees organizations such as the church, schools, and even trade unions as part of the Ideological State Apparatus.

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