

INTRODUCTION

International political economy is the study of the interplay of economics and politics in the world arena. In the most general sense, the economy can be defined as the system of producing, distributing, and using wealth; politics is the struggle between actors with divergent interests to make collective decisions, whether inside or outside of formal governments. *Political economy* has a variety of meanings. For some, it refers primarily to the study of the political basis of economic actions—the ways that government policies affect market operations. For others, the principal preoccupation is the economic basis of political action—the ways that economic forces mold government policies. The two focuses are, in a sense, complementary, for politics and markets are in a constant state of mutual interaction.

Most markets are governed by certain fundamental laws that operate more or less independently of the will of firms and individuals. Any shopkeeper knows that an attempt to raise the price of a readily available and standardized product—a pencil, for example—above that charged by nearby and competing shopkeepers will rapidly cause customers to stop buying pencils at the higher price. Unless the shopkeeper wants to be left with piles of unsold pencils, he or she will have to bring the price back into line with “what the market will bear.” The shopkeeper will have learned a microcosmic lesson in what economists call *market-clearing equilibrium*, the price at which the number of goods supplied equals the number demanded—the point at which supply and demand curves intersect.

At the base of all modern economics is the general assertion that, within certain carefully specified parameters, markets operate in and of themselves to maintain balance between supply and demand. Other things being equal, if the supply of a good increases far beyond the demand for it, the good’s price will be driven down until demand rises to meet supply, supply falls to meet demand, and market-clearing equilibrium is restored. By the same token, if demand exceeds supply, the good’s price will rise, thus causing demand to decline and supply to increase until the two are in balance.

If the international and domestic economies functioned as perfectly competitive markets, they would be relatively easy to describe and comprehend. But such markets are only highly stylized or abstract models, which are rarely reproduced in the real world. A variety of factors influence the workings of

domestic and international markets in ways that a focus on perfectly competitive and unchanging market forces does not fully capture. Consumer tastes can change—how large is the American market for spats or sarsaparilla today?—as can the technology needed to make products more cheaply, or even to make entirely new goods that displace others (stick shifts for horsewhips, computers for slide rules). Producers, sellers, or buyers of goods can band together to try to raise or lower prices unilaterally, as the Organization of Petroleum Exporting Countries (OPEC) has done with petroleum since 1973. And governments can act, consciously or inadvertently, to alter patterns of consumption, supply, demand, prices, and virtually all other economic variables.

This last fact—the impact of policy and politics on economic trends—is the most visible, and probably the most important, reason to look beyond market-based, purely economic explanations of social behavior. Indeed, many market-oriented economists are continually surprised by the ability of governments or of powerful groups pressuring governments to contravene economic tendencies. When OPEC first raised oil prices in December 1973, some market-minded pundits, and even a few naive economists, predicted that such naked manipulation of the forces of supply and demand could last only a matter of months. However, what has emerged from almost fifty years' experience with oil prices is the recognition that they are a function of both market forces and the ability of OPEC's member states to organize concerted intervention in the oil market.

Somewhat less dramatic are the everyday operations of local and national governments, which affect prices, production, profits, wages, and almost every other aspect of the economy. Wage, price, and rent controls; taxation; incentives and subsidies; tariffs and other barriers to trade; and government spending all serve to mold modern economies and the functioning of markets themselves. Who could understand the suburbanization of the United States after World War II without taking into account government tax incentives to home mortgage holders, government-financed highway construction, and politically driven patterns of local educational expenditures? How many American (or Japanese or European) farmers would be left if agricultural subsidies were eliminated? How many Americans would have college educations were it not for public universities, government scholarships and publicly subsidized student loans, and tax exemptions for private universities? Who could explain the proliferation of nonprofit groups in the United States without knowing the tax incentives given to charitable donations?

In these instances, and many more, political pressure groups, politicians, and government bureaucrats have at least as much effect on economic outcomes as do the laws of the marketplace. Social scientists, especially political scientists, have spent decades trying to understand how these political pressures interact to produce government policy. Many of the results provide as elegant and stylized a view of politics as the economics profession has developed of markets. As in economics, however, social science models of political

behavior are little more than a wide variety of unpredictable. If an economist would be foolish not to consider mental producers' cartels (which would be equally foolish not to consider international commodity markets), will be few and far between.

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behavior are little more than didactic devices whose accuracy depends on a wide variety of unpredictable factors, including underlying economic trends. If an economist would be foolish to dismiss the possibilities of intergovernmental producers' cartels (such as OPEC) out of hand, a political scientist would be equally foolish not to realize that the economic realities of modern international commodity markets ensure that successful producers' cartels will be few and far between.

It is thus no surprise that political economy is far from new. Indeed, until a century ago, virtually all thinkers concerned with understanding human society wrote about political economy. For individuals as diverse as Adam Smith, John Stuart Mill, and Karl Marx, the economy was eminently political and politics was obviously tied to economic phenomena. Few scholars before 1900 would have taken seriously any attempt to describe and analyze politics and economics independently of each other.

Around the turn of the last century, however, professional studies of economics and politics became increasingly divorced from one another. Economic investigation began to focus on understanding more fully the operation of specific markets and their interaction; the development of new mathematical techniques permitted the formalization of, for example, laws of supply and demand. By the time of World War I, an economics profession *per se* was in existence, and its attention was focused on understanding the operation of economic activities in and of themselves. At the same time, other scholars were looking increasingly at the political realm in isolation from the economy. The rise of modern representative political institutions, mass political parties, more politically informed populations, and modern bureaucracies all seemed to justify the study of politics as an activity that had a logic of its own.

With the exception of a few isolated individuals and an upsurge of interest during the politically and economically troubled Depression years, the twentieth century saw an increasing separation of the study of economics from that of politics. Economists developed ever more elaborate and sophisticated models of how economies work, and similarly, political scientists spun out ever more complex theories of political development and activity.

The resurgence of political economy in the last half century has had two interrelated sources. The first was dissatisfaction among academics with the gap between abstract models of political and economic behavior, on the one hand, and the actual behavior of politics and economies, on the other. Theory had become more ethereal and seemed less realistic. Many scholars therefore questioned the intellectual justifications for a strict analytic division between politics and economics. Second, as the stability and prosperity of the first twenty-five postwar years started to disintegrate in the early 1970s, economic issues became politicized while political systems became increasingly preoccupied with economic affairs. In August 1971, President Richard Nixon ended the gold-dollar standard, which had formed the basis for postwar monetary relations; two and a half years later, OPEC, a previously little-known group,

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pressure groups, politicians, much effect on economic outcomes, especially political pressure groups, politicians, stand how these political pressures of the results provide as economics profession has developed social science models of political

level of economic inequality, and competitive success of nations. As the financial crisis of 2008 and the political instability that continues to roil both developed and developing countries makes clear, countries in the international economy are highly interdependent and closely integrated. To understand this complexity, international political economists frequently begin with three core concepts: interests, interactions, and institutions.

■ Interests are actors' goals, usually defined in terms of the outcomes they hope to obtain through political action. Businesses generally have an interest in maximizing profits, just as workers have an interest in maximizing wages; environmental activists typically have interests in protecting the atmosphere, the oceans, or endangered species; states may have interests in protecting citizens, expanding national wealth, or acquiring new territory.

■ Interactions are the ways in which the choices of two or more actors combine to produce political outcomes. The outcomes we observe—trade disputes, financial stabilization, or international cooperation to protect the environment—reflect the choices of many actors, each looking out for its own interest, but also taking into account the interests and likely actions of others. All forms of international cooperation, for instance, require multiple states to coordinate their policy choices toward a common goal.

■ Institutions are sets of rules, known and shared by the relevant community, that structure political interactions. Institutions define the "rules of the game," often embodied in constitutions, statutes, treaties, and global forums like the World Trade Organization. Institutions create procedures for making joint decisions, such as voting rules; they also lay out standards of acceptable behavior and often include provisions for monitoring compliance and punishing those that violate the rules.

There are many different types of actors in the international political economy. Individuals have interests as consumers, workers, shareholders, and in other roles. Many actors are collectives, such as firms, unions, business associations, and even states. Which actor an analyst focuses on is determined by the problem under investigation and the theory relevant to understanding that problem. For some questions, like trade policy preferences, we might start with individuals and their dual roles as consumers and producers working in a particular economic sector. For other questions, such as international financial negotiations, it might make sense to distinguish between creditor and debtor nations. There is no right or wrong way to specify the actors in any set of events. We judge different assumptions about who the relevant actors are by whether they are useful in helping us understand outcomes.

Having identified the relevant actors, the first task is to determine the actor's interest. Interests can be many and varied, depending on the specific policy

oil. In 1974 and 1975, the industrial and Japan fell into the first of them recently independent—of them recently independent—d demanded a fairer division of and 1960s, economic growth was with other matters, in the 1970s while political conflict exacted of international economics Great Recession in 2008 with new economic inequality, and greater then, social scientists once again d economics interact in modern sists have not simply reproduced (generations of scholars in the economics and political science led now understand both economic did a generation or two ago. It is economy has been constructed, pay close attention to economic tendencies, those who would economy into account, and vice ses emerges from an integrated c affairs than from the isolated realms. This much is, by now, disagreements arise. Government ese actions themselves may stimulate groups. Economic interest government policy, yet political party or multiparty, parliamentary outlook and influence of economic different forces, international common framework for under-

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or event under examination. In identifying the interests of an actor, analysts sometimes draw on prior theories of human nature or behavior; at other times, they simply assume the actors have a particular goal. In international political economy, it is common to assume that actors are motivated by material conditions and economic welfare, though exactly how welfare is defined and understood may well be the product of prevailing ideas and social norms—a point we return to below in our discussion of Constructivism in the next section.

We often use economic theory to deduce what types of individuals can be reasonably assumed to share identical interests. A key divide is between the Ricardo-Viner or specific factors theory of international trade, which assumes that capital and labor are fixed in particular occupations and, thus, will tend to have similar interests over trade policy, and the Heckscher-Ohlin theory of international trade, which assumes that all factors are mobile across occupations and, therefore, capital, land, and labor will possess opposing interests. A recent approach, sometimes known as new new trade theory, argues that only the most productive firms are capable of exporting, which implies that trade policy interests will differ between firms even in the same economic sector.

Having defined the relevant unit of analysis, we can then derive preferences over alternative policies from the distributional implications of different economic policies and, in turn, how an actor is located relative to others in the international economy. Firms vary by whether they are productive enough to compete with imports, export finished goods, or engage in foreign direct investment. By knowing a firm's productivity profile, we can then predict how it will be helped or harmed by policies to increase international openness. Sectors vary by similar characteristics. Factors of production, in turn, vary by their scarcity relative to the world economy. Since flows of goods and factors across international borders are equivalent in their distributional effects, we can use these same theories to derive expectations about how factors will be affected by a large range of economic policies and, thus, identify their interests over foreign direct and portfolio investment or migration.

Interests are essential in analyzing any event in international political economy because they capture how the actors assess alternative outcomes. But to account for these outcomes, we must examine the choices of all relevant actors and how their choices interact to produce a particular result. When outcomes result from an interaction, actors have to anticipate the likely choices of others and take those choices into account when making their own decisions. A low-productivity firm might prefer trade protection for its products, but if it cannot form a coalition with other firms to successfully lobby Congress, it might decide simply to close down and sell off its assets. Its choice depends crucially on what it anticipates would be the likely choices of other actors within the policy-making process. Similarly, states might prefer a global environmental compact, but unless they expect that most other states will cooperate, they

might aim to negotiate only a few efforts of others entirely.

Institutions play a major role in both domestically and internationally. They determine how interactions play out. The U.S. Constitution gives the right to regulate trade to Congress, making it responsive to local industries and interests. The result is that for many "protectionist" interests that have produced high "protectionist" rolls" that have produced high "protectionist" rolls in the United States. In the mid-19th century, Congress delegated authority to the president in an effort to expand trade. (See, e.g., Reading 8). The president's power to protect products imported into the United States on U.S. goods exported to other countries mentally altered the politics of trade, giving desired access to foreign markets a priority in the domestic market. Over time, as trade barriers were greatly reduced in the United States, trading partners. The reciprocity principle was codified in the international institution of the Trade (GATT) and eventually in the World Trade Organization.

However, institutions themselves matter precisely because they matter for the interests of actors that result, actors will seek to influence institutions to their interests. In the example of trade, the ability to the president to negotiate trade agreements from exporters who understood their benefit. Thus, institutions are shaped by even deeper rules and interests.

These concepts of interests, of the politics of international trade, of firms, sectors, or factors of production, of interests over economic policy, of the international economy. This approach to "politics," conceives of domestic interests as aggregate interests (with more or less competing societal groups. For example, bargaining between states will be an approach can proceed from the domestic level, reflecting an implicit understanding of up from individuals to interstate relations of groups within countries structure over policies that will favor their interests.

might aim to negotiate only a smaller regional agreement or free ride on the

efforts of others entirely.

Institutions play a major role in the international political economy, both domestically and internationally. Institutions are sets of rules that often determine how interactions play out and, thus, the choices actors make. The U.S. Constitution gives the right to set tariffs to Congress, which tends to be more responsive to local industries and their interests than the Senate or the president. The result is that for much of its history, Congress has created large "log-rolls" that have produced high tariffs that protected nearly all industries in the United States. In the midst of the Great Depression of the 1930s, however, Congress delegated authority to the president to negotiate bilateral trade agreements in an effort to expand U.S. exports (see Bailey, Goldstein, and Weinstein, Reading 8). The president could now offer to reduce tariffs on foreign products imported into the United States in exchange for reductions in tariffs on U.S. goods exported to other countries. This institutional change fundamentally altered the politics of trade protection by pitting exporters who desired access to foreign markets against importers who wanted to protect the domestic market. Over time, as a consequence of this institutional change, tariffs were greatly reduced in the United States and in countries that were its trading partners. The reciprocal reduction in tariffs, in turn, was later codified in the international institutions of the General Agreement on Tariffs and Trade (GATT) and eventually in the World Trade Organization (WTO).

However, institutions themselves are the product of political struggle. Precisely because they matter for how actors choose to interact, and the outcomes that result, actors will seek to negotiate the rules of politics in ways that favor their interests. In the example of U.S. trade policy, Congress delegated authority to the president to negotiate international agreements only under pressure from exporters who understood that such an institutional change would be to their benefit. Thus, institutions are often part of the political "game" itself, conditioned by even deeper rules about how institutions are themselves changed. These concepts of interests, interactions, and institutions suggest a model of the politics of international economy policy that begins with individuals, firms, sectors, or factors of production as the units of analysis and derives their interests over economic policy from each unit's position within the international economy. This approach, sometimes referred to as "Open Economy Politics," conceives of domestic political institutions as mechanisms that aggregate interests (with more or less bias) and structure the bargaining of competing societal groups. Finally, it introduces, when necessary, strategic bargaining between states with different interests. Analysis within the approach can proceed from the micro to the macro level in a linear and orderly fashion, reflecting an implicit unidirectional conception of politics as flowing up from individuals to interstate bargaining. The overall image, though, is one of groups within countries struggling within domestic political institutions over policies that will favor their interests, and then states—representing those

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Few theorists give equal weight to all steps in this analysis. As the selections in the remainder of this volume indicate, most focus on one step—for instance, how institutions aggregate societal interests—and treat others as analytic simplifications that are often left implicit in the specific theory at hand. For tractability, scholars focus on one or another step in the process and bracket many obviously varying features of a political-economic environment by treating them as exogenous for purposes of studying a single characteristic of the policy-making process. One might, for instance, bracket where interests “come from” and study how domestic institutions aggregate these interests in different ways. Alternatively, one might simplify the domestic political process and assume it produces some “national interest” or aggregated social welfare function and focus on how states then bargain over more or less favorable policies. In reality, of course, all else is not constant. Institutions often embody different sets of interests, the goals actors pursue are affected by the institutional setting in which they are embedded, and both interests and institutions at home are influenced by interactions between states. Yet, in practice, analysts must narrow the lens through which they view the world and concentrate on understanding particular steps in the political process that produce outcomes of concern. In most cases, the author’s focus on interests, interactions, and institutions will be obvious, but our section introductions and summaries of each reading presented below highlight their contribution and explain why it is integral to understanding the problem emphasized in the study.

FOUR ALTERNATIVE VIEWS OF INTERNATIONAL POLITICAL ECONOMY

In addition to tools of interests, interactions, and institutions just discussed, some scholars attempt to classify interpretations of global political and economic developments in a somewhat different manner. Many theories of international political economy can also be categorized into one of four perspectives: Liberalism, Marxism, Realism, and Constructivism. Note that in international political economy, advocates of free trade and free markets are still referred to as Liberals. In twentieth-century American domestic politics, however, the term has come to mean something different. In the United States today, whereas “conservatives” traditionally support free markets and less government intervention, “liberals” typically advocate greater governmental intervention in the market to stimulate growth and mitigate inequalities. These contradictory usages of the term *Liberal* may seem confusing, but the context will usually make an author’s meaning clear. Although little research in international political economy now occurs strictly within these four perspectives, they have helped structure past debates in the field, and students should be familiar with their broad contours.

The Liberal argument emphasizes environments in which all parties exchange with others. If there are no barriers, Liberals reason, everyone’s welfare, based on existing stocks of goods and services, will be at their highest. In such a world, who are generally Liberals, believe that the distribution of both a set of interactions and scarce resources. Liberals think that government should be quite limited. In a free economy, they argue, intentions to hoard resources thereby prevent potentially re-

Liberals do generally support the provision of “public goods”—goods and services that are provided by private markets.¹ The role of government in supplying the conditions for a competitive market. Governments should protect property rights, and enforce the rule of power within the market. The Liberal agenda includes, educate its citizens, maintain a common currency. The proper role of government is the necessary foundation for a

At the level of the international system, the harmony of interests exists. The Liberal view is based mostly on interests defined in terms of national borders in mutually reinforcing ways. To exist, all countries would need to be based on a common economic basis for international trade. That governments should manage international relations as they manage their domestic affairs, often referred to as “internationalization,” is a different national currencies and the international system is damaged by “unfair” international trade.

Marxism originated with the political economist and philosopher Karl Marx and his general supporters. Marx saw capitalism as a system of wealth for capitalists and poverty for workers. He believed that the wealthy have been better-off than before, and that the poor have been worse-off more rapidly than ever. He argued that exchange between individuals in a free market society. Accordingly, he perceived that both should, and would, be part of socialism.

The Liberal argument emphasizes how both the market and politics are environments in which all parties can benefit by entering into voluntary exchanges with others. If there are no impediments to trade among individuals, Liberals reason, everyone can be made as well-off as possible, given the existing stocks of goods and services. All participants in the market, in other words, will be at their highest possible level of utility. Neoclassical economists, who are generally Liberals, believe firmly in the superiority of the market—as both a set of interactions and an institution—as a mechanism for allocating scarce resources. Liberals therefore reason that the economic role of government should be quite limited. Many forms of government intervention in the economy, they argue, intentionally or unintentionally restrict the market and thereby prevent potentially rewarding trades from occurring.

Liberals do generally support the provision by government of certain “public goods”—goods and services that benefit society and that would not be provided by private markets.¹ The government, for example, plays an important role in supplying the conditions necessary for the maintenance of a free and competitive market. Governments must provide for the defense of the country, protect property rights, and prevent any unfair collusion or concentration of power within the market. The government should also, according to most Liberals, educate its citizens, build infrastructure, and provide and regulate a common currency. The proper role of government, in other words, is to provide the necessary foundation for the market.

At the level of the international economy, Liberals assert that a fundamental harmony of interests exists between, as well as within, countries. Focusing mostly on interests defined in terms of material consumption, they argue that all countries are best off when goods and services move freely across national borders in mutually rewarding exchanges. If universal free trade were to exist, all countries would enjoy the highest level of utility and there would be no economic basis for international conflict or war. Liberals also believe that governments should manage the international economy in much the same way as they manage their domestic economies. They should establish institutions, often referred to as “international regimes,” to govern exchanges between different national currencies and to ensure that no country or domestic group is damaged by “unfair” international competition.

Marxism originated with the writings of Karl Marx, a nineteenth-century political economist and perhaps the severest critic of capitalism and its Liberal supporters. Marx saw capitalism and the market as creating extremes of wealth for capitalists and poverty for workers. While the entire populace may have been better-off than before, the capitalists were clearly expanding their wealth more rapidly than everyone else. Marx rejected the assertion that exchange between individuals necessarily maximizes the welfare of the whole society. Accordingly, he perceived capitalism as an inherently conflictual system that both should, and will, be inevitably overturned and replaced by socialism.

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within international institutions national outcomes. As the selections focus on one step—for instance, and treat others as analytic simulations—specific theory at hand. For tracing the process and bracket many economic environment by treating single characteristics of the policy-market where interests “come from” these interests in different ways. The political process and assume it are social welfare function and in real-world favorable policies. In relations often embody different sets of interests and institutions at home are in practice, analysts must narrow world and concentrate on under-process that produce outcomes as on interests, interactions, and introductions and summaries of contribution and explain why it emphasized in the study.

Marxists see the political economy as necessarily conflictual, since the relationship between capitalists and workers is essentially antagonistic. Because the means of production are controlled by a minority within society—the capitalists—labor does not receive its full return; conflict between the classes is inevitably caused by this exploitation. Marxists also believe that capitalism is inherently prone to periodic economic crises, which will, they believe, ultimately lead to the overthrow of capitalism by labor and the erection of a socialist society in which the means of production will be owned jointly by all members of society and exploitation will cease.

V. I. Lenin, the Russian revolutionary who founded the Soviet Union, extended Marx's ideas to the international political economy to explain imperialism and war. Imperialism, Lenin argued, was endemic to modern capitalism. As capitalism decayed in the most developed nations, capitalists would attempt to solve their problems by exporting capital abroad. As this capital required protection from both local and foreign challengers, governments would colonize regions to safeguard the interests of their foreign investors. Eventually, capitalist countries would compete for control over these areas and intracapitalist wars would follow.

Second, Marxists are concerned with the poverty and continued underdevelopment of the third world. Some Marxists argue that development is blocked by domestic ruling classes, which pursue their own narrow interests at the expense of national economic progress. Others, known as “dependency” theorists, extend class analysis to the level of the international economy. According to these Marxists, the global system is stratified into a wealthy area (the “core,” or first world) and a region of oppression and poverty (the “periphery,” or third world). International capitalism, in this view, exploits the periphery and benefits the core, just as capitalists exploit workers within a single country. The

Realism traces its intellectual roots to the ancient Greeks, as well as those of Niccolò Machiavelli. Realist cantilists Jean-Baptiste Colbert states that states pursue power and that states believe states are the dominant force in the international system. According to Realists, the international system is an anarchic system under which nation-states are sovereign, self-interested actors, and subject to no higher authority. In the international system, nation-state, Realists believe that private citizens can interact with the international system. Realists assert that the basis for international relations is power. Thus, where Liberals focus on the individual, Realists concentrate on nation-states.

Realists also believe that nations act in the same sense that other nations. Nation-states are assumed to choose the option that yields the nation's international geopolitical

Realist political economy distribution of international economy. The best-known R *hegemonic stability*, which ho one characterized by the free

principal questions here focus on the mechanisms of exploitation—whether they be multinational corporations, international financial markets and organizations, or trade—and the appropriate strategies for stimulating autonomous growth and development in the periphery.

Realism traces its intellectual roots back to Thucydides' writings in 400 B.C.E., as well as those of Niccolò Machiavelli, Thomas Hobbes, and the mercantilists Jean-Baptiste Colbert and Friedrich List. Realists believe that nation-states pursue power and shape the economy to this end. Moreover, they also believe states are the dominant actors within the international political economy. According to Realists, the international system is anarchical, a condition under which nation-states are sovereign, the sole judges of their own behavior, and subject to no higher authority. If no authority is higher than the nation-state, Realists believe, then all actors must be subordinate to it. While private citizens can interact with their counterparts in other countries, Realists assert that the basis for this interaction is legislated by the nation-state. Thus, where Liberals focus on individuals and Marxists on classes, Realists concentrate on nation-states.

Realists also argue that nation-states have a fundamental interest in maximizing international power or, at least, the chances for national survival. Because the international system is based on anarchy, the use of force or coercion by other nation-states is always a possibility and no higher authority is obligated to come to the aid of a nation-state under attack. Nation-states are thus ultimately dependent on their own resources for protection. For Realists, then, each nation-state must always be prepared to defend itself to the best of its ability. For Realists, politics is largely a zero-sum game and by necessity conflictual. In other words, if one nation-state is to win, another must lose.

Realists also believe that nation-states can be thought of as rational actors in the same sense that other theorists assume individuals to be rational. Nation-states are assumed to operate according to cost-benefit analyses and choose the option that yields the greatest value, especially regarding the nation's international geopolitical and power positions.

The emphasis on power is what gives Realism its distinctive approach to international political economy. While economic considerations may often complement power concerns, the former are, in the Realist view, subordinate to the latter. Realists allow for circumstances in which nation-states sacrifice economic gain to weaken their opponents or strengthen themselves in military or diplomatic terms. Thus, trade protection, which might reduce a country's overall income by restricting the market, may nonetheless be adopted for reasons of national political power.

Realist political economy is primarily concerned with how changes in the distribution of international power affect the form and type of international economy. The best-known Realist approach to this question is the *theory of hegemonic stability*, which holds that an open international economy—that is, one characterized by the free exchange of goods, capital, and services—is most

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likely to exist when a single dominant or hegemonic power is present to stabilize the system and construct a strong regime (see Krasner, Reading 3). For Realists, then, the pursuit of power by nation-states shapes the international economy.

Each of these first three perspectives features different assumptions and assertions. Liberals assume that individuals are the proper unit of analysis, while Marxists and Realists make similar assumptions regarding classes and nation-states, respectively. The three perspectives also differ on the inevitability of conflict within the political economy. Liberals believe economics and politics are largely autonomous spheres, Marxists maintain that economics determines politics, and Realists argue that politics determines economics.

Constructivism, a fourth and relatively recent approach to international political economy, has roots in critical theory and sociology. Unlike the first three approaches, Constructivism is more of a method of analysis than a set of alternative assumptions and assertions. Constructivists believe that actors in the international political economy and their interests are not innate but are produced or constructed through social interactions. Sectors, factors of production, classes, and especially nation-states are not fixed and immutable in this view, but are themselves produced by their social environments. Rather than pursuing wealth over power, or vice versa, individuals, classes, and states vary in their interests and contain the potential for both conflict and cooperation in different social settings.

Constructivists also believe that norms play an important role in international political economy. The other approaches all assume implicitly that actors are purposive and select among possible courses of action by their anticipated effects. This is sometimes referred to as a "logic of consequences." Constructivists assume that actors select roles and actions by what is right, just, or socially expected. In other words, actors choose according to a "logic of appropriateness." In this view, countries may open themselves to trade or international investment not because, as Liberals assert, this improves their welfare in any instrumental sense, but because this is what responsible or "developed" states understand as appropriate in the modern international political economy.

In addition, Constructivists assert that actors and their interactions can be transformed through the introduction of new norms or understandings of their interests or identities. The rough-and-tumble international political economy described by Realists, for example, is not, according to Constructivists, foreordained by the condition of anarchy. If actors come to understand the world differently, the conception of appropriate behavior could also change dramatically. As the "Washington Consensus" took hold internationally during the 1990s, for instance, countries liberalized their economies and held to this policy long after its promised effects failed to materialize.

This fourfold division of international political economy is useful in many ways, especially as it highlights differing evaluations of the importance of economic efficiency, class conflict, and geostrategic and normative consider-

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actions. However, the lines between these views are easily blurred. Some Marxists agree with the Realist focus on interstate conflict, while others concur with the Liberal emphasis on economic interests, while still others agree with Constructivists on the role of norms. Likewise, there are many Liberals who use neoclassical tools to analyze interstate strategic interaction in much the same way Realists do or to investigate the clash of classes as do the Marxists. Nearly all Liberals, Marxists, and Realists have come to a deeper understanding of the role of norms, emphasized by Constructivists. Such substantial overlap, in our view, suggests that instead of adhering to a particular paradigm, scholars should think seriously about the interests, interactions, and institutions that motivate actors, influence their choices, and determine the outcomes we observe within the international political economy.

THE TEMPORARY INTERNATIONAL POLITICAL ECONOMY: AN OVERVIEW

Following initial sections on theoretical perspectives and historical background, the remainder of this book concerns the politics of international economic relations since World War II, with an emphasis on current issues and debates. Developments since 1945 have, indeed, raised a wide variety of theoretical, practical, and policy issues.

The contemporary international political economy is characterized by unprecedented levels of multinational production (Section III), cross-border financial flows (Section IV), and international trade (Section V). It is also plagued by increasing political conflict as individuals, groups, classes, and countries clash over the meaning and implications of these economic transactions. International migration (Section VI) is lower than in the early twentieth century, the prior period of globalization, and is perhaps the most controversial issue of all. The contradiction between increasing economic integration and the wealth it produces, on the one hand, and the desire for political control and national autonomy, on the other, defines much of what happens in the global political economy.

For the first thirty years after World War II, the general pattern of relations among noncommunist nations was set by American leadership, and this pattern continues to influence the international political economy today. In the political arena, formal and informal alliances tied virtually every major non-communist nation into an American-led network of mutual support and defense. In the economic arena, a wide-ranging set of international economic organizations—including the International Monetary Fund (IMF), the GATT, and the International Bank for Reconstruction and Development (World Bank)—grew up under a protective American “umbrella” and often as a direct American initiative. The world economy itself was heavily influenced by the rise of modern multinational corporations and banks, whose contemporary form is largely of U.S. origin.

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American plans for a reordered world economy go back to the mid-1930s. After World War I, the United States retreated into relative economic insularity, for reasons explored in Part II, "Historical Perspectives." When the Great Depression hit, American political leaders virtually ignored the possibility of international economic cooperation in their attempts to stabilize the domestic economy. Yet, even as the Franklin Roosevelt administration looked inward for recovery, by 1934 new American initiatives were signaling a shift in America's traditional isolation. Roosevelt's secretary of state, Cordell Hull, was a militant free trader, and in 1934 he convinced Congress to pass the Reciprocal Trade Agreements Act, which allowed the executive to negotiate tariff reductions with foreign nations. This important step toward trade liberalization and international economic cooperation was deepened as war threatened in Europe and the United States drew closer to Great Britain and France.

The seeds of the new international order, planted in the 1930s, began to grow even as World War II came to an end. The Bretton Woods agreement, reached among the Allied powers in 1944, established a new series of international economic organizations that became the foundation for the postwar American-led system. As the wartime American-Soviet alliance began to shatter, a new economic order emerged in the noncommunist world. At its center were the three pillars of the Bretton Woods system: international monetary cooperation under the auspices of the IMF, international trade liberalization negotiated within the GATT, and investment in the developing countries stimulated by the World Bank. All three pillars were essentially designed by the United States and dependent on its support.

As it developed, the postwar capitalist world reflected American foreign policy in many of its details. One principal concern of the United States was to build a bulwark of anti-Soviet allies; this was done with a massive inflow of American aid under the Marshall Plan and the encouragement of Western European cooperation within a new Common Market. At the same time, the United States dramatically lowered its barriers to foreign goods and American corporations began to invest heavily in foreign nations. Of course, the United States was not acting altruistically: European recovery, trade liberalization, and booming international investment helped ensure great prosperity within its own borders as well.

American policies, whatever their motivation, had an undeniable impact on the international political economy. Trade liberalization opened the huge American market to foreign producers. American overseas investment provided capital, technology, and expertise for both Europe and the developing world. American governmental economic aid, whether direct or channeled through such institutions as the World Bank, helped finance economic growth abroad. In addition, the American military umbrella allowed anti-Soviet governments in Europe, Japan, and the developing world to rely on the United States for security and to turn their attentions to encouraging economic growth.

All in all, the noncommunist markets and American capital growth, not to mention the prosperity within the United States. After World War II, the capitalist world experienced growth and development, all within the framework of American political, economic, and cultural influence.

This period is often referred to as the Pax Americana, a similarity to the British-led international system of about 1820 until World War I. In many instances, general political and economic cooperation and leadership of an overwhelming world power, the United States in the other.

Just as the Pax Britannica gradually eroded. By the early 1970s, the Bretton Woods system. Between 1971 and 1973, which had been based on a gold standard, was replaced by a new, improvised pattern of exchange. The role was still strong but no longer dominant. The need for trade protection from outside competition. Western Europe began to move toward a variety of nontariff barriers to trade. In the political arena, the Soviet Union seemed to make gains. For the Japanese and Western Europe, the North-South conflict appeared. In short, during the 1970s, as American power and Bretton Woods institutions weakened, the era drew to a close.

The quickening pace of change eventually culminated in the collapse of the Soviet Union in the 1980s and early 1990s, and ultimately the end of the Cold War. The end of the cold war conflict, but it did put an end to the bipolar world of politics for so long.

As the cold war wound down, the world moved toward a new balance, along with a greater willingness to integrate with the rest of the world. The process of trade liberalization and privatization was continuing world, so that by the early 1990s, economic integration. Then came the collapse of the centrally planned economies toward domestic and world markets. The end of the Cold War, but when the Soviet Union

All in all, the noncommunist world's unprecedented access to American markets and American capital provided a major stimulus to world economic growth, not to mention the profits of American businesses and general prosperity within the United States. For more than twenty-five years after World War II, the capitalist world experienced impressive levels of economic growth and development, all within a general context of international cooperation under American political, economic, and military tutelage.

This period is often referred to as the Pax Americana because of its broad similarity to the British-led international economic system that operated from about 1820 until World War I, which was known as the Pax Britannica. In both instances, general political and economic peace prevailed under the leadership of an overwhelming world power—the United Kingdom in one case, the United States in the other.

Just as the Pax Britannica eventually ended, however, the Pax Americana gradually eroded. By the early 1970s, strains were developing in the postwar system. Between 1971 and 1975, the postwar international monetary system, which had been based on a gold-backed U.S. dollar, fell apart and was replaced by a new, improvised pattern of floating exchange rates in which the dollar's role was still strong but no longer quite so central. At the same time, pressures for trade protection from uncompetitive industries in North America and Western Europe began to mount, and although tariff levels remained low, a variety of nontariff barriers to world trade, such as import quotas, soon proliferated. In the political arena, détente between the United States and the Soviet Union seemed to make the American security umbrella less relevant for the Japanese and Western Europeans; in the less-developed countries, North-South conflict appeared more important than East-West strife. In short, during the 1970s, as American economic strength declined, the Bretton Woods institutions weakened, and the cold war thawed, the Pax Americana drew to a close.

The quickening pace of change in the Soviet Union and among its allies eventually culminated in the collapse of former Soviet bloc nations in the late 1980s and early 1990s, and ultimately in the disintegration of the former Soviet Union. The end of the cold war did not, of course, mean an end to international conflict, but it did put an end to the East-West divide that had dominated global politics for so long.

As the cold war wound down, international economic issues grew in importance, along with a greater willingness on the part of many nations to integrate with the rest of the world economy. Over the course of the 1980s, a wave of trade liberalization and privatization swept many countries in the developing world, so that by the early 1990s they were clearly committed to global economic integration. Then came the most striking change in direction of the centrally planned economies and their startling change in direction toward domestic and world markets. The process started in China and Vietnam, but when the Soviet Union disintegrated and the countries of Eastern

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and Central Europe joined the European Union, the resurgence of an integrated global economy seemed complete.

Since the mid-1990s, the world economy has continued on the general path of globalization. All of the indicators of integration have trended upward—some of them, such as international financial flows, at a very rapid pace. Yet, concern has grown about globalization in many quarters, and the generalized enthusiasm of the early 1990s is now waning.

The principal issue facing analysts of the international political economy today has to do with the future of this era of globalization. Despite continued conflict over the international economy, most people—especially in the industrialized nations—appear to accept that an international system in which goods and capital can move quite freely among countries has become the normal state of affairs and is likely to continue for the foreseeable future. Nonetheless, there is widespread unease about the current state of international economic relations. Activists worry that footloose corporations may undermine attempts to protect the environment, labor, and human rights. Beleaguered businesses are troubled by foreign competitors. Nationalists and religious traditionalists fear that globalization will undermine cultural and other norms. With growing economic inequality, low-skilled workers in the developed countries are turning increasingly against trade and immigration—feeding nationalist parties across Europe and North America.

All of these apprehensions were heightened by the global economic crisis that began at the end of 2007. Difficulties in the American financial system were quickly transmitted around the world, and within months the entire international economy was in recession. There were even fears that the recession might deepen into depression. The economic downturn raised the specter of economic conflicts among the world's major powers, as each nation focused its efforts on defending itself and its citizens from the fallout of the economic collapse. National governments and international economic institutions were confronted with problems of unprecedented breadth and scope. In this uncertain and rapidly changing environment, the United States remains the most important country within the international political economy, but it is no longer dominant. The era of American hegemony has been replaced by a new, multilateral order based on the joint leadership of Western Europe, Japan, and the United States. So far, these countries have successfully managed—or, some would say, muddled through—the “oil shocks” of the 1970s, the debt crisis of the early 1980s, the transition to the market of the former centrally planned economies after 1989, the currency crises and other financial volatility of the 1990s, and the Great Financial Crisis of 2007–2009.

Despite greater success than many thought possible, multilateral leadership and the liberal international order remain fragile. Conflicts of interest and economic tensions remain muted, but they could erupt at any time. The politics of international economic relations are made more complex by the new involvement of such countries as China, India, and Russia. These nations played

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NOTE

1. More specifically, a public good is *nonrival* and *nonexcludable*. The first characteristic means that the consumption of a good by one person does not reduce the availability of the good for others; for example, clean air can be breathed by many people simultaneously. The second characteristic means that it is difficult to exclude anyone from consuming the good: those who do not contribute to the good can still breathe clean air. These two characteristics come close to meeting the

World War II, but they are now actors to be reckoned with on the world economic scene—especially China, now the world's second-largest economy and an export powerhouse. It is unclear whether, and how, the developed nations will work together with these newly resurgent developing countries in confronting the economic and political problems of the twenty-first century.

The remainder of this book is devoted to understanding the contemporary international political economy and its likely future. In the sections that follow, a variety of thematic issues are addressed; in each cluster of issues, alternative theoretical and analytical perspectives compete. The selections in this reader serve both to provide information on broad trends in the politics of international economic relations and to give an overview of the contending approaches to be found within the discipline.

NOTE

1. More specifically, a public good is one that, in its purest form, is *nonrival in consumption* and *nonexcludable*. The first characteristic means that consumption of the good by one person does not reduce the opportunities for others to consume that good; for example, clean air can be breathed by one individual without reducing its availability to others. The second characteristic means that nobody can be prevented from consuming the good: those who do not contribute to pollution control are still able to breathe clean air. These two conditions are fully met only rarely, but goods whose characteristics come close to meeting them are generally considered public goods.

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