

# Some definitions of IPE

## **Traditional separation between economics and politics** **- at least in the Western world**

- Neoclassical economist traditionally ignores the state
- It assumes:
  - timeless analytical framework – often static
  - underlying power relationships taken as granted (agents are essentially equal)
  - no analysis of rules or norms
  - outcomes of policy not inputs
- Heckscher-Ohlin-Samuelson (factor production theory) is essentially stateless: what matters is not where production occurs, but that it is efficient.

# Politics – nation based

- Political scientists failed to look beyond nation state
- Politics – thinks of geography and populations (relative stable)
- **Yet markets & exchange (even borders) are dynamic**
- Political analysis sees int'l trade as fundamentally different to domestic economic activity
- **But:**
  - Exports / imports raise security issues
  - Trade (openness) is a foreign policy tool
  - But states do care.

# The Separation Breaks Down

Separation between economics and politics broke down in 1970s (**for the US**): rising trade, oil shocks, end of Bretton Woods -->

- States had to think of international consequences
- East-West Cold War not only consideration
- Oil embargo revealed interdependencies
- Oil embargo raised issues for MNCs
- Oil shock led to major int'l financial movements

**End of gold standard => a reorganisation of US hegemony?**

# What Is IPE?

- Michael Veseth: study of a *problématique* (set of related problems and how to analyse them), including:
  - Political economy of international trade;
  - International finance;
  - North-South relations;
  - Multinational corporations;
  - Hegemony.
- New IPE – transcends limits of international politics and economics

# What is IPE?

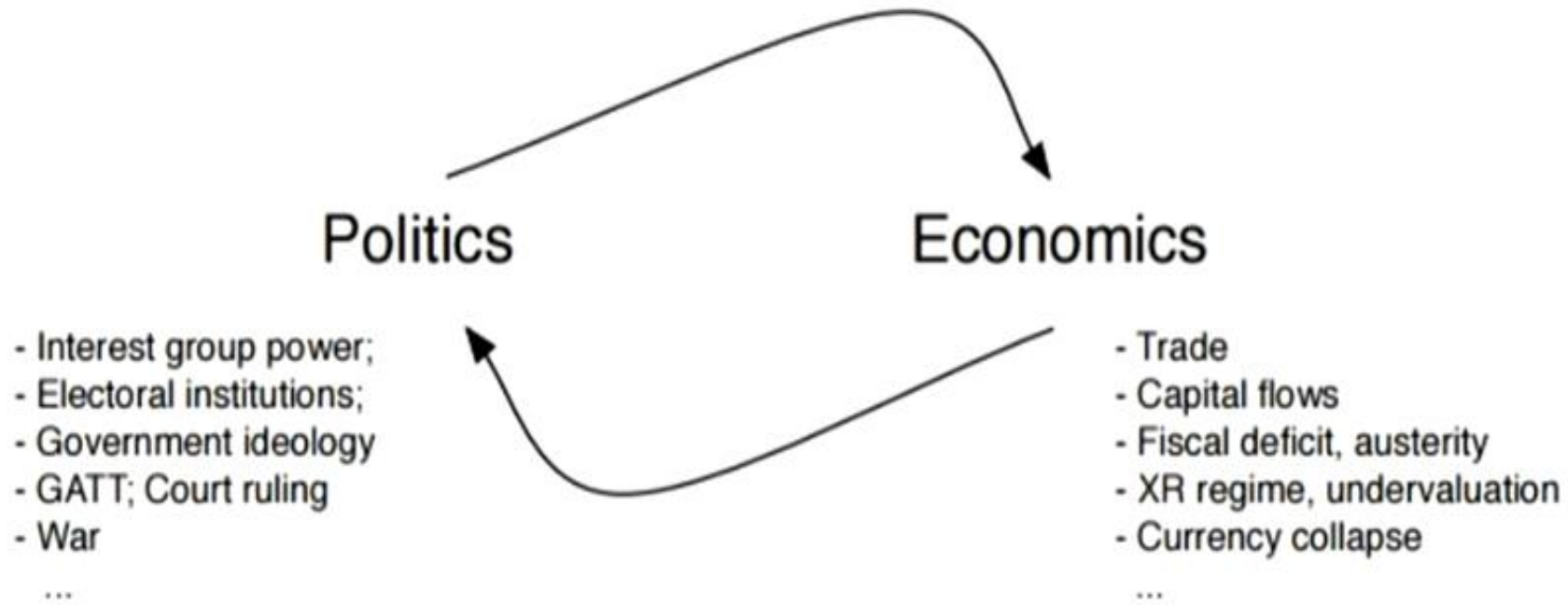
## **Thomas Oatley:**

“International Political Economy (IPE) studies how politics shape developments in the global economy and how the global economy shapes politics”

## **Christakis Georgiou:**

“What is international political economy?  
International political economy focuses on the politics of economic phenomena that transcend state borders, whether they be trade transactions, exports, imports, protectionism, tariffs, non-tariff barriers, production, the way multinational corporations operate across state borders and finance; with finance, the way money and capital can cross state borders, and also how labour and migration do.”

# The interconnections of politics and economics by Christakis Georgiou



# Three historical approaches

## **Historical**

- Mercantilist
- Liberal
- Marxist

## **Contemporary**

- Realist – based on the power of nation states
- Rules-based international economic system – mutual interdependence
- Radical critiques of the international economy

Thomas Oatley, *International Political Economy*, 6<sup>th</sup> ed., Routledge, 2019.

**TABLE 1.1**

**Three Traditional Schools of International Political Economy**

	Mercantilism	Liberalism	Marxism
Most Important Actor	The State	Individuals	Classes, particularly the capitalist class
Role of the State	Intervene in the economy to allocate resources	Establish and enforce property rights to facilitate market-based exchange	Instrument of the capitalist class uses state power to sustain capitalist system
Image of the International Economic System	<i>Conflictual:</i> Countries compete for desirable industries and engage in trade conflicts as a result of this competition	<i>Harmonious:</i> The international economy offers benefits to all countries. The challenge is to create a political framework that enables countries to realize these benefits	<i>Exploitative:</i> Capitalists exploit labor within countries; rich countries exploit poor countries in the international economy
Proper Objective of Economic Policy	Enhance power of the nation-state in international state system	Enhance aggregate social welfare	Promote an equitable distribution of wealth and income

## The Power of Interests and Institutions (Oakley)

- Where do the interests, or economic policy preferences of groups in society come from?
- How do (national) political institutions aggregate, reconcile and ultimately transform competing interests into foreign economic policies and a particular international economic system?

# Historical phases of realism and liberalism

## Realism

- **The Early Modern Period** (15<sup>th</sup> to 18<sup>th</sup> centuries): nation states, colonialism, mercantilism, bullionism
- **1930s**: beggar-thy-neighbour protectionism
- **The Cold War Era** (1947-91): trading blocs and self-sufficiency, strategic industries

## Liberalism

- **Late 19<sup>th</sup> century -> 1914** the first age of globalisation, free trade & investment and the gold standard
- **Post-World War II** in “the West”
- **After the Berlin Wall** (1989-1991), during *The End of History* era.

The search for order and  
*Pax americana* after 1945

# International law and institutions – but no Leviathan

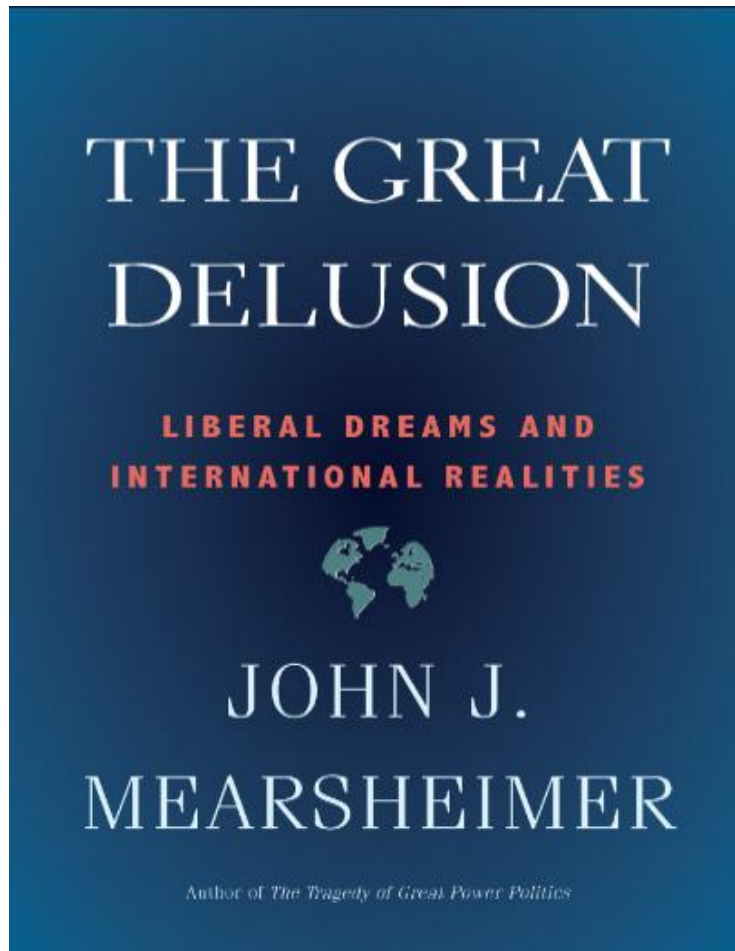


*“...in the first place, I put for a generall inclination of all mankind, a perpetuall and restlesse desire for Power after power, that ceaseth onely in Death”*

Hobbes, Leviathan,  
Chap XI

**A potential permanent  
“state of war”?**

# *The Great Delusion: Liberal Dreams and International Realities*



There is no general agreement on the “Good Life”

The international system is essentially anarchic

States exist for communities to protect themselves... and can never really trust each other

Western liberalism is an “impossible dream” – sometimes with tragic consequences

# Post-World War II World

- Design (*Pax Americana*) > free trade views and interwar experience of protectionism
  - GATT – WTO (World Bank, IMF) stabilize Europe
  - European integration – strengthen West  
(Later NAFTA – consolidate democracy in Mexico)
- Aim to “depoliticize” international economic relations, after 1930s
- But problems with democratic deficit

# Dani Rodrik, *The Globalisation Paradox*, 2011

Rodrik challenges the deeply held belief in economics that trade is obviously beneficial.

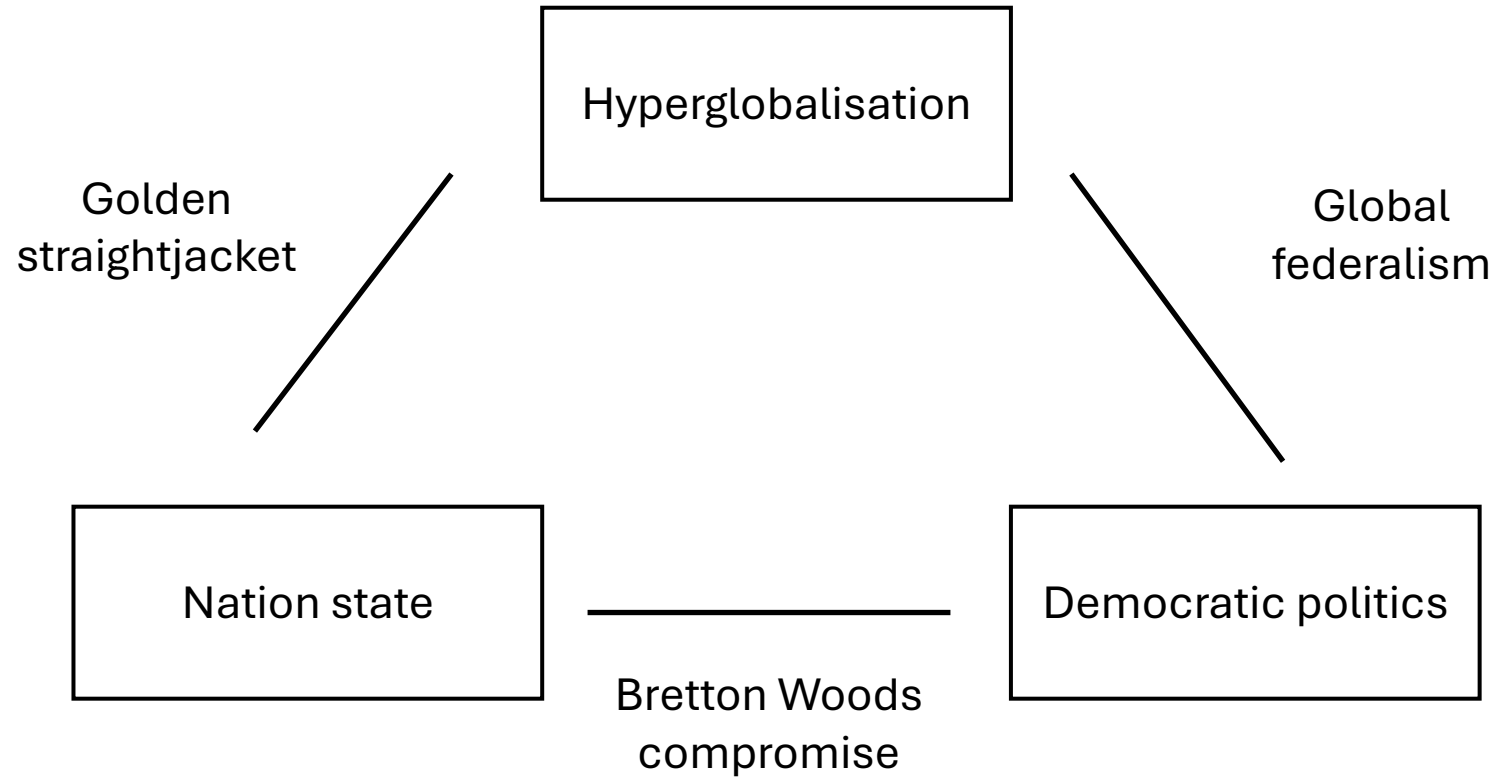
In particular, he notes that the **redistribution** of income from trade is huge compared to the efficiency gain!

E.g. if average tariffs are 5% (as in the US) then a move to complete free trade reshuffles more than \$50 of income for each \$1 of efficiency.

**The lower tariffs are, the greater the redistribution effect of further tariff reductions.**

For low skilled workers, international trade has been bad news throughout their lives.

# The Political Trilemma of the World Economy



# The Political Trilemma of the World Economy

- How do we manage tension between national democracy and global markets?

**1/ restrict democracy**, to minimize international transaction costs, disregard economic and social whiplash global economy occasionally produces. The “Golden straightjacket” of gold standard before World War I.

# The Political Trilemma of the World Economy (continued)

## 2/ global governance – global democracy

Perhaps this could grow out of today's international networks of policy makers (the EU is a mini-case).

Rodrik: skeptical on substantive grounds – there is simply too much diversity; global standards and regulations not just impractical, but undesirable.

Weak government would result form lowest common denominator of global governance.

**Nations have a right to divergence.**

## The Political Trilemma of the World Economy (continued)

- **3/ sacrificing hyperglobalisation**
  - The “Bretton Woods compromise” – some restrictions on trade removed.
  - But capital controls possible (even encouraged)
  - And national policies possible.

**Financial globalization undermines national divergence**