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**The International Political Economy**

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**What is the International Political Economy?**

The International Political Economy theory, which was fully put into practice in the 1970s, is the study of how politics shapes developments in the global economy and how the global economy shapes politics (Oatley, 2012). International Political Economy has attracted attention due to its breakdown of the disciplinary boundaries in the political and economic social sciences. The study of IPE transcends the boundaries between the two disciplines to further understand how each affect one another on a global scale. According to Michael Veseth, IPE is the study of a *problématique,* or set of related problems (1). Which means, in studying the International Political Economy one must analyze the political economy of international trade, international finance, North-South relations, multinational corporations and hegemony (Veseth, 1996). The world has only increased in economic interdependence in the last century, especially after the Post-War period. The global economies growing dependence on politics is why IPE was created as a new field of study. It is necessary to try and predict the outcomes of present actions.

**International Political Economy Schools**

The schools of the international political economy are related to those of politics and economy. Mercantilism, also referred to as economic nationalism, focuses on state wealth and power accumulation for protection. Mercantilism goes all the way back to seventeenth- and eighteenth- century theories about the relationship between economic activity and state power (Oatley, 2012). Although mercantilist theory is vast, the principle does fall into three centered compositions. The first are the classical mercantilists who explained how wealth and state power are closely connected (Oatley, 2012). In the international system, state power is mostly gained from wealth (Oatley, 2012). To gain power it is necessary to be wealthy (Oatley, 2012). Classical mercantilists suggested that trade could be a tool to accumulate wealth, but only if the country had more exports than imports (Oatley, 2012). Lastly, the mercantilists argued that different forms of economic activities have more benefits than others (Oatley, 2012). According to Oatley, mercantilists suggested that manufacturing goods was much more productive than nonmanufacturing activities, such as agriculture for example (9).

Liberalism this theory practices the *laissez-faire* principle that the economy does best when left to the private sector. Liberalism is the second traditional school, which emerged in Britain to challenge mercantilism’s dominance in government entities during the eighteenth century (Oatley, 2012). Adam Smith and David Ricardo, as well as, other liberal writers were trying to change the government’s economic policies (Oatley, 2012). They used liberalism to challenge the major principles in mercantilism (Oatley, 2012). Liberalism attempted to define and separate politics and economics. Liberalism theory argues that economic activity wasn’t to enhance national power, but to make individual’s wealthy (Oatley, 2012). According to the liberalism theorists, trade is beneficial regardless of the balance of exports and imports (Oatley, 2012). This is because of their final theory, trade makes countries wealthier because they can make goods cheaply in their own countries and trade them for goods from foreign markets that are more expensive to make in their respective countries (Oatley, 2012). Liberalism suggests that governments shouldn’t make much effort in changing a country’s trade balance or shape which goods the country produces, that this allocation of resources will only diminish social welfare (Oatley, 2012). Liberalism gives priority to the welfare of individuals (Oatley, 2012). Social welfare will be highest when individuals can pick and choose what they want to do with their resources (Oatley, 2012). Liberalists argue that resources should be concentrated into voluntary market-based transactions between individuals (Oatley, 2012). These types of individual exchanges are mutually beneficial, since both parties can profit from their transaction (Oatley, 2012). Liberals also believe in very limited government intervention, governments must only establish explicit rights to determine ownership of property and resources (Oatley, 2012). Liberalism argues that it is, in fact, necessary to have a judicial system that enforces the rights and contracts, which transfer ownership between individuals (Oatley, 2012).

Finally, there is Marxist theory, the third traditional school, focuses on how dominant economic structure affects different social classes. Marxist theory originated in the work of Karl Marx to criticize capitalism (Oatley, 2012). Capitalism, says Marx, is characterized by two concentrated principles: the private ownership of the means of production and wage labor (Oatley, 2012). Marxism argues, that the value of goods that were manufactured was influenced by the amount of labor used to produce them (Oatley, 2012). The problem with capitalism was that the capitalists didn’t pay the laborers the full amount of the value they gave to the goods produced by the laborers (Oatley, 2012). The laborers were taken advantage of by being paid cheaply, allowing for the capitalists to make the highest profits from the goods produced at a low cost (Oatley, 2012). Marx predicted that the capitalist system would eventually lead to a revolution, where the people (laborers) would get rid of private property and the capitalist system that was supported by private property (Oatley, 2012).

**Influences from Economic Philosophers**

The International Political Economy theory is a new field of study, but its fundamental ideas go back centuries. IPE and its different schools draw their theories from older economic theories and economic philosophers. In order to fully understand IPE one must understand fundamental economic theories and in doing so recognizing who developed the theory and what was taking place at the time. As previously mentioned, different schools draw their ideas from different philosophers, the liberal school takes many of its fundamentals from Adam Smith.

Adam Smith was born in 1723, in a small town of Kirkcaldy in Scotland (Sandmo, 2011). It was mainly through his work that it became possible to analyze Smith’s theories for economic policies. In the *Wealth of Nations* Adam argues against the mercantilist view of economic policy and he supports free trade and free markets (Sandmo, 2011). From the *Wealth of Nations* Smith’s thoughts on the division of labor in a market economy, the formation of prices under competition and monopoly, the determination of factor prices and the distribution of income, capital accumulation and the financial system, the development of agriculture (mainly in Europe), international trade, the role of the public sector in the economy, and how to treat taxes and public expenditure, is all information that has been used to inspire the liberal school (Sandmo, 2011). Adam Smith discusses the factors of production, which is a central topic in IPE. In *Wealth of Nations* Smith points out that,” when we move away from the primitive society of hunter, where each worker is his own employer, most workers will be hired by an employer at a wage they have agreed upon” (Sandmo, 2011). This theory is interesting especially when turning our focus to globalization and how multinational corporations deal with wages in foreign countries. I will further discuss globalization and Smith’s views on income inequality later on. Smith originated the term the “Invisible Hand”. It is an idea that suggests that an individual acting upon self-interests will indirectly benefit society (Sandmo, 2011). According to Sandmo reasonable interpretation of Smith’s invisible hand theory, the individual promoting their self-interest has no idea that in doing so they are working on making the national income as large as possible, he suggests that it’s not their intention to do so or their connection between their efforts and the advancement of the economy. Free competition is the system required for the *invisible hand* to play an affective role (Sandmo, 2011). In the market economy producers think of their personal interests, not necessarily what’s good for the consumers, but without those self-interests of the producers, the consumers wouldn’t have any goods or services (Sandmo, 2011). The idea is that these goods and services provided by the producers to the consumers would be guided to an equilibrium point by the *invisible hand.*

Smith was an advocate for free international trade and strongly disagreed with the mercantilist view in international trade (Sandmo, 2011). He recognized that gold and silver were not a country’s true wealth, but what they were able to produce (Sandmo, 2011). High tariffs should be discouraged and consumers should be allowed to choose for themselves the products they choose to purchase, whether they are domestic or international (Sandmo, 2011).

David Ricardo was born in 1772, in England (Sandmo, 2011). Ricardo was an active member in the Political Economy Club and had great support to write expositions (Sandmo, 2011). He wrote *The Principles of Political Economy and Taxation*, in which, he discusses the foundation of the theories of price formation and income distribution, the issues of taxation theory and policy. Although his theories were similar to that of Adam Smith, Ricardo used mathematical applications to support his theories (Sandmo, 2011). Smith and Ricardo share similar views in factors of production, which, is significantly important when trying to analyze IPE. Ricardo points out that the production process requires different amounts of time in different industries (Sandmo, 2011). It is also important to analyze that factors of production differ in quantity from country to country (Oatley, 2012). IPE applies the theories of Smith and Ricardo’s factors of production when analyzing trade policies. The availability of different resources and different needs is quite possibly one of the motivators for establishing IPE as a field. In the last few decades there has been a drastic increase in the amount of international organizations that try to liberalize international trade (Oatley, 2012). Oatley argues that international trade and globalization are decreasing global poverty, a statement that Smith and Ricardo are likely to agree with. Ricardo discusses his theory of comparative advantage, which essentially means that a country is better off using the products it has in abundance and trade them for products that will be more costly to make (Sandmo, 2011). Ricardo argues that even if international trade doesn’t increase a country’s wealth directly, it will, however, increase the standard of living (Sandmo, 2011).

Karl Marx was born in 1818 in Trier, Germany (Sandmo, 2011). Marx considered himself to be a communist (Sandmo, 2011). One of Marx’s first publications with the help of Friedrich Engels was *The Communist Manifesto,* which contains fundamental political and economic analysis and criticizes the capitalist system (Sandmo, 2011). The Manifesto discusses the change the ruling class has had on the working class and their work environment (Sandmo, 2011). The ruling class is taking advantage of their control of the modes of production and that this will eventually lead to a revolt from the working class (Sandmo, 2011). What is critical in Marx’s argument in the Manifesto is the ideological superstructures that he mentions. These ideological superstructures were probably limited within a nation at the time. Economic interdependence increased drastically in the last few decades than what it has ever been before (Oatley, 2012). In a sense these ideological superstructures have been created to supervise international trade. The World Trade Organization is a supervisor for the ideological superstructure in the capitalist system trying to decrease the amount of people being exploited. Marx and Engels created a 10 points program about the political features for the future control of the working class and ruling class (Sandmo, 2011). The 10 points are generally different from state to state, but can be applied similarly throughout the advanced countries (Sandmo, 2011). The main points of these elements are government expropriation of all land, a strongly progressive tax system, the abolition of the rights of inheritance, and the nationalization of credit, transport, manufacturing, agriculture, equal obligation of all to work and free education for children in public schools (Sandmo, 2011). What is important about Marx’s capitalist theory in this paper is analyzing how capitalism works in globalization. Multinational corporations tend to take advantage of the different countries their subsidiaries and the political and economic conditions of their regions (Oatley, 2012). Marx would argue that the working class should revolt against the ruling class and lack of safe working conditions that the multinational corporations have in developing countries. Oatley argues that even though the working conditions and wages provided by the multinational corporations are less than ideal in the developing countries, these conditions are better than what the local industries offer (Oatley, 2012). These multinational corporations shouldn’t be regulated because doing so would take away their incentive to create subsidiaries in developing countries and that would stop growth (Oatley, 2012). The conditions that the multinational corporations may not be ideal but the employees of those industries have higher incomes than those that work for the local industries and Oatley argues that it will have long-term benefits that will lead to developed status (Oatley, 2012).

**IPE and the Real World**

IPE is a field that is constantly developing. Through its analysis of how politics affects the economy and how the economy affects politics, IPE scientists hope to predict the outcomes of present economic and political actions and how the international political economy responds to it. The world today is more economically and politically interdependent than ever. The schools of thought of IPE may have different fundamental views, but the relationship between politics and economics is one they can all agree on. The present relationship between states is worth analyzing.

Capitalism and globalization are products of the economically interdependent world that exists today. Marx argues that capitalism is a corrupt system in which the working class is taken advantage of by the ruling class, but globalization is a product of capitalism and Oatley would argue that due to globalization the world poverty population has decreased consistently in the last 20 years (Oatley, 2012). Today, we see a more liberal international trade market. There are some forms of international trade laws to go by, but it’s mostly norms and fear of a negative international response that keeps nations following the rules.

While the liberal international political economy hopes to be guided to the equilibrium point by Smith’s *invisible hand*, Oatley argues that in the international system there are winners and losers and no two states reap the full benefits of global interaction (Oatley, 2012). However, it is evidently clear that there are more positives to international trade than negatives. Not only has it been decreasing the world poverty rate, while increasing the standard of living, but it has also promoted world peace.

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