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# International Political Economy

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Craig N. Murphy

## INTERNATIONAL POLITICAL ECONOMY

International political economy (IPE) is a subset of the discipline of International Relations that examines political actors' efforts to govern and shape international economic events. For instance, increased trade interdependence in the international economy tends to create winners (beneficiaries) and losers (harmed groups) within nation states. Who these groups are, and how different political actors, ranging from voters to labor unions to business groups to elected officials, try to govern the effects of international trade concerns the study of international political economy. At the same time, actors affect international economic relations by pursuing

their preferences regarding economic outcomes on the international arena. For instance, the history of the major global economic institutions created for the post-Second World War world, including the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT), demonstrates US leaders' commitment to generate economic interdependence among nations. In sum, IPE examines the "reciprocal and dynamic interaction" between politics and economics in international relations (Gilpin 1975).

**A Snapshot of the Discipline.** As a subdiscipline of international relations, IPE is relatively young, dating back only to the 1970s. In that decade, a number of major international economic developments—such as the 1973 oil crisis, the rise of the European and Japanese economies, and the collapse of the Bretton Woods fixed exchange rate system—directed attention to the study of international economic events, as distinct from international security. The 1970s also witnessed the global spread of multinational corporations, which have not only acted as primary agents of foreign direct investment but have also changed the pattern of production by distributing different parts of the production process of a good to different countries. The major economic events of the 1980s, such as the Latin American debt crisis, bolstered the growth of IPE.

Given that globalization has become an increasingly relevant concept for understanding international relations, IPE has evolved to study the determinants as well as the effects of globalization. Globalization can be understood as the increasing interdependence of different parts of the world through the cross-border movement of goods, services, and capital, as well as the institutions that generate and/or govern this interdependence, including international nonstate actors (ranging from nongovernmental organizations to international business) and international organizations (such as the IMF). Globalization is not new, and scholars debate whether the levels of interdependence in the nineteenth century and up until the onset of the First World War supersede the levels of interdependence witnessed today. These debates aside, IPE

increasingly focuses on examining the phenomenon of globalization.

The diversity and divisions within IPE are worthwhile to note. First, Benjamin Cohen (2008) has argued that there is a British School of IPE and an American School of IPE. The "American School," Cohen argues, is wedded to "positivism and empiricism," which means the testing of hypotheses against data is prioritized (p. 4). In contrast, the "British School" focuses more on normative questions (p. 44). Even if one disagrees with Cohen's labeling of these two schools of thought, which is not a geographical, but rather a school-of-thought divide, his analysis still highlights the different kinds of questions and approaches found in IPE. Relatedly but distinctly, there are methodological divisions in answering key puzzles in IPE, the primary division being between qualitative (such as case study methodology) and quantitative approaches (such as regression analyses). Qualitative approaches need not be normatively driven—they can (and often do) have a positivist approach underlying them. Still, the data and the testing in qualitative analyses differ, by definition, from quantitative analyses. Mixed approaches combine both quantitative and qualitative work. Also, even within each school of thought, such as the American School of IPE, there are different theoretical/analytical approaches.

**Dominant Approaches, Key Issues.** What follows is a brief introduction to the main theoretical/analytical paradigms that has dominated the American school of IPE since its beginnings: realism, liberalism, and constructivism. These three approaches dominate the analytical frameworks utilized in articles published in the top IPE journals (Maliniak and Tierney, 2009). The broad characteristic of each approach is discussed at the expense of nuances.

**Realism.** Realist approaches to IPE, by and large, share the following attributes. First, they tend to be state-centric in that states, and not nonstate actors such as multinational corporations, are the primary units of analysis. Most realist analyses tend to see nonstate actors governed by state actions, an example being multinational corporations ultimately

being circumscribed by state regulation. Realist accounts treat states as unitary actors. Second, the role of power and the distribution of power among states are paramount in explaining outcomes, with power generally denoting capabilities. For instance, these works might highlight how global regulatory outcomes, such as the regulation of financial markets, can be explained with reference to great power preferences (Drezner, 2007). By virtue of these two factors, third, realist analyses tend to be "systemic" in that they focus on the interaction of states and the outcomes produced by that interaction. In this respect, the study of domestic politics is, at best, secondary to the analysis of strategic state interaction. Because it is emblematic of these points, and because it has had a significant impact on the field of IPE, a brief discussion of hegemonic stability theory follows.

Hegemonic stability theory argues that periods of hegemony (when there is a dominant power in the international system) are associated within economic openness (such as to international trade) in the international system, and that a hegemon is necessary for such a system (Krasner, 1976). The hegemon will prefer to open up to international trade, as Krasner points out, because the potential benefits (e.g., an increase in aggregate income) of it doing so exceed the potential costs (e.g., potential destabilizing from shifts in the national economy). The hegemon can also induce others to enhance their participation in international trade through the provision of incentives and disincentives. For instance, the hegemon can use side payments, such as increased foreign aid, to persuade other states to (further) open their economies to trade. The hegemon can also disincentivize the opposite behavior by punishing those that protect their economies from trade. Core to hegemonic stability theory is the notion that different distributions of power lead to different types of political-economic outcomes.

The importance of distribution of power is also present in realist approaches to the study of international institutions. While some strands of realism do not take institutions seriously, realism in general, and realist works in IPE in particular, concede the

importance of international institutions. Having said this, realist works remain more pessimistic about the ability of institutions to resolve conflicts among states for two distinct but interrelated reasons. One, realists believe that states worry about relative gains in cooperation—they worry not how much they will gain absolutely, but how much they will gain (or lose) vis-à-vis other states. The distribution of power comes into play here, because a state's concern with its position in that distribution is what generates its concerns for relative gains. Second, realist works note that only certain types of problems can be solved through international institutions. Even when states agree that no agreement is undesirable, they might disagree about which agreement they prefer, given that different agreements have different distributional consequences for states (Krasner, 1991). In these cases, the powerful states might dictate which agreement is chosen. Overall, the realist approach focuses on the role of power in not only shaping the rules of international institutions but also in enforcing these rules. In this respect, realist discussions of international economic institutions, such as the IMF, the World Bank, or the World Trade Organization, will tend to focus on how the economic heavyweights dominate these institutions.

**Liberalism.** Liberal approaches to the study of the world economy are currently more prevalent in IPE than other theories/frameworks. Core to the liberal approach to understanding IPE is examining the interrelationship between domestic political-economic factors and international political-economic factors (Frieden and Martin, 2003). The variety of approaches to IPE that can be labeled as focusing on the domestic-international interaction, however, differ regarding their emphases on the international versus the domestic factors in this interaction.

The liberal literature has a number of identifiable phases of evolution. First, these scholars have criticized realism for not taking into account adequately economic interdependence (Keohane and Nye, 1977). This work has not only drawn attention to the importance of economic relations among states, but it has also aimed to move the debate on IPE from an

exclusive focus on state actors to one that also includes international nonstate actors and international organizations. It has also taken aim at the realist assumption of states as unitary actors by pointing to interactions among agencies in different states.

Second, liberal approaches have centralized the role of international organizations in interstate interaction and emphasized how these institutions facilitate interstate cooperation. This strand of the literature is now generally labeled as neo-liberal institutionalism. While power has not been absent from neoliberal institutionalist analysis, it also has not been central. The core aim of neoliberal institutionalism has been to explain the functions that institutions serve to facilitate interstate cooperation even in the face of declining hegemony (Keohane, 1984). In his seminal work, Keohane emphasized that institutions allow states to pursue mutually beneficial goals through, largely, the provision of information and the reduction of transaction costs. For instance, through their rules, institutions facilitate reciprocity, enhance the monitoring of state actions, and by providing stable platforms for interaction, they allow repeated interstate interactions, thereby bolstering the importance of state reputation. This is not to suggest that liberal accounts are the only ones to have taken cooperation seriously. As just discussed, strands of realism have done so as well. However, to put it in Krasner's terms (1991), liberal (institutionalist) accounts are more interested in focusing on how institutions help states reach the "Pareto frontier." Pareto optimal outcomes are those under which no party can be made better off without another party being made worse off.

Third, liberal approaches have focused on integrating the role of domestic politics into the analysis of IPE. In early liberal work, this was done in a number of ways, including the examination of the domestic origins of foreign economic policy (e.g., Katzenstein, 1978) as well as through a focus on the interrelationship between the domestic and the international levels. On the latter, Putnam's (1988) two-level games put forward an analytical model that showed that the presence of international-level



negotiations led to domestic policies that would otherwise have not been pursued, while negotiators also pushed for economic agreements on the international level that would be acceptable to key constituencies on the domestic level.

In addition to expanding insights from these earlier studies, various aspects of the domestic-international interaction continue to be core to the liberal agenda today. Under this rubric, Open Economic Politics (OEP) is an increasingly common approach (Lake, 2006). OEP borrows closely from international economic theories to derive the interests of (groups) of individuals that are beneficiaries versus losers from globalization, with a view to later on seeing how these interests are organized collectively and how existing political institutions give expression (or not) to them. For instance, the Heckscher-Ohlin (HO) theory of international trade holds that there are three factors of production (land, labor, capital) and in each country, one of these factors is most abundant. A country exports goods produced with its most abundant factor. For instance, China exports goods that are labor intensive. In turn, extensions to HO hold that trade will benefit individuals that are endowed with the factor with which their economy is relatively more endowed (Hiscox, 2010). Thus, we would expect the policy preference of laborers in China to be pro-trade. How these policy preferences get filtered through different national institutions still demands analysis, and some liberal works are more focused on the role of these institutions than on deriving the interests of different groups. While authors who embrace OEP do not deny the complexities involved (for instance, individuals are not just participants in the labor market, they are also consumers) and recognize that other factors (such as feelings of nationalism) might play into policy preferences, the crux of the theory rests on individuals having a materialist orientation toward international openness. This orientation draws criticism from constructivists.

**Constructivism.** Constructivists disagree with the liberal approach's inference of (material) interests from the position of actors in the national economy (for instance, is the actor an exporter or an importer?),

as they believe that ideas (and other nonmaterial factors, including norms and culture) constitute interests. Different strands of constructivist research offer different interpretations regarding how much of the material world is contingent upon interpretation—namely, the extent to which there are objective facts as opposed to subjective understandings. Regardless, the point for constructivists is that “structures do not come with an instruction sheet” (Blyth, 2003). Thus, agents' ideas about who they are, what they interpret their interests to be, and how they understand their environment cannot be left out of the analysis. Also, the notion of intersubjective meanings, which are collectively held understandings, is key to understanding social interaction.

An example of these points comes from the 2008 financial crisis (Abdelal et al., 2010). First, as constructivists point out, how policymakers defined the roots of this financial crisis was intrinsically related to ideas. For instance, defining the crisis as one of lack of liquidity in financial markets leads to different policy outcomes than defining the crisis as one of the failures of American-style capitalism. Second, constructivists have suggested that more than material considerations had to be at play, because even though the US was the epicenter of the crisis and the US economy was widely judged to be overleveraged, investors viewed US-denominated sovereign debt as a safe haven. Thus, how agents interpret their material environment, constructivists emphasize, is necessary to make sense of events here.

The constructivist agenda also has important implications for the study of international institutions. First, constructivists analyze international organizations as being capable of acting as independent agents. For instance, the staffs of these organizations, such as the management of the IMF, push their own ideas or norms, which then affect state behavior. Second, constructivists analyze international institutions as platforms for the “socialization” of states. Put differently, while states may begin interacting with one another at institutions with a defined set of preferences, how they define their preferences may change as they socialize with other

states within institutions (e.g., Johnston, 2001). In this regard, it is not only the staff of the international organization as independent agents, but also the interaction with other states, that alters states' perceptions of their interests. Third, states' adherence to international institutional rules cannot be explained simply with reference to the pursuit of state interests. Constructivists argue that beyond the material reasons put forward by realists and liberals, states may have nonmaterial reasons for creating institutions as well as abiding by them. Institutions, they emphasize, also reflect the values of international society.

Constructivist research often focuses on (groups of) individuals with the ultimate aim of discussing collective understanding or social change. For instance, as indicated above, constructivists emphasize the role of ideas. Since the originators and disseminators of ideas, as well as their recipients, are likely to be individuals, an analysis of these individuals and how they transmit their ideas is important in understanding changes in the social environment. For example, the spread of Keynesian approaches to economic policy (on the national or the international level) cannot be discussed without also discussing the agents who positively view Keynesian ideas. The behavior of these individuals, then, goes on to explain the policies of larger units, including international organizations and governments.

This survey of the literature does not suggest that all work is theoretically driven, nor does it suggest that all aforementioned authors are self-identified members of one of the three theoretical groups identified. It does, however, imply that even in empirically driven work, one of the analytical frameworks discussed above is often consulted. For instance, an author's concern may be driven by the empirical concern of understanding how the US allocates its foreign aid. Here, it is possible that the author consults a combination of theories without being committed to proving the supremacy of one over the others. For instance, as is now known, US foreign-aid patterns result from a number of diverse concerns, including US geostrategic concerns, normative

concerns about poverty, and Congressional politics of aid allocation. In other words, relying on a number of different analytical frameworks may be necessary in order to answer key empirical questions. By the same token, in pursuit of these empirical questions, authors may develop and refine theory. For instance, the empirical finding provided in the IPE literature that the US and other major shareholders influence who gets loans from the IMF provides a clear articulation of the influence of power in international institutions. In sum, the theoretical approaches are not straightjackets but tools for systematic analysis.

**Normative Implications of IPE Research.** At the onset, it was identified that some authors have argued that American IPE neglects normative questions. Regardless of whether this criticism is justified, empirical research can offer normative insights. For instance, different scholars have emphasized how the US's influence in multilateral economic institutions, particularly the IMF and the World Bank, has led to these institutions' advocating a specific model of economic development. This model, known as the Washington Consensus model of economic development, places an emphasis on liberalization, deregulation, and privatization. And, some scholars have argued that the Consensus model of development does not have a good record in promoting economic development, and that it overlooks the complex ways in which economic development is state led as opposed to market driven. There is by no means a scholarly consensus on this topic. Nonetheless, these findings are important not just in terms of what international organizations are doing; they also provide instruments for assessing what these organizations *should* be doing. In another example, the finding that income inequality is rising in some states facilitates not just empirical questions, such as the relationship between rising inequality and global forces, but also normative questions, such as whether/why we should care about high levels of inequality. Overall, then, there does not have to be a big disconnect between the empirical and normative realms of research.

**Into the Future?** The 2008 financial crisis, which started as a capital-markets panic that emanated from the collapse of Lehman Brothers in the US in September 2008 and rapidly became a global financial crisis that ultimately put much of the developed world in the worst economic downturn since the worldwide depression of the 1930s, might impact IPE. First, because the crisis's roots are political in a number of ways, scholars have begun to take stock of how well the IPE literature did in predicting it (Helleiner, 2011). Opinions here differ, but for those who are convinced that IPE did a poor job of predicting the crisis, the kind of questions that the discipline seeks to answer might be augmented going forward. For instance, as some scholars have emphasized, more analysis on how disparate findings (e.g., poorly regulated financial markets, too-low interest rates in the US, innovation in financial products, excess savings in developing countries, and so on) connect to one another might be necessary. Second, it is plausible to expect (and there is already preliminary evidence to this end) that IPE will engage in a retroactive analysis of the causes of the latest financial crisis as well as governments' reaction to dealing with the crisis. For instance, some governments engaged in fiscal stimuli (associated with Keynesianism, which had been sidelined for a number of decades), which raises questions about whether major policy changes will occur. Third, to the extent that the crisis solidifies long-term trends about the rise of emerging markets (developing countries with high levels of economic growth sustained over a period of time) and the relative decline of advanced economies, it might generate renewed interest in the distribution of economic power in the global economic system, and its effects on political structures. After all, before the crisis, the notion that debt crises originate from or primarily affect developing economies, which was a view that gained traction after the Asian Financial Crisis of the 1990s, was the dominant viewpoint (and concern) of large segments of academia and international groups such as the IMF.

[See also Constructivism; International Relations; Liberalism; and Realism.]

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