

# International Political Economy (IPE)

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International	Political	Economy
<ul style="list-style-type: none"><li>▪ <b>Interstate interactions</b></li></ul>	<ul style="list-style-type: none"><li>▪ <b>Political activity</b></li><li>▪ Authoritative distribution of valuable resources</li><li>▪ <b>Goal of political actors</b></li><li>▪ Affecting distribution of valuable resources (e.g., power, wealth, status)</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Economic activity</b><ul style="list-style-type: none"><li>• Production, distribution and consumption of goods and services</li></ul></li><li>▪ <b>Goal of economic actors</b><ul style="list-style-type: none"><li>• Maximization of profit and utility</li></ul></li></ul>

IPE = “States and Markets” relationship (Strange 1988)

“Complex interrelationship of economic and political activity at the level of international affairs (Cohen 2008)”

➔ Study of the interplay between politics (represented by the state) and the economy (represented by the market)

# Traditional Approaches to IPE

	Liberalism	Realism/Mercantilism	Marxism
<b>Primary Actor</b>	Market (non-state actor)	State	Class
<b>State Role</b>	Provider of secure market operations	Active participant	Capitalists' tool to defend the capitalist system
<b>Goal on Economic Policy</b>	Wealth creation and economic development	Wealth for power and security	Equal distribution of wealth
<b>Perspectives on Int'l Economic System</b>	Harmonious	Conflictual	Exploitative

# Change in the International (Political) Economic System

# ~ 18<sup>th</sup> C: Rise of the Mercantilist State

- Emergence of the mercantilist state
  - King's need for capital
    - To fight against independent lords and other monarchies
    - State's wealth measured by silver and gold
      - Method: through possessing mines or trade
  - Merchant's need for strong state
    - To protect their economic activity and interests
  - ➔ Strong king-merchant alliance
- State dominates economic policy
  - State's goal: More wealth through favorable balance of trade
  - State's policy
    - Protective trade policy
      - Government regulations such as tariffs and restrictions on imports
    - Imperialist policy
      - Setting up colonies
        - Access to foreign raw materials
        - Expansion of overseas markets

# Late 18<sup>th</sup> C ~ Mid 19<sup>th</sup> C

- Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776)
  - Criticizes mercantilist policy as only benefitting the rich and powerful
  - Argues the best interests of all members of society are achieved through (reasonable) personal choices
    - A positive outcome for the society as a whole is achieved by the invisible hand when individuals pursue profit in their own self interest.
- UK established a free and open international trade system

# Late 19<sup>th</sup> C ~ Early 20<sup>th</sup> C

- Late 19<sup>th</sup> C - WWI
  - European depression (1873~late 1870s)
    - Panic of 1873 in the US led to economic recession in Europe
      - Germany and others seek to protect their economies through protectionism
  - Transfer of economic hegemony from UK to US
    - After WWI
      - UK wants to reorganize its new international trade system but lacks power and resources.
      - US has the power and resources to establish a new international trade system but prefers isolationism.

Global proportion of manufactured goods (%)				
	1880	1900	1913	
UK	22.9	18.5	13.6	
US	14.7	23.6	32.0	
Germany	8.5	13.2	14.8	
France	7.8	6.8	6.1	

# Great Depression ~ WWII: Protectionism

- Economic background
  - Unstable international economy after WWI
    - UK's war debt
    - Germany's reparation payment based on the Treaty of Versailles
  - Great depression from 1929
    - Increases in company bankruptcy and unemployment
- Major states' policies
  - Protectionism: High tariffs, currency devaluation
    - Protect own market
  - Building an economic bloc around the colonies
    - For the great powers, colonies are a source of cheap resources and markets for their products.
      - Example: Japan's Greater East Asia Co-Prosperity Sphere (□ □ □ □ □ □ )

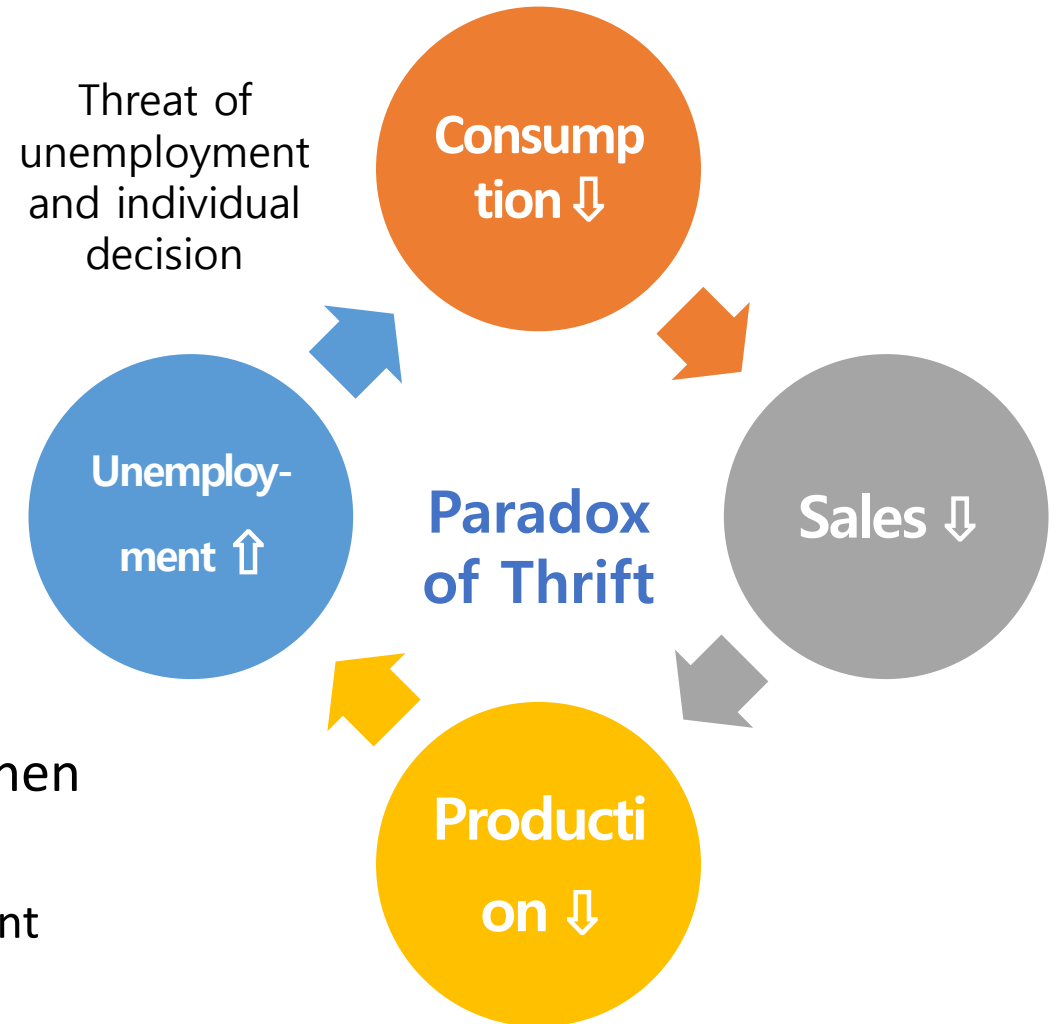




# Great Depression ~ WWII: Keynesianism

## John Maynard Keynes

- Great Depression
  - Evidence that markets can fail
  - Individual rational choices can lead to socially irrational and destructive results
    - Paradox of thrift
- Combination of market and state
  - Basically relying on the market
  - The need for a constructive role for the state when the invisible hand (market) fails
    - Fiscal Policy: Coordination of Taxes and Government Spending (e.g., Hoover dam project) to stop the vicious cycle of the paradox of thrift

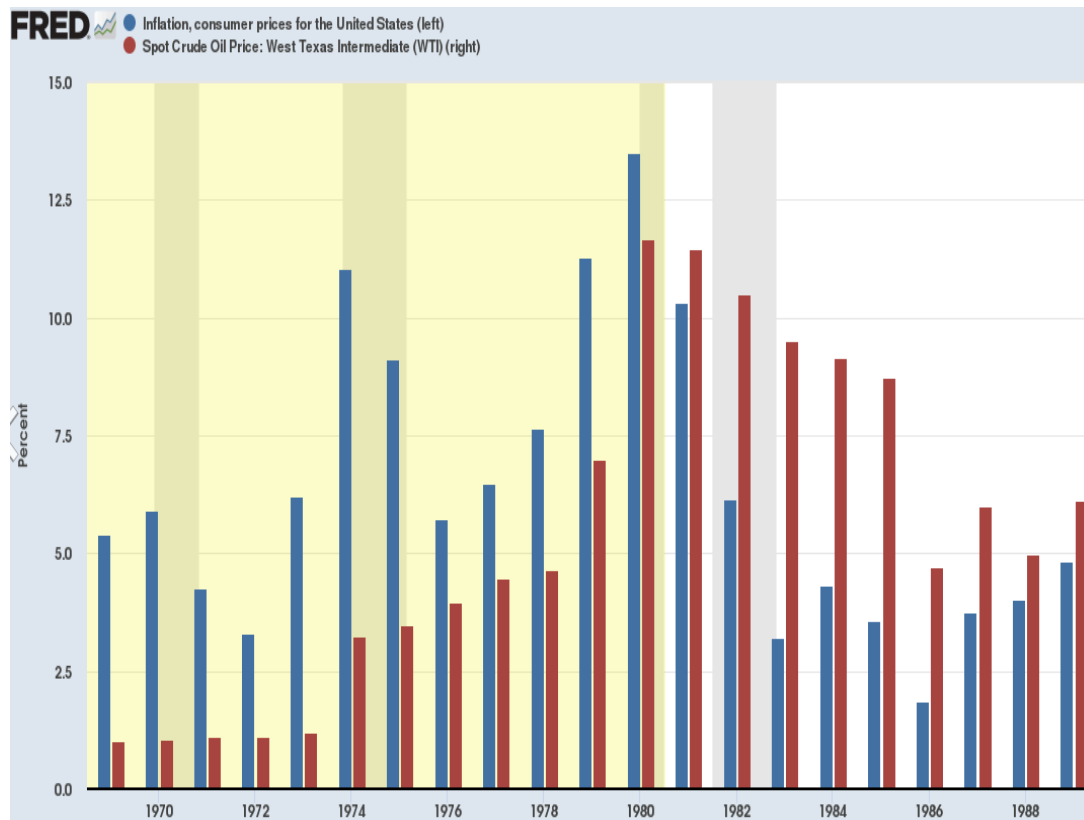


# Bretton Woods System (1944~1971/1976)

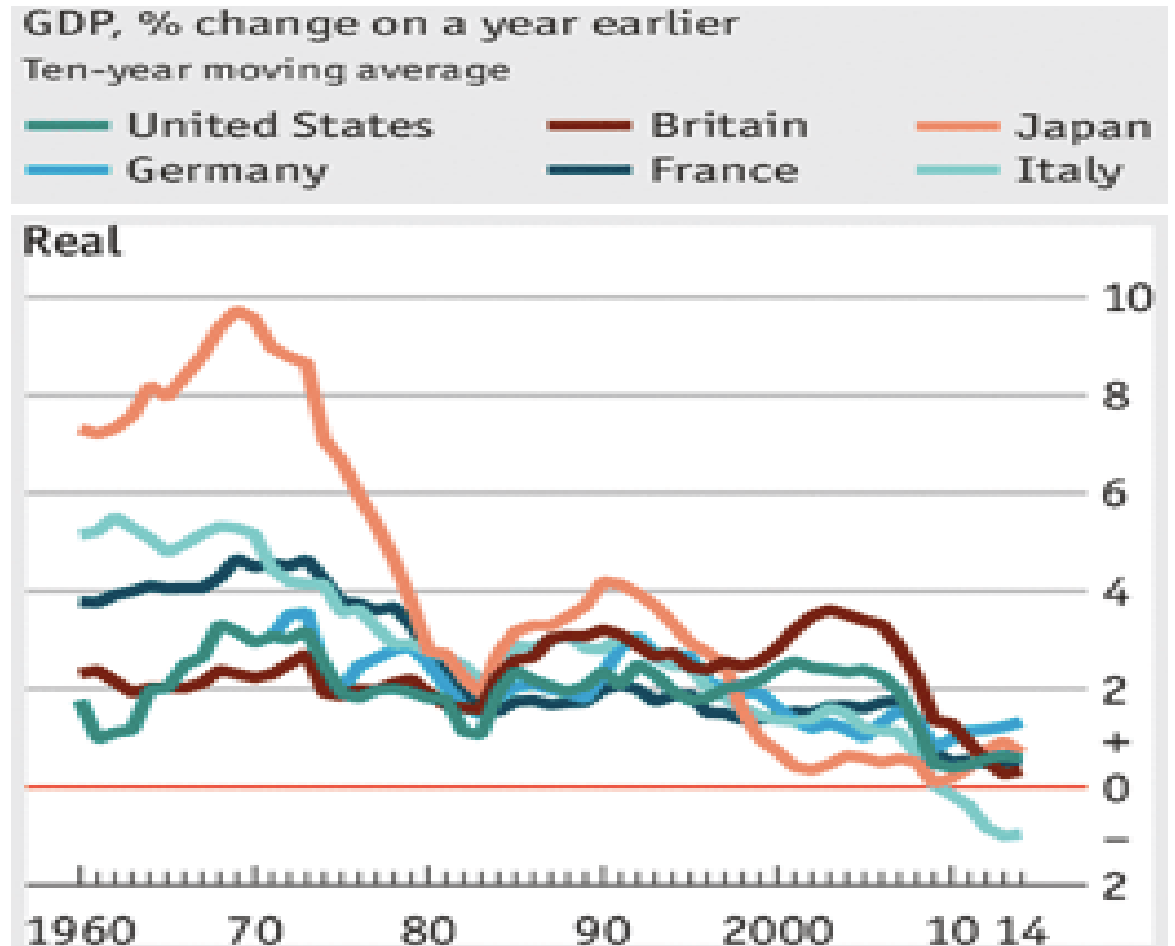
- Principles of the Bretton Woods system
  - Goal: Govern monetary relations among states
  - 2 main institutions
    - IBRD: Economic reconstruction and development
    - IMF: Devaluation prevention
- Why was the Bretton Woods system possible?
  - Existence of a hegemonic state, the US
    - Two-thirds of the world's gold in 1945
- Weakening of US hegemony in 1960s
  - US trade deficit
    - Economic development in Western Europe and Japan
    - Deterioration of trade balance
  - US budget deficit, dollar oversupply and declining credibility
    - Vietnam War
    - Great society policies
  - Nixon shock
    - Start of the collapse of the Bretton Woods system in 1971

# 1970s ~ Early 1980s

- High inflation and high unemployment in early 1980s
  - Caused (or amplified) by oil price increase and oil export ban



## Economic stagnation



Sources: Penn World Tables; *The Economist*

# 1980s

- Neoliberal response
  - Representative economists
    - Milton Friedman
    - Friedrich Hayek
      - Critical of interventionist measures as leading to socialism and a lack of new invention
      - Advocate to reduce government intervention
- 1980s US and UK Economic Policies
  - Reaganomics (1981-1989)
  - Thatcherism (1979-1990)
- Small government domestically



- Protectionism toward certain economies
  - Against Japan and Germany due to trade deficit
    - E.g., US-Japan Plaza Agreement
  - Against 4 Asian economies

# 1990s ~

- Economic conditions of major economies
  - Japan and Germany's economic downturn
  - Revival of the US economy
  - China's rise
- Strengthening the role of international organizations
  - Establishment of the WTO
  - Strengthening the influence of the IMF
- Spread of regionalism
  - Establishment of EU and the introduction of the euro
  - NAFTA signed