Major Theoretical Schools of International Political Economy

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ABSTRACT

The basic features of the three main schools of thought in International Political Economy (IPE), namely the liberal, Marxist, and realist schools, are described and analyzed. This is followed by a brief presentation of other, more recent trends in thinking on the subject.

KEYWORDS

International Political Economy (IPE); schools of thought; current trends.

I) INTRODUCTION

1. The aim of this article is to present and analyze the main features of the three major theoretical schools of International Political Economy (IPE). These schools, or lines of thought, are the liberal, Marxist, and realist currents. At the end of the article, brief mention is made of two newer lines of thought, still without broad acceptance, which some authors call cognitivism and constructivism.

II) METHODOLOGY

2. The literature on IPE and its three major theoretical schools is broad and varied. In this article, the author has chosen to draw, in general terms and with the necessary adaptations, on the presentation found in the work of Gérard Kébabdjian (1), cited in the bibliography.

III) DEVELOPMENT

3. IPE is a multidisciplinary and complex field of knowledge devoted to the analysis of international economic relations, grounded in the phenomena of wealth and power. From this perspective, the facts of the world economy – whether in trade in goods and services, investment, or capital flows – arise from both economic and political factors.

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4. IPE seeks to analyze international economic issues by bringing together four dimensions: the economic, the political, the national, and the international. To this end, it also considers the role and presence of various subjects or agents, including nation-states, individuals and private companies, social classes, pressure groups, and others.

5. In this way, IPE seeks to explain how political power organizes international economic relations and, at the same time, how economic forces limit the scope for political action among international actors, such as states, large corporations, non-governmental organizations, and others. The lines of demarcation between the economic and political spheres, as well as between the national and international spheres, are constantly changing, which increases the complexity of IPE as a field of inquiry.

6. Societies and nations, throughout history, have almost always differed over the proportions in which basic social values – wealth, security, and freedom of choice for individuals – should be combined. This accounts for the breadth and thematic complexity with which IPE is confronted.

7. In sum, IPE studies the social, political, and economic structures that affect global systems of production, trade, and distribution. It is also concerned with the combination of values underlying these structures.

8. As Susan Strange (2) judiciously noted, these structures do not arise from divine ordering, nor are they the result of random phenomena. They are, in fact, the consequences of decisions taken within institutions created by social groups, with their norms, customs, and values.

9. The modern agenda of IPE includes a wide range of issues, such as the regulation of international trade in goods and services, the terms of investment among countries, and the ways in which exchange rates and balance-of-payments imbalances are adjusted. This involves studying the role of several important entities, such as the World Trade Organization (WTO), the World Bank, and the International Monetary Fund (IMF).

10. Also prominent are themes and issues related to development assistance provided bilaterally or multilaterally, as well as the question of technology transfer to developing countries by official or private sources. No less important are issues linked to environmental preservation on a global scale, the repression of transnational illicit acts, and the control of migration and epidemics.

11. Turning to the central theme of this article, we first examine the main features of the liberal current of IPE. This line of thought has its roots in an earlier past, going back to the work of the founders of economics as a science, namely Adam Smith and David Ricardo.

12. The liberal current of IPE is based on three central assumptions: individualism, the rationality of agents, and the analysis of politics in purely economic terms. These three assumptions are explained in greater detail below.

13. Individualism consists in positing that individuals and private companies are the main actors or agents of IPE. In this view, nation-states are of little importance, since they represent only the aggregation of private economic agents.

14. Regarding the second assumption of the liberal current, it holds that individuals and firms are utility or profit maximizers; in other words, they are apolitical beings. They always act on the basis of this motivation in international economic relations, seeking to maximize absolute gains.

15. The third assumption of liberal thought consists in analyzing politics in purely economic terms. This is done through a cost-benefit analysis of all actions.

16. Thus, the political aspects of international economic relations are studied only in situations of market failure (such as the provision of public goods, externalities in consumption or production, and the like) or where transaction costs are high. These situations constitute occasional exceptions to the basic assumptions of the existence of free trade in all markets.

17. The liberal model considers that the logic of economic interest prevails over the institutions of political power. In other words, cooperation among private economic agents

through the free-price system almost always ensures coordination in the sphere of political decision-making.

18. In this way, nation-States have an interest in establishing stable and predictable systems of economic regulation, with a view to ensuring free competition, world peace, and the international provision of public goods. These are goods — such as world peace and a healthy environment — whose consumption by one group, once produced, does not limit their consumption by others.

19. According to the liberal current, International Political Economy is understood as an extension of neoclassical economic theory. Economic motivations aimed at maximizing profits (absolute gains) prevail over political considerations, which play a secondary role. International coordination through the free-price system likewise induces political coordination among agents (individuals and firms).

20. The basic features of the Marxist current of IPE are presented next. Its origins go back to the work of Karl Marx in the mid-nineteenth century, later extended by theories of imperialism (Hobson, Lenin, Hilferding).

21. According to the Marxist current, social classes (and not individuals and private firms, as the liberal current argues) are the main actors in IPE. These classes are driven especially by their economic interests.

22. Conflict constitutes the fundamental reality of class society, resulting from the exploitation exercised by dominant strata over the others. This process manifests itself both within each country and in the international sphere.

23. Modern studies within the Marxist current of IPE have focused their research on the role of multinational corporations (increasingly powerful in relation to developing countries) and on the economic and social situation of countries with low per capita income (the so-called "Third World").

24. This situation would give rise to "dependency theory," defended by thinkers such as Paul Baran, Theotonio dos Santos, and Andrew Gunder Frank. In this theory, underdevelopment is seen as a necessary consequence of the world capitalist order, which divides the world into "central" and "peripheral" countries.

25. Dependency theory maintains that differences in wealth and power among nations are caused by unequal power relations between developed and developing countries. These are also called "central" and "peripheral" countries, respectively.

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26. Peripheral or underdeveloped countries are basically, according to this theory, suppliers of agricultural or mineral raw materials to developed countries. The center-periphery power structure rests on a relationship of unequal exchange, in which underdeveloped countries become increasingly dependent on highly industrialized nations for access to high-value-added goods and advanced technology (sold under restrictive conditions and at exploitative prices).

27. The first major thinker of dependency theory was the American economist Paul Baran, with his work "The Political Economy of Growth," published in the late 1950s. Baran set out the broad outlines of the theory, emphasizing the colonial past of developing countries as the primary cause of dependency.

28. The Brazilian economist and sociologist Theotonio dos Santos continued Paul Baran's work, suggesting a periodization of the phases of dependency and of its reproductive mechanisms. He also criticized the notion that developing countries are "dual societies," in which a small modern productive sector coexists with a backward sector that encompasses most of the population.

29. The sociologist Andrew Gunder Frank (born in Germany, but later established in the United States of America) represented the more radical wing of dependency theory. Opposing the "developmentalist" thinkers of this theory (Raúl Prebisch, Fernando Henrique Cardoso, Celso Furtado), who admitted the possibility (however remote) of breaking the dependency relationship through industrialization, Gunder Frank put forward a unified view of the world's political and economic structure. This power structure would prevent any substantial change in the center-periphery relationship.

30. At this point, it should be noted that the historical experience observed in the second half of the twentieth century disproves a good part of the theses of dependency theory. The performance of several Asian countries (China, Japan, India, South Korea, etc.), in terms of economic growth and technological progress, amply attests to this.

31. We now examine the realist school of thought in IPE. It is linked to the realist current of international relations (Thucydides, Machiavelli, and Hobbes) and, in modern times, to Hans Morgenthau's important work *Politics among Nations*.

32. The realist school has been, in recent decades, the dominant theory in IPE, especially in the United States. Its best-known representatives include thinkers such as Robert Gilpin and K. N. Waltz.

33. The basic viewpoint of the realist school in IPE rests on the idea that nation-states always pursue objectives of power. Nation-states are the main actors in IPE (unlike what adherents of the liberal and Marxist schools maintain).

34. Since there is no entity in the international order that holds the exclusive legal use of force (the United Nations – UN – does not meet this criterion), each nation-state must adopt a behavior of self-preservation. Thus, international economic factors are used to achieve objectives of political power.

35. In other words, according to the realist school of IPE, international economic facts are dominated by political considerations. In this line of thought, the pursuit of relative gains predominates.

36. Since nation-states are the main actors in IPE, realist thought holds that the international order is, at least potentially, anarchic in its essence. The other actors (individuals, private companies, social classes) should be seen as subordinate to nation-states, which are above all concerned with their security.

37. Since political objectives dominate economic issues, nation-states (according to the realist school) seek, above all, external security. For this reason, they accept sacrificing economic gains, at least temporarily, in order to weaken their rivals and strengthen themselves politically or militarily.

38. With a view to establishing a reasonably stable international order (a situation of anarchy is always possible), nation-states seek a configuration of balance of power, in which several powers of comparable strength maintain a situation of equilibrium. Alternatively, when one nation-state surpasses all the others in power, a configuration of primacy is established, through hegemonic stability.

39. Nation-states are seen by the realist school as rational agents in pursuit of power. This power takes various forms (economic, political, military, technical-scientific, and cultural), expressed in various resources (territory; population; natural wealth; health; well-being and level of schooling, etc.).

40. In sum, the realist school sees international relations essentially as a "zero-sum game," in which the gain of one nation-state is the loss of another, and vice versa. In view of this, it is relative gains (and not absolute gains) that matter in IPE. In the hierarchy of objectives pursued by nation-states, external security and the preservation of the military bases of power stand out, with economic issues subordinated to them.

41. The three "ideal types" of the lines of thought in IPE adopt, as we have seen, different assumptions. The liberal school sees individuals and firms as the main actors; the Marxist current posits social classes, and the realist school nation-states, respectively, as the main actors in IPE.

42. On the other hand, Marxist and realist thinkers agree in considering that conflicts (actual or potential) and power relations lie at the heart of IPE. Liberal thinkers, by contrast, interpret international phenomena on the basis of a convergence of economic interests, which leads to the creation of institutions as a result of rational choices.

43. The following comparative table, adapted from Kébabdjian (3), provides a useful synthesis of the basic features of the three main schools of IPE.

Table 1 – Summary of the Basic Features of the Three Main Schools of IPE

Schools/Features	Liberalismo	Marxism	Realism
Main actor	Individuals and firms	Social classes	Nation-states
Basic motivation	Convergence of interests	Conflict of interests	Power conflicts
Method of analysis	Individualism	Holism	Individualism
Relationship between economics and politics	Prevalence of economic interests	Prevalence of economic interests	Prevalence of political interests

Source: adapted from Kébabdjian.

44. In recent decades, since the end of the Cold War, the Marxist school has lost acceptance to a considerable extent. The reasons mentioned earlier also contributed to this (see paragraph 30).

45. Contemporary debates in IPE have centered on the opposition between the liberal and realist schools. In general, a certain convergence between these two lines of thought has been observed.

46. As a result, the neoliberal and neorealist variants have gradually gained acceptance among IPE theorists. This phenomenon is also due to the common method of analysis shared by the liberal and realist schools.

47. In summary, the neoliberal strand accepts that nation-states should be considered important actors in IPE. At the same time, it emphasizes an institutionalist theory of international economic relations based on the idea of market failures, seeking to analyze institutional arrangements in the economic field as the product of rational choices.

48. As for the neorealist strand, it admits that other important actors (mainly multinational corporations) should be considered in IPE, alongside nation-states. These are no longer seen as omnipotent, but also as strongly influenced by private actors and by the structure of the international order.

49. In this case, the prevalence of political and military interests is no longer absolute. In today's world of economic and technological globalization, financial and commercial considerations gain greater strength in relation to those of a political and military nature.

50. Neoliberalism seeks to interpret cooperative behavior among the main actors in IPE as the result of a learning process. Its emphasis remains on the pursuit of absolute gains.

51. Moreover, by advocating the rational choice of IPE actors, neoliberalism seeks to identify an economic basis for the existence of international institutions. These would be created because of transaction costs in markets, which, even when efficient, are not perfect in gathering information, establishing contracts, and monitoring their execution.

52. Neorealism, in turn, emphasizes the idea of fundamental inequality in the distribution of power among countries. While maintaining its concern with the pursuit of relative gains, it admits that cooperation among IPE actors is possible, at least on a limited scale, in order to create institutions that serve their interests.

53. From this point on, a brief account is given of the cognitivist and constructivist schools of IPE. These, as noted earlier, although influential, still do not enjoy broad acceptance among scholars of the subject.

54. The "classical" schools of IPE perform well in explanatory terms when it comes to accounting for the creation and existence of regimes. These are constituted by the macrostructure of international economic institutions and their various interrelationships.

55. Difficulties arise, however, in analyzing how regimes function when they are affected by their own operation. According to both the neoliberal school and the neorealist school, regimes are created out of situations of market failure or transaction costs. Once created, regimes are postulated as neutral and as having no influence over the actors of IPE.

56. Cognitivism maintains, unlike what the rationalist schools (neoliberal or neorealist) argue, that the identities and interests of the main actors of IPE are not constant and immutable. On the contrary, they are changing perceptions of reality and are influenced by the very functioning of regimes.

57. The originality of the cognitivist school therefore lies in maintaining that the perception of reality by IPE actors is a process independent of the distribution of power and wealth in the international order. Values and knowledge can act as autonomous forces in the creation or disappearance of regimes and can themselves be transformed by them.

58. In sum, cognitivists believe that, under the influence of regimes, the beliefs and perceptions that lie at the origin of their creation become subject to change as a result of the functioning of institutions. There is, therefore, a process of feedback between IPE actors and regimes.

59. In the case of constructivism, it seeks to show how regimes can not only change actors' perceptions of the international order, but also their willingness to act upon reality. In this way, regimes serve not only to provide regulatory functions, but also to reduce uncertainty.

60. A regime cannot be conceived without taking national components into account. According to constructivism, IPE must emphasize the actions of national actors (private or state), since the concept of international society is, to a large extent, a fiction.

61. According to constructivism, regimes aim to address the causes that lead to the creation of the institutions of the international order. In this way, it seeks to deepen the cognitivist approach by considering the process of internationalization, considering not only states, but also national societies.

IV) FINAL CONSIDERATIONS

62. The neoliberal and neorealist schools share the belief in the possibility of giving IPE a scientific character. In this case, the relations between international economics and politics would derive from a general theory, formed from an integrated system of theorization and interpretation.

63. This ambition toward scientificity was defended by thinkers such as K. N. Waltz (neorealist) and R. Keohane (neoliberal). The former maintains the thesis that balance-of-power theory is grounded in the microeconomic theory of market structures; the latter argues that the entire analysis of IPE derives from the theory of market failures.

64. As early as the late 1960s, the great French philosopher and theorist Raymond Aron presented a profound critique of IPE's ambition toward scientificity (4). The fundamental difficulty surrounding "scientific" IPE would be, according to R. Aron, the impossibility of clearly distinguishing endogenous variables from exogenous variables in international relations, which correspond more to a constructed object than to a real object.

65. A similar position was defended by the Brazilian economist Reinaldo Gonçalves. In his view, IPE is more a method of analysis than a science. The focus of IPE is the study of the dynamics of the international economic system (in its various spheres and dimensions) resulting from the decisions of national and transnational actors, whose conduct is determined by objective and subjective factors (5).

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