The first chapter of the text deals with the fundamental nature of international political economy (IPE) and some analytical issues related to its multidimensional character. Chapters 2 through 4 are the core chapters of the text that explore the history and policies associated with the three dominant IPE perspectives, namely economic liberalism, mercantilism, and structuralism. These theoretical tools are useful in understanding many political, economic, and social issues in the global economy of the past as well as the present. Chapter 5 develops two alternative IPE perspectives—constructivism and feminism—that derive, in part, from the three main outlooks under study.
What Is International Political Economy?

We Are the 99%: A Haitian hillside.
Georgina Allen

When a philosopher has once laid hold of a favorite principle, which perhaps accounts for many natural effects, he extends the same principle over the whole creation, and reduces to it every phenomenon, though by the most violent and absurd reasoning. Our own mind being narrow and contracted, we cannot extend our conception to the variety and extent of nature . . .

David Hume, “The Sceptic”
THE DARKNESS ON THE EDGE OF TOWN

What are the chances you will find a good paying job—or any job for that matter—when you graduate from college in the next few years? Have your parents or people you know lost their jobs, the family home, or a big chunk of their retirement savings? How are you adjusting to the financial crisis? Maybe things haven’t been that bad for you, yet! Reading the headlines of any major newspaper, you might sometimes worry that the world is on the brink of a global economic catastrophe, if not a second Great Depression. The effects of the global economic crisis have made many people feel tense, fearful, and depressed.

The collapse of the U.S. housing market in 2007 morphed into a credit crisis that threatened some of the biggest banks and financial institutions in the United States and Europe. Government leaders responded with a variety of bank rescue measures and so-called stimulus packages to restart their economies. These interventions angered many ordinary folks who felt that the bailouts rewarded bankers and CEOs who had caused the crisis in the first place. Meanwhile, many people around the world were forced out of their homes and became unemployed. They suffered cuts in social services, health care benefits, and education spending when governments were forced to trim budgets.

As we write in late 2012, the hoped-for recovery has proved elusive. Unemployment in the United States is stuck at 7.9 percent; in the European Union (EU), it has risen to 11.6 percent (23.4 percent for young people). Home foreclosures and stagnant incomes continue to place enormous strain on many families’ finances. The EU has fallen into another recession, with countries like Greece, Italy, Spain, and Portugal so deep in debt that they might slide into national bankruptcy, causing the EU’s monetary system to collapse. People seem to have lost confidence in national and international political institutions that underpin capitalism and democracy. Is this what the Great Transformation from industrial to post-industrial society was supposed to look like? Are globalization and the so-called “creative destruction” of new technologies shrinking the middle classes in Western countries and permanently shifting economic dynamism to Asia and Latin America?

Adding to the sense of gloom are events around the world in the last few years. High oil prices have benefitted giant oil companies while hurting consumers. The giant British Petroleum (BP) oil spill precipitated an environmental catastrophe in the Gulf of Mexico. Japan’s Fukushima earthquake and tsunami damaged several nuclear power plants, causing release of dangerous radioactive material across a large swath of territory. High agriculture commodity prices have raised the cost of food and increased levels of world hunger. Because there has been little progress in reducing reliance on fossil fuels, capping carbon emissions, or investing in alternative energy resources, the threat of catastrophic climate change looms larger. And wars in Syria, Afghanistan, Somalia, and the Congo are destroying the livelihoods of millions of people.

Hope on the Horizon?

Is there only gloom and doom around the globe? Surely, no! As we discuss in Chapter 13, emerging powers such as China, India, Brazil, and Russia have dramatically reduced poverty in the last fifteen years and made it possible for hundreds
of millions of people to join the middle class. Fortunately, they continued to grow at a fairly robust pace after 2007; more jobs, investment, and consumption in these countries helped keep the rest of the world from falling into a deeper recession. For most of the last decade, sub-Saharan Africa has also grown surprisingly fast, thanks in part to high prices for oil and commodities exports. And the European Union won the 2012 Nobel Peace Prize, a reminder that—despite its serious economic and social problems today—the community has advanced the causes of “peace and reconciliation, democracy, and human rights” for more than sixty years.

Along with these rays of hope are three interrelated global developments that merit discussion at the beginning of this textbook because they are profoundly shaping the international political economy: the Arab Spring, the European sovereign debt crisis, and the Occupy Wall Street (OWS) movement. Taking place on three different continents since 2011, they have shaken political institutions and spurred waves of political protests in response to a variety of social and economic ills. None of us knows how these momentous developments will play out, but we can be sure that they will affect our daily lives and pocketbooks for many years. Each is a double-edged sword: a potential harbinger of positive change and a potential foreshadowing of worse yet to come. In other words, each development can either help lead to a more stable, prosperous world in which human security is better guaranteed or render divisions within and between societies wider than before so that cooperative relations and a fairer distribution of resources remain ever more elusive goals.

The Arab Spring took the world by surprise—a reminder that social scientists still do not have good tools to predict when and why large-scale changes will occur in complex socio-political systems. On December 17, 2010, a Tunisian street vendor named Mohamed Bouazizi set himself on fire in reaction to harassment by police officers. His death sparked street demonstrations that brought down the Tunisian government one month later. Protests spread like wildfires to other countries in the Middle East and North Africa. After eighteen days of mass demonstrations, Egypt’s authoritarian president Hosni Mubarak resigned on February 11, 2011, replaced by a military council. On February 15, residents of Benghazi, Libya, rose up against the regime of Muammar Qaddafi. Following months of NATO bombing and rebel fighting, Qaddafi was killed on October 20, 2011, and a National Transitional Council took power. The dramatic political protests—which captivated television viewers and Twitter-feed followers around the world—created an opportunity for a number of Arab countries to join the community of democratic nations. Yet the crackdown in Syria showed the world how determined some authoritarian leaders in the Middle East are to remain in power—even at the expense of killing tens of thousands of their own citizens. With the genie of Arab political opposition out of the bottle, countries in the Middle East and North Africa are rapidly changing. Fortunately, high oil prices and a return to relative stability in many places could improve conditions in 2013.

Along with the Arab Spring came President Barack Obama’s withdrawal of all U.S. troops from Iraq at the end of 2011. An ignominious end to an imperial endeavor, the withdrawal seemed to signal that the U.S. public was no longer willing to pay for wars that drain the public treasury. President Obama refocused
U.S. policy on fighting against the Taliban in Afghanistan and ratcheting up pressure on Iran to abandon its effort to develop nuclear weapons. Many analysts believe that Obama’s decisions reveal a significant weakening of U.S. influence in the Middle East. Perhaps to counteract this decline, Obama decided to bolster the American military presence in the Pacific by cultivating ties with countries afraid of China’s rise and stationing 2,500 troops permanently in northern Australia beginning in November 2011.

A second development—the European sovereign debt crisis—relentlessly gathered steam after 2010 in the face of a prolonged recession that made it hard for some countries to pay back huge loans to domestic and foreign banks. European Union leaders had hoped to contain the debt problems in Greece and Ireland, but governments in Spain and Portugal also began to have trouble raising new money by issuing new government bonds. All four countries in 2012 had to get financial bailouts in exchange for adopting painful government spending cuts that contributed to high unemployment. Even with help from the European Central Bank, these countries have dire conditions that threaten the stability of the European financial system.

Europe’s responses to its debt crisis have stimulated widespread social unrest. Severe austerity measures have spawned street protests throughout the continent and brought changes of government in Greece, Italy, and Spain. Some EU leaders and analysts believe that the crisis will spur European countries to form closer ties, while others foresee the death of the euro and the prospect of national bankruptcies as some countries refuse to pay back onerous loans. If problems worsen in France and Italy, the EU could unravel economically, causing another deep global recession. The crisis is forcing Germany to decide if it is willing to share the costs of making the EU stronger, or if it will pursue its purely national interests. The outcomes will likely cause changes in Europe’s traditionally generous social programs and in Europe’s influence in the world.

A third development started as an anti-Wall Street protest in New York City’s Zuccotti Park on September 17, 2011. Two weeks later, the Occupy Wall Street movement had quickly spread to many major U.S. cities, with encampments and “general assemblies” in public spaces. Similar “occupations” occurred in Europe, Israel, Chile, and Australia. Although the majority of participants in the OWS social movement have been students, union workers, progressive activists, and the unemployed, their ideas seemed to resonate with a significant number of the middle class. Calling themselves the “99%” (in contrast to the wealthiest 1 percent of Americans), OWS protestors criticized financial institutions, condemned Wall Street greed, and called for a reduction of corporate control over the democratic process. Although OWS encampments disappeared, the movement took up new campaigns in 2012, including efforts to stop home foreclosures and reduce student debt.

What do these three developments have in common? While each has its own causes, the protestors collectively represent a reaction to corrupt government and growing inequality. In three large regions—the Middle East, Europe, and North America—movements sought protection from financial and cultural globalization that left people feeling at the mercy of market forces. In many cases, protestors felt that they were unfairly forced to bail out the wealthy but denied a chance to share many of the benefits of previous growth. Austerity policies that many governments
had adopted since 2008—and even earlier in the Arab countries—cut into a host of public social programs such as education and relief for the poor. Many disgruntled citizens disagreed with their leaders, who argued that such reductions were necessary to reduce the size of government, balance national budgets, and stimulate economic recovery.

While Arabs claimed a political voice that had been squashed by decades of dictatorial rule, Americans and Europeans seemed to demand a new kind of politics freed from the grip of special interests and big money. In all three cases, elites who were supposed to be the experts on political and financial affairs suddenly were at a loss to explain why things had gotten so bad under their watch. With a loss of faith in Arab regimes, EU leaders, and U.S. bankers came a certain “denaturalization” of ruling ideologies such as economic liberalism. A new emphasis was placed on democratic participation and economic fairness.

Despite a new zeitgeist in the air in three continents, old political and economic institutions were still resilient. Many regimes held firm in the Middle East. American banks grew even bigger after government bailouts, and more money than ever poured into the campaign war chests of Democratic and Republican political candidates. EU political elites continued to make deals that seemed designed to save big investors and banks rather than ordinary citizens. The alternatives to the old did not always promise a better future, either. In the aftermath of the Arab Spring, Islamists like Egypt’s new president Mohamed Morsi made their own undemocratic power grabs, seeking to impose religiously conservative policies and weaken women’s rights. Reactions against austerity in Europe strengthened extreme right-wing parties in Greece and France while fueling anti-EU or secessionist sentiments in the United Kingdom and Catalonia. And by refusing to organize and engage in “normal” politics, the OWS forces dissipated—leaving normal two-party gridlock in Washington after the November 2012 elections.

The Road Ahead

By discussing above the three big developments, as well as the problems and promises in the global economy, we have hopefully given you a sense of some of the important phenomena we seek to understand in international political economy. Not unsurprisingly, there are fierce debates about the causes of current crises and the best solutions to them. One of the arguments we make in this text is that to adequately describe and explain the current global financial crisis—or any of the other issues covered in the different chapters—we must use an analytical approach that synthesizes methods and insights derived from economics, political science, and sociology as conditioned by an understanding of history and philosophy. As you delve deeper into the material, you will learn a variety of theories and analytical tools that help us interpret the interrelationships of the state, market, and society in different nations.

The IPE method bridges different academic disciplines to better explain complex, real-world problems that span physical and intellectual boundaries. While this statement might sound a bit formal and confusing at this point, keep in mind that we do not think you need to be an economics major, a specialist in finance,
or a Middle East expert to understand the basic parameters of the global financial crisis or the Arab Spring. This book is written for students who have limited background in political science, economics, or sociology, as well as for those who want to review an assortment of topics in preparation for graduate school.

In the next section, we look at how to study IPE—its three distinct analytical perspectives and a number of methodological issues with which IPE students should become acquainted. All the chapters in the book cover important theoretical and policy issues that have connections to the three developments we have mentioned—and to many more. In this way, we hope students might better understand different dimensions of the problems and then make some reasoned judgments about how to solve them.

Later in this chapter, we discuss the popular phenomenon of globalization as a way to introduce students to many of the political-economic conditions that led up to the global financial crisis. Many IPE experts have asserted that the economic liberal ideas behind globalization may have contributed to the crisis. Opinions differ, however, on whether or not the crisis signals the end of laissez-faire economic policies, or even the end of capitalism itself.

**THE WHAT, WHY, AND HOW OF INTERNATIONAL POLITICAL ECONOMY**

Our discussion of the financial crisis and its consequences makes clear that today’s complex issues can no longer be easily analyzed and understood by using any single set of disciplinary methods and concepts. Those who study IPE are, in essence, breaking down the analytical and conceptual boundaries between politics, economics, and sociology to produce a unique explanatory framework. Following are several examples of questions that traditional academic disciplines might ask as they seek to explain the global financial crisis. Each discipline focuses on different actors and interests:

- **International Relations:** How much has the financial crisis detracted from the ability of states to pay for military defense? How has the crisis affected the conditions of war or terrorism in poor states? As Europe, Japan, and the United States struggle, will emerging countries like China, India, and Brazil gain more political influence in international institutions?
- **International Economics:** How has the crisis impacted foreign investment, international trade, and the values of different currencies?
- **Comparative Politics:** What is the capability of political institutions within different nations to respond to the needs of the unemployed? What new political forces are emerging and with what effects on political coalitions?
- **Sociology:** How has the crisis affected consumption trends for different groups such as the upper, middle, and lower classes? How do the effects of inequality vary on the basis of ethnicity and gender?
- **Anthropology:** How have different societies in history dealt with crises related to how they allocate scarce resources? And how have these crises impacted their cultures, values, and societal norms?
Focusing on a narrow range of methods and issues enhances intellectual specialization and analytical efficiency. But any single discipline offers an incomplete explanation of global events. Specialization promotes a sort of scholarly blindness or distorted view that comes from using only one set of analytical methods and concepts to explain what most decidedly is a complex problem that could benefit from a multidisciplinary perspective.

What Is International Political Economy?

When defining IPE, we make a distinction between the term “international political economy” and the acronym IPE. The former refers to what we study—commonly referred to as a subject area or field of inquiry that involves tensions among states, markets, and societal actors. In this text, we tend to focus on a variety of actors and issues that are either “international” (between nation-states) or “transnational” (across the national borders of two or more states). Increasingly today, many analysts use the term “global political economy” instead of “international political economy” to explain problems such as climate change, hunger, and illicit markets that have spread over the entire world, and not just a few nations. In this book, we often use these two terms interchangeably.

The acronym IPE also connotes a method of inquiry that is multidisciplinary. IPE fashions the tools of analysis of its antecedent disciplines so as to more accurately describe and explain the ever-changing relationships between governments, businesses, and social forces across history and in different geographical areas. What are some of the central elements of the antecedent fields of study that contribute to IPE?

First, IPE includes a political dimension that accounts for the use of power by a variety of actors, including individuals, domestic groups, states (acting as single units), international organizations, nongovernmental organizations (NGOs), and transnational corporations (TNCs). All these actors make decisions about the distribution of tangible things such as money and products or intangible things such as security and innovation. In almost all cases, politics involves the making of rules pertaining to how states and societies achieve their goals. Another aspect of politics is the kind of public and private institutions that have the authority to pursue different goals.

Second, IPE involves an economic dimension that deals with how scarce resources are distributed among individuals, groups, and nation-states. A variety of public and private institutions allocate resources on a day-to-day basis in local markets where we shop. Today, a market is not just a place where people go to buy or exchange something face to face with the product’s maker. The market can also be thought of as a driving force that shapes human behavior. When consumers buy things, when investors purchase stocks, and when banks lend money, their depersonalized transactions constitute a vast, sophisticated web of relationships that coordinate economic activities all over the world. Political scientist Charles Lindblom makes an interesting case that the economy
is actually nothing more than a system for coordinating social behavior! What people eat, their occupation, and even what they do when not working are all organized around different agricultural, labor, and relaxation markets. In effect, markets often perform a social function of “coordination without a coordinator.”

Third, the works of such notables as Charles Lindblom and economists Robert Heilbroner and Lester Thurow help us realize that IPE does not reflect enough the societal dimension of different international problems. A growing number of IPE scholars argue that states and markets do not exist in a social vacuum. There are usually many different social groups within a state that share identities, norms, and associations based on tribal ties, ethnicity, religion, or gender. Likewise, a variety of transnational groups (referred to as global civil society) have interests that cut across national boundaries. A host of NGOs have attempted to pressure national and international organizations on issues such as climate change, refugees, migrant workers, and gender-based exploitation. All of these groups are purveyors of ideas that potentially generate tensions between them and other groups but play a major role in shaping global behavior.

How to Study IPE: Contrasting Perspectives and Methodologies

The three dominant perspectives of IPE are economic liberalism, mercantilism, and structuralism. Each focuses on the relationships between a variety of actors and institutions. A strict distinction between these perspectives is quite arbitrary and has been imposed by disciplinary tradition, at times making it difficult to appreciate their connections to one another. Each perspective emphasizes different values, actors, and solutions to policy problems but also overlooks some important elements highlighted by the other two perspectives.

Economic liberalism (particularly neoliberalism—see Chapter 2) is most closely associated with the study of markets. Later we will explain why there is an increasing gap between orthodox economic liberals (OELs), who champion free markets and free trade, and heterodox interventionist liberals (HILs), who support more state regulation and trade protection to sustain markets. Increasingly, HILs have stressed that markets work best when they are embedded in (connected to) society and when the state intervenes to resolve problems that markets alone cannot handle. In fact, many HILs acknowledge that markets are the source of many of these problems.

Many liberal values and ideas are the ideological foundation of the globalization campaign. They are derived from notable thinkers such as Adam Smith, David Ricardo, John Maynard Keynes, Friedrich Hayek, and Milton Friedman. The laissez-faire principle, that the state should leave the economy alone, is attributed to Adam Smith. More recently, economic liberal ideas have been associated with former president Ronald Reagan and his acolytes, who contended that economic growth is best achieved when the government severely limits its involvement (interference) in the economy.

Under pure market conditions (i.e., the absence of state intervention or social influences), people are assumed to behave “rationally” (see Chapter 2).
That is, they will naturally seek to maximize their gains and limit their losses when producing and selling things. They have strong desires to exchange and to generate wealth by competing with others for sales in local and international markets. According to OELs, people should strongly value economic efficiency—the ability to use and distribute resources effectively and with little waste. Why is efficiency so important? When an economy is inefficient, scarce resources go unused or could be used in other ways that would be more beneficial to society. This idea has been applied to the new global economy and is one of the basic principles behind globalization.

**Mercantilism** (also called economic nationalism) is most closely associated with the political philosophy of **realism**, which focuses on state efforts to accumulate wealth and power to protect society from physical harm or the influence of other states (see Chapters 3 and 9). In theory, the **state** is a legal entity and an autonomous system of institutions that governs a specific geographic territory and a “nation.” Since the mid-seventeenth century, the state has been the dominant actor in the international community based on the principle that it has the authority to exercise **sovereignty** (final authority) over its own affairs.

States use two types of power to protect themselves. **Hard power** refers to tangible military and economic assets employed to compel, coerce, influence, fend off, or defeat enemies and competitors. **Soft power** comprises selective tools that reflect and project a country’s cultural values, beliefs, and ideals. Through the use of movies, cultural exports and exchanges, information, and diplomacy, a state can convince others that the ideas it sponsors are legitimate and should be adopted. Soft power can in many ways be more effective than hard power because it rests on persuasion and mutual exchange. For example, Nobel Peace Prize recipient Barack Obama partly regained some of the world’s support for the United States through a discourse emphasizing multilateral cooperation.

**Structuralism** is rooted in Marxist analysis but not limited to it (see Chapter 4). It looks at IPE issues mainly in terms of how different social classes are shaped by the dominant economic structure. It is most closely associated with the methods of analysis many sociologists employ. Structuralists emphasize that markets have never existed in a social vacuum. Some combination of social, economic, and political forces establishes, regulates, and preserves them. As we will see in the case of the financial crisis, even the standards used to judge the effectiveness of market systems reflect the dominant values and beliefs of those forces.

**The Benefits of IPE**

Each perspective in IPE sheds light on some aspects of a problem particularly well, but casts a shadow on other important aspects. By using a combination of the three dominant IPE methods and concepts (outlined in Table 1-1), we can move to the big picture—the most comprehensive and compelling explanation of global processes.

Not surprisingly, mixing together the disciplines of economics, political science, and sociology gives rise to an analytical problem: It is difficult to establish a single explanation to any IPE issue because each discipline has its own set of analytical concepts, core beliefs, and methodologies. Does this weaken the utility of IPE? Not at all. We must recognize that IPE is not a “hard science”; it may never
<table>
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<th>TABLE 1-1</th>
<th>Conflicting Political Economic Perspectives about State–Market Relations in Capitalist Societies</th>
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<tr>
<td><strong>Monetarism</strong> (Orthodox Economic Liberals)</td>
<td><strong>Keynesian</strong> (Heterodox Interventionist Economic Liberals)</td>
</tr>
<tr>
<td><strong>Main Ideas about Capitalism</strong></td>
<td>“Laissez-faire”; minimal state intervention and regulation of the economy</td>
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<tr>
<td><strong>Values</strong></td>
<td>Economic efficiency, technology, open and integrated international markets, globalization</td>
</tr>
<tr>
<td><strong>Thinkers</strong></td>
<td>Adam Smith, David Ricardo, Friedrich Hayek, Milton Friedman, “the Chicago School”</td>
</tr>
<tr>
<td><strong>Policy Tools</strong></td>
<td>Preferably few. Monetary and fiscal policies necessary at times to help market function well. Free trade</td>
</tr>
<tr>
<td><strong>Trade Policy Experts</strong></td>
<td>Doug Irwin, Martin Wolf, Hong Kong, U.S., Germany, India, Mexico</td>
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establish a comprehensive theory with easily testable propositions about cause and effect. The world is a messy laboratory. Social science has always reflected this in explanations of human behavior. IPE today represents an effort to return to the kind of analysis done by political theorists and philosophers before the study of human social behavior became fragmented into the discrete fields of social science. Both Adam Smith and Karl Marx, for example, considered themselves to be political-economists in the broadest sense of the term. One of our goals is to point out ways in which by mixing the elements of different disciplines we are better able to explain the global political economy.

One of the ways of doing this is to think of the antecedent disciplines of IPE as varieties of plants. Just as new plant varieties are produced by splicing parts of them together, since the early 1970s the mixing of disciplinary approaches has gradually helped an appreciation of the traditional idea of international political economy re-emerge, resulting in a productive and powerful hybrid field of study called IPE.

So what does the new mixture look like? To help answer this question, Susan Strange suggests that we focus on a number of common analytical and conceptual issues that cut across disciplinary boundaries. For her, the starting point for studying the connections and relationships between states, markets, and society is to focus on the question of *cui bono?* Who benefits from complex interactions in the international political economy? One good example is Pietra Rivoli’s book *The Travels of a T-Shirt in the Global Economy* that examines a “commodity chain.” Rivoli traces a T-shirt from the time the cotton in it is grown in West Texas, to textile manufacturing in China, to sales in the United States, and then on to Africa, where many donated T-shirts end up being sold in local markets. Her work examines the *process* by which a T-shirt is made, transported, marketed, and then resold. She raises many questions about politics (the power of special interest groups to affect trade rules), markets (for T-shirts in the United States and all over the world), and different societies (how T-shirt manufacturing has changed the lives of factory workers in China and small African businessmen). Rivoli documents her work with plenty of hard evidence and raises a variety of ethical and human rights questions.

We believe that Strange and Rivoli offer two excellent ways for students to start to think about the nature and different dimensions of IPE. It is not sufficient to just examine something from several different angles or perspectives. We must also key in on who benefits or loses from the processes we observe, how actors acquire and use their political power and economic resources, and the relationships between different groups in different societies.

IPE gives students the freedom to select an analytical approach or combination of approaches they feel best suits a particular issue. It is important to note that most of the time the way one explains a problem depends on the questions asked about it, the data available, and the theoretical outlook of the analyst herself. Benjamin J. Cohen, for example, sheds light on this issue in his discussion of the *transatlantic divide* between IPE scholars in the United States and Great Britain. U.S. universities tend to prefer IPE theories organized around issues of causation. Emphasis is placed on asking questions about which there is “hard” data. The goal is to test theories with statistical techniques and empirical evidence
to determine what causes a particular “pattern of relations.” However, many British universities tend to think of IPE in terms of problems that are not as easy to quantify or for which statistical tests are not very useful. Their methods are rooted more in historical and philosophical understanding and centered on normative issues such as ethics and social justice.

Thus, we can say that IPE blends together distinct perspectives to produce a more holistic explanation. It is more flexible than most disciplines because it asks the analyst to choose how something should be studied and with what tools. Hopefully, with a multidimensional outlook we can conduct better analysis that may result in more effective solutions to global problems.

The Four Levels of Analysis

IPE theorists commonly use different levels of analysis in their research. In his famous book *Man, the State, and War*, Kenneth Waltz argues that explanations for causes of international conflict are located in different stages of an analytical scale of increasing complexity, ranging from individual behavior and choices (the individual level), to factors within states (the state/societal level), to something stemming from the interconnection of states (the interstate level). More recently, many have argued that there is also a fourth global level that can be identified as causing specific problems.

The characteristics of the different levels of analysis are as follows:

*The Global Level.* This is the broadest, most comprehensive level of analysis. Explanations focus on how important global factors like changes in technology, commodity prices, and climate create constraints on and opportunities for all governments and societies. For example, as oil prices fluctuate dramatically, they force countries to adapt in ways that can contribute to recession, conflict, and energy-source innovations.

*The Interstate Level.* This level emphasizes how the relative balance of political, military, and economic power between states affects the probability of war, prospects for cooperation, and rules related to transnational corporations. The relative power of a state determines the ways in which it will associate with or exercise leverage over its allies and states with dissimilar interests. For example, as China grows stronger, it is forcing some of its Asian neighbors like Japan, the Philippines, and Vietnam to forge closer relations with the United States as a form of insurance against China’s potentially aggressive behavior.

*The State/Societal Level.* Paradoxically, because the focus narrows to factors within states, explanations contain more causal factors. At this level, we emphasize how lobbying by socio-economic groups, electoral pressures, and culture influence the foreign policies of countries. In addition, we focus on how different types of governments and decision-making processes within a state shape the way that it interacts with others. For example, these factors help explain why democracies almost never go to war against other democracies or why politicians will adopt high tariffs on imports to try to help a domestic industry.
The Individual Level. This is the narrowest level and yet it contains the biggest number of factors that explain why individuals (usually state leaders) choose certain policies or behave in particular ways. This level emphasizes the psychology, personality, and beliefs that shape choices made by specific policy makers. For example, we might speculate that German chancellor Angela Merkel is reluctant to bail out spendthrift Greece and Spain because of her deep-seated belief that countries—just like households—should live within their means. She is nicknamed the “Swabian housewife” because she supposedly behaves like a stereotypical wife in southern Germany, who is frugal, not ostentatious, and keeps a balanced budget. Or, Merkel may not want to expand the euro money supply to help Greece because of her fears that it could cause the kind of crippling hyperinflation Germany experienced after World War I.

The four levels of analysis help us organize our thoughts about the different causes of, explanations for, and solutions to a particular problem. Like the three IPE perspectives, each level pinpoints a distinct but limited explanation for why something occurred. For example, global warming can be linked as much to U.S. resistance to the Kyoto Protocol’s carbon-emissions caps as to the ineluctably rising demand for energy due to a rising global population. And the OWS movement can be linked as much to the effects of the global financial crisis as to specific elements in the U.S. constitution that produce political gridlock and an inability to lessen inequality. And the Arab Spring may have been caused as much by the region’s economic decline in the face of competitive globalization as the human rights violations of leaders in Tunisia and Egypt. Thus, one of the paradoxes of the level of analysis problem is that to get a bigger and more complex picture of a problem, one is tempted to look at all the levels for possible answers. However, mixing the levels usually produces no single satisfactory answer to a problem. What to do? The level of analysis problem teaches us to be very conscientious about how we frame questions, what data we look at, and what we expect to find.

Figure 1-1 highlights the four levels of analysis and their connection to another conceptual organizing device we introduce next.
Susan Strange’s Four IPE Structures

In the text, we will often refer to Susan Strange’s four structures: production and trade; money and finance; security; and knowledge and technology. For Strange, these “webs” are complex arrangements that function as the underlying foundations of the international political economy. Each contains a number of state and nonstate institutions, organizations, and other actors who determine the rules and processes that govern access to trade, finance, security, and knowledge. In Chapters 6 through 10, we examine what the rules and norms are in each structure, how they were created, who benefits from them, and who is contesting them.

The “rules of the game” in each structure take the form of signed conventions, informal and formal agreements, and “bargains.” They act as girders and trusses that hold together each of these four major structures. As one might expect, each IPE structure is often filled with tension because different actors are constantly trying to preserve or change the rules of the structure to better reflect their own interests and values. For example, actors may sometimes pursue free trade policies and at other times erect protectionist trade barriers.

Finally, issues in one structure often impact issues in another, generating a good deal of tension and even conflict between actors. According to Strange, many disputes arise when states try to “shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises . . . [and] people have to operate.” In our discussion of the four structures below, you can see examples of how they connect to the levels of analysis discussed earlier. We have pinpointed in brackets the causal factors and forces at different levels.

The four IPE structures are as follows:

*The Production and Trade Structure.* The issue of who produces what, for whom, and on what terms lies at the heart of the international political economy. Making things and then selling them in world markets is a global-level process earns countries and their industries huge sums of money, which ultimately can quite easily shift the global distribution of wealth and power. As we will see in Chapter 6, in recent decades there have been dramatic changes in international trade rules that have shifted the manufacture of consumer goods such as electronics, household appliances, and clothing away from the United States and Western Europe. Many corporations that make these items have moved to newly emerging economies such as South Korea, Mexico, Brazil, China, Turkey, Poland, and Vietnam. Since the 1990s, governments of these emerging economies have sought to attract foreign investors to promote the production of a range of goods for export. At the same time, many unions and manufacturers in Western countries have lobbied their government for protectionist barriers against cheap imports from China in order to preserve jobs and profits. As emerging economies have earned more income but also had to deal with the effects of the current financial crisis, some have been reluctant to agree to new free-market trade policies in negotiations among members of
the World Trade Organization (WTO) because of pressure from vested interest groups [a state/societal level factor].

The Finance and Monetary Structure. With perhaps the most abstract set of linkages between nations, this structure determines who has access to money and on what terms, and thus how certain resources are distributed between nations. In this respect, money is often viewed as a means, not an end in itself. Money generates an obligation between people or states. International money flows [a global level factor] pay for trade and serve as the means of financial investment in a factory or a farm in another country. Financial bargains also reflect rules and obligations, as money moves from one nation to another in the form of loans that must be repaid.

Recently, the global financial and monetary structure has been marked by the movement of “hot money” chasing quick profits from one country to another, in part because many political elites hold ideological beliefs [individual level factors] opposed to strong international regulation of banks and corporations. Many believe that underregulated financial markets were in part responsible for financial crises in the 1990s in Mexico, parts of Asia and Latin America, and Russia, as well as for the current financial crisis. Some critics also charge that underregulated globalization may be partly responsible for breeding poverty and conflict in some of the depressed areas of the world.

The Security Structure. Feeling safe from the threats and actions of other states and nonstate actors is perhaps the most basic human need. At the global level, the security structure comprises those persons, states, international organizations, and NGOs that provide safety for all people everywhere. In Chapter 9 we will see why many experts claim that the demise of the Soviet Union and the end of the Cold War [interstate level changes] led to an increase in the number of small conventional wars between states and insurgencies within developing nations. The 9/11 attacks on the New York Trade Center also profoundly changed the informal rules of the security structure when George W. Bush’s administration, dominated by neoconservatives with strong beliefs [individual level characteristics], shifted away from multilateralism and tried to impose its own version of hegemonic-unilateral leadership on the rest of world. Some scholars assert that the rising economic and military power of China [an interstate level factor] will lead Beijing to provoke conflict by making more strident territorial claims against India and countries around the South China Sea.

The Knowledge and Technology Structure. Knowledge and technology are sources of wealth and power for those who use them effectively. The spread of information and communications technology [a global level factor] has fueled industrialization in emerging countries and empowered citizens living under authoritarian regimes, as seen during the Arab Spring. Nations with poor access to industrial technology related to scientific discoveries, medical procedures, and new green energy, for example, find themselves at a disadvantage relative to others [an interstate level factor].
[phenomenon]. Increasingly in the world today, the bargains made in the security, trade, and finance structures depend on access to knowledge in its several forms. The knowledge structure includes rules and patterns affecting intellectual property, technology transfers, and migration opportunities for skilled workers.

The connection between technology and conflict tightens by the day. Newspapers are full of stories about weapons of mass destruction (WMD), drones, and gun violence. New technologies [global level factors] have revolutionized the size of weapons and the effects they have when put to use. Many weapons can easily be transported in a backpack or small trucks. The ultimate miniature weapon may no longer be an atomic bomb or a chemical mixture, but a few grams of anthrax on a letter. In the hands of terrorists or state leaders with repugnant beliefs [individual level factors], technologically advanced weapons can endanger many lives.


One of the terms students will encounter throughout the book is globalization. In this section, we introduce you to this concept and briefly explain who it benefits and its relationship to a variety of issues, including the current financial crisis. Globalization is important because it has framed the four structures of the international political economy outlined above. Many of the rules and processes related to trade, money, technology, and security reflect this popular concept. Globalization has brought about a significant change in the way many experts and officials think about the international political economy. It has both strengthened and weakened the power of many institutions and actors along the way.

The term “globalization” began appearing in the IPE lexicon in the mid-1980s to describe the growing interdependence (interconnections) among people and states all over the world that resulted from the digital revolution and the spread of Western (U.S.) culture. Globalization also accounted for more trade and financial exchanges with other countries relative to a nation’s gross domestic product (GDP). Beginning in the 1990s, the world seemed to be going through a major transformation that involved intense connections between states and their societies. Many IPE analysts suggested that a shift had occurred from a predominately Cold War, military-oriented world order (1947–1990), where states were preoccupied with territorial security and war, to something more akin to a pluralistic world order in which economic issues dominated the global agenda. Many academics, journalists, and public officials labeled this nearly twenty-five-year period of history since the collapse of the Berlin Wall as the “era of globalization.”

The roots of globalization can be found in the early 1980s when U.S. President Ronald Reagan and British Prime Minister Margaret Thatcher popularized the ideas and policies associated with economic liberalism and free trade. In the
later part of the 1980s and throughout most of the 1990s, many of the newly industrializing states in East and Southeast Asia grew quickly and steadily, turning their trade policies outward by adopting export-led growth strategies and integrating themselves into the new “global economy.” During this period, the United States, Great Britain, and other industrialized nations engaged in a campaign to promote globalization with the explicit and implicit promise that, together with capitalism, it would increase economic growth while laying the groundwork for democracy the world over.

In the 1990s and much of the 2000s, many government officials, businesspeople, and academics in the industrialized nations remained enthusiastic about the potential economic benefits from interconnecting people in new, different, and profound ways. Columnist Thomas Friedman, for one, made globalization out to have an appeal that could not be denied. Globalization is usually characterized as

- an economic process that reflects dense interconnections based on new technologies and the mobility of trade and capital;
- the integration of national markets into a single global market;
- a political process that weakens state authority and replaces it with the power of deregulated markets;
- a cultural process that reflects a growing network of complex cultural interconnections and interdependencies in modern society.

Some analysts further claim that globalization

- is an inevitable occurrence that has produced a new form of capitalism—hypercapitalism;
- is a process for which nobody is in charge;
- benefits everyone, especially economically;
- furthers the spread of democracy in the world.11

Globalization connects people by reaching around the world faster, deeper, and more cheaply through an array of new digital technologies that include the Internet, fiber optics, and smart phones. Globalization emphasizes increased production and the free flow of huge amounts of capital in search of investment opportunities and new markets around the world. Speed and the death of distance are the necessary major features of twenty-first-century communications, commerce, travel, and innovation. Along with economic growth and personal wealth comes the demand for Western (read U.S.) mass consumer products.

For Friedman and free-market state officials, globalization manifested the power of unregulated and integrated markets to trump politics and greatly benefit society. It became synonymous with production efficiency, the free flow of currency (capital mobility), free trade, and individual empowerment. In his popular book *The Lexus and the Olive Tree*, Friedman asserted that globalization often required a “golden straightjacket”—a set of political restrictions and policies that must be implemented if states want to realize globalization’s benefits.12 The payoff would be a “triumph of the market” that produced economic prosperity and democracy everywhere in the world.
Friedman has gone on to argue that an intensely competitive new phase of capitalism—hyperglobalization—drives individuals, states, and TNCs to continually produce new and better products. In his book *The World Is Flat*, he argues that new technological developments are in the process of leveling the relationship of individuals to their states and to one another.\(^{13}\) Leveling generates new opportunities for individuals to compete with people in their own society and with those in other countries. In short, despite a few shortcomings, globalization is here to stay and should be embraced.

Not surprisingly, globalization shaped the strategies of developing countries and has remained quite popular with elites and many citizens in the developed nations. It led to increased emphasis on a set of common rules and policies that all countries were expected to follow—implemented and overseen by international institutions such as the International Monetary Fund, the World Trade Organization, and many United Nations agencies. It was supposed to help create more peaceful relations between states that traded with one another, especially if U.S. hegemony (leadership) promoted it as an attractive option for the world’s poor and downtrodden. Globalization was also expected to increase flows of people across borders, which might eventually lead to a better understanding between different groups. As globalization grew in popularity, so did traditional and national resistance (what political scientist Benjamin Barber called *jihad*) to many of its effects.\(^{14}\) In the 1990s, the antiglobalization movement gained momentum. Many NGOs and other public-interest groups pitched their causes in newspaper articles and on their websites. Much of their focus was on negative consequences of globalization, such as sweatshop conditions in poor countries, damage to the environment, and maldistribution of income.\(^{15}\) Many of these groups formed coalitions with labor, environmental, and peace activists and held massive demonstrations that often turned violent in cities such as Seattle, Washington, DC, Salzburg, Genoa, and Prague. Protesters denounced WTO, IMF, and World Bank policies that supposedly reflected an ideological obsession with the spread of global capitalism and minimization of controls on transnational corporations. Even the 1989 pro-democracy protests in Beijing’s Tiananmen Square and the 2012 Arab Spring can in some ways be interpreted as reactions to the imposition of globalization-oriented policies by authoritarian regimes. Issues surrounding globalization have decisively affected local, regional, and even national elections. Others even argue that antiglobalization was a motive behind the 9/11 terrorist attacks on the United States.\(^{16}\)

Critics saw globalization as merely a shibboleth of free-market champions—a wildcat version of capitalism that promised higher standards of living but increased the misery or marginalization of many people. Political scientists Leo Panitch and Sam Gindin have portrayed globalization (driven in part by the U.S. Treasury and the Federal Reserve) as a process of spreading U.S. economic practices and institutions to foreign countries: “It was the immense strength of US capitalism which made globalization possible, and what continued to make the American state distinctive was its vital role in management and superintending capitalism on a worldwide plane.”\(^{17}\) When such a process allows markets to trump politics, predictably the outcome often is devastating for society. According to Ignacio Ramonet, the former editor-in-chief of *Le Monde diplomatique*, society
had become a slave to the market, which operates like clockwork, driven by economic and Social Darwinism, leading to excessive competition and consumption and the necessity of people to adapt to market conditions, at the risk of becoming social misfits and slowing the global economy.18

Friedman acknowledged that globalization alone would not automatically achieve success for everyone. In fact, he suggested that if it increased the rich–poor gap or left too many behind, it would likely generate opposition. Moreover, many scholars—and even Thomas Friedman himself—became concerned about the extent to which globalization was having a homogenizing effect on cultures around the world. Was it desirable to encourage the spread of U.S. business practices and consumption of U.S. products and symbols such as Big Macs, iMacs, and Mickey Mouse? Was globalization just a process of spreading the ideals and cultural patterns of the U.S. empire?

By the turn of the twenty-first century, it had become clear that most developing nations were not growing out of poverty as expected. A few newly industrializing countries (NICs)—China, Singapore, Taiwan, South Korea, Malaysia, and Thailand—did experience tremendous national and per-capita growth. And yet some of these newly emerging economies in Asia and other parts of the world experienced financial crises in the late 1990s that called into question whether fast growth was sustainable. Even though more unfettered (unchained) markets tended to help the well off in these societies, the gap between rich and poor expanded.

In a tacit admission that globalization was not delivering on its promises, the United Nations in 2000 established the Millennium Development Goals (MDGs) directed at increasing foreign aid for poorer nations, halving global hunger, reducing debt, and fighting diseases like AIDS. Contrary to predictions that globalization would lessen armed conflicts around the world, the former Yugoslavia plunged into civil wars throughout the 1990s, Rwanda suffered a genocide in 1994, and the Democratic Republic of the Congo experienced a terrible civil war between 1998 and 2003 in which more than two million people died. Also left behind by globalization were a number of “failed states” such as Sudan, Somalia, and Afghanistan, where civil wars destroyed societies. Then came 9/11 and the wars on terrorism and Iraq, which intensified tensions between the Western industrialized nations and many Islamic countries, even though the two groups of countries were more culturally and economically interconnected than ever before.

As explained in Chapters 19 and 20, many IPE scholars became concerned that pro-globalization policies were responsible for many of the global environmental problems that we face today. The emphasis on profitable, short-term economic choices has led to ecological catastrophes that already may not be reversible. Many would like to reform capitalism and redesign globalization so that people curtail the excessive use of the earth’s resources. We can expect major problems in adjusting to a sustainable level of resource use in the industrialized nations—at the same time that China, India, and other developing nations make increasing demands on the raw materials of “Spaceship Earth.”

Finally, the current global financial crisis and the distress of Europe have generated still more (intense) criticism of globalization and the economic liberal values and institutions that prop it up. As we write in late 2012, some pundits
and economic prognosticators point to signs that “green shoots” are beginning to appear in the United States, China, and Brazil that herald economic recovery in 2013 and 2014. Others believe that recuperation is not likely for some time. For example, economist Nouriel Roubini suggests the possibility of a “perfect storm”—an economic train wreck in the European countries using the euro, another U.S. recession, stalled growth in China and India, and a U.S.-Israeli war against Iran that raises oil prices 50 percent. Whatever the case, until the financial crisis is adequately dealt with, many anti-austerity protestors, academics, and officials will continue to assert that more managed globalization would better serve everyone.

Prelude and Conclusion

Having read about globalization—which underlies a number of the issues discussed in this text—we hope that you now have a flavor of how scholars of IPE examine the complex interrelationships in the world today. As you plunge into the chapters, the terminology, concepts, and countries that still seem unfamiliar will become clearer, and you will become much more fluent in the specific language of IPE. There are many more theoretical and policy issues that you will encounter, so as a prelude we introduce here some main questions that are highlighted in the text:

- How have states tried to manage globalization’s negative externalities and impacts on the environment, resources, and society? (discussed throughout the text)
- What are the tensions between market fundamentalism and protectionism? In what ways are markets re-embedded into society and its cultural institutions? (especially Chapters 2–4)
- With the rise of global production, how have the gains from trade and growth been distributed between different social groups and countries? (especially Chapters 4, 6, 10, and 11)
- How do states balance their domestic political needs with their international obligations? (throughout the text)
- Can national security and freedom be reconciled? (especially Chapter 9)
- How do social groups and ideas influence markets and states? (especially Chapters 5 and 16)
- Are relations between people fundamentally cooperative or conflictual? (especially Chapters 2, 14, 16)
- What are the causes and consequences of inequality between and within countries? (especially Chapters 8, 11, and 14)
- How is the rise of China, India, Russia, and Brazil fundamentally reshaping the global economy? (Chapter 13)
- What do financial crises reveal about the nature of capitalism and challenges of market regulation? (especially Chapters 4, 8, and 12)
- Are states losing power relative to illicit markets and transnational corporations? (Chapters 16–19)
Standing on the Precipice

Since the Cold War, a minority of states have employed a mixture of state-directed and free-market policies to achieve tremendous economic development, while much of the world has been unable to attain anything near that objective. What seems clearer to us all the time is that development—as we have commonly conceived it—may not be realized for many societies, especially in the face of pressures on the earth’s resources. Furthermore, development is not something that ends once a nation becomes modern and industrialized. Instead, it is an ongoing process of political, economic, and social transformation in all societies.

At the same time, two major global processes are impacting states and societies in ways unimagined even thirty years ago. The first is a shift in the distribution of global wealth and power. Public officials have had to come to grips with the idea that the war on terrorism may not be “winnable” in any real sense of the term. For a variety of reasons related to the availability of dangerous technologies, porous state borders, and economic frustrations, national and personal insecurities may in fact be increasing.

Although the Cold War seems passé, the major powers—especially the United States, Russia, China, France, the United Kingdom, and Japan—have tended to fall back into viewing the global political economy with a familiar realist outlook that emphasizes power and conflict. Interestingly, the rise of India and China suggests that the international balance of power is shifting even faster than expected and in ways that could very well increase North–South tensions. This process has already weakened the global cooperation that will be necessary to solve problems such as terrorism, hunger, and climate change. The intransigent national interests of developed nations may soften through long-term negotiations with China, Brazil, and the Middle Eastern countries, or they may lead to more threats to world peace.

A second major shift in the global political economy relates to the benefits and costs associated with globalization. Clearly, the global financial crisis generated more skepticism about free markets and renewed support for more government intervention to save national economies. But we do not know if societies are willing to accept the insecurity and efficiency that globalization brings without a more democratic role in shaping its rules and rewards. It would seem obvious that because of the interconnectedness of states and markets, international institutions must play some role in solving international problems. Paradoxically, precisely at a time when more collaboration is necessary to solve an assortment of global ills, the compulsion of actors to cooperate for the sake of providing global governance remains weak. Dealing with the global financial crisis is just one such case.

We end this chapter with two hopes that we have for you. We hope that you will help humanity find a way to raise standards of living without destroying the earth’s environment, climate, and biodiversity. We also hope that as you devise solutions to contentious economic and political problems, you show compassion for the most vulnerable people in the world.
KEY TERMS

international political economy 8
global civil society 9
economic liberalism 9
orthodox economic liberals 9
heterodox interventionist liberals 9
mercantilism 10
realism 10
sovereignty 10
hard power 10
soft power 10
structuralism 10
the level of analysis 13
IPE structures 15
globalization 17
global governance 22

DISCUSSION QUESTIONS

1. Pick a recent news article that focuses on some international or global problem, and give examples of how and where states, markets, and societies interact and at times conflict with one another. How hard is it to determine the analytical boundaries between the state, market, and society in this case?

2. Review the basic elements and features of the IPE approach: the three main theoretical perspectives, the four structures, the levels of analysis, and the types of power. Which ones do you feel you understand well and which ones need more work? Discuss the connection between each of the three theoretical perspectives and your own values related to IPE.

3. Define and outline the major features of globalization. Explain the connection between economic liberal ideas and globalization. Which of the three IPE perspectives (or combination of perspectives) about globalization do you agree with most? Explain why.

4. Based on what you have learned so far in this chapter and from reading newspapers, outline a few things you know about the connection between globalization, the financial crisis, and capitalism. Do you agree with those who suggest that the financial crisis raises serious concerns about the viability of capitalism? Explain.

SUGGESTED READINGS


NOTES


4. For a detailed discussion of soft power and its utility in the international political economy, see Joseph Nye, Soft Power: The Means of Success in World Politics (New York: Public Affairs, 2006).


8. Kenneth N. Waltz, *Man, the State, and War: A Theoretical Analysis* (New York: Columbia University Press, 1959). Waltz wrote about three “images” rather than three “levels,” and both terms are used in discussions of this concept. The recent focus on globalization has generated a good deal of attention to the global level of analysis.


15. See, for example, many of the articles in Robin Broad, ed., *Global Backlash: Citizen Initiatives for a Just World Economy* (Lanham, MD: Rowman & Littlefield, 2002).

16. It should be noted that many historians point out that by some measures globalization was actually greater before, during, and after World War I. Also, some academics and experts warn us not to think of globalization as some big, deterministic process that controls everything going on in the world. Instead, they emphasize that it is a complex, messy set of processes of economic and social change, often grounded in history and local conditions, that cannot easily be reduced to a few generalizations or rhetorical arguments. See, for example, Michael Veseth’s aptly titled *Globaloney 2.0: The Crash of 2008 and the Future of Globalization* (Lanham, MD: Rowman & Littlefield, 2010).


