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20

DECENTERING THE MARKET METAPHOR IN INTERNATIONAL ECONOMICS

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Fredric Jameson writes that the term 'the market' has always had a dual meaning, being 'at one and the same time an ideology and a set of practical institutional problems'.[1] In this paper I argue that the 'metanarrative' of economics – the beneficence of the free market – is built on a central metaphor of 'the economy as market system' that is as ideological as it is practical. I focus on the field of international economics, where the centrality of the market metaphor has narrowed the scope of the analysis of the international economy to such an extent that economics has been unable to recognize certain important trends, much less theorize them. The exclusive focus on markets has precluded a rigorous treatment of new developments in the organization of business and the production process and in the role of the state in international transactions.

The metaphors of 'economy as market system' and 'economy as equilibrium state' that characterize modern economics are particularly inappropriate as the basis for a description of contemporary international economic relations. While international economic theory is still today largely an application of general equilibrium analysis, trends in the international integration of production are moving a growing share of international transactions outside the confines of 'the market' and into the realm of non-arm's-length transactions, in which the two parties in the exchange either have common ownership or some other contractual relation, or that involve the state as buyer or seller. Moreover, there is a growing list of international corporate alliances, in which corporations from different nations share services and information. The 'competition' that underpins 'general competitive analysis' thus has a diminishing role in international economics. Not surprisingly, then, the equilibria that gird the notion of 'the international market' as the constitutive metaphor for international economists have also diminished in relevance. Large and persistent trade imbalances, recurring balance of payments crises, and

considerable (though unevenly distributed) excess capacity are increasingly the norm. The metaphor of the market economy and the related concept of equilibrium are no longer relevant to a large portion of international economic relations.

The conception of science that has dominated economics since the 1870s has asserted that market exchange constitutes the full scope of economic thought.[2] The continued dominance of the market metaphor in a world in which its applicability is in doubt, is due in part to the inevitably slow pace at which the Lakatosian core is overturned in any science. But the result of this reduction of 'economy' to 'market' is that modern international economics lacks a serious treatment of the firm and the state, the two institutions that today are extending the scope of non-arm's-length transactions in the international economic relations. In its insistence on a binary demarcation between market and non-market, economics presents the former as both pure and universal. The limits of this dichotomy for the analysis of the family have been the focus of numerous studies.[3] In this essay, I emphasize the weakness of this binary opposition for a sphere much closer to traditional economic analysis, that of international trade and finance.

Postmodernism and markets

The metanarrative

Postmodernist thinking in economics has developed along two main lines. The first is a critique of claims to objectivity. The second is a criticism of the economics conception of a unified and rational subject.[4] I want to emphasize the way these two lines of criticism are linked. The critique of objectivity has largely been driven by a reconceptualization of economics as discourse, in which truth claims are viewed as efforts to persuade using metaphors and other rhetorical figures.

The critique of the notion of subjectivity in economics focuses on the static, asocial and homogeneous nature of 'homo economicus'. The concept has been attacked by Marxists, feminists, Post Keynesians, institutionalists and others for decades. The postmodernist attack has been on the assumed exogeneity of the process of subjectivity and the stasis of the subject as a social being. That is, the notion is based on the idea that individual identity already exists prior to any interaction with 'the economy', and that it doesn't change with such interaction. Preferences are 'exogenous' and fixed. The postmodern notion of subjectivity insists not only on the endogeneity of 'preferences', but on the ongoing nature of the process of subjectivity, whereby identity is created and recreated through individual choices, structures of constraint and social change.

Postmodern critiques of objectivity and economic subjectivity are linked. Both are attacks on the modernism of knowledge in economics. In his well-known essay, *The Postmodern Condition: A Report on Knowledge*, Lyotard (1984) identifies the 'metanarrative' or 'grand narrative' as key to the legitimation of modern knowledge, and in particular its foundationalist claims.[5] Metanarrative is narrative that purports to capture the totality of a given field and thus that serves to structure its knowledge, for example the notion of history as the story of the progress of mankind. For Lyotard, such narratives are exclusionary and presume universality. Postmodernism, by contrast, rejects the metanarrative as the basis of knowledge. According to Lyotard:

> In contemporary society and culture – postindustrial society, postmodern culture – the question of the legitimation of knowledge is formulated in different terms. The grand narrative has lost its credibility, regardless of what mode of unification it uses, regardless of whether it is a speculative narrative or a narrative of emancipation.
>
> (1984: 37)

'The beneficent role of the free market' is truly the metanarrative of economics. Its status derives from its purported naturalness and thus universality – the narrative is relevant across all time and space – as well as its emancipatory theme. In economic thought – from Smith's 'society of perfect liberty' to Samuelson's 'first fundamental theorem of welfare economics' (i.e. that general equilibrium is Pareto optimal) – the market represents the locus of attainment of both individual freedom and maximum social welfare. The market has served as *the* organizing construct for economic thought. Market competition and market forces are the foundation of the economic notions of equilibrium, welfare, agency, economic policy and scientific legitimacy. Market analysis demarcates economic from non-economic thought. That which can be subjected to market analysis – be it recognizable markets or spheres in which interaction is like ('as if') a market – is contained within the proper scope of economics. Polanyi (1957: 270) referred to this conflation of market with economy as the 'economistic fallacy'. According to this binary approach, non-market phenomena are distinct and non-economic. What if we attempt to explode, or at least reverse, this binary dissection of society? To do so, we must begin by exploring the metaphoric power of the notion of markets.

Economic metaphors

The idea of 'the economy as market system' functions as a metaphor in the metanarrative of economic knowledge. What makes the market a

metaphor? According to Webster, a metaphor is an 'implied comparison, in which a word or phrase ordinarily and primarily used of one thing is applied to another (e.g., screaming headlines, 'all the world's a stage').[6] Thus, a metaphor is a figure of speech that makes meaning by substituting for one thing something it doesn't typically resemble. A figure is any non-literal way of describing or referring to something. What distinguishes different types of figures from each other is the way they make meaning – by analogy, or by contiguity, social consensus, or resemblance (i.e. metaphor). All language is figural in that the relation between the word (or image) and the concept it represents is fundamentally arbitrary. There is no reason, for example that we call a tree 'a tree' in English or 'un arbre' in French. There is no *natural* relation between the word and the thing, or what Saussure call the signifier and the signified. According to Saussure:

> The bond between the signifier and the signified is arbitrary…The term [arbitrary] should not imply that the choice of the signifier is left entirely to the speaker (we shall see below that the individual does not have the power to change a sign in any way once it has become established in the linguistic community); I mean that it is unmotivated, i.e. arbitrary in that it actually has no natural connection with the signified.
>
> ([1915]1966: 67, 69)

As language is inherently figural, so must be any interpretation or theory. If all language is non-literal, why do we make the distinction between literal and figurative? The figurative trumpets its figurativeness. To say that the market is a metaphor is not to suggest that all other economic terms should be understood literally. It is instead to highlight its status as a construct of the discipline. Markets are a social construct in two senses. First, markets don't exist in nature but take particular forms depending on culture and history. Second, markets have no reality beyond our conceptualization of them, that is, our knowledge of markets and market forces is framed by out narratives about how markets work. Thus, the issue is not that representation through metaphor is unscientific. It is that the centrality and primacy of the metaphor of 'economy as market system' is a particular and for many purposes narrow focus for the study of the global economy.

The power of market analysis

Market analysis has been central to the grand narrative of economics for centuries because it gives a sense of order to the perception of an otherwise chaotic social existence, providing what Adam Smith termed an

essential component of any science, 'to allay the tumult of the imagination.'[7] But economics moves from the status of mere 'political economy' to that of true 'economic science' at the point when the analysis of market exchange comprises the *full scope* of economics. Thus modern economics is synonymous with the analysis of market exchange, whereas classical economics sought to uncover the natural laws of value and distribution around which market outcomes were said to fluctuate.

The power of market analysis comes from its two basic, and connected premises: the anonymity of market relations and the autonomy of markets themselves. The anonymity of market relations implies that the buyer and seller in the market are independent, as are their respective motives. These transactors in the market are said to act exclusively in their own self-interest. Rivalry characterizes the relation among suppliers, and supplier–demander relations are based on the complete independence of the two sides of the market. Thus market transactions are termed 'arm's-length' transactions.

The impersonalness of the market also requires that the actors – their preferences, technologies and endowments – are *given* to the economic problem of market analysis, as opposed to being endogenous to any process of market interaction. This has two important implications. First, it implies that the production process is largely given and can be neglected.[8] Second, it roots market dynamics in nature, rendering them autonomous and determined by the natural 'laws' of supply and demand. The impersonal and natural characteristics of markets together make analysis of market interaction – economics – scientific. Even if we understand the problem of modern economics to be the analysis of given but socially constructed conditions, we still must retain the independence of market from other social forces. When markets are viewed as embedded in a broader social structure, economic science becomes indistinguishable from economic anthropology and economic sociology. But efforts to reconstruct economics with a notion of markets and other institutions as more broadly embedded have met enormous resistance from economists. According to Barber (1995: 388), 'the career of the concept of embeddedness can be seen as one long struggle to overcome, to correct, the common tendency among economists and others to…the absolutization of the market'.[9]

With markets at the center of economics, the result of the working-out of market 'forces' – that is, the attainment of market equilibrium – becomes the focus of all economic analysis. Model assumptions are unapologetically adopted simply on the grounds that they are necessary if the model is to exhibit a stable equilibrium. Equilibrium represents closure, as in any classic realist literary text. According to Belsey (1980: 80), 'the movement of the classic realist narrative towards closure ensures the reinstatement of order, sometimes a new order, sometimes

the old restored, but always intelligible because familiar.' Belsey's (1980) description is of fiction, but it is surprisingly relevant to contemporary economic narratives about the economy.[10]

When there is less than arm's length between buyer and seller, market forces break down. Market analysis, that is, modern economic tools, are rendered inadequate. For one, it is difficult to prove the stability of a market equilibrium when supply and demand are interdependent, a point already noted in the nineteenth-century with Marshall's depiction of downsloping supply and demand curves. Second, the individual freedom said to be realized in market exchange is compromised when supply determines demand (or vice versa). If preferences, for example, are driven by cultural conditions including market structure and workplace organization, then the subjectivity of preferences can no longer provide adequate philosophical foundations for economics.[11]

Markets and the international economy

There has recently been a growing awareness of the limited scope of the market, especially in light of new research on the household and the firm.[12] According to Auerbach (1988) 'Of the enormous number of transactions in an economy, only a tiny fraction of them take place in what may literally be described as a market.' Klamer and McCloskey (1995), drawing on Hirschman's (1970) three forms of economic signaling (exit, voice, and loyalty) estimate that about 25 per cent of GDP is 'persuasion', that is, not related to anonymous market interaction. Feminist economists have also rejected the centrality of market forces in the study of economy. Nelson (1993) for example, rejects both the neoclassical emphasis on markets as a locus of free choice and the classical focus on natural laws of distribution of income and wealth. She argues instead for a focus on:

> the provisioning of human life, that is on the commodities and processes necessary to human survival…Such a study of economics need not rule out studies of exchange, but it does displace them from the core of economics. When human survival – including survival through childhood – is made the core of economic inquiry, nonmaterial services, such as child care and supervision, as well as attendance to health concerns and the transmission of skills, becomes just as central as food and shelter.
>
> (Nelson, 1993: 32–33)

Despite these developments, the market metaphor continues to predominate in theories of international trade.

In the neoclassical tradition, international trade is an application of

general equilibrium analysis. Capital and labor are 'endowed' on a country, individual consumer preferences and technological knowledge given exogenously, and the direction of trade and the gains from trade are determined as the result of equilibrium prices and trade quantities (i.e. exports and imports) that derive from the logic of firm and consumer optimization in the transition from a state of 'autarky' to one of 'free trade' under conditions of perfect competition and constant returns to scale.[13]

'Pure' trade models assume the absence of capital flows. As a result, balanced trade (that is, exports equal imports for all countries) is an equilibrium condition. In standard macroeconomic models, the trade balance is determined by private and public saving and investment. Comparative advantage determines which commodities each country exports and imports. Free trade in goods not only brings efficient resource allocation and maximum social welfare for all nations, but also equalizes factor prices (wage and profit rates) globally, thus rendering international factor mobility unnecessary for the attainment of efficiency.

Constructing comparative advantage

'[W]hen they affirm a law', writes McCloskey (1985: 57, 58), 'scientists are trying to persuade other scientists…Proofs of the law of demand are mostly literary.' So it is with comparative advantage. Like the law of demand, the principle of comparative advantage is based on a very particular construction, and its proof relies even more heavily on introspection and analogy than does the law of demand. In fact, while the law of comparative advantage is commonly referred to as the most widely accepted principle among economists, it has never been formally generalized. It is fairly simple to extend Ricardo's well-known example of English and Portuguese wine and cloth production and trade to the case of many countries and two commodities or many commodities and two countries. But it has never been shown that the principle yields a deterministic result in the case of many countries and commodities. The most developed attempt of this case is Jones (1961). But in order to get a deterministic result he assumes that the number of countries and commodities are the same and that each country specializes in the production of, and thus exports, a different commodity. Deardorff's (1980) proof of 'the general validity of the law of comparative advantage' ultimately abandons the goal of determinism and settles for a probabilistic relation between relatively high (low) productivity in a sector and exports (imports). This uncertainty and openness belies the determinism and symmetry implied by the principle of comparative advantage. The simple techniques adopted for market closure – for example, assuming a limited number of goods and countries, full employment, balanced trade

– hardly support economists' claims of the universal relevance of comparative advantage in the determination of the international division of labor. In sum, the principle of comparative advantage is a much more delicate construction than the textbooks indicate, and the rise of a 'New International Economics' (see below) reflects the fragmentation of knowledge to which this fragility leads.

The principle of comparative advantage dates to the classicals, but it is with the neoclassical conception of markets that comparative advantage becomes determined by natural endowments, thus leaving the determination of trade flows to 'nature'. As with the binary opposition between market and non-market spheres, the natural/social demarcation is artificial and problematic. What if, for example, trade itself leads to changes in labor skills or technological capabilities? Then the traditional link between trade and factor endowments would be reversed. The assertion of a natural basis for trade ultimately has a double edge for neoclassical economics. On the one hand, it anchors economic outcomes in the natural realm, thus bestowing on the process a status akin to that analyzed by the natural sciences. On the other hand, by positing the determination as outside of the market proper, the narrative of international trade leaves its determinants outside the realm of the economic sphere. Thus defining 'the natural' is also to demarcate a distinct social sphere, and to circumscribe a proper scope of economic analysis.[14]

While the law of comparative advantage – in both its classical and neoclassical versions – can be seen as a delicate construction, it is the particularity of its conception of the firm and the state that identify it so completely with the constitutive metaphor of the economy as strictly a set of markets. Both classical and neoclassical trade theories are based on a conception of an industry as consisting usually of a single firm, in effect a metaphorical 'national firm'. In such a world, intra-industry trade (trade in similar products between two nations) is a logical impossibility, since by definition no two nations have a comparative advantage in the same sector. Multifirm industries are at most contained of identical firms, precluding any heterogeneity in firm response to similar market forces.[15] Moreover, intra-firm trade is ruled out by construction: there is no rationale for a single 'firm' to operate in two countries, since international factor movements are seen as unnecessary to bring about an optimal result. Foreign direct investment then has no role in the determination of trade flows. Also, the role of the state in raising national welfare is limited to a single and narrow case of market failure. A nation with market power (that is, facing less than perfectly elastic demand) can impose an 'optimal tariff', altering relative prices to raise its export revenues and its national welfare.

The neoclassical reconstruction

In the late 1970s, international economists began exploring the implications of relaxing the assumptions of perfect competition and constant returns to scale and of replacing 'rational economic man' with 'game-playing man', that is introducing strategic behavior on the part of individual agents. This was motivated in part by the desire to explain the observed importance of intra-industry trade and the apparent success of some trade-orientated industrial policies, such as in Japan and South Korea. While these models invariably assume full employment and balanced trade, they also attribute trade to factors other than comparative advantage. As a result, commercial policy (e.g., subsidies and tariffs) can be shown to be welfare enhancing for a given nation under certain conditions.[16]

The pro-interventionist conclusions of much of the new international economics have proven to be too contentious in a profession whose broad adherence to the principle of free trade has been one of its hallmarks. Paul Krugman, the founder of this 'new international economics', has himself backed away from the policy conclusions of these optimization models, arguing that they are too sensitive to particular assumptions and that their application to actual policy would require an unrealistic ability for disinterested fine tuning on the part of the state.[17] Krugman's retreat from these heretical conclusions reveals a discrepancy between the rigor with which market dynamics are analyzed and the looseness in the treatment in the notion of the state. Market dynamics based on rational-agent optimization are painstakingly constructed both mathematically and verbally. Conclusions about the capacities and nature of the state, on the other hand, are drawn almost whimsically, and based on casual observation and even stereotype. Such an asymmetry in the treatment of markets and states is only acceptable because the dominant and central metaphor of economic discourse is 'the economy as market system'.[18] Why is the state treated so cavalierly, the market so 'scientifically'? Non-market institutions are notoriously difficult to interpret through the lens of the market. And while neoclassical economists have largely agreed that this metaphorical transfer is acceptable when it comes to the study of the firm (see below), no such agreement exists about the conceptualization of the state. Moreover, 'policy relevance' has emerged as an important criterion of professional significance. Rendering the variations of the market metaphor policy relevant has required a flexibility in the representation of the role of the state and state-market relations. To put it more strongly, policy relevance requires flexibility in the treatment of policy as a necessary antidote to the sterility of the treatment of the market.[19]

Firms and states in international transactions

In the theory of international trade, both old and new, all transactions are market transactions. Firms face perfectly competitive factor markets domestically and either perfect or imperfect competition in international product markets. Entirely overlooked in this conception is the significant volume of international transactions that take place within the firm, with the heavy involvement of the state, or even between firms cooperating with each other. Simply put, the scope of transactions in the international economy is much broader than the theory of international trade would lead us to believe. Today's international economic relations are characterized by considerable amounts of non-arm's-length transactions. These take the form of intra-firm trade, inter-corporate joint ventures and alliances, special arrangements between buyers and sellers (suppliers), and state-negotiated trade. The scope of this array of forms of non-arm's-length transactions is so broad that the relevance of the market cum locus of arm's-length transactions is greatly diminished. The dominance of the market metaphor in the discourse of international economics has made it difficult for economists to even identify certain trends (for example, in intra-firm trade), much less theorize them. As a result, this task has fallen increasingly to experts in management and political science.[20]

Intra-firm trade

Intra-firm trade is the international trade of goods or services within a single firm. Since the firm in this case is, by definition, a transnational corporation (TNC), the large share of intra-firm trade in overall international trade is a relatively recent phenomenon. Moreover, it is neglected in both the old and new international economics, because neither even has a theory of the transnational corporation.[21] While transnational corporations have existed for over 300 years, their prominence has risen steadily over the past twenty-five years. By the late 1990s there were about 53,000 parent transnational corporations, compared to only 7,000 in 1970. These corporations controlled over 448,000 foreign affiliates. The world stock of outward foreign direct investment reached $3.5 trillion in 1997, up from $2.1 trillion in 1993 and $282 million in 1975. The share of foreign direct investment in world gross capital formation rose by two-thirds between the early 1980s and the early 1990s; for developing countries, the increase was by three-quarters. Other indicators of international production by firms have risen accordingly. Between 1975 and 1992, the number of employees of transnational corporations almost doubled from 40 to 73 million employees, and since 1985 almost all the expansion was accounted for by employment in affiliates. Between 1986

and 1995, sales of foreign affiliates of transnational corporations grew b
almost 15 per cent per annum, compared with only 2 per cent in the fir
half of the 1980s. Assets of foreign affiliates grew almost 20 per cent p
annum since the mid-1980s.[22]

On average, transnational corporations today have many more foreig
subsidiaries and affiliates than they did twenty-five years ago. Mo
important, the organization of the transnational corporation has change
quite drastically over this period. The typical transnational corporatio
in the 1960s had subsidiaries that either produced the product for ship
ment to the home country, or it served as a marketing branch in the ho
country. Today, the transnational corporation has widened its geographi
coverage and deepened the nature of the links among affiliates. Th
widening of the geographic coverage was already noted by Verno
(1979). The trend has continued since, and taken the form of both hori
zontal and vertical integration. A stylized example is depicted in Figur
20.1, which illustrates how the expansion of the transnational corpora
tion may involve the establishment of foreign affiliates through direc
investment, or develop foreign linkages through licensing, subcon
tracting or joint venture.

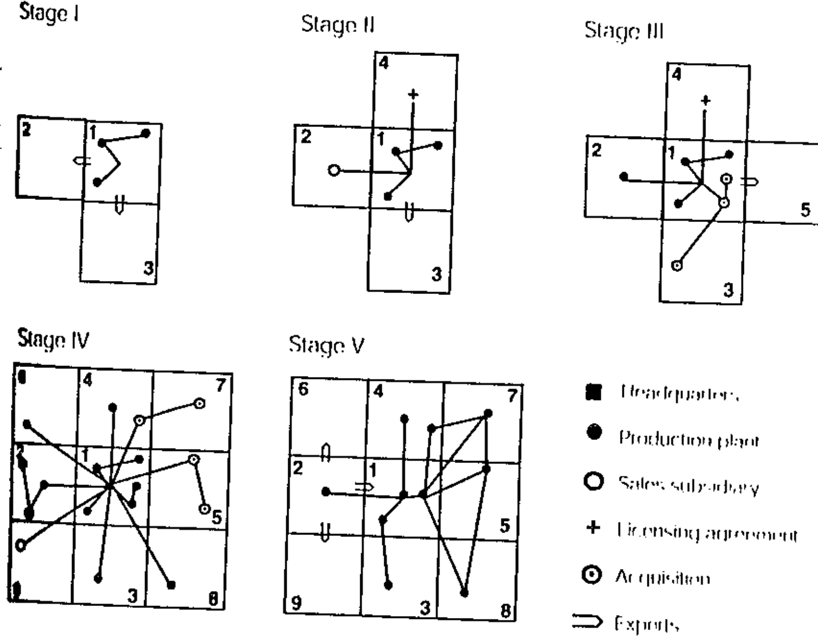

Figure 20.1 Organization and location of a transnational corporation: hypothetical case

Source: Dicken (1992: 211)

To ignore intra-firm trade, then, in a discussion of the theory of international trade or in the formulation of trade policy, is to ignore a major share of world transactions. Table 20.1 gives the share of intra-firm trade in total trade of the USA, Japan and Sweden. For the USA, in 1993, 36 per cent of exports and 43 per cent of imports were intra-firm. The figures for manufacturing alone are even higher in most cases.

Intra-firm trade has considerable consequences for the US balance of trade. According to a study of the 1980s, the US balance on intra-firm trade in 1982 was in deficit of $25.9 billion. This consisted of a surplus of $4.6 billion for US-based transnational corporations and a $30.6 billion deficit of foreign based transnational corporations. Consider the politically sensitive case of US–Japanese trade. About two-thirds of US imports from Japan are intra-firm trade by Japanese transnational corporations. And even US exports to Japan are dominated by intra-firm trade by Japanese transnational corporations.[23]

Intra-firm trade is likely to increase in the future as firms become increasingly multinational. But the particular form of this multinationalization is quite important. Transnational corporations may 'widen' their degree of integration by replicating existing affiliates in other countries. Transnational corporations are said to 'deepen' their international integration when they integrate more sophisticated aspects of operations

Table 20.1 Intra-firm trade, USA, Japan, and Sweden, selected years (percentages)

USA	1977	1982	1983	1989	1992	1993
Share of intra-firm exports in total exports	36	33	34.2	36	37.2	36
Share of intra-firm imports in total imports	40	37	36.8	42.8	42.5	43
Japan	1977	1982	1983	1989	1992	1993
Share of intra-firm exports in total exports	n.a.	n.a.	22.5	24.5	26.9	25
Share of intra-firm imports in total imports	n.a.	n.a.	15.1	15.3	14.8	14
Sweden[1]			1986			1994
Share of intra-firm exports in total exports			38			38
Share of intra-firm imports in total imports			3			9

Source: United Nations Centre for Transnational Corporations (1988), United Nations (1994) and (1996).

Note:

[1] Data covering only manufacturing

among affiliates. While transnational corporations have increa integrated in both ways, the recent trend is for transnational corpor to integrate with foreign affiliates at even the most sophisticated le the firm's operations. This has been termed a 'deepening of the tional integration' of transnational corporations.[24]

The process of deepening functional integration of the transna corporation is illustrated in Figure 20.2. In case (a), interaction bet parent and affiliates is limited to one or two functions. Case (b) i much broader functional integration of international production. the integration takes place even in the firm's most sophisticated tions. Note that Figure 20.2 depicts, for simplicity, a transnat corporation with only a single foreign affiliate. Note also that in the of both widening and deepening, the transnational corporations a length exports may not rise. But non-arm's-length transactions are l to be rising, as the firm's functions have been integrated at increasi higher levels of the value chain. Thus while world trade has gr steadily but slowly relative to GDP over the past 25 years, reaching 1913 level only in the late 1970s, the share of intermediate goods in trade rose more rapidly.[25]

With deepening international integration of production, the nati identity of a transnational corporation has become increasingly diff to pinpoint and, in many respects, less important, rendering the 'nati firms' of trade theory even more inappropriate as characterization contemporary production units. Also, it raises thorny questions national economic policy by distinguishing a nation's assets from property owners.[26]

Interfirm collaboration

While transnational corporation integration raises the level of intra-fi trade, there are a growing number of cooperative arrangements am otherwise rival corporations that represent non-arm's-length transacti that are not captured by the intra-firm trade statistics. These intercor rate alliances range in nature from the sharing of technologi information, to the sharing of marketing, distribution or after-sa servicing functions, to agreement on joint production. The intercorpor sharing of technological information is particularly common, with o 8,000 cases of inter-firm technology agreements recorded between 1 and 1996. In 1996 alone, 650 of these agreements were made.[27] These motivated by the desire of firms to share in the cost and risk of new hig tech product development (e.g. biotech, new materials technolo semiconductors). For example, three major transnational corporatio in the semiconductor industry, IBM, Toshiba and Siemens, signed agreement in 1992 to 'share the huge costs involved in designing the ne

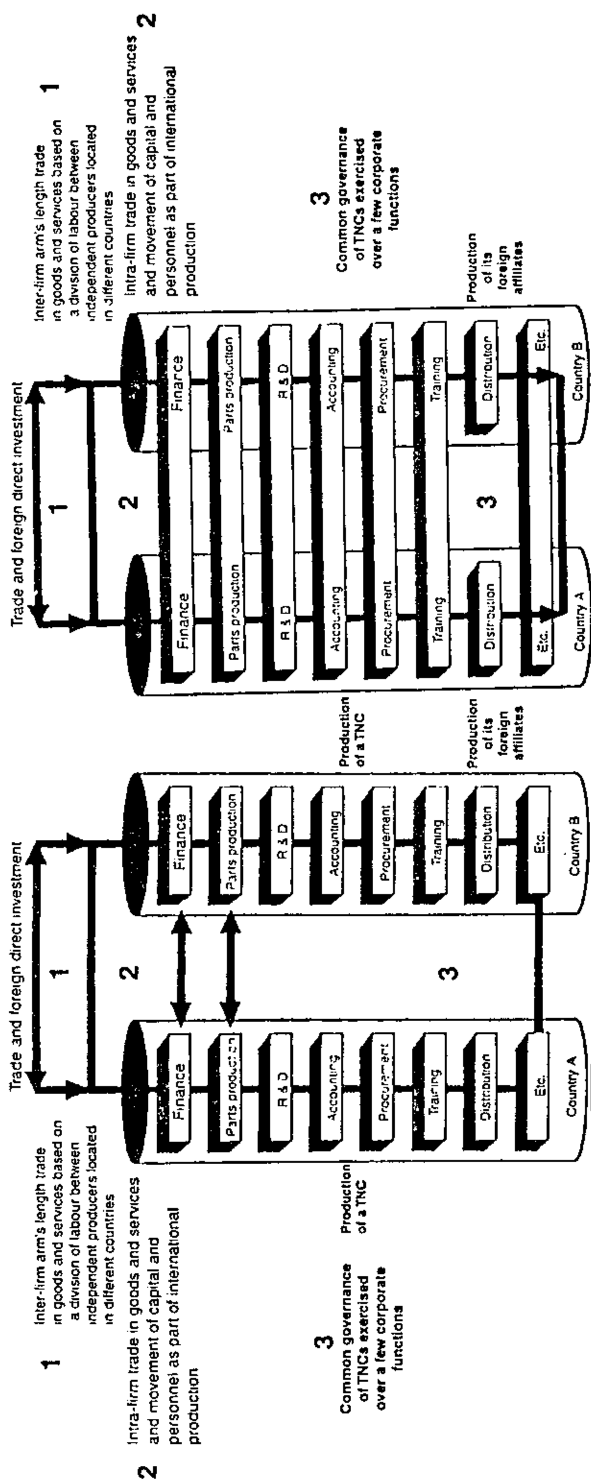

Figure 20.2 Varieties of international intra-firm integration of production
Source: United Nations 1993: 162–3

[256 megabyte] chip and its fabrication process (estimated at $1 billion) and the risk associated with it.'[28] In other industries, such as automobiles, chemicals, food and beverages, consumer electronics and even services, the alliances are motivated by the desire for market access. In the airline industry, for example, there is a growing web of shared use of computer reservation systems. The links are shown in Figure 20.3. According to the United Nations:

> Given the cost of establishing and operating such systems and providing the related services, an increasing number of airlines pool these resources and engage in CRS-alliances [computer reservation systems]. These are often cemented by equity stakes from the partner airlines. International airlines establish technical assistance links, code-sharing and other forms of commercial alliances mainly for some complementary strategies: to get access to foreign markets through the marketing and distribution networks of their partners; to capitalize CRS software and services; and to adopt/adapt advanced technology in order to reduce the development time and costs involved in changing their own computer networks.
>
> (1993: 146)

The role of the state

In addition to intra-firm trade and intercorporate alliances, the state's role as an agent in non-arm's length international trade is considerable. In the USA, for example, the Export-Import Bank, an agency of the US government, supplies loans, loan guarantees and insurance to foreign countries to facilitate the purchase of American products, ranging from aircraft to printing presses to hearing aids. Exports supported by the Export-Import Bank rose from about $6 billion in 1989 to $15 billion in 1994.[29]

Another steady and direct source of US government intervention in international trade is the shipment of agricultural products to developing countries under Titles I, II and III of PL480. Since 1970, these shipments have averaged well over $1 billion dollars per year, providing an important vent for agricultural surplus and bolstering US agricultural exports in their position as the largest export sector of the US economy.

Less direct, but equally important, is the US government role in the sale of military equipment. These sales currently account for about 5 per cent of US exports and totaled $134 billion in the 1980s. While they are officially sales of private corporations, these sales – ranging from weapons to aircraft – are heavily promoted by the government.[30] Speaking to arms exporters in 1993, former Secretary of Commerce

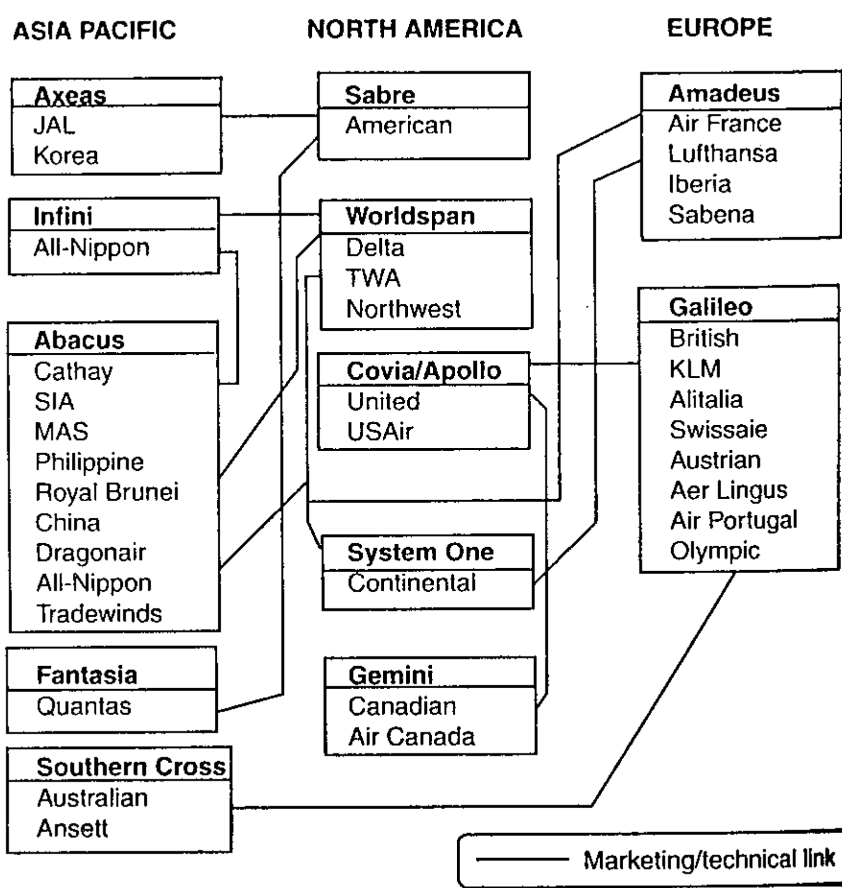

Figure 20.3 Alliances among airline computer reservation systems

Source: United Nations 1993: 145

Ronald Brown stated, 'The president is committed to moving beyond the arm's-length relationship that has too long existed between private and public sectors...We will work with you to help you find buyers for your products in the world marketplace, and then we will work to help you close the deal.' Of course the close government involvement in arms exports has a long tradition in the USA (Hartung 1994).

The stability of international equilibrium

The stability of equilibrium in international exchange is manifested in the two central and complementary features of the theory: balanced trade and automatic adjustment in the balance of payments. Table 20.2

shows the cumulative trade balances of a selection of countries, industri alized and industrializing. Not only is the volume of the imbalance relatively large, but the imbalances have persisted over considerabl periods of time, up to eleven years in some cases. It is difficult to make a case for the existence of an automatic adjustment mechanism in such context.

Of course, by accounting conventions, capital flow imbalances mus offset the trade imbalances each year. But these do not come 'naturally' since they often require considerable state intervention in the form o official reserve flows and foreign exchange market intervention Moreover, even such a non-market institution can be inadequate to stem a 'balance of payments crisis' which inevitably requires drastic state intervention.[31] International economic relations could just as well be said to be dominated by persistent imbalances than by tendencies toward balance. Thus a decentering of the market in the analysis of the international economy would also bring into question the stability of the international equilibrium that reinforces the logic of the metaphor.

Table 20.2 Cumulative current account balance, selected countries

Country	Cumulative account balance		Consecutive years with same sign		Cumulative current account balance (% o end-period GDP)	
	1970–1980	1985–1995	1970–1980	1985–1995	1970–1980	1985–19
Australia	-20,668	-132,275	7*	11*	10	41
Austria	-7,780	-6,140	11*	4*	7	4
Canada	-22,115	-179,676	7*	11*	6	31
Germany (a)	20,304	173,341	8	6	2	12
Ireland	-7, 592	2,933	11*	6	26	5**
Italy	-6,651	-37,775	4	6	1	4
Japan	20,512	948,084	3	11*	1	39
Netherlands	13,338	92,379	8	11*	7	34
United Kingdom	-2,244	-162,570	5	10*	0	17
United States (b)	3,823	-1,233,324	4	11*	0	19**

Source: OECD (1996)

Notes:
* Indicates the series of consecutive surpluses or deficits indicates the final year
a Series begins in 1971
b Series begins in 1973
** Indicates a sign change between the two periods

International economics with decentered markets

'Where, after the metanarratives, can legitimacy reside?' asks Lyotard (1984: xxv). Similarly, a 'postmodern economics' must address the question of what economics might look like once its principal metanarrative is dislodged. I have argued that the exclusive focus on the metaphor of market relations in the grand narrative of international economics has resulted in a blindness to the question of the organization of production, and that it is precisely the radical reorganization of business and the production process that characterizes contemporary international economics.[32] A focus on exogenously given atomistic agents interacting in autonomous markets can shed very little light on the question of the organization of production within the firm and thus on non-arm's-length international transactions. It is not even clear that such a system – that is, a perfectly competitive, free-market system – is sustainable over time. The history of modern capitalism is one of evolving business organizations and market structures. For example, the rise of oligopoly as a dominant market structure in the United States in the 1890s was arguably a necessity for firms' survival.[33] Thus even the interpretation of arm's-length transactions will be different if the conception of the transactors changes.

Economists have traditionally addressed the question of organization – that is, the question of why the firm exists at all – by hypothesizing a prohibitively high level of transactions costs in certain types of markets. The firm is the mechanism by which such costs can be avoided.[34] This tradition has been extended to the analysis of the transnational corporation, with an emphasis on the firms as a means of internalizing advantages that would be lost (or simply not be as profitable) if left to the market for export.[35] The transactions-cost approach has been integrated only with much difficulty into a neoclassical mold. Neoclassical economists have attempted to recoup this conception by considering intra-firm interactions *as if* they were occurring in markets.[36] A similar approach has been used to analyze commercial policy, with policy outcomes viewed as the result of the interaction of the supply and demand for trade protection.[37]

There are at least two objections to this effort to recoup the interpretation of non-market transactions within the metaphors of the market. First, it reduces all interagent communication to the category of price signals. This may be fine in the confines of that idealized institution known as a 'market', but within firms, households and states, there exists a wide range of non-price relationships. Hirschman's 'exit, voice, and loyalty' captures some of the possibilities. The exclusive focus on price competition is inappropriate even for the analysis of interfirm relations. When the scope is broadened to other forms of competition, in areas such as technological innovation, product quality, marketing, and after-sales service, then a range of organizational forms of organizing production become thinkable. A growing body of empirical studies of international trade show the dominance of non-price over pure price competition.[38]

The second problem with the Coasian tradition is that the firm and market are viewed as alternatives. This ignores that the two serve different functions. Production takes place within firms, not markets. And it is firms that establish a market, or even extend the scope of an existing market. As firms expand internationally, markets are transformed – they do not disappear.[39] The point is not to deny that the market metaphor *could* be reintroduced to 'explain' the firm, but to emphasize that such an analytical move is to exclude other important forms of knowledge and to further reify the notion of the market. The atomism of agents implied by such a conception removes the possibility of a serious treatment of internal organizational dynamics.[40] Such phenomena as intra-firm trade, market-seeking foreign direct investment, and industrial policy, to name a few, become difficult to conceptualize, and thus analyze, when only arm's-length transactions are considered. Endogenous changes in productivity, innovations in process and product, dynamics of industrial relations that influence productivity and location are all largely ignored when internal organizational dynamics are not part of the narrative of economics.

Could an international economics exist without market analysis at its center? Such an economics would give a prominent role to the organization of business, and consider arm's-length transactions as one of a number of possible forms of international transactions. Replacing a focus on markets and equilibria with one on business organization is not the substitution of one centered, unified concept ('the market') with another ('the business organization'). Business organization is not an ideal type but an evolving process that varies over time and over space. Chandler (1977, 1990) has shown in much detail how the dynamics of capitalism – from industrial revolution to the golden age of 1945–73 – can be related closely to the evolution of business organization. And a number of recent studies have argued that international competition can be viewed as a struggle among alternative organizational forms, characterized as 'American', 'Japanese' and 'German' (with considerable variety in each type).[41]

The existence of the firm has always been problematic for neoclassical economics because it is conceived simply as an alternative to the market, which is presupposed to be the most efficient mode for transactions. A postmodern theory of international trade must, at the very least, question the metanarrative of 'the beneficence of the free market' by problematizing the naturalized market metaphor and the essential dualisms on which it rests: market/non-market, social/natural, and market/firm. Firms both create and destroy markets. 'Market forces' or

'the forces of international competition' may loom large in popular debates over globalization and social policy, but these notions must be denaturalized in a way that captures their institutional embeddedness and their ideological thrust. New technologies in communication, design, data management and communication have made possible the international integration of the firm at the deepest levels of its functioning. As a result, the dynamics of international business (both inter- and intra-firm) can be seen as more important than 'market forces' in the determination of the international division of labor, income and wealth. The firm, the state and the household are just a few institutions whose dynamics can be theorized when the market metaphor is decentered, and ceases to serve as the only metaphor available to economists.

To put into question 'the market' as central metaphor in the metanarrative of economics is also to question the status of that metanarrative. The story of the beneficence of the free market has driven knowledge in the field of international economics for over 100 years. The role of postmodernism in international economics is to end the era of the exclusionary metanarrative and to insist on the sociality of both 'the global economy' and the discourse that creates our knowledge of it.

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Notes

1 Jameson (1990: 260).
2 See, for example, the classic definitions of economics by Leon Walras and Lionel Robbins.
3 See Elson (1991), for an application to stabilization policy.
4 On the issue of objectivity, see the pathbreaking work by McCloskey (1985) and Mirowski (1989). On the question of the economic subject, see Amariglio (1988) and Ferber and Nelson (1993).
5 See also Best and Kellner (1991: 164–7)
6 On the use of metaphors in economics, see Klamer and Leonard (1994) and McCloskey (1995).
7 Smith (1980: 39).
8 See Sawyer (1992: 38).
9 See Woestman (1997) for an anthropological view of debates over embeddedness. Even among feminist economists there is disagreement. See Weisskopf and Folbre (1996).
10 See Milberg (1988).
11 Schor (1998) shows in detail the cultural contingency of preferences in contemporary American society.
12 On the importance of household production, see Folbre (1994). On the role of intrafirm transactions, see Auerbach (1988).
13 For those interested in the question of subjectivity, it is worth noting that the individual agent in international trade theory is such a unified construct that he/she represents the nation! The social welfare function of international trade theory is typically represented by a single mapping of indifference curves, called social indifference curves. This concept of national welfare obviously denies difference along the lines of class, race, or gender. More simply, it assumes that when there are winners and losers as the result of the opening to trade, that the winners compensate the losers, bringing a Pareto superior state.
14 See Milberg (1993).
15 See Luria (1996) for an empirical study of precisely such heterogeneity of response.
16 See Krugman (1986) for a survey treatment.
17 See Krugman (1992).
18 For a detailed empirical analysis of the rhetoric of policy relevance in international economics, see Milberg (1996).
19 Milberg (1996).
20 See, for example, Encarnation (1992) and Cowhey and Aranson (1993).
21 See Markusen (1995: 191) regarding the absence of the transnational corporation in the new international economics.
22 See UNCTAD (1998: 23).
23 Cowhey and Aronson (1993: 42)
24 United Nations (1993).
25 For figures on the ratio of imported to domestic inputs for industrialized countries, see Milberg (1998). This phenomenon has now been widely acknowledged in the mainstream literature. Note that in contrast to the UN terminology of the 'international integration of production' that I have adopted here, Feenstra (1998) refers to it as the 'disintegration of production'. Krugman's (1995) term is the 'slicing up of the value chain'.
26 See the debate between Reich (1990) and Tyson (1991).
27 United Nations (1993: 143).
28 United Nations (1993:143).
29 Export-Import Bank of the Unites States (1993, 1994).
30 See Hartung (1994).
31 See Godley and Milberg (1994).
32 Again, this focus is not unique to international economics. According to some, neoclassical economics generally lacks a theory of the firm. See Best (1992).
33 See Eichner (1969: xi).
34 Coase (1937) and Williamson (1975).
35 Hymer (1976) and Dunning (1993).
36 See Alchian (1950) and Alchian and Demsetz (1972).
37 See Baldwin (1982).
38 See Fagerberg (1996).
39 See Sawyer (1992).
40 See Sawyer (1992: 32).
41 For example Best (1990), Ohmae (1985), Dunning (1993), Porter (1990), Cowhey and Aronson (1993).

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21

REFUSING THE GIFT

Philip Mirowski

These English psychologists – what do they really want? One always discovers them voluntarily or involuntarily at the same task, namely at dragging the *partie honteuse* of our inner world into the foreground and seeking the truly effective and directing agent, that which has been decisive in its evolution, in just that place where the intellectual pride of man would least *desire* to find it…what is it that really always drives these psychologists in just this direction? Is it a secret, malicious, vulgar, perhaps self-deceiving instinct for belittling man? Or possibly a pessimistic suspicion, the mistrustfulness of the disappointed idealists grown spiteful and gloomy? Or a petty subterranean hostility and rancor toward Christianity (and Plato) that has not even crossed the threshold of consciousness?…The way they have bungled their moral genealogy comes to light at the very beginning, where the task is to investigate the origin of the concept and judgment 'good'…One sees straightaway that this primary derivation already contains all the typical traits of the idiosyncrasy of the English psychologists – we have 'utility' 'forgetting,' 'habit,' and finally 'error,' all as a basis of an evaluation of which the higher man has hitherto been proud as though it were a kind of prerogative of man as such. This pride has to be humbled, this evaluation disvalued: has that end been achieved?

(Friedrich Nietzsche, 1967: 24–5)

These neoclassical economists – what do they really want? There have been times – and it may have also happened to you – when they say something whose audacity and sheer philistinism just takes my breath away. And I don't mean those quotidian sources of garden-variety outrage, like when they claim that toxic waste should rightfully be dumped in the third world because life is cheaper there, or that it is useless for the government to mandate seatbelts in passenger autos because people just end up driving more recklessly to 'compensate.' No