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Introduction to  
International Political Economy

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DAVID N. BALAAM | BRADFORD DILLMAN

# Introduction to International Political Economy

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Sixth Edition

David N. Balaam

*University of Puget Sound*

*University of Washington, Tacoma*

Bradford Dillman

*University of Puget Sound*

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Cover Printer: RR Donnelley/Harrisonburg  
Text Font: 10/12, Sabon Lt Std Roman

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#### Library of Congress Cataloging-in-Publication Data

Balaam, David N.

Introduction to international political economy / David N. Balaam, Bradford Dillman.—6th ed.

pages cm

Includes index.

ISBN-13: 978-0-13-340239-1

ISBN-10: 0-13-340239-8

1. International economic relations. I. Title.

HF1359.B33 2014

337—dc23

2013008405

10 9 8 7 6 5 4 3 2 1

**PEARSON**

ISBN-10: 0-13-340239-8  
ISBN-13: 978-0-13-340239-1

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## PREFACE

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As we started working on this edition of the text, most of us felt as if the dark cloud of the global financial crisis was still over us. Reading the international and business sections of major newspapers, we witnessed the European Union plunge deeper into economic trouble as members such as Greece and Spain fell into debt traps and most of the countries using the euro as a currency lapsed into recession. Unemployment and austerity continued to inflict severe social and even psychological damage on people the world over. The November 2012 Doha meeting on climate change failed to produce an agreement to limit carbon dioxide emissions, signaling that large countries still consider economic growth to be a higher priority than addressing major environmental dilemmas. As a result, we may be in for another global tragedy—one that will not be reversible.

Despite the reelection of President Barack Obama, political gridlock in Washington, DC prevents the United States from addressing its most important problems or leading the world toward reforms of global governance. The dominant economic liberal ideology and policies associated with globalization have come under serious intellectual and political challenges. So far nothing has emerged to replace this popular ideology.

The war in Afghanistan continues, while the U.S. drone campaign has ratcheted up in Afghanistan, Pakistan, and other Muslim nations. Ethnic and religious conflicts persist in parts of the Middle East, Somalia, Sudan, and the Democratic Republic of the Congo. Syria has been in the midst of a terrible civil war that has left more than 70,000 dead.

Fortunately, there are rays of hope. The Arab Spring brought down dictators in Egypt, Tunisia, Libya, and Yemen, opening up the possibility that the Arab world will finally join the community of democratic nations. The Occupy Wall Street movement and anti-austerity protests in Europe and elsewhere gave a new voice to citizens and social groups, re-focusing attention on inequality, poverty, and the seeming dominance of corporations in the political systems of developed nations. China, Africa, and South America have continued to grow economically, bringing more of their citizens into the middle class.

How are we to understand this current historical juncture that appears to be both on the verge of an abyss and on the cusp of a more promising era for some countries? Do we see a new global political and economic order beginning to take shape with China, India, and Brazil poised to claim greater influence in international institutions? Can states, international organizations, nongovernmental organizations, and global social movements effectively deal with the effects of hypermobile capital, bring more economic growth without overtaxing the environment, and satisfy political demands peacefully? These are a few of the many questions we raise in this sixth edition of the text.

Our major goal is to provide students with the tools necessary to delve deeper into issues, develop their critical thinking skills, and understand many



of the theoretical and policy dynamics of the global political economy. Rather than profess just one set of beliefs and explanations, we offer a variety of different perspectives so that our readers will be able to form their own opinions about controversial issues. In this edition, each chapter begins and concludes with some thought-provoking theses; we hope that students will use them as a springboard from which to independently reflect on global problems and patterns.

## NEW TO THIS EDITION

This sixth edition of the text has significant revisions and updates. Many of the chapters contain extensive coverage of the global financial crisis and the European debt crisis, connecting them to social protests in the United States, Europe, and the Middle East. We focus more closely on how IPE theories and structures help us explain and interpret many North–South disputes that are changing the contours of global governance. There is greater attention to why national and international institutions have not been successful in addressing serious global energy, food, and environmental problems. Five chapters have been extensively rewritten, and there are ten new text boxes.

The revisions to look for in the text are in

- Chapter 1, “What Is International Political Economy?” is a revised introductory chapter that shows students how IPE can help them understand key ramifications of the financial crisis, especially the Arab Spring, the Occupy Wall Street movement, and the Euro zone debacle. It updates and clarifies how globalization ties into many themes in the text.
- Chapter 3, “Wealth and Power: The Mercantilist Perspective,” provides more examples of neomercantilist policies and a new call-out box on the struggle over rare earth minerals.
- Chapter 4, “Economic Determinism and Exploitation: The Structuralist Perspective,” has a new call-out box on the ideas of Noam Chomsky.
- Chapter 6, “The Production and Trade Structure,” includes more analysis of updated trade and production data and has a new discussion of outsourcing.
- Chapter 8, “International Debt and Financial Crises,” is thoroughly revised, with new theses, new sections on different kinds of debt, and more concise explanations of debt crises in the 1980s and 1990s. New sections explain the reactions of Keynesians and the Occupy Wall Street movement to the financial crisis. There are also new sections on the unfolding Euro zone crisis, the effects of austerity, and potential reforms to the global finance structure.
- Chapter 9, “The Global Security Structure,” is extensively rewritten, with a strong focus on realist perspectives and a broad history of changes in the security structure since the beginning of the Cold War. The chapter provides an overview of the Obama administration’s security policies, including greater reliance on drones, and a new focus on non-traditional security threats. New call-out boxes deal with drone operators and the International Criminal Tribunal for the former Yugoslavia.
- Chapter 10, “The Knowledge and Technology Structure,” offers a new section on global struggles over control of information and a new call-out box on WikiLeaks.

- Chapter 12, “Toward a More Perfect (European) Union,” is thoroughly revised, with a broad history of the political economy of European integration and a new second half explaining the unfolding crisis in the Euro zone—including the bailout programs, EU institutional problems, and the role of the troika in dealing with the debt crisis.
- Chapter 13, “Moving into Position: The Rising Powers,” has a new section on Brazil that contrasts recent economic successes with growing environmental problems. Updates on India focus on corruption and inequality. There is extensive discussion of China’s rising middle class and the debate over whether China is adapting to global norms or undermining international cooperation. It is now a complete BRICs chapter.
- Chapter 14, “The Middle East: The Quest for Development and Democracy,” examines the Arab Spring and its potential for generating democratic political systems. The implications for changes in regional geopolitics are also discussed. We also analyze the Israeli—Palestinian conflict in more depth.
- Chapter 15, “The Illicit Global Economy,” has a new call-out box on Gibson Guitar company and the Lacey Act. Several new examples of timber, antiquities, and animal trafficking are given.
- Chapter 18, “Food and Hunger: Market Failure and Injustice,” includes a new call-out box on biofuels.
- Chapter 19, “The IPE of Energy Resources: Stuck in Transition,” is thoroughly revised, with new sections on fracking, the clash of fossil fuel production versus environmental protection, and the role of major oil companies in shaping global energy policies and slowing the shift to renewables. Two new call-out boxes discuss fracking and Nigeria’s “resource curse.”
- Chapter 20, “The Environment: Steering Away from Climate Change and Global Disaster,” places a new emphasis on the urgency of addressing problems of global warming and climate change. New sections examine debates at the recent Durban and Doha climate talks.

## FEATURES

While covering the “nuts and bolts” of IPE theories and issues, many of the chapters provide students with a historical context in which to understand the subject matter. More importantly, in contrast to other introductory texts, we challenge students to think critically when it comes to applying these theories to different issues and policy problems.

As in previous editions, the book begins with five chapters that to set out some basic tools for studying IPE. Chapter 1 introduces the fundamental elements of the subject and some recent developments in what has become a very popular field of study. We begin with relatively simple tools and concepts that deal with the nature of IPE—its subject boundaries, the three dominant IPE theories, four global structures, and the levels of analysis. Chapters 2, 3, and 4 explore the three dominant analytical approaches to studying IPE that remain influential today: mercantilism, economic liberalism, and structuralism. Chapter 5 introduces two alternative perspectives (constructivism and feminism) that have grown in importance in recent years.

Part II of the text examines the web of relationships and structures that tie together a variety of international actors including nations, international organizations, nongovernmental organizations, and multinational corporations. Chapter 6 focuses on the production and international trade structure. Chapter 7 provides an outline of the international monetary and finance structure and problems, which in Chapter 8 are applied to Third World debt, the global financial crisis, and the European financial debt crisis. Chapter 9 focuses on changes in the international security structure, including shifts from national to individual security concerns and the possibility of a transition from a unipolar to a multipolar balance of power. Chapter 10 examines struggles among international actors over knowledge and technology, with significant attention to intellectual property rights.

In Part III, Chapter 11 examines the problem of development and some of the different strategies that less developed countries have used to “grow” their economies and modernize their political institutions. Chapter 12 traces the integration process that has created the European Union and the serious economic challenges for Euro zone states. Chapter 13 covers the political-economic changes in the “emerging” countries of Brazil, Russia, India, and China. Chapter 14 addresses the Middle East and North Africa, a region fraught with conflicts and engulfed in sweeping political changes since 2011.

Finally, in Part IV, as part of an effort to understand a number of important global problems and issues, Chapter 15 covers illicit activities involving trafficking of people, drugs, and other items. Chapter 16 examines the dynamic and problematic issue of the movement of people around the world—in this case through tourism and migration. Chapter 17 examines the important role of transnational corporations in the international political economy. Chapters 18, 19, and 20 discuss the interconnections between global food, energy, and environmental problems, employing many of the analytical tools developed earlier in the book.

All the chapters end with a list of key terms that are in bold print in the chapter, discussion questions, and suggested readings. Recommended websites related to each chapter can be found at the text website at [www.upugetsoundintroipecom](http://www.upugetsoundintroipecom). The website also includes a list of recommended videos and documentaries faculty and students can use to gain more detailed background and ideas about different topics.

## **ANCILLARY MATERIALS**

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**Goode’s World Atlas (0-321-65200-2).** First published by Rand McNally in 1923, Goode’s World Atlas has set the standard for college reference atlases. It features hundreds of physical, political, and thematic maps as well as graphs, tables, and a pronouncing index.

This text is available in a variety of formats—digital and print. To learn more about our programs, pricing options, and customization, visit [www.pearsonhighered.com](http://www.pearsonhighered.com).

## ACKNOWLEDGMENTS

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This textbook is truly a cooperative effort. We would like to thank all of the people at Pearson Education who have helped us, including Carly Czech, Melissa Mashburn, Megan Hermida, Maggie Brobeck, and Beverly Fong, for their suggestions and most of all for their patience throughout this process. Thanks also to Sudip Sinha at PreMediaGlobal for his work in overseeing copyediting and other aspects of the book's production. Professor Pierre Ly provided valuable suggestions for this edition of the text. We would like to thank and recognize the following colleagues for their contributions: Richard Anderson-Connolly (authored and updated Chapter 4); Monica DeHart and Nick Kontogeorgopoulos (co-authored Chapter 16); Leon Grunberg (revised Chapter 17); Cynthia Howson (wrote the section on feminist contributions to IPE in Chapter 5); Sunil Kukreja (authored Chapter 11); and Emelie Peine (wrote the Brazil section in Chapter 13 and contributed to Chapter 18). In the fifth edition, Hendrik Hansen (Professor of Politics and Government at Andr ssy University Budapest, Hungary) contributed to portions of Chapter 12; Ryan Cunningham and Rahul Madhavan wrote sections of Chapter 13, and Ross Singleton contributed to Chapters 2, 7, and 10.

We would also like to thank Dean Kris Bartanen and Associate Academic Dean Sarah Moore at the University of Puget Sound for providing funds to hire a student research assistant. Ardea Smith was an invaluable assistant, doing background research for several chapters and updating all of the tables and other data in the text. We thank Kirsten Schlewitz, Jess Martin, Jordan Anton, Ryan Cunningham, Rahul Madhavan, Matthew Pedro, and Georgina Allen for writing or co-writing some of the call-out boxes that appear in this edition. They also did research and/or provided editorial assistance on various chapters of the text. A number of people in our local communities supported us every day through provocative discussions and introspection along the way: Ed Jones, Oscar Velasco-Schmitz, Bill Hochberg, Curtis Brooks, Melissa Bavluka, Brendan Balaam, Brandon Green, Dee Sontag, Debbie Brindley at Repast Cafe, Paul Hill, Eleanor Goodall, Paula Wilcox; Dave's Peps group comprised of Jason Hahn, Jason Mulvihill-Kuntz, Jason Bavuso, and Michal Bryc; Roberta Torgerson and Elisabetta Valentini of PercorsoItaliano; and in Italy, Bruno Porcellana and Roberta Melcore. And we could not have written this book without the many ideas, critiques, and feedback from our IPE students at the University of Puget Sound and the University of Washington, Tacoma.

Finally, Dave would like to thank his sons David Erin and Brendan, along with his daughter Amelie and wife Kristi Hendrickson, for their patience and loving support throughout the project. Brad would like to thank Joanne, Harry, and Noelle for their encouragement, inspiration, and love.

Our thanks, also, to the reviewers: Jason Enia, Sam Houston State University; Nader Entessar, University of South Alabama; Felix E. Martin, Florida International University; and Dwayne Woods, Purdue University.

We dedicate this edition of the text to all those people everywhere who have remained resilient in the face of the financial crisis and who continue to fight to change our world for the better after political and economic elites let them down.

DAVID N. BALAAM AND BRADFORD L. DILLMAN  
SEATTLE AND TACOMA, WASHINGTON

## ABOUT THE AUTHORS

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**Richard Anderson-Connolly** is Professor of Sociology at the University of Puget Sound and teaches courses in methodology, social stratification, and urban sociology.

**David Balaam** is Professor Emeritus of International Political Economy at the University of Puget Sound. His publications include articles on agricultural trade policy and various food and hunger issues. He is currently a lecturer at the University of Washington, Tacoma.

**Monica DeHart** is Associate Professor of Anthropology at the University of Puget Sound and teaches courses on the cultural politics of global development and transnational migration in and from Latin America. She is the author of *Ethnic Entrepreneurs: Identity and Development Politics in Latin America* (Stanford University Press, 2010).

**Bradford Dillman** is Professor and Chair of the International Political Economy Program at the University of Puget Sound. He teaches courses on IPE, the Middle East, the illicit global economy, and intellectual property rights. He authored *State and Private Sector in Algeria* (Westview Press, 2000) and has written numerous articles and book chapters on the Middle East and North Africa.

**Leon Grunberg** is Professor of Sociology at the University of Puget Sound and teaches courses on social stratification and sociology through literature. His research interests focus on globalization, the changing world of work and organizations, and patterns of cross-national stratification. He is co-author of *Turbulence: Boeing and the State of American Workers and Managers* (Yale University Press, 2010).

**Cynthia Howson** is Lecturer in Politics, Philosophy, and Economics at the University of Washington, Tacoma. She teaches courses on economic development, gender, political economy, and globalization.

**Nick Kontogeorgopoulos** is Professor of International Political Economy at the University of Puget Sound and teaches courses on IPE, development, and tourism. His publications focus on ecotourism and wildlife tourism in Southeast Asia.

**Sunil Kukreja** is an Associate Academic Dean and Professor of Sociology at the University of Puget Sound. His teaching and research interests include the sociology of development, the political economy of Southeast Asia, and race relations. He is editor-in-chief of the *International Review of Modern Sociology*.

**Emelie Peine** is Assistant Professor of International Political Economy at the University of Puget Sound. She teaches courses on IPE and food and hunger. Her research focuses on relations between Brazil and China and the role of multinational agribusiness in the global food regime.

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# Perspectives on International Political Economy

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.”<sup>1</sup>

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.<sup>2</sup> 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.<sup>3</sup> 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).