Introduction

INTERNATIONAL POLITICS AND INTERNATIONAL ECONOMICS

Over the past thirty years, the study of international political economy underwent a remarkable resurgence. Virtually nonexistent before 1970 as a field of study, international political economy is now a popular area of specialization for both undergraduates and graduate students, as well as the source of much innovative and influential scholarship. The revival of international political economy after nearly forty years of dormancy enriched both social science and public debate, and promises to continue to do both.

International political economy is the study of the interplay of economics and politics in the world arena. In the most general sense, the economy can be defined as the system of producing, distributing, and using wealth; politics is the set of institutions and rules by which social and economic interactions are governed. *Political economy* has a variety of meanings. For some, it refers primarily to the study of the political basis of economic actions, the ways in which government policies affect market operations. For others, the principal preoccupation is the economic basis of political action, the ways in which economic forces mold government policies. The two focuses are, in a sense, complementary, for politics and markets are in a constant state of mutual interaction.

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

At the base of all modern economics is the general assertion that, within certain

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

If the international and domestic economies functioned as perfectly competitive markets, they would be relatively easy to describe and comprehend. But such markets are only highly stylized or abstract models, which are rarely reproduced in the real world. A variety of factors influence the workings of domestic and international markets in ways that a focus on perfectly competitive and unchanging market forces does not fully capture. Consumer tastes can change — how large is the American market for spats or sarsaparilla today? — as can the technology needed to make products more cheaply, or even to make entirely new goods that displace others (stick shifts for horsewhips, calculators for slide rules). Producers, sellers, or buyers of goods can band together to try to raise or lower prices unilaterally, as the Organization of Petroleum Exporting Countries (OPEC) did with petroleum in 1974 and 1979. And governments can act, consciously or inadvertently, to alter patterns of consumption, supply, demand, prices, and virtually all other economic variables.

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

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

In these instances and many more, political pressure groups, politicians, and government bureaucrats have at least as much effect on economic outcomes as do the laws of the marketplace. Social scientists, especially political scientists, have spent decades trying to understand how these political pressures interact to produce government policy. Many of the results provide as elegant and stylized a view of politics as the economics profession has developed of markets. As in economics, however, social science models of political behavior are little more than didactic devices whose accuracy depends on a wide variety of unpredictable factors, including underlying economic trends. If an economist would be equally foolish to dismiss the possibilities of intergovernmental producers' cartels (such as OPEC) out of hand, a political scientist would be foolish not to realize that the economic realities of modern international commodity markets ensure that successful producers' cartels will be few and far between.

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

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

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

The resurgence of political economy after 1970 had two, interrelated sources. The first was dissatisfaction among academics with the gap between abstract models of political and economic behavior, on the one hand, and the actual behavior of polities and economies, on the other. Theory had become more ethereal and seemed less realistic. Many scholars therefore questioned the intellectual justifications for a strict analytic division between politics and economics. Second, as the stability and prosperity of the first twenty-five postwar years started to disintegrate in the early 1970s, economic issues became politicized while political

systems became increasingly preoccupied with economic affairs. In August 1971, President Richard Nixon ended the gold–dollar standard, which had formed the basis for postwar monetary relations; two and a half years later, OPEC, a previously little-known group, succeeded in substantially raising the price of oil. In 1974 and 1975, the industrial nations of Western Europe, North America, and Japan fell into the first worldwide economic recession since the 1930s; unemployment and inflation were soon widespread realities and explosive political issues. In the world arena, the underdeveloped countries — most of them recently independent — burst onto center stage as the Third World and demanded a fairer division of global wealth and power. If in the 1950s and 1960s, economic growth was taken for granted and politics occupied itself with other matters, in the 1970s and 1980s, economic stagnation fed political strife while political conflict exacerbated economic uncertainty.

For both intellectual and practical reasons, then, social scientists began seeking, once more, to understand how politics and economics interact in modern society. As interest in political economy grew, a series of fundamental questions was posed and a broad variety of contending approaches arose.

To be sure, today's political economists have not simply reproduced the studies of earlier (and perhaps neglected) generations of scholars in the discipline. The professionalization of both economics and political science led to major advances in both fields, and scholars now understand both economic and political phenomena far better than they did a generation ago. It is on this improved basis that the new political economy has been constructed, albeit with some long-standing issues in mind.

Just as in the real world, where politicians pay close attention to economic trends and economic actors keep track of political tendencies, those who would understand the political process must take the economy into account, and vice versa. A much richer picture of social processes emerges from an integrated understanding of both political and economic affairs than from the isolated study of politics and economics as separate realms. This much is, by now, hardly controversial; it is in application that disagreements arise. Government actions may influence economic trends, but these actions themselves may simply reflect the pressures of economic interest groups. Economic interest groups may be central in determining government policy, yet the political system — democratic or totalitarian, two-party or multiparty, parliamentary or presidential — may crucially color the outlooks and influence of economic interests. In the attempt to arrive at an integrated view of how politics and economics interact, we must disentangle economic and political causes from effects. In this effort, different scholars have different approaches, with different implications for the resulting views of the world.

CONTENDING PERSPECTIVES ON INTERNATIONAL POLITICAL ECONOMY

Analysts of the international political economy must understand the interaction of many disparate forces. It is possible to simplify many such factors so that they can be arrayed on two dimensions. These two dimensions also capture many of the

theoretical disagreements that characterize scholarship on the politics of international economic relations. One set of disagreements has to do with the relationship between the international and domestic political economies; another set concerns the relationship between the state and social forces.

The first dimension of interest concerns the degree to which the causes of international political and economic trends are to be found at the domestic or international level. All observers agree that in a complex world, both global and national forces are important. But different analysts place different emphases on the importance of one or the other. Some focus on how international forces tend to overpower domestic interests; others emphasize the degree to which national concerns override global considerations.

It should surprise no one that, for example, American trade policy, Japan's financial goals, and South Korean development strategies are important in the world's political economy. Disagreements arise, however, over how best to explain the sources of the foreign economic policies of individual nations, or of nation-states in general. At one end of the spectrum, some scholars believe that nations' foreign economic policies are essentially determined by the global environment. The actual room for national maneuver of even the most powerful of states, these scholars believe, is limited by characteristics inherent in the international system. At the other end of the spectrum are scholars who see foreign economic policies primarily as the outgrowth of nations' domestic-level political and economic processes. For them, the international system exists only as a jumble of independent nation-states, each with its own political and economic peculiarities.

The international–domestic division is at the base of many debates within international political economy, as in the world at large. While some argue, for example, that the cause of Third World poverty is in the unequal global economic order, others blame domestic politics and economics in developing nations. Similarly, many scholars see multinational corporations as a powerful independent force in the world — whether working for good or for evil — while others see international firms as extensions of their home countries. Moreover, for some analysts, global geopolitical relations among nations dominate the impulses that arise from their domestic social orders.

The distinction between the two approaches can be seen quite clearly, for example, in explanations of trade policy. To take a specific instance, starting in the early 1980s the United States and many European governments imposed restrictions on the import of Japanese automobiles. The form of the controls varied widely: the U.S. and Japanese governments negotiated "voluntary" export restraints, with which Japanese producers agreed to comply, while in some European countries, quantitative quotas were imposed unilaterally. Concerned about stiff Japanese competition, which was reducing profits and employment, European and North American automakers and the trade unions that represent their employees provided key support for these policies.

From this example, one clear analytic conclusion would be that domestic political and economic pressures — the electoral importance of the regions where auto industries are concentrated; the economic centrality of that sector to the European and North American economies; government concern about the broad, national ramifications of the auto industry; the political clout of the autoworkers' unions —

led to important foreign economic measures involving the restriction of Japanese automobile imports. Indeed, many scholars saw the restrictions as confirmation of the primacy of domestic concerns in the making of foreign economic policy.

Yet analysts who search for the causes of national foreign economic policies in the international rather than the domestic arena could also find support in the auto import restrictions. After all, the policies were responsive to the rise of Japan as a major manufacturer and exporter of automobiles, a fact that had little to do with the domestic scene in the United States or Europe. Many North American and European industries had lost competitive ground to rapidly growing overseas manufacturers, a process that is complex in origin but clearly one of worldwide proportions. Some have argued that trade policies are a function of realities inherent in the international system, such as the existence of a leading, hegemonic power and the eventual decline of that state (see Krasner, Reading 1). In this view, the decline of American power set the stage for a proliferation of barriers to trade.

The internationally minded scholar might also argue that it is important to understand why the European and American measures took the relatively mild form they did in simply limiting the Japanese to established (and, often, very appreciable) shares of the markets. If the measures had been adopted solely to respond to the distress of local auto industries, the logical step would have been to exclude foreign cars from the markets in question. Yet the positions of Europe and the United States in the global economic and political system — including everything from world finance to international military alliances — dictated that European and North American policymakers not pursue overly hostile policies toward the Japanese.

More generally, scholars have explained long-term changes in trade policy in very different ways. During the period between World Wars I and II, and especially in the 1930s, almost all European nations and the United States were highly protectionist. After World War II, on the other hand, the North American and Western European markets were opened gradually to one another and to the rest of the world.

Scholars whose theoretical bent is international point out that domestic politics in Europe and the United States did not change enough to explain such a radical shift. But the postwar role of the United States and Western Europe in the international political and economic system has indeed been different from what it was during the 1930s: after 1945, North American and Western European countries were united in an American-led military and economic alliance against the Soviet Union. Some internationally oriented analysts argue that the causes of postwar foreign economic policies in North America and Western Europe can be found in international geopolitical positions of these regions — the increase in American power, the decline of Europe, the Soviet challenge, and the rise of the Atlantic Alliance. Others point to broad technological and economic developments, such as dramatic improvements in telecommunications and transportation, that have altered governments' incentives to either protect or open their economies.

Scholars who promote domestic-level explanations take the opposite tack. For them, the postwar system was itself largely a creation of the United States and the major Western European powers. To cite the modern international political economy as a source of American or British foreign economic policy, these scholars argue, is to put the cart before the horse in that the United States and its allies had created the institutions — the Marshall Plan, the Bretton Woods agreement, the European Union — of today's international political economy. We must therefore search within these nations for the true roots of the shift in trade policy in North America and Western Europe.

The example of trade policy illustrates that serious scholars can arrive at strikingly different analytic conclusions on the basis of the same information. For some, domestic political and economic pressures caused the adoption of auto import restrictions, whereas for others, geopolitical, economic, or technological trends in the international environment explain the same action.

The second dimension along which analysts differ in their interpretation of trends in the international political economy has to do with the relative importance of politicians and political institutions, on the one hand, and private social actors, on the other. The interaction between state and society — between national governments and the social forces they, variously, represent, rule, or ignore — is indeed another dividing line within the field of international political economy. In studying the politics of the world economy, questions continually arise about the relative importance of independent government action and institutions versus a variety of societal pressures on the policy-making process.

The role of the state is at the center of all political science; international political economy is no exception. Foreign economic policy is made, of course, by foreign economic policymakers; this much is trivial. But just as scholars debate the relative importance of overseas and domestic determinants of foreign economic policies, so, too, they disagree over whether policymakers represent a logic of their own or instead reflect domestic socioeconomic interest groups or classes. According to one view, the state is relatively insulated or autonomous from the multitude of social, political, and economic pressures that emanate from society. The most that pluralistic interest groups can produce is a confused cacophony of complaints and demands; coherent national policy comes from the conscious actions of national leaders and those who occupy positions of political power and from the institutions in which they operate. The state, in this view, molds society, and foreign economic policy is one part of this larger mold.

The opposing school of thought asserts that policymakers are little more than the transmitters of underlying societal demands. At best, the political system can organize and regularize these demands, but the state is essentially a tool in the hands of socioeconomic and political interests. Foreign economic policy, like other state actions, evolves in response to social demands; it is society that molds the state, and not the other way around.

We can illustrate the difference in focus with the previously discussed example of trade policy in North America and Western Europe before and after World War II. Many of those who look first and foremost at state actors would emphasize the dramatic change in the overall foreign policy of these governments after World War II, starting with the Atlantic Alliance, which was formed to meet the demands of European reconstruction, and the Cold War, which required that the American market be opened to foreign goods in order to stimulate the economies of the country's allies. Eventually, the European Union arose as a further effort to cement the Atlantic Alliance and bolster it against the Soviet Union.

According to this view, trade liberalization arose out of national security concerns, as understood and articulated by a very small number of individuals in the American and Western European governments, who then went about "selling" the policies to their publics. Alternatively, it might be argued that the traumas of the Great Depression taught the managers of nation-states that a descent into protectionism could lead to intolerable social tensions. In this context, political leaders may have developed a strong belief in the desirability of trade relations that are generally open. In this view of the world, explanatory precedence goes to the opinions, beliefs, and desires of national political leaders — in short, to the state.

Other scholars, for whom society is determinant, emphasize the major socioeconomic and political changes that had been gaining force within the industrial capitalist nations after World War I. Corporations became more international, and thus came to fear overseas competition less. For important groups, trade protection was counterproductive because it limited access to the rest of the world economy; on the other hand, freer trade and investment opened broad and profitable new horizons for major economic actors in North America and Western Europe.

By the same token, socioeconomic trends at a global level were also pushing toward international trade liberalization. The rise of internationally integrated financial markets and global corporations, for example, created private interests that oppose interference with the free movement of goods and capital across national borders. This new group of social forces has, in the opinion of some analysts (see, for example, Strange, Reading 4), fundamentally transformed the very nature of economic policy making in all nations.

When combined, these two dimensions give rise to four different perspectives in international political economy. An *international political* view emphasizes the constraints imposed on national states by the global geostrategic and diplomatic environment within which they operate. It focuses on the inherent conflict among states in a hostile world, within which cooperation, although often desirable and feasible, can be difficult to achieve.

The *international economic* perspective similarly emphasizes the importance of constraints external to individual nations, but it highlights global socioeconomic factors rather than political ones. Accordingly, international developments in technology, telecommunications, finance, and production fundamentally affect the setting within which national governments make policy. Indeed, these developments can matter to the point of making some choices practically impossible to implement and others so attractive as to be impossible to resist.

Domestic approaches look inside nation-states for explanations of the international political economy. The *domestic institutional* view turns its attention to states, as does the international political perspective, but it emphasizes the role and institutions of the state in a domestic setting rather than in the global system. This view, which at times is called simply *institutionalism,* tends to downplay the impact of constraints emanating both from the international system and from domestic societies. National policymakers, and the political institutions within which they operate, are thus seen as the predominant actors in determining national priorities and implementing policies to carry out these goals. Some variants of institutionalism emphasize the autonomy of states from societal actors, while others focus on how state institutions mediate and alter social forces.

The *domestic societal* perspective shares with domestic institutionalism an emphasis on developments within national borders but looks first and foremost at economic and sociopolitical actors rather than political leaders. This view, which at times is known simply as *societal,* tends to minimize international constraints and to emphasize socioeconomic pressures that originate at home. Accordingly, the determinants of national policy are the demands made by individuals, firms, and groups rather than independent action by policymakers.

The contending perspectives can once again be illustrated by recalling their approaches to the example of trade policy tendencies. International political interpretations would rely on geopolitical trends among states at the global level to explain changing patterns of trade relations. An international economic view would emphasize trends in market forces, technologies, and the like that alter the environment in which governments make trade policy. The domestic institutional approach focuses on the goals and actions of the government within the national political system, for which foreign trade can represent ways to help politicians stay in power. Finally, a domestic societal perspective looks primarily at the pressures brought to bear on policy by various socioeconomic groups, some desirous of trade liberalization and others interested in protection from imports.

It should be noted that these simplistic categories hardly describe the nuance and complexity of actual theoretical approaches; all scholars recognize that the foreign economic policies of all countries are constrained by both international and domestic — and by both political and economic — factors. It may indeed be the case that one set of forces matters more or less in some issue areas rather than others, in some times rather than others, and in some countries rather than others. In particular, international geopolitical concerns will presumably have more impact on a small, weak country surrounded by enemies than a large, powerful nation far from any threat. Similarly, domestic concerns, whether institutional or societal, may have more effect on policy in times of great social and political conflict than in less turbulent times.

Nonetheless, analysts of the international political economy do differ in their interpretations. Rather than being absolute, the disagreements concern relative weights to be assigned to each set of causes. Some scholars assign primacy to social forces, others to autonomous state action; some to global factors, others to domestic ones.

These perspectives can lead to widely different explanations of specific events and general processes within the international political economy. Their differences have generated numerous debates in the field, many of which are contained in the readings in this volume.

THREE ALTERNATIVE VIEWS OF INTERNATIONAL POLITICAL ECONOMY

In addition to the perspectives already mentioned, some scholars attempt to classify interpretations of global political and economic developments in a somewhat different manner. Many theories of international political economy can also be categorized into one of three perspectives: Liberalism, Marxism, and Realism.

Note that in international political economy, advocates of free trade and free markets are still referred to as Liberals. In twentieth-century American domestic politics, on the other hand, the term has come to mean something different. In the United States today, whereas "conservatives" generally support free markets and less government intervention, "liberals" advocate greater governmental intervention in the market to stimulate growth and mitigate inequalities. These contradictory usages of the term *Liberal* may seem confusing, but the context will usually make an author's meaning clear.

The Liberal argument emphasizes how both the market and politics are environments in which all parties can benefit by entering into voluntary exchanges with others. If there are no impediments to trade among individuals, Liberals reason, everyone can be made as well off as possible, given the existing stocks of goods and services. All participants in the market, in other words, will be at their highest possible level of utility. Neoclassical economists, who are generally Liberals, believe firmly in the superiority of the market as a mechanism for allocating scarce resources.

Liberals therefore reason that the economic role of government should be quite limited. Many forms of government intervention in the economy, they argue, intentionally or unintentionally restrict the market and thereby prevent potentially rewarding trades from occurring.

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

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

Marxism originated with the writings of Karl Marx, a nineteenth-century political economist and perhaps the severest critic of capitalism and its Liberal supporters. Marx saw capitalism and the market as creating extremes of wealth for capitalists and poverty for workers. While the entire populace may have been better off than before, the capitalists were clearly expanding their wealth more

rapidly than everyone else. Marx rejected the assertion that exchange between individuals necessarily maximizes the welfare of the whole society. Accordingly, he perceived capitalism as an inherently conflictual system that both should, and will, be inevitably overthrown and replaced by socialism.

Marxists believe that classes are the dominant actors in the political economy. Specifically, they identify as central two economically determined aggregations of individuals, or classes: capital, or the owners of the means of production, and labor, or the workers. Marxists assume that classes act in their economic interests, that is, to maximize the economic well-being of the class as a whole. Accordingly, the basis of the capitalist economy is the exploitation of labor by capital: capitalism, by its very nature, denies labor the full return for its efforts.

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

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

Today, Marxists who study the international political economy are primarily concerned with two issues. The first is the fate of labor in a world of increasingly internationalized capital. The growth of multinational corporations and the rise of globally integrated financial markets appear to have weakened labor's economic and political power. If workers in a particular country demand higher wages or improved health and safety measures, for example, the multinational capitalist can simply shift production to another country where labor is more compliant. As a result, many Marxists fear that labor's ability to negotiate with capital for a more equitable division of wealth has been significantly undermined.

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

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

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

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

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

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

Realist political economy is primarily concerned with how changes in the distribution of international power affect the form and type of international economy. The best known Realist approach to this question is the *theory of hegemonic stability,* which holds that an open international economy — that is, one characterized by the free exchange of goods, capital, and services — is most likely to exist when a single dominant or hegemonic power is present to stabilize the system and construct a strong regime (see Krasner, Reading 1, and Lake, Reading 8). For Realists, then, the pursuit of power by nation-states shapes the international economy.

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

This tripartite division of international political economy is useful in many ways, especially as it highlights differing evaluations of the importance of economic efficiency, class conflict, and geostrategic considerations. However, the lines between the three views are easily blurred. Some Marxists agree with the Realist focus on interstate conflict; others, with the Liberal emphasis on economic interests. Likewise, there are many Liberals who use neoclassical tools to analyze interstate strategic interaction in much the same way Realists do or to investigate the clash of classes as do the Marxists. Such substantial overlap, in our view, helps clarify the two-dimensional categorization outlined here. We also believe that these two dimensions — international–domestic and state–society — most accurately characterize analytical differences among scholars and observers of the international political economy.

THE CONTEMPORARY INTERNATIONAL POLITICAL ECONOMY: AN OVERVIEW

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

The contemporary international political economy is characterized by unprecedented levels of multinational production, cross-border financial flows, and international trade. It is also plagued by increasing political conflict as individuals, groups, classes, and countries clash over the meaning and implications of these economic transactions. The contradiction between increasing economic integration and the wealth it produces, on the one hand, and the desire for political control and national autonomy, on the other, defines much of what happens in the global political economy.

For the first thirty years after World War II, the general pattern of relations among noncommunist nations was set by American leadership, and this pattern continues to influence the international political economy today. In the political arena, formal and informal alliances tied virtually every major noncommunist nation into an American-led network of mutual support and defense. In the economic arena, a wide-ranging set of international economic organizations — including the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), and the International Bank for Reconstruction and Development (World Bank) — grew up under a protective American "umbrella," and often as a direct American initiative. The world economy itself was heavily

influenced by the rise of modern multinational corporations and banks, whose contemporary form is largely of U.S. origin.

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

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

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

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

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

This period is often referred to as the *Pax Americana* because of its broad similarity to the British-led international economic system that operated from about 1820 until World War I, which was known as the Pax Britannica. In both instances, general political and economic peace prevailed under the leadership of an overwhelming world power — the United Kingdom in one case, the United States in the other. There were, nonetheless, major differences between the two eras (see Lake, Reading 8).

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

The quickening pace of change in the Soviet Union and its allies eventually culminated in the collapse of former Soviet bloc nations in the late 1980s and early 1990s, and ultimately in the disintegration of the former Soviet Union. The end of the Cold War did not, of course, mean an end to international conflict, but it did put an end to the East–West divide that had dominated global politics for so long. To some extent, some of the former centrally planned economies, especially in Central Europe, moved successfully into the ranks of the developed nations, albeit as relatively poor ones. Others, however, became most similar to the developing nations as they struggled to overcome poverty and privation. Russia, although it shares many typical Third World problems, is unique in its mix of underdevelopment, size, and military might.

Within a rapidly changing environment, the United States remains the most important country within the contemporary international political economy, but it is no longer dominant. The era of American hegemony has been replaced by a new, multilateral order based on the joint leadership of Western Europe, Japan, and the United States. Together, these countries have successfully managed — or, some would say, muddled through — the "oil shocks" of the 1970s, the debt crisis of the early 1980s, the transition to the market of the former centrally planned economies after 1989, and the currency and other financial volatility of the 1990s.

Despite greater success than many thought possible, multilateral leadership and the liberal international order remain fragile. Conflicts of interest and economic tensions remain muted, but they could erupt at any time.

As might be expected, the rise and decline of the Pax Americana and the emergence of the new, multilateral order, along with the end of the Cold War, have led to great scholarly controversy. For some analysts, America's global dominance and the East–West divide were the principal determinants of Western interests and policies and, in turn, of the liberal international economy. In this view, the decline of the United States in a post–Cold War world presages the eventual collapse of international openness. For other observers, the policies of the United States and other countries were affected in more important ways by domestic economic and political pressures; from this perspective, the decline of American hegemony is expected to have little effect on international openness. For still others, the consequences of the liberal order have fundamentally altered the interests of the United States and other countries; the internationalization of production and finance and the rise of economic interdependence have created vested interests in favor of the free flow of goods, services, and capital across national borders.

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

NOTE

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

I

CONTENDING PERSPECTIVES ON INTERNATIONAL POLITICAL ECONOMY

As outlined in the Introduction, two principal theoretical dimensions can be used to organize debates within international political economy. The first addresses the relative importance of international and domestic variables in accounting for trends in the international political economy; the second, the significance of institutional and societal factors. Part I contains four selections, one representing each approach as applied to a specific issue. In a classic example of an international political approach, Stephen D. Krasner (Reading 1) examines patterns of trade openness within the international economy over the nineteenth and twentieth centuries. Barry Eichengreen (Reading 2) uses a domestic society–centered theory to account for the Smoot-Hawley Tariff, which contained some of the highest duties in history. Douglass C. North (Reading 3) emphasizes the effect of domestic institutions on economic growth. Finally, Susan Strange (Reading 4) explores how international economic factors have altered both the relationship between states and firms and the nature of diplomacy between countries. As exemplars of their respective approaches, these essays are intended only to illustrate basic themes and arguments; all four approaches contain a rich diversity of styles and conclusions, and the essays selected here are only a sample. Nonetheless, they serve to highlight key analytic debates and provide a useful empirical introduction to critical trends and cases in international political economy.