LECTURE NOTES WEEK 4

IMPORTANT WARNING: These notes are taken from your text book and other related books, so don’t use them without proper references. The paragraphs which are taken from other books are given references in these notes, all other paragraphs are taken from your text book “Timothy C. Lim, Ph.D.: International Political Economy – An Introduction to Approaches, Regimes, and Issues.”

Contemporary Theories of International Political Economy

Hegemonic Stability Theory

The theory of hegemonic stability got its start in the 1970s with the work of Charles Kindleberger (1973), who focused on the reasons for the Great Depression. His basic argument was simple: the root cause of the economic troubles that bedeviled Europe and much of the world in the 1920s and 1930s was the absence of a benevolent hegemon—that is, a dominant state willing and able to take responsibility for the smooth operation of the international (economic) system as a whole. Taking responsibility, in large part, meant acting as an international lender of last resort, as well as a consumer of last resort (DeLong and Eichengreen 2012). More specifically, as a lender of last resort, the hegemon provides access to loans (especially long-term loans) when the normal flow of international lending has dried up; this is also referred to as countercyclical lending. Countercyclical lending, in turn, is critical to the maintenance of currency convertibility, which refers to the ease with which a country’s domestic currency can be converted into gold or a hard currency. Here is the basic problem: when a currency becomes relatively inconvertible, trade in goods tends to decrease, since many countries are unwilling to accept the inconvertible currency as payment. International trade is also negatively impacted if there is no consumer of last resort. In this case, as the consumer of last resort, the hegemon maintains an open market, and encourages other countries to follow suit.

Once the U.S. fully accepted its role as the hegemon, as it did in the immediate aftermath of World War II with the construction of the Bretton Woods system (BWS), an opposing dynamic was set in place. At the same time, when U.S. commitment began to waver (a phenomenon referred to as benign neglect), international confidence in the dollar-based monetary order quickly began to wane. The hegemon is willing to take on these responsibilities, it is important to emphasize, for self-interested reasons: as the world’s dominant economy, the hegemon has the most to gain, relatively speaking, from a stable and growing international economic system. At the same time, the existence of a hegemon does not prevent economic shocks and downturns from taking place. Instead, it plays a central role in ensuring that such events do not devolve into full-blown economic
crises or depressions. When every country turned to protect its national private interest, the world public interest went down the drain, and with it the private interests of all. The period between the two world wars (also known as the interwar period, which ran from 1919 to 1938) was, as Kindleberger suggests, a transitional period. The old hegemon, Great Britain, had lost the capacity to stabilize the international system, while the new (latent) hegemon, the United States, did not yet understand the need to take on that role—or the benefits of doing so. The result, of course, was a worldwide depression that did severe damage to almost every major economy.

Hegemonic stability theory has been embraced by realists—who represent the longdominant school of thought in international relations theory—as a general explanation for the existence of cooperation among states through most of the postwar period. In the realist view, the hegemon mitigates the effects of anarchy by acting as the rule enforcer for the international system (as a concept in international relations theory, anarchy refers to a situation in which there is no overarching political authority that exists beyond individual states). Without a rule enforcer, states are usually unwilling to cooperate on a sustained and universal basis.

A public good is something that is both nonexcludable and nonrivalrous. In simpler language, this means that once a good is created, it is available to everyone, but also that the use or “consumption” of that good by one individual does not reduce its availability to others. Domestic law and order is a public good: once a police and judicial system is in place, everyone benefits from it, even if they did not contribute to its creation; nor does use of the police or judicial system reduce their availability to others. The problem is easy to see: if an individual can benefit from domestic law and order (or any other public good) without paying for it, he will simply not pay. Instead, he will let others pay, and free-ride on their contributions. Freeriding may seem unfair, but it is both common and completely rational behavior. Internationally, free-riding is a major impediment to cooperation.

Hegemonic stability theory, however, posits that a dominant actor can fulfill the role of a higher authority by using its overarching power and disproportionate control of resources. The hegemon, to put it bluntly, can either force or cajole “lesser states” to comply with the rules (of the international political economy). In this regard, it begins to look like “might makes right,” but hegemonic stability theory also presumes that the hegemon generally has more to gain from encouraging voluntary cooperation than from engaging in conflict and violence to compel cooperation. This is especially the case when considering economic issues, such as the construction of a liberal international economic
order. This leads to a key question: Why does the hegemon actually play the role the theory describes? We already have a general answer—namely, because doing so brings a net benefit to the hegemon. But another way to answer this question is to examine specific and important cases. One such case is the international monetary system (IMS), which refers to the rules and established practices that facilitate international trade and investment. In the postwar period, the IMS has largely revolved around the Bretton Woods system, the core elements of which stayed in place until 1971.

**Bretton Woods, the Hegemon, and the International Monetary System**

At first glance, the construction of the postwar IMS seems to be a very good fit for hegemonic stability theory. The Bretton Woods system, for example, was clearly a product of American power and influence. Delegates from around the world met in the United States to create the system, but there is no doubt that the United States was in charge of the entire process. U.S. dominance was manifested, in particular, by the adoption of the U.S. blueprint for the IMF, one that defined the IMF not as a world central bank, but instead as a promoter of economic growth through international trade and financial stability (Boughton 1998). The Bretton Woods system codified the U.S. dollar as the international currency. This gave the United States an advantage that few other countries enjoyed.

At the same time, the system of rules and institutions—including the establishment of a pegged rate or adjustable peg currency regime, the gold-exchange standard (GES), and two international financial institutions, the IMF and the World Bank—was designed to ensure general stability in the international monetary system, a benefit to all.

Cohen (2001) notes that American hegemony was exercised in three ways. First, the United States itself maintained a relatively open market, giving rebuilding economies a place to sell their goods. In fact, the United States not only maintained an open market, but also allowed some countries, especially Japan, one-way access to the U.S. market (that is, while Japan was given access to the U.S. market, the U.S. did not demand reciprocal access to the Japanese market). Second, the United States provided significant long-term loans: initially, this was through the Marshall Plan and related programs, and later funding went through the reopened New York capital market. Third, “a liberal lending policy was eventually established for provision of shorter term funds in times of crisis”.
Criticisms of Hegemonic Stability Theory

In a detailed analysis of the relationship between hegemony and the international monetary system, Eichengreen (1987) concluded that hegemonic stability theory is helpful for understanding the smooth operation of the early Bretton Woods system, and it is also useful in explaining some of the difficulties in the interwar period. At the same time, he argues that hegemony alone only tells part of the story. One reason is clear: hegemony is essentially a transitory phenomenon. On this point, Corden (1990) asserts that hegemony typically lasts only two or three decades. And while there is a great deal of debate over the starting and end points of hegemony, if Corden is correct, this means that there must be other factors and forces at play to explain why, for example, the postwar international monetary system remained relatively stable even after American hegemony was lost in the early 1970s.

International systems (such as the international monetary system) do exist, and are partly dependent on hegemony, but also partly (really, significantly) dependent on international regimes. One of the most oft-cited definitions of regimes is by Stephen Krasner, who defined a regime as a set of explicit or implicit “principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area. Together, Keohane, Krasner and others helped develop regime theory, which provides an alternative to HST. Regime theory is premised, in part, on the idea that shared interests lead to voluntary cooperation among states, and that over time, cooperation on certain issues can become embedded through the creation of regimes. Regimes, serve three key purposes: (1) they provide information about the behavior of all participating states, usually through monitoring and self-policing; (2) they reduce the costs of future agreements (i.e., a regime makes it unnecessary for states to repeatedly negotiate over the same issues); and (3) they generate the expectation of cooperation among members. Regimes make long-term cooperation possible without a hegemon.

Another, less evident, criticism revolves around the tacit ethnocentric bias of hegemonic stability theory. This bias becomes particularly evident when the theory is applied to the United States. To a significant extent, advocates of hegemonic stability theory portray the United States as a “benevolent” hegemon, which suggests that much of what the United States does as hegemon is based less on self-interest, and more on nobility and largesse—doing good for the whole world, even if the rest of the world is ungrateful or too self-serving to realize this. Robert Gilpin, one of the best-known advocates of hegemonic stability theory, for instance, blithely wrote, “Societies freely enter into extensive market relations only when the perceived gains are much greater
than the perceived costs or when the market relations are forced on them by a superior society” (emphasis added; 1981, p. 129). Grunberg (1990), moreover, argues that hegemonic stability theory has “a built-in, ethnocentric bias simply in the sense that it links the fate of the world with the United States “ (p. 247). This suggests that the world needs the United States to fulfill its destiny as the most powerful and dominant state, and to question, still less challenge, U.S. dominance only invites a self-defeating struggle.

**Post-Hegemonic Theories**

States are not the only significant actors, and even the most powerful of states (i.e., the hegemon) has a limited capacity to influence and shape the global political economy. This is a starting point for post-hegemonic theories (PHTs). We can say that PHTs, most generally, are theories that pay serious attention to actors or entities other than the state. These other actors include international organizations (or multilateral institutions), international regimes, corporations, nongovernmental organizations, epistemic communities, social movements, and so on. There is also a much stronger emphasis on the nonsecurity or nonmilitary sources of power, especially power in the production and knowledge structures, but also including intangible or intersubjective sources of power such as ideology, culture, norms, and values. Among the many types of actors, one area of particular interest has been multilateral institutions, some of the most prominent of which are the United Nations, the International Monetary Fund (IMF), the World Bank, the World Trade Organization, and the European Union.

Among scholars who focus on multilateral institutions, there is a great deal of debate regarding the autonomy—or lack thereof—on the part of multilateral institutions, but almost all would agree that institutions, at a minimum, serve a vital function as mechanisms for coordination, collaboration, and cooperation at the international level. Whatever the case, institutions are an increasingly important part of the world economy, and an increasingly important reason—many scholars argue—for international stability, in both the economic and political realms.

**The Role of Multilateral Institutions**

Theoretically speaking, institutions (and regimes) fit comfortably within the liberal tradition, although institutionalists can be found in a range of theoretical camps within IPE. With this caveat in mind, in the liberal tradition, there has long been an emphasis on pluralism and the potential for cooperation (as opposed to conflict). The key question, from this perspective, has centered on how the interests of multiple actors, including
both state and nonstate actors, can be reconciled in a manner that provides stability and mutual benefit to all.

· issue of anarchy: Anarchy, most simply, is the absence of overarching political authority within a particular political system, such as the international system today. The existence of anarchy makes cooperation at the international or transnational level very difficult to achieve, since all states are ostensibly sovereign, and therefore of equal standing in the international community. In hegemonic stability theory, this problem is resolved by the existence of a hegemonic state. In some versions of posthegemonic stability theory, by contrast, the problem is resolved through multilateral institutions.

What Do Institutions Do?

Most generally, international institutions help to create a stronger, more durable basis for trust between and among states (trust can be defined as a belief in reciprocal cooperation—i.e., “If I do x, then you will do y”). Trust is a major component of cooperation. Or, to put the issue in negative terms, we can say that the greatest obstacle to international cooperation is distrust, or the prospect of cheating, by other states. International institutions help to alleviate the problem of distrust by providing a forum in which the intentions of various countries are revealed, and by providing a mechanism for monitoring, reporting, and policing the activities of all participants, and, in some cases, adjudicating disputes.

Institutions provide, perhaps, the most (and often only) viable means for effective and efficient trust-building in world politics. In particular, institutions allow for regularized interactions. Regularized interactions raise the level of communication, increase the flow of information, and generally provide a stronger basis for sustained interaction. Institutions can also significantly reduce the likelihood of free-riders. This is true even where there is no effective enforcement mechanism (which is the case in the large majority of international institutions). Institutions may require minimum standards for membership: that is, before a state is allowed to join, it must agree to, and make concrete progress toward, specific benchmarks. To put it more simply, the motto of some international institutions might be: “No Free-Riders Allowed.” The effectiveness of entry requirements presupposes clear benefits to membership in an international institution.

Problems with the State-Centric Approach

State-centric analyses tend to take for granted that states are holistic entities, almost literally thinking with one mind and speaking with one voice. Analysts who treat the state as a holistic entity presume that the interests of the many specific groups and organizations within any country, no matter how powerful they may be, are largely
immaterial to explaining state behavior. In their view, there is only one relevant interest in explaining state behavior: the national interest. Critics argue that this is an unrealistic view of states' decision-making process. We need to consider what goes on within the state, how different groups influence, shape, and even determine state behavior. Once we admit that there are competing groups shaping state policy, each with varying degrees and types of power, and each with its own interests, the picture becomes more complex, but also more realistic. And, again, when those interests are no longer contained within a single set of national boundaries, we have the beginning of transnational (as opposed to international) theory. Anne-Marie Slaughter, who asserts that states, while not disappearing, are “disaggregating into … separate, functionally distinct parts.” These parts, which include the courts, regulatory agencies, executives, and even legislatures, are not only disaggregating, they are also “networking with their counterparts abroad, creating a dense web of relations that constitutes a new, transgovernmental order”. The second problem with the state-centric approach is the tendency for realists and others to treat all states as essentially equal because all states are sovereign. Specifically, the state-centric approach implicitly treats the most powerful states as the benchmark for all states. The state-centric approach still tells us, in principle, that the weakest of states is more important than the strongest transnational actor.

Transnational Theory
Once we acknowledge that states are not monolithic and that there are dramatic differences among states, on the one hand, and between states and nonstate or transnational actors on the other hand, it becomes clear that we need a framework that can accommodate a full range of actors, relationships, and issues. We need, in short, a transnational theory. A transnational theory requires a multidimensional, structural understanding of power, one that does not privilege military power (or power in the security structure). It also requires an understanding of how power is manifested or exercised in different places, and with respect to different issues: security, finance, the environment, production, trade, human rights, democracy, migration, poverty, and so on. In different places and on different issues, state and transnational actors will play different roles, have varying degrees of influence and interest, and have varied tools at their disposal. In some places and on some issues, states may be dominant, while in other places and on other issues, transnational actors will play the central roles. Equally important, the distinction between “high politics” and “low politics” must be eliminated.
Third point: the importance of keeping firmly in mind the inescapable linkage among political, economic, and socio-cultural processes.

Final point: the increasing interconnectedness of the world must be given full consideration. For example: a street vendor named Mohamed Bouazizi set himself on fire as a protest against police harassment in Tunisia. The protests in Tunisia inspired protests and anti-government movements—dubbed the Arab Spring—throughout the Middle East and North Africa (MENA): in Algeria, Yemen, Egypt, Bahrain, Syria, Lebanon, Libya, and elsewhere. Interconnectedness, in this case, created a snowball effect that, to a significant extent, reached almost every part of the globe. Of course, Bouazizi’s action was not the cause of the Arab Spring; there were many other factors. But his action is a clear demonstration of how interconnected and transnational the world has become.

**Constructivist Approaches to IPE**

Constructivist theories recognize that capitalism has very real, very serious consequences; they also recognize that capitalism is a deeply embedded, extremely powerful structure. Yet they leave open the possibility of significant change to this structure through purposeful collective action. This is precisely what many of the anti-globalization protestors are trying to do in their actions against global neoliberalism: they are challenging the idea that the values of the (neoliberal) market—e.g., efficiency, deregulation, unfettered competition—should take precedence over other values such as equity, social and environmental justice, and so on. In the world today, there are already several types or varieties of capitalist systems that produce very different results—in terms of equity and social and environmental justice—for their societies. Among the wealthiest capitalist economies, for example, there are significant differences in terms of income inequality. Scandinavian and some Eastern European countries have extremely low levels of income inequality, while others—most notably the United States, Mexico, and Turkey—have very high levels of income inequality. There are also significant differences, to cite one more example, in terms of the level of state intervention in the national economy. In some countries, the state plays a direct and ubiquitous role in the economy (e.g., China), while in other countries, the state’s role is much more limited (although never absent). The reality of capitalism is socially constructed.

Constructivist approaches, to repeat, tell us that there are always different possibilities. They emerged through an interactive process involving a complex mix of material and nonmaterial—or ideational—factors, which includes collective human action. Capitalism, in particular, did not emerge fully formed: instead, it developed and expanded gradually
(on a global basis) over a very long stretch of time. Significantly, too, the early development of capitalism took place hand-in-hand with the emergence and development of the (modern) national state in Western Europe. The dual development of capitalism and the national state enabled Western Europe to dominate the rest of the world, and eventually to impose that system on a global basis. Again, this was not a predetermined outcome, but was contingent on a host of material and ideational factors. Once this Eurocentric structure took hold, however, it became the Picture of reality for much of the world, a picture that defines, but does not wholly determine, the parameters of our present existence. It is important to note that this Eurocentric system has itself changed significantly over time; indeed, it is no longer Eurocentric, but is instead U.S.-centric. This is the key point: ideas (values, culture, beliefs, etc.) become seen as natural or essential to our very way of life. The notion that ideas (including ideologies, values, culture, and intersubjective meanings) reflect/support the interests of the dominant class in global or national society is, of course, not unique to constructivist theories. Unlike most traditional views, however, constructivist theory sees the relationship among ideas and material forces, in a given historical structure, as invariably open-ended, no matter how entrenched they may appear to be. (Balaam&Dilman, 2015, p. 162)

**Analysis Tools and Concepts of Constructivism**

- The ideas, norms and identities of the individuals, groups and states are constructed socially.
- Ideas and values are social powers that are as important as military and economic factors.
- Conflict and cooperation are the things created by values and beliefs.
- Change, especially changes in values and beliefs that are seen in time can be explained by analyzing them.
- Framing: is the ability to describe the essence of a global problem
- Problematising: is the process of preparing a problem that needs an international synchronized reaction by states and transnational advocacy network. Constructivists claims that problems exist because we are talking about them as problems.
- Discourse analysis: is a tool that helps us to understand where some important terms and concepts are coming from and how they can shape the state politics.
- Life cycle of ideas: is a tool that helps us to understand how ideas and norms emerges, how they become widespread, how they have conflicts with other ideas,
how they are adopted by states and international organizations to promote their policies.

***There are also Feminist Theories but they are mostly supporting the constructivist theories in the light of gender equality and importance of women.