

# 1 | International Political Economy

What is international political economy (IPE)? A simple answer is that IPE is concerned with the way in which political and economic factors interact at the global level. More specifically, political economists usually undertake two related kinds of investigations. The first concerns how politics constrains economic choices, whether policy choices by governments or choices by actors or social groups. The second concerns how economic forces motivate and constrain political choices, such as individuals' voting behavior, unions' or firms' political lobbying, or governments' internal or external policies.

An example of the first kind of investigation is provided by the European Union's policies protecting domestic agriculture and restricting trade in agricultural products. The EU's resistance to the liberalization of such trade, as demanded by agricultural exporting countries, may stem from the political organization of farm lobbies, the sympathy of urban consumers for the plight of national farmers (which may in turn stem from a concern to protect a national identity or way of life), a desire to promote "food security," or perhaps other factors. The political economist's task is to investigate which of these factors matter in explaining the EU's stance in negotiations over trade in agriculture.

An example of the second kind of investigation is provided by the claim that growing financial integration between countries has constrained the political choices of left-of-center governments more than those of right-of-center governments. Global financial integration makes possible the movement of capital to environments investors find most congenial. Has the threat of capital flight encouraged such left-

of-center politicians as Brazil's President Lula (Luiz Inácio da Silva) and Britain's Gordon Brown to adopt "conservative" economic policies to reassure panicky investors? Manifestations of this phenomenon might include political pledges to pursue fiscal balance, to limit or reduce taxes on capital, and to place responsibility for monetary policy in the hands of politically independent and conservative central bankers. Do financial markets systematically punish left-wing financial policies? Is the asserted shift in policy by leftist political figures a myth? If it is real, is it due to some factor other than capital mobility? These have been popular questions for political economists in recent years (see chapter 5).

As we shall see, asking how politics and economics interact makes good sense. Economic outcomes have political implications because they affect opinions and power. For example, where individuals or groups fall in the hierarchy of wealth influences their political preferences. Similarly, decisions about economic policies are almost invariably politicized because different choices have different effects on the distribution of wealth. Political power is therefore a means by which individuals or groups can alter the production and distribution of wealth, and wealth is a means of achieving political influence. Although the pursuit of wealth is not the only motivating factor in human behavior, it is an important one, and often the means by which other goals can be achieved. In short, economic and political factors interact to determine who gets what in society.

In light of the preceding comments, one would be forgiven for assuming that the academic subjects of economics and political science were nearly indistinguishable. Although they indeed were aligned for many decades, new boundaries between the emerging academic disciplines of economics and political science in the early twentieth century led to distinct research questions, methods, and empirical focus. Furthermore, as we explain later, cross-disciplinary dialogue was muted because IPE grew out of international relations and because its founding scholars saw it as a response to irredeemable flaws in the discipline of economics.

We argue that IPE should move on—and indeed for the most part it has—from this early position of hostility to international economics. Most observers accept that contemporary students of political economy need more understanding of economic concepts than was initially

thought necessary. As the purposes of studying political economy evolve, so too does appropriate methodology. Today, when so many IPE scholars plunder economics for testable theories of political economy, some ask whether the pendulum has swung too far in that direction. We cannot answer this question without a clear sense of both the benefits and the costs of close engagement between economics, political science, and international relations. Hence our argument for an IPE that engages fully but critically with economic theory and method.

## ECONOMICS AND POLITICAL ECONOMY

Although most scholars in our subject could agree with the general definition of political economy offered at the beginning of this chapter, students coming to the subject for the first time may be confused by the plethora of approaches to the field, which include, among others, formal political economy within the neoclassical economic tradition,<sup>1</sup> Marxist or neo-Marxist historical sociology,<sup>2</sup> mainstream political sciences,<sup>3</sup> and offshoots of international relations.<sup>4</sup> These different orientations have soft boundaries, and authors often straddle one or more of them. The intellectual antecedents of modern approaches go back to the mercantilist thinkers of early modern Europe and to strands of Enlightenment thought.<sup>5</sup>

<sup>1</sup> James E. Alt and K. Alec Chrystal, *Political Economics* (Berkeley and Los Angeles: University of California Press, 1983); Gary S. Becker, "A Theory of Competition among Pressure Groups for Political Influence," *Quarterly Journal of Economics* 98:3, 1983, 371–400; James M. Buchanan, "The Constitution of Economic Policy," *American Economic Review* 77:3, 1987, 243–50; Allen Drazen, *Political Economy in Macroeconomics* (Princeton, N.J.: Princeton University Press, 2002); Bruno S. Frey, *International Political Economics* (Oxford: Blackwell, 1984).

<sup>2</sup> Fred H. Block, *The Origins of the International Economic Disorder* (Berkeley and Los Angeles: University of California Press, 1977); Robert W. Cox, *Power, Production, and World Order: Social Forces in the Making of History* (New York: Columbia University Press, 1987).

<sup>3</sup> Geoffrey Garrett, *Partisan Politics in the Global Economy* (Cambridge: Cambridge University Press, 1998); Robert O. Keohane and Helen V. Milner, eds., *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996).

<sup>4</sup> Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981); Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28:3, 1976, 317–47; Susan Strange, *States and Markets* (London: Pinter, 1988).

<sup>5</sup> Peter Groenewegen, "'Political Economy' and 'Economics,'" in John Eatwell, Murray Milgate, and Peter Newman, eds., *The New Palgrave: The World of Economics* (London: Macmillan, 1991), 556–62.

In our view, political economy is not any particular approach or tradition but an attitude to social science that does not privilege any single category of variable, whether political or economic. In this way, it harks back to a pre-twentieth-century tradition of political economy, in which thinkers as different as Adam Smith and Karl Marx understood that governments made economic policy in a political context and that economic outcomes had political and social implications.

As political economy developed over the course of the nineteenth century and as the modern subject of economics took shape, economics and political economy diverged. By the mid-twentieth century, most economists asked questions quite different from those political economists were asking. A central concern of economists has been to develop theoretical arguments about the relative optimality of different public policies. For example, economists often claim that one of the crowning achievements of their subject is the theory of comparative advantage, which holds that free trade policies generally maximize national and global (economic) welfare. Although many political economists have disputed this claim, the scholarly territory of optimal economic policy is not one where political economy has, so to speak, a comparative advantage.

Political economists more often ask what factors explain actual policy outcomes. Even when there is a consensus on the best policies (such as on the optimality of free trade), actual policies vary across countries and often diverge from economists' prescriptions. Why do most countries ignore economists and raise barriers to trade, and why do levels of protection vary across countries and sectors? These are classic questions of political economy. Indeed, the gap between standard economic prescription and the reality of trade policy is so large that most textbooks on international economics include sections on the political economy of trade policy (although new developments in the theory of strategic trade policy have opened new debates about the theoretical superiority of free trade). In a range of areas, policies that are bad from the perspective of economic welfare can make good politics, opening up space for explorations in political economy.

Moreover, as Kirshner has pointed out, in most areas economics generally has *not* reached a consensus on the relative optimality of particu-

lar policies.<sup>6</sup> Once again, this means that explanations of actual economic policy outcomes must turn to other factors, especially political variables. For example, there is little consensus in economics regarding the net benefits of financial openness, especially for developing countries, but in practice countries have widely varying patterns of financial openness. The position is similar with respect to policies in areas such as exchange rates, labor markets, welfare, education and training, corporate governance, and accounting regulation, to name but a few. Even in areas where there is a broad consensus among economists, such as the optimality of politically independent central banks, the empirical evidence in favor of the policy can be quite weak.<sup>7</sup> Hence, it seems that in a range of areas, factors other than empirically validated economic theory explain actual choices among policies.

One important strand of political economy explains such choices using the language and methods of neoclassical economics. This strand is often called *positive political economy* in reference to its relative lack of concern with normative questions and its use of deductive theories and rigorous empirical methods to explain outcomes.<sup>8</sup> With respect to one of the issues we have mentioned—the question of why many developed countries protect domestic agriculture—positive political economy answers that the beneficiaries of such policies (farmers) are better organized and more politically influential than the consumers of food.<sup>9</sup> Other economists have analyzed how different kinds of political institutions can affect choices on economic policy.<sup>10</sup>

<sup>6</sup> Jonathan Kirshner, “The Study of Money,” *World Politics* 52:3, 2000, 407–36; Jonathan Kirshner, ed., *Monetary Orders: Ambiguous Economics, Ubiquitous Politics* (Ithaca, N.Y.: Cornell University Press, 2003).

<sup>7</sup> Ilene Grabel, “Ideology, Power, and the Rise of Independent Monetary Institutions in Emerging Economies,” in Kirshner, *Monetary Orders*, 25–54.

<sup>8</sup> James E. Alt and Kenneth A. Shepsle, eds., *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990).

<sup>9</sup> Becker’s “Theory of Competition among Pressure Groups” provides the classic statement of this approach. It is notable that a number of prominent Nobel prize-winners in economics, including Becker, have been centrally concerned with questions of political economy. See James E. Alt, Margaret Levi, and Elenor Ostrom, *Competition and Cooperation: Conversations with Nobelists about Economics and Political Science* (New York: Russell Sage Foundation, 1999).

<sup>10</sup> James M. Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor: University of Michigan Press, 1962); Mancur Olson, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships* (New York: Basic Books, 2000).

Building on this tradition of positive political economy within economics, a number of political scientists, mainly in the United States, have also employed economic theory to explain broad patterns in policy outcomes.<sup>11</sup> They share the economist's goal of achieving progress (i.e., factual knowledge) in the explanation and understanding of social outcomes. In so doing, they often accept the methodological principle that political variables, like economic ones, can be measured, compared, and (often) quantified. The method of positive political economy is straightforward: competing hypotheses are derived from theories built on simplifying assumptions, and these hypotheses are tested empirically. More often than not, the theories themselves are drawn from neoclassical economics and adopt its standard assumption of rational actors.<sup>12</sup>

Another broad strand of political economy is critical of positive political economy and suspicious of its proximity to the theory and methodology of economics. Often this critique begins from an explicitly normative standpoint, arguing that political economy must be concerned with equity, justice, and questions of what constitutes the "good life."<sup>13</sup> In this view, political economy needs not only to bring political variables into explanatory theories, but return to the original unity of the social sciences and humanities, including ethics and philosophy. That is, political economy should be "critical" and politically engaged. For these authors, focusing simply on explanation risks entrenching the status quo and ignoring the *cui bono* (who benefits?) question.<sup>14</sup> This

<sup>11</sup> E.g.: James E. Alt et al., "The Political Economy of International Trade: Enduring Puzzles and an Agenda for Enquiry," *Comparative Political Studies* 29:6, 1996, 689–717; Jeffrey A. Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45:4, 1991, 425–51; Michael J. Hiscox, *International Trade and Political Conflict: Commerce, Coalitions, and Mobility* (Princeton, N.J.: Princeton University Press, 2002); Ronald W. Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton, N.J.: Princeton University Press, 1989).

<sup>12</sup> Actors are said to be rational when they choose actions that maximize the likelihood of their achieving certain goals. In doing so, they are assumed to use available information efficiently to identify causal relationships between possible actions and the achievement of their desired objectives.

<sup>13</sup> Within economics itself, Amartya Sen also rejects the standard "value neutral" approach in welfare economics as wholly unsuitable for welfare analysis. He argues that positive economics privileges economic goods over other human values, such as freedom (including, but not limited to, political freedom). See Amartya Sen, *On Ethics and Economics* (Oxford: Blackwell, 1987).

<sup>14</sup> Cox, *Power, Production, and World Order*; Strange, *States and Markets*.

school usually defines political economy as the investigation of power and wealth, the central subject matters of politics and economics respectively. The study of power is especially important to this approach and distinguishes it from mainstream economics, which, according to Galbraith, is largely blind to the social phenomenon of power.<sup>15</sup> The “Who benefits?” question should be addressed both to economic outcomes and to economic theories themselves, which can be seen as part of social power structures. Marx held that capitalism and classical economic theory, preoccupied with exchange relations and other surface phenomena rather than the reality of class struggle, privileged the interests of the bourgeoisie.

In our view, these positive and normative perspectives on political economy are not incompatible. Indeed, both are necessary. A well-grounded desire to change the world can only proceed from a proper understanding of it. Furthermore, explanation is often a precursor to a deeper understanding of social relations, including relations of power and domination. After all, even Marx was interested in explaining both the emergence and the working of capitalism as a means to understanding why it was unjust. Similarly, if one wished to argue, for example, that existing global economic institutions operate against the interests of poorer countries, one would first have to demonstrate that they have causal effects in the expected direction. Any amelioration of the plight of the poorest countries would also require a systematic understanding of the factors that result in poverty and low levels of economic development. Hence, positive explanation and normative critique are compatible approaches within the social sciences. This provides another reason why political economy should engage actively though critically with economics.

#### THE EVOLUTION OF IPE AS A SUBJECT IN THE SOCIAL SCIENCES: EARLY APPROACHES

All the founders of IPE shared the view that economics, and international economics in particular, had failed to explain the shape and evo-

<sup>15</sup> J. Kenneth Galbraith, *The New Industrial State* (Boston: Houghton Mifflin, 3rd ed., 1978), 48–61.

lution of the international economic system. This was because it ignored power, especially the distribution of power between states in the international political system.<sup>16</sup> In retrospect, this critique was hardly surprising given that these founding scholars came from the academic discipline of international relations (IR). Their disciplinary origin naturally led to a focus on big questions about the shape and dynamics of the international system. These scholars also argued that IR, in particular the realist tradition, had ignored economic issues, which, they claimed, were of growing salience in international affairs. With the breakdown of the Bretton Woods pegged exchange rate system, the 1973–74 oil shock and associated global recession, and the “new” protectionism, international economic conflict appeared to be growing. Important questions for these early IPE scholars included why the world economy has oscillated between phases of relative economic openness and closure, and why international economic relations had become more institutionalized over the past century.

Most of these scholars sought answers to such questions in the structure of the international political system rather than in domestic politics or in economic theory. Indeed, the main theories in early IPE were drawn from scholarly orientations familiar to IR researchers, such as realism, liberalism, and Marxism.<sup>17</sup> Economic issues became increasingly important in part because of the emergence of superpower détente, which apparently reduced the threat of major war and nuclear catastrophe. Another source of interest in economics was the growing contradiction between international economic interdependence on the one hand and national political sovereignty on the other, with the demand for national stabilization that the latter produced.<sup>18</sup> For realists,

<sup>16</sup> Robert Gilpin, *US Power and the Multinational Corporation* (New York: Basic Books, 1975); Robert O. Keohane and Joseph S. Nye, eds., *Transnational Relations and World Politics* (Cambridge: Harvard University Press, 1971) and *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977); Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and US Foreign Policy* (Princeton, N.J.: Princeton University Press, 1978) and “State Power”; Susan Strange, “International Economics and International Relations: A Case of Mutual Neglect,” *International Affairs* 46:2, 1971, 304–15.

<sup>17</sup> See Gilpin, *US Power*, and his *The Political Economy of International Relations* (Princeton, N.J.: Princeton University Press, 1987).

<sup>18</sup> Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (New York: Published for the Council on Foreign Relations by McGraw-Hill, 1968).



it was natural to argue that the decentralization of political power in the states-system militated against coordination of policy in response to economic interdependence.<sup>19</sup> For liberals, realists ignored how economic interdependence could transform state interests and promote international peace.<sup>20</sup>

Approaching IPE from the perspective of IR fostered the “states versus markets” dichotomy that characterized the dominant IPE approaches exemplified by Gilpin and Strange.<sup>21</sup> These authors criticized economics for privileging the interaction of actors in economic markets and for conceptualizing politics as a mere “constraint” on the pursuit of optimal policies (as, they argued, Cooper had done). From the perspective of IR, it seemed obvious that a strictly economic approach ignored the preeminence of the state as a political actor in the international system, with its demand for national security and sovereignty in its policies. However, in its obsession with war and security, IR was guilty of ignoring the central importance of economic factors in international affairs. For Gilpin and Strange, IPE should investigate the interaction between states (as the source of political authority in the international system) and markets (as the main source of wealth).

Rather than draw on contemporary economic theory for inspiration, these scholars returned to classical sources of political economy. For Strange most explicitly, a key motivation for doing IPE was a deep-rooted opposition to economics and the direction it had taken toward formal theory and depoliticization. Her stance had considerable appeal in the 1970s, when economic instability and the apparent breakdown of the Keynesian policy paradigm made the achievements of economics subject to greater skepticism. And yet economics still produced a certain defensiveness in the other social sciences, partly driven by the “imperialistic” ambitions of some economists (notably the Chicago school, led by figures such as Gary Becker). For some scholars, opposition to economics derived from an aversion to formal theory; others were con-

<sup>19</sup> Kenneth N. Waltz, *The Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979).

<sup>20</sup> Richard N. Rosecrance, *The Rise of the Trading State: Commerce and Conflict in the Modern World* (New York: Basic Books, 1986).

<sup>21</sup> Strange, *States and Markets*; Gilpin, *Political Economy of International Relations*.

cerned that rapprochement with economics would lead to a colonization of their fields by economists.<sup>22</sup>

These twin concerns led early IPE scholars to emphasize the conceptual tools already available in political science and international relations. In his *Political Economy of International Relations*, Gilpin discussed modern economic theories of trade and monetary and financial relations, but economics was not an important source of his conceptual framework or of his method. Gilpin categorized IPE into three broad paradigms describing the relationship between states and markets: liberalism, mercantilism, and Marxism. It was difficult to know whether these paradigms constituted testable theories, though both Gilpin and Krasner preferred a hybrid realism-mercantilism, which emphasized the central role of states in the global political economy and the endemic nature of conflict and protectionism. Others, such as Keohane and Nye, criticized this view as excessively static and pessimistic, arguing from within the liberal tradition that greater economic interdependence could have pacifying effects on international relations.

These broad paradigms, while elucidating competing positions on the likelihood of international economic conflict or cooperation, were of limited help in explaining the details of real-world outcomes. Although their main explanatory purpose consisted in elaborating system-level outcomes, their generality made it difficult to define decisive tests. For example, realism emphasized the likelihood of economic conflict and protectionism, but it did not rule out interstate cooperation driven by mutual self-interest.<sup>23</sup> In Gilpin's formulation, the deeply normative foundations of the three paradigms implied that these were worldviews more than rival explanations. But if one could see the world only through the warped lenses of one of the three major paradigms, then IPE as an academic subject could look forward to little theoretical and empirical progress.

In the late 1970s, one theory appeared that offered hope to those in search of testable hypotheses. It arose from the observation that states and other social institutions provide foundational conditions for the emergence and operation of domestic markets, but such conditions are

<sup>22</sup> We thank an anonymous reviewer for this clarification.

<sup>23</sup> Krasner, "State Power."

lacking at the international level. What, then, could explain the rise of a global economy?

Gilpin first argued that the “liberal” international economies of the late nineteenth century and the period after 1945 were the respective products of the Pax Britannica and Pax Americana.<sup>24</sup> Gilpin also spoke of a “leadership vacuum” in the 1930s that resulted in the Great Depression and eventually World War II. Not long afterward, Charles Kindleberger’s *The World in Depression* made very similar claims, arguing that leadership provided by powerful states was an international public good that could provide stability to the world economy.<sup>25</sup> What was soon termed *hegemonic stability theory* (HST) had broadly pessimistic implications.<sup>26</sup> Krasner, for example, argued that rival large states would not favor an open international trading system; only a sufficiently “hegemonic” state could force others to accept openness, which would primarily benefit itself as the leading economic power. Thus, international economic closure would likely follow from the continued relative decline of the United States, as it had Britain’s decline half a century earlier.<sup>27</sup> In this context, the analogy between the economic disorder of the 1970s and that of the interwar period struck many, especially Americans, as apt.

<sup>24</sup> Robert Gilpin, “The Politics of Transnational Economic Relations,” *International Organization* 25:3, 1971, 398–419.

<sup>25</sup> Charles P. Kindleberger, *The World in Depression, 1929–1939* (London: Allen and Unwin, 1973).

<sup>26</sup> Robert O. Keohane, “The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967–77,” in Ole R. Holsti, Randolph M. Siverson, and Alexander L. George, eds., *Change in the International System* (Boulder, Colo.: Westview Press, 1980), 131–62. As David Lake (“Leadership, Hegemony, and the International Economy: Naked Emperor or Tattered Monarch with Potential?” *International Studies Quarterly* 37:4, 1993, 459–89) later pointed out, this formulation underplayed the differences between Kindleberger’s finance-oriented leadership theory and Krasner’s trade-oriented hegemony theory (Krasner, “State Power”). The former emphasized the need for leadership to provide international public goods that would *stabilize* a potentially unstable world economy. Krasner’s account focused rather on hegemonic coercion to promote international economic *openness*. As Snidal showed, following Schelling, there was no strong theoretical reason for Kindleberger’s claim. A small group of countries (a “k-group”) might also have incentives for providing international public goods such as stabilizing supplies of short- and longer-term international liquidity. See Duncan Snidal, “The Limits of Hegemonic Stability Theory,” *International Organization* 39:4, 1985, 579–614; Thomas Schelling, *The Strategy of Conflict* (Cambridge: Harvard University Press, 1960).

<sup>27</sup> Krasner, “State Power.”

On balance, tests of HST have cast doubt on it.<sup>28</sup> The theory did not explain why an economically dominant United States avoided international leadership in the 1930s, only to embrace it during and after World War II. The answer, presumably, lay in domestic politics and in the realm of ideas, both of which HST largely ignored. As time wore on, predictions of the dire consequences of US decline also became less compelling because international trade was not becoming more restricted. Possible explanations were that US decline was exaggerated or that there was a “lag” before hegemonic decline led to economic closure.<sup>29</sup> However, these responses only underlined the ambiguity of the concept of hegemony itself.

The failure of HST to provide IPE with a foundational theory led many scholars to look elsewhere. Showing a new willingness to look to economics for inspiration, neoliberals drew on game theory and institutionalist economics to argue that cooperation (and the provision of public goods) could occur even on pessimistic realist assumptions of states’ self-interest.<sup>30</sup> If self-interested actors expected to engage in repeated games with other partners and if they could easily detect cheating, reciprocity-based cooperation (based on a “tit-for-tat” strategy) could emerge over time. International regimes and institutions could enhance the prospects for international cooperation by reinforcing the expectation of repeated engagement (“lengthening the shadow of the future”) and by reducing the costs of transactions and monitoring. The relatively low costs of maintaining existing international institutions implied that cooperation could outlast hegemony,

<sup>28</sup> Barry J. Eichengreen, “Hegemonic Stability Theories of the International Monetary System,” in Richard N. Cooper, ed., *Can Nations Agree? Issues in International Economic Cooperation* (Washington, D.C.: Brookings Institution, 1989), 255–98; Joanne S. Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca, N.Y.: Cornell University Press, 1983); Lake, “Leadership, Hegemony”; Timothy McKeown, “Hegemonic Stability Theory and 19th Century Tariff Levels in Europe,” *International Organization* 37:1, 1983, 73–91; Andrew Walter, *World Power and World Money* (New York: St. Martin’s, 2nd ed., 1993); Michael C. Webb and Stephen D. Krasner, “Hegemonic Stability Theory: An Empirical Assessment,” *Review of International Studies* 15:2, 1989, 183–98.

<sup>29</sup> Webb and Krasner, “Hegemonic Stability Theory”; Joseph S. Nye, *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990).

<sup>30</sup> Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); Robert O. Keohane, *After Hegemony* (Princeton, N.J.: Princeton University Press, 1984).

even if hegemony might be crucial for the initial establishment of such institutions.

The neoliberal argument that international institutions could provide public goods was vulnerable to realist criticisms. Powerful states might bend international institutions to their own interests, or even discard them if necessary.<sup>31</sup> Furthermore, neorealists like Grieco argued, neoliberals had mistakenly assumed that states pursued only absolute gains and hence had a common interest in economic openness. If, however, states were “defensive positionalists,” they would also be concerned with the international distribution of gains, as asymmetric gains across states could undermine national security. Security-conscious states would weight *relative* benefit more than absolute benefit, meaning that they would be willing to forgo greater absolute national wealth if (say) a trade-expanding deal would be of greater benefit to states that were potential enemies.<sup>32</sup> This line of reasoning implied that open trade was more likely within stable defensive alliances and unlikely between enemies.<sup>33</sup> As we shall see, real-world outcomes are not always consistent with this generalization.

## PROBLEMS WITH EARLY IPE AND NEW SOLUTIONS

The debate between neorealism and neoliberalism reached a virtual dead end by the early 1990s.<sup>34</sup> The debate itself was partly preoccupied with the empirical problem of how to distinguish between preferences

<sup>31</sup> Stephen D. Krasner, *Structural Conflict: The Third World against Global Liberalism* (Berkeley and Los Angeles: University of California Press, 1985).

<sup>32</sup> Joseph M. Grieco, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism,” *International Organization* 42:3, 1988, 485–507, and his *Cooperation among Nations: Europe, America, and Non-tariff Barriers to Trade* (Ithaca, N.Y.: Cornell University Press, 1990). For a general discussion of the concept of economic security, see Miles Kahler, “Economic Security in an Era of Globalization: Definition and Provision,” *Pacific Review* 17:4, 2004, 485–502.

<sup>33</sup> Joanne S. Gowa, *Allies, Adversaries, and International Trade* (Princeton, N.J.: Princeton University Press, 1995).

<sup>34</sup> David Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press, 1993); Stefano Guzzini, *Realism in International Relations and International Political Economy* (London: Routledge, 1998).

regarding relative gains and those regarding absolute gains. It had also reinforced the system-level focus of IPE and underlined the shortcomings of this abstraction. Treating the state as a unitary actor had closed off an important avenue of theoretical and empirical enquiry. The difficulty encountered by proponents of HST in explaining why hegemony pursued variant policies in different areas, or why the United States did not lead on trade in the 1930s, stemmed from this failure to take into account domestic political factors. The assumption that international economic outcomes were the product of international political variables (hegemony, alliances, international regimes, anarchy, etc.) therefore overlooked two important issues.

The first was that domestic politics and institutions might create further obstacles to international economic cooperation, in addition to those identified by realists and by HST. The “structuralist” or system-level orientation of IPE had abstracted from differences in types of domestic political regimes, yet there was reason to think such variations could have a profound impact on system-level outcomes. Recognition of this conceptual deficit turned academic attention toward work in political science. An example of such work is an important contribution by Downs, who had rejected the standard assumption of economics (and, implicitly, of structuralist IR and IPE) that policymakers were omniscient dictators who sought to implement optimal policies.<sup>35</sup> Downs assumed, rather, that politicians were, like market actors, driven purely by self-interest: their unambiguous goal was to be reelected by maximizing the number of votes they gained. Political parties adopted policies solely to obtain the benefits of office: income, prestige, and power. Political ideologies were employed instrumentally to maximize the votes gained. The “median voter theorem” advanced by Downs held that parties would adopt policies that appealed to the preferences of the median voter; party platforms would therefore converge on precisely the same political equilibrium.<sup>36</sup>

Such rationalist theories of domestic politics could also be applied to foreign economic policymaking, potentially providing the “micro-

<sup>35</sup> Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957).

<sup>36</sup> Downs and others provided various reasons why multiparty systems tend in practice to survive, including strategic voting by electors and party concerns that moving to the political center could alienate voters at the extreme of the political spectrum.

foundations” that IPE lacked. In the area of trade policy, for example, one could argue that self-interested politicians weigh maximizing the income of the median voter against ensuring the support of organized interest groups, which provide campaign funds and endorse their preferred policy in circumstances when politicians have imperfect information and therefore cannot identify the optimal policy.<sup>37</sup> On this theory, international economic regimes and institutions provide a means by which governments can resist pressures from organized domestic interest groups. Politicians may also use them to transfer income to important domestic political constituents, at the expense of other domestic or foreign groups.<sup>38</sup> This rationalist approach provided an interpretation of international regimes and institutions very different from that of neoliberalism. Generally, it promised to provide theoretical and empirical innovation by drawing on mainstream political science.

The second problem encountered by early IPE theory was in explaining why states of similar size and economic openness responded differently to international events. Here, comparative politics came into its own, showing how domestic politics and institutions could help explain such patterns of variation.<sup>39</sup> For some scholars, differences in foreign economic policy could be explained by reference to configurations of organized interest groups, following Becker’s approach.<sup>40</sup> As we discuss later, the need to specify interest group preferences led these scholars on a foray into macroeconomic and trade theory that would bring

<sup>37</sup> Helen V. Milner, *Interests, Institutions, and Information* (Princeton, N.J.: Princeton University Press, 1997), 35.

<sup>38</sup> Thomas Oatley and Robert Nabors, “Market Failure, Wealth Transfers, and the Basle Accord,” *International Organization* 52:1, 1998, 35–54; John E. Richards, “Toward a Positive Theory of International Institutions: Regulating International Aviation Markets,” *International Organization* 53:1, 1999, 1–37.

<sup>39</sup> Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, N.Y.: Cornell University Press, 1986); Peter A. Hall, ed., *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986); Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978); John Zysman, *Governments, Markets, and Growth: Financial Systems and Politics of Industrial Change* (Ithaca, N.Y.: Cornell University Press, 1983).

<sup>40</sup> Frieden, “Invested Interests”; Rogowski, *Commerce and Coalitions*. For Becker’s approach, see Gary S. Becker, “A Theory of Competition among Pressure Groups for Political Influence,” *Quarterly Journal of Economics* 98:3, 1983, 371–400.

about a convergence between IPE and international economics. For other scholars, domestic political institutions deserved more emphasis because they can channel, facilitate, or block competing interest group demands. Once again, the need for theoretical innovation prompted some IPE scholars to look to domestic and comparative political science for inspiration.<sup>41</sup>

This convergence between international, comparative, and domestic political economy created a new danger, that the pendulum would swing to the opposite extreme—the assumption that state policies are entirely a product of domestic factors—leaving certain phenomena inexplicable. It is difficult, for example, to explain the exchange rate and trade policies of western Europe and Japan in the 1960s and 1970s without reference to supranational factors such as the European integration project and alliances with the United States. One needs to conceptualize both internal and external pressures on governments. If governments are to respond to external factors, they must possess sufficient autonomy vis-à-vis voters and organized interest groups or must persuade domestic interests to share their external goals. The metaphor of the “two-level game” captures this idea: governments are engaged in simultaneous bargaining with both domestic interest groups and foreign governments.<sup>42</sup> Although this notion of bi-level bargaining provided a much-needed source of theoretical and empirical innovation, the turn toward domestic politics raised new problems, not least because political scientists disagree over how to model domestic politics and institutions. It also introduced a greater conceptual complexity that was difficult to handle with existing theoretical tools.

#### THE NEW MAINSTREAM IPE: STRENGTHS AND SHORTCOMINGS

As we have seen, problems with early IPE approaches have led scholars more recently to draw on both political science and economics for

<sup>41</sup> Keohane and Milner, *Internationalization and Domestic Politics*; Milner, *Interests, Institutions, and Information*.

<sup>42</sup> Peter B. Evans, Harold K. Jacobsen, and Robert D. Putnam, eds., *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley and Los Angeles: University of California



theoretical and empirical innovation. Here, we focus on the implications of the recent convergence between IPE and economics. Clearly, this convergence has taken IPE further from its origins in international relations and, especially, its early opposition to economics. This has been particularly true in the United States, where in leading universities positive political economy has become the mainstream approach in IPE. Opposition to economics is no longer a helpful starting point, either for those beginning the study of IPE or for those engaged in research.

From the perspective of its adherents, the virtues of positive political economy are numerous. Positive approaches aim for generalizable propositions that can be applied to numerous cases and tested using appropriate data and methods. Simplification is a virtue, resulting in clear, falsifiable hypotheses that link causal (independent) variables to outcomes (dependent) variables. A standard appeal is to Occam's razor, the rule that for a given amount of explanation, a simple theory is preferable to a more complex one. Simplifying assumptions—for example, that economic actors act rationally (instrumentally) to maximize their personal wealth and that politicians act to maximize the probability of their reelection—help to build testable theories.<sup>43</sup> From this perspective, a good theory is one that is empirically consistent with outcomes in a wide variety of cases; an even better theory is one that is robust where one would least expect it to be. With the adoption of such scientific methods, adherents to positive political economy hope to achieve theoretical progress in IPE by the refinement, corroboration, and falsification of particular theories. Convergence with work on political economy done by economists is another theoretical goal.

In the search for better, testable theories, new positivist approaches to IPE built on Becker's work on the demand for policies by competing interest groups. Using textbook economic theories, authors such as Frieden and Rogowski created models of interest group preferences and cleavages that they used to derive predictions about the private demand

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Press, 1993); Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42:3, 1988, 427–60.

<sup>43</sup> A strict positivist is usually uninterested in whether in the real world some people act in ways inconsistent with these simplifying assumptions. Hence, any "laws" identified are probabilistic.

for different policies on trade and exchange rates.<sup>44</sup> Although they differed on the question of *which* of the available economic theories were appropriate for modeling interest groups' preferences, Frieden and Rogowski showed that a greater attention to economic theory and its rationalist method could produce theoretical and empirical innovation in political economy.

What are the implications of this positivist approach to IPE? Here, we focus on two of the most important. First, it gives an advantage to scholars and students who are trained in economic theory and quantitative method; those who are not need to increase their knowledge of economics and statistics. This need for an orientation in economics has reopened debates about methodology, especially over quantitative versus qualitative method. Second, this approach has had the effect of diminishing the contribution of political variables, both domestic and international, in models of political economy. We discuss each of these implications in turn.

Not only did the turn to economics give an advantage to scholars trained in the subject, it increased the need for others lacking this background to engage more systematically with economic theory. Many students and scholars with backgrounds in IR and political science now find it difficult to follow the economic theory-intensive literature found in some leading journals. Although the academic subject of IR itself has changed greatly since the 1970s,<sup>45</sup> a background in international relations is no longer a prerequisite for IPE research. By the early 1990s, a background in economics and formal political science was perhaps a better foundation for an academic career in IPE.

The turn to economics as a source of innovation also inspired a growing use of quantitative empirical methods in international and comparative political economy. By the mid-1990s, the gold standard for empiri-

<sup>44</sup> For an overview of their approach, see Jeffrey A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Overview," in Keohane and Milner, *Internationalization and Domestic Politics*, 25–47.

<sup>45</sup> We often notice that our students acquire from IPE literature a caricatured and outdated image of scholarship in international relations. This view portrays IR as security- and war-obsessed and as ignorant of nonstate actors and transnational forces. Of course, IR itself has undergone an evolution similar to IPE's in recent years, including a convergence with domestic political science and a growing focus on the nature and impact of globalization.

cal work in international and comparative political economy was statistical techniques. For example, Garrett claimed to use “the best available data and the most appropriate econometric techniques to test the empirical merits of my arguments”<sup>46</sup> in his study of globalization’s constraints on social democratic policies. He expressly hoped his statistical analysis would attract economists to his work and that of others using similar techniques in comparative political economy. Garrett reflected a desire on the part of many IPE scholars to be taken seriously by the discipline, economics, that enjoyed the highest prestige in the social sciences.<sup>47</sup> This trend toward econometrics in political economy both used and promoted the growing availability of quantitative measures of political variables across countries and over time.<sup>48</sup>

The rise of quantitative method as the gold standard of empirical political economy reopened debates about the pros and cons of quantitative and qualitative evidence. Some authors were concerned to defend the usefulness of qualitative evidence, especially structured case studies.<sup>49</sup> For King, Keohane, and Verba, as long as qualitative research methods observed the same “logic of inference” as good quantitative techniques, they could be useful.<sup>50</sup> For many important questions in political economy, measurement was either impossible or undesirable, so that qualitative evidence developed through good methodological practice was necessary. Detailed qualitative work could also complement statistical analysis, because causation remained difficult to establish even in the best econometric work and because qualitative studies could provide illuminating detail about causal relationships. It might be more accurate, then, to describe the methodological gold standard in political economy as one that combined quantitative and qualitative techniques.

<sup>46</sup> Garrett, *Partisan Politics*, 10.

<sup>47</sup> In a symbolic coincidence, Susan Strange, who had long mocked the scientific pretensions of economists, died in the same year Garrett’s book was published.

<sup>48</sup> For a list of the most commonly used quantitative sources, see the section “Further Resources” at the end of this chapter.

<sup>49</sup> Helen V. Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton, N.J.: Princeton University Press, 1988); John S. Odell, “Case Study Methods in International Political Economy,” *International Studies Perspectives* 2:2, 2001, 161–76.

<sup>50</sup> Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton, N.J.: Princeton University Press, 1994).

The second result of the turn to economic theory and method is a diminished attention to both domestic and international *political* variables in IPE theory and research. It brought an element of economic determinism into political economy modeling. Domestic actors, organized into interest groups, were assumed to be motivated entirely by the material (income) benefits and costs of alternative economic policies. The competition between these groups for influence, shaped by the constraints of collective action, was assumed to determine, more or less, the government's choice of policy. This model largely ignored early IPE's emphasis on international forces such as security and asymmetries of economic development and interdependence. In some ways, therefore, it retarded integration between domestic and international theories of economic policies.

Furthermore, at the domestic level, this approach was often weak on the supply side of economic policy. Later contributions argued that the Frieden-Rogowski approach ignored political institutions, which often play an intermediating role between economic interests and policy outcomes.<sup>51</sup> Perhaps because political science has a comparative advantage regarding theories of political institutions, economic theory has been less influential in this area. Yet it would be wrong to imply that economics has little to say about the nature and impact of institutions on social conflict and cooperation, even though neoclassical economics largely ignored institutions. As Keohane argued in *After Hegemony* (1984), the transactions cost approach in economics usefully suggested that institutions could reduce the costs of collective action.<sup>52</sup> The “new institutional economics,” which has grown rapidly in importance within economics in recent decades, builds on the work of pioneering economists such as Coase and North.<sup>53</sup> The renewed interest in the role of institu-

<sup>51</sup> E.g.: James E. Alt and Michael Gilligan, “The Political Economy of Trading States: Factor Specificity, Collective Action Problems, and Domestic Political Institutions,” *Journal of Political Philosophy* 2:2, 1994, 165–92; Michael A. Bailey, Judith Goldstein, and Barry R. Weingast, “The Institutional Roots of American Trade Policy: Politics, Coalitions and International Trade,” *World Politics* 49:3, 1997, 309–38; Helen V. Milner, “Rationalizing Politics: The Emerging Synthesis of International, American and Comparative Politics,” *International Organization* 52:4, 1998, 759–86.

<sup>52</sup> Keohane, *After Hegemony*.

<sup>53</sup> For surveys, see Douglass C. North, “Institutions,” *Journal of Economic Perspectives* 5:1, 1991, 97–112, and his *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990); Oliver E. Williamson, “The New Institutional Economics: Taking Stock, Looking Ahead,” *Journal of Economic Literature* 38:3, 2000, 595–613.

tions in economic development, for example, has been responsible for a growing attention to political factors by many economists, including those in institutions such as the World Bank.

Even so, the heavy lifting in positivist approaches is often still done by the economic theory rather than by models of domestic politics.<sup>54</sup> Such approaches usually assume that economic interests make demands on political institutions, which in turn channel and privilege some demands over others. The economic interests themselves are beyond the scope of political manipulation or modification, leaving unexplained the ways in which politicians use policies to restructure societal cleavages and actors' perceptions of self-interest.<sup>55</sup>

The new positivist approach was perhaps most neglectful of the role of ideas in shaping actors' identity and in motivating behavior. It appears that actors' preferences bear no simple relationship to actors' material economic position (a criticism traditionally directed at orthodox Marxism). As we have noted, much depends on which economic theory one chooses to specify interests.<sup>56</sup> The positivist approach also abstracts from questions of actors' knowledge: if societal actors are rational, do they also understand and use the theories we use to specify their interests? If so, which theories? Might broader ideologies (e.g., socialist ideologies that emphasize class interests) or time-bound national cultures shape actors' self-conceptions of their interests?

For constructivists, who emphasize the importance of ideas in shaping actors' perceptions of their self-interest, this is a key weakness of economic determinism. Constructivists argue that ideas or ideologies help actors to identify where their interests lie and motivate groups to organize for political purposes, particularly when policies are complex.<sup>57</sup> In explaining changes in policy, rationalists usually focus on

<sup>54</sup> We are grateful to an anonymous reviewer for this phraseology.

<sup>55</sup> For an empirical example of the way in which elites can construct interest coalitions, see Strom C. Thacker, *Big Business, the State, and Free Trade: Constructing Coalitions in Mexico* (Cambridge: Cambridge University Press, 2nd edition, 2006).

<sup>56</sup> In chapter 4, for example, we outline how Frieden's choice of a specific factors model led to quite different predictions about trade politics to Rogowski's, which was based on a model of class cleavages.

<sup>57</sup> Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002); John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36:2, 1982, 379–415.

shifts in the relative power of different societal actors, on the assumption that actors' preferences are stable. Constructivists instead focus on the potential for changes in preferences caused by shifts in actors' worldviews. Although these two approaches are not incompatible, the preeminence of economic theory in rationalist political economy has meant that the effects of ideational change have been explored less often. From the other side, rationalists have been skeptical of the ability of constructivists to identify clear causal links between ideas and behavior.<sup>58</sup> Such skepticism is probably justified when ideational claims have been allied to a postmodernist rejection of social science. However, as we will see in later chapters, there is a growing body of "moderate" constructivist literature that exhibits a strong desire to elaborate clear, empirically testable theories.<sup>59</sup>

A final consequence of the turn toward economics and to formal approaches in political science has been that other potential sources of theoretical and empirical innovation have been overlooked. Constructivists have argued that minds are shaped in important ways by culture and ideology, but largely ignored in their debate with rationalists is the claim of evolutionary biologists that minds (and perhaps also culture) have been powerfully shaped by millions of years of evolution. From the perspective of many natural scientists, the social sciences, including most economics, have so far missed the opportunity to build on insights from the rapidly converging disciplines of evolutionary biology, anthropology, and cognitive neuroscience.<sup>60</sup> Whether these disciplines will inform our subject in coming years remains to be seen, but the possibility suggests that there even more work to be done than is generally recognized.

<sup>58</sup> Even Keynes's admiring biographer, Robert Skidelsky, appears unsure how much difference Keynesian ideas really made: "Keynes's *General Theory* was one of the most influential books of the twentieth century. Yet it is impossible to demonstrate conclusively that economic conditions would have been very different had it never been written" (Robert Skidelsky, *John Maynard Keynes*, vol. 3, *Fighting for Britain, 1937–1946* [London: Macmillan, 2000], xxii). On the methodological difficulties involved, see Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton, N.J.: Princeton University Press, 1989), chap. 14.

<sup>59</sup> On the varieties of constructivism and their attitudes to social science, see Peter J. Katzenstein, Robert O. Keohane, and Stephen D. Krasner, *Exploration and Contestation in the Study of World Politics: An International Organization Reader* (Cambridge: MIT Press, 1999).

<sup>60</sup> For arguments along these lines, see Edward O. Wilson, *Consilience: The Unity of Knowledge* (London: Little, Brown, 1998); Steven Pinker, *How the Mind Works* (London: Penguin, 1997); Eric D. Beinhocker, *The Origin of Wealth* (Cambridge: Harvard Business School Press, 2006).

## OUR APPROACH TO INTERNATIONAL POLITICAL ECONOMY

In our view, the convergence of international, comparative, and domestic political economy in recent years is a positive development. Perhaps most importantly, it helps to prevent disciplinary biases from excluding potential explanations of phenomena. It also reflects the process of globalization, which has softened distinctions between domestic and international politics.<sup>61</sup> As is now well recognized, the relationship between domestic politics and the international system is complex, with causality proceeding in both directions. The importance of international factors in domestic decisions on policy is especially significant for weaker actors in the international system, including most developing countries. Conversely, we should expect domestic interests and institutions to be of most *systemic* importance in the most powerful states, such as the United States and China.

Of course, capturing this real-world complexity in theoretical models has costs. Often it is necessary to work sequentially rather than try to capture all important variables affecting a particular outcome. In the end, distinguishing causal relationships is a matter of theoretical focus and the tractability of empirical analysis. It is almost always necessary to hold some variables constant, but it is also necessary to question our explanatory variables. To illustrate, much of the literature on economic growth in developing countries suggests that the exceptional growth of many East Asian countries since the 1970s was due to “good policies.”<sup>62</sup> But what produced good policies in some states and not others? Were domestic factors decisive, that is, “strong” states were able to set good policies independently of pressures by interest groups, while “weak” states succumbed to them? Or were international factors, such as external security threats, or US aid and preferential trade policies, more important determinants of East Asian policy choices?

Either possible answer, the domestic or the international, is plausible and interesting, though we must also investigate how these two levels

<sup>61</sup> We postpone to the final chapter the question of whether globalization is an adequate description of the current state of the world.

<sup>62</sup> E.g., World Bank, *The East Asia Miracle: Economic Growth and Public Policy* (Washington, D.C.: World Bank, 1993).

of analysis interact. Good methodology is largely a matter of being open to different possible explanations and being clear about how they can be tested empirically. In this book, we approach our three main subjects—the political economy of trade, money and finance, and production—with this standard in mind. Neither a domestic nor an international explanation of outcomes is privileged, though we generally treat them sequentially.

In terms of methodology, we are primarily interested in causal explanation, which we see as a precondition of answering the *cui bono* question. We are open to the possibility that both material and ideational forces are important. Generally, method should be appropriate to the questions posed and the causal hypotheses one wishes to investigate. The scholarly consensus, in which we share, is that both quantitative and qualitative empirical evidence is important in IPE; each kind can usefully complement the other.<sup>63</sup> In other words, methodology is derivative rather than a matter of faith.

As for the turn to economic theory in modeling, we have discussed how economic theory has clarified competing claims about the material interests of social actors. Students of political economy need to be alert both to the strengths and to the shortcomings of this approach. We should be open to the possibility that actors' preferences can be manipulated (within limits that are poorly specified by most existing social science) by political entrepreneurs who wield ideas as weapons in the battle for influence.

As long as students of political economy are sensitive to the assumptions made in economic approaches, they have many potential benefits. After all, the difficulty of observing the relationships between actors' beliefs, intentions, and behavior means that one must often proceed by

<sup>63</sup> The standard statement of this position is King, Keohane, and Verba, *Designing Social Inquiry*. However, many argue that these authors mistakenly claim that qualitative case studies (with the emphasis on the plural) are of value only to the extent that they approximate the methods of "large-N" quantitative methods. For more recent arguments that case study evidence, including single cases, can provide different but still highly useful evidence in social science, see James Mahoney and Gary Goertz, "A Tale of Two Cultures: Contrasting Quantitative and Qualitative Research," *Political Analysis* 14:3, 2006, 227–49; James Mahoney, "Nominal, Ordinal, and Narrative Appraisal in Macrocausal Analysis," *American Journal of Sociology* 104:4, 1999, 1154–96; and H. E. Brady and David Collier, eds., *Rethinking Social Enquiry: Diverse Tools, Shared Standards* (Lanham, Md.: Rowman and Littlefield, 2004).



a process of elimination. For example, one explanation of the shift in US foreign economic policy toward multilateralism in the 1940s is that the previously dominant voice in the American political economy was weakened by economic depression and war in the 1930s and 1940s.<sup>64</sup> Other explanations of this shift focus on reforms to US policymaking institutions in the 1930s.<sup>65</sup> Perhaps only after we have explored the strengths and limitations of these explanations are we in a position to assess the importance of the cognitive factors.

Even those who criticize the turn toward rationalist economics in political economy must first understand and appreciate its benefits.<sup>66</sup> Hence our call for an active but critical engagement between economics and political economy.<sup>67</sup> In the rest of this book, we investigate the political economy of international trade, money and finance, and production. Our focus is on the different analytical approaches to major questions within these three core topics in the field of political economy. We hope that this approach will provide students from different academic backgrounds with the basic theoretical tools they will need in their further studies in IPE.

## FURTHER RESOURCES

### *Further Reading*

Peter J. Katzenstein, Robert O. Keohane, and Stephen D. Krasner. *Exploration and Contestation in the Study of World Politics: An International Organiza-*

<sup>64</sup> Jeffrey A. Frieden, "Sectoral Conflict and US Foreign Economic Policy, 1914–1940," *International Organization* 42:1, 1988, 59–90.

<sup>65</sup> E.g., I. M. Destler, *American Trade Politics* (Washington, D.C.: Institute for International Economics, 3rd ed., 1995).

<sup>66</sup> Miles Kahler, "Rationality in International Relations," *International Organization* 52:4, 1998, 919–41.

<sup>67</sup> Rationalism remains a controversial topic for many scholars. Some reviewers of this book believed we were hostile to rationalist approaches, others that we were excessively rationalist. In practice, we see the use of simplifying assumptions to generate testable theories about social causation as necessary. One of the standard simplifying assumptions, especially in economics, is actors' rationality, but it is hardly the only one. Our only claim is that students need to be sensitive to the generally close relationship between simplifying assumptions and the predictive power of (rival) theories.

*tion Reader*. Cambridge: MIT Press, 1999. The introduction provides a good summary of the trend toward convergence between international, comparative, and domestic political economy, and between IR and IPE. Other contributions provide overviews of important areas of research.

Benjamin J. Cohen. “The Multiple Traditions of American IPE.” 2007. Available at [http://www.polsci.ucsb.edu/faculty/cohen/working/pdfs/Handbook\\_text.pdf](http://www.polsci.ucsb.edu/faculty/cohen/working/pdfs/Handbook_text.pdf). This article and the following one by Cohen are two useful recent overviews of the state of IPE by a leading scholar.

———. “The Transatlantic Divide: Why Are American and British IPE So Different?” *Review of International Political Economy* 14:2, 2007, 197–219.

Martha Finnemore and Kathryn Sikkink. “Taking Stock: The Constructivist Research Program in International Relations and Comparative Politics.” *Annual Review of Political Science* 4:1, 2001, 391–416. A good overview of the constructivist research program.

### ***Useful Websites***

- <http://www.indiana.edu/~ipe/ipesection/>. The IPE section of the International Studies Association, with a variety of useful links and resources.
- datasets with quantitative data on political events, actors and institutions:
- Polity IV: <http://www.cidcm.umd.edu/polity/>
- World Bank Governance Indicators: <http://info.worldbank.org/governance/wgi2007/>
- World Bank Database of Political Institutions and other “investment climate” datasets: <http://go.worldbank.org/V588NQ0NC0>