The theoretical foundations of IPE

Chapter learning outcomes

After reading this chapter students should be able to:

- Understand and summarise the historical foundations of the three main theoretical approaches considered in this chapter.
- Cite the work of one or more key authors associated with each approach.
- Recognise how each approach explains ‘real world’ events.
- Explain how ‘real world’ events have shaped the development of these core theoretical approaches.
- Demonstrate a critical awareness of the broad strengths and weaknesses of each approach.
- Understand how debates between associated theorists influenced the development of these approaches.

Introduction

This chapter outlines the key arguments of the three dominant orthodox theoretical perspectives in IPE and their historical evolution. It should be emphasised from the beginning that these perspectives are to be understood as broad schools of thought that are used as a means of simplifying the situation. The division of this chapter into three sections is intended only as a useful starting point. Over time the boundaries between these three approaches have often become blurred. Within each perspective there are also a number of distinctive ideas. Given the diversity within each perspective and the cross-fertilisation between them, it should be understood that it is a mistake to think that all thought in IPE can be neatly packaged into one of three theoretical boxes. Adopting the ‘three perspectives’ approach often results in a rigid and stale explanation of theory. It could be argued that some of the issues discussed in the second half of this book, such as technology, the environment and culture, cannot be adequately understood by recourse to these orthodox approaches. It is for this reason that more recent theoretical developments in IPE will be discussed in detail in Chapters 2, 3 and 4 and this chapter needs to be read in conjunction with the following three chapters in order to gain a more rounded understanding of theory within IPE.

Realism

The term ‘realism’ is used to describe this broad approach to understanding IPE. Others use mercantilism and economic nationalism; however, here these terms will be employed to outline the historical development within the realist perspective.
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Central arguments

Despite the variety of views that are held within realism, there are a number of core values that define these thinkers as distinctive from others. The four most central of these are as follows:

- The most important actor in the international system is the state.
- Human nature is seen as inherently selfish and bad.
- International economic relations between states are competitive.
- There is a direct relationship between the pursuit of political power and economic wealth.

In very simple terms, realism advocates the primacy of politics over economics. It is a doctrine of state building and proposes that the market should be subordinate to state interests. The organisation of the national economy and its external relations should, at all times, remain consistent with national security concerns. National economic interests, especially those that are directly related to the security and survival of the state (for example, the defence industry and energy resources), should be maintained to avoid dependence on other states. This may result in the discouragement of foreign ownership of firms and the adoption of protectionist measures in trade policy.

The starting point for the realist perspective is that the international system is anarchical. This means that in the absence of a world government, states are the highest form of political power and the main actors in international relations. It is natural for states to pursue power in such a system and they aim to shape the economy to this self-interested end. The implication here is that the domestic and international spheres of the economy are viewed as distinct and separate. What is crucial for realists is the relative position of a state vis-à-vis other states, and for this reason their view of the world is often described as a zero-sum game. In other words, one state’s gain is viewed as another state’s loss. Realist thinking is mostly concerned with how changes in the distribution of power in the international state system affect the workings of the international economy. It is the relative power resources between states that are the ultimate arbiter in the outcome of international economic relations.

Historical evolution

The development of the realist perspective in IPE can be directly traced back to ideas and practices that emerged during the creation of an international system of states, which occurred in the period from the sixteenth to the eighteenth century. Medieval business practices gave way to the emergence of what were to become the basic structures of the modern commercial world. The dominant view during this period is known as mercantilism. This was a significant break with the past because the nation state was the new focus of economic thinking. The central concern of mercantilism, as with many realist scholars in IPE today, was the security of the state. The security of a state was seen as directly related to its power in relation to other states in the system. It was believed by the mercantilists that this security could be enhanced, not just by the creation of a large and well-equipped army, but also by the acquisition of wealth. At the domestic level this led to policies designed to maximise tax revenues. The logical consequence of this belief, for the nature of economic relations between states, was that a state should aim to export more and import less. By doing so it would increase its holdings of gold and silver, thus gaining an advantage over other states in the system. These precious metals could then be easily converted into money, which could in turn be used to fund national armies and stimulate the economy.

Therefore, the aim of any state in such a competitive system was to achieve a surplus in its trade balance. Of course, it is impossible for all states in an international economic system to achieve this, as one state’s surplus is another state’s deficit. Mercantilists did acknowledge that the result of such a
policy approach was a system of economic relations that would be likely to lead to conflict. This very simple logic had a significant impact, not just in the realm of ideas, but also in the actual policies adopted by states. Many absolutist monarchs fully embraced the mercantilist view. Such a theoretical position dovetailed with the era of state building in Europe and the creation of what we now understand as the ‘modern state’. Hence the term mercantilism is also often used to describe this period in the history of the international economy.

In the eighteenth century the early liberal writers significantly and successfully challenged this fairly simple theoretical position. They criticised the military conflict that appeared to result, and the threat that state control of the economy posed to the freedom of the individual. Led by Adam Smith, the liberal view suggested that, contrary to mercantilist thought, policies of intervention and protectionism would not maximise the interests of the state. These arguments are discussed in more detail in the next section of this chapter. A more robust defence of the mercantilist position was developed in response to this liberal critique. The focus shifted from the prioritisation of achieving a trade surplus to the need for more direct support of the national economy. The term economic nationalism is used here to distinguish this from the classical mercantilist position. The origins of economic nationalism can be traced back to the work of Alexander Hamilton and Friedrich List (see author boxes).

**Author Box**

**Alexander Hamilton (1755–1804)**

Alexander Hamilton was born on the Caribbean island of Nevis and spent his formative years outside the American colonies. It is often suggested that this allowed him to remain untainted by internal political rivalries, and contributed to his view of the United States as a single nation. He fought in the revolutionary army against the British in the American War of Independence.

Hamilton became the first US Secretary of the Treasury. His major concern was with economic development at the level of the nation state. His report to the US Congress in 1791, known as the *Report on Manufactures*, argued that the US government needed to help promote the national manufacturing sector. This required an interventionist approach, both in providing support to overcome shortages in capital and trade protectionism to shelter the fledgling manufacturing sector from external competition. This was seen as central to the strengthening of the state and the economic development of the United States.

Hamilton made the direct link between the need for an increase in economic self-reliance and issues of national security. He argued that by becoming more self-sufficient in manufactured goods the United States would also increase its security. Hamilton was concerned that a reliance on imports served to weaken the military strength of the US. His life came to a premature end when he was killed during a duel with Aaron Burr, who was a political rival.

The economic nationalist approach that developed during the nineteenth century could be viewed as a critique of the practicalities of liberal ideas, rather than a sustained attack on the theories themselves. Both Hamilton and List emphasised the importance of developing a strong manufacturing sector. Only by achieving this could other states hope to compete with Britain in the economic, political and military senses. However, List’s ‘infant industry’ approach failed to challenge the central logic of liberalism and in particular the justifications for free trade. This was demonstrated by List’s campaign for the removal of internal duties on trade between the various German states that existed at the time. The argument was that liberal ideas of free trade, while perfectly justified, were not applicable to the reality of a world of nation states. Rather than being in the interest of all individuals,
in reality a free trade system would favour the most advanced manufacturing states. Moreover, List in particular highlighted how Britain had achieved its dominance by adopting protectionist measures, rather than the laws of free trade. In this sense, it was a significant compromise of early mercantilist views of international trade. The main impact it had was in refocusing attention at the level of the nation state and away from the individual and the world as a whole.

**AUTHOR BOX**

**Friedrich List (1789–1846)**

Friedrich List published arguably the most convincing realist attack on liberal thought during the nineteenth century. In his book *The National System of Political Economy*, published in 1841, List criticised liberals for failing to recognise the importance of national rivalries and conflict. He distinguished between what he called ‘cosmopolitical economy’, which is concerned with the benefits of economic activity for all human beings, regardless of nationality, and ‘political economy’, where the concern is how a nation can maximise its wealth and power.

List was born in the German state of Württemburg and in his working life he quickly became a senior figure in the civil service. Contrary to the official view held at the time, he was a strong advocate of the removal of internal trade tariffs and for an economic union between Germany’s many states. He was eventually imprisoned by the King of Württemburg for these views, and was forced to relinquish his citizenship. Imprisonment did not change his views and the years he spent abroad convinced him of how a liberal approach of free trade would result in Britain’s dominance in the Industrial Revolution being maintained. Applying the law of comparative advantage to the situation in this period of history, List argued, would result in Britain exporting manufactured goods to other states such as Germany. List argued that such a situation would result in Germany’s perpetual dependence on Britain. His solution was to use economic protection to allow the development of a manufacturing sector, which would enable other states to challenge Britain. This is often called the ‘infant industry’ approach, where local firms are protected in their early years to give them time to adjust to the rigours of foreign competition.

His 1841 publication continued to bring him into conflict with the authorities. It was only a combination of widespread public support and criticism by the British press that eventually convinced the King that List deserved a formal apology for his previous treatment. He visited Britain in 1846, as the repeal of the Corn Laws was implemented, and returned convinced that this was part of an attempt to maintain British supremacy as the ‘workshop of the world’. By this point, however, his health had deteriorated and it is claimed that he eventually took his own life in November that year.

Economic nationalism has taken on many different guises over the decades since Hamilton and List put forward their arguments. However, it is possible to discern some common themes and attitudes. The central contention of this position is that the goal of building state power should be prioritised over economic activities. The distribution of power between states will determine the pattern of what are inherently conflictual relations. Hence, the struggle between states is also about economic resources. This leads to the view that the economic prosperity of a state is not enough in itself. It is the relative economic power of the state, in direct comparison with other states, that is most important. The nationalist emphasis of this approach has meant that it has remained influential due to its political appeal. It is possible to point to numerous examples throughout history where states have implemented policies designed to promote the development of domestic industry and technological advancement (see the example box, on the next page).
EXAMPLE BOX

Realism in action: the Japanese developmental state

The idea that government support of the manufacturing sector is crucial to economic development was reflected in the approach adopted by the Japanese government in the period after the Second World War. In 1949 they created the Ministry of International Trade and Industry (MITI), which became a powerful force during the economic recovery of this period. MITI was given total control over both imports and exports and directed investment into the sectors of the economy, such as coal and steel, which were seen as central to industrial growth. By the mid-1960s foreign criticism grew of MITI’s activities, but although it began to allow liberalisation of some areas of Japanese trade, it continued to play a role in guiding the direction of economic activity in Japan. During the 1970s it shifted its attention to the support of Japanese firms operating in high-tech industries. This approach has led to the term ‘developmental state’ being applied to Japan. See Chapter 8 for a more detailed discussion of this issue.

Criticisms of realism

- One perceived weakness of the realist perspective is that international economic relations are always viewed as a competitive exercise. Liberals insist that mutual gains can result from economic cooperation between states. This debate was advanced in the 1970s when liberal scholars argued that the existence of regimes facilitated cooperation between states.
- As with realist theory in IR, there is an assumption, especially within economic nationalism, that it is possible to have a comprehensive and objective national interest. Many critics have highlighted that policies designed to advance the interests of the nation state as a whole can actually represent the particular interests of certain groups that are able to influence policy-makers. A realist approach needs to explain how economic interests are translated into the politics of the state.
- The active role of the state may not guarantee economic development as some realist thinkers may suggest. Liberals argue that, in most cases, such intervention in the free operation of the market may actually hinder, rather than help the promotion of economic growth.
- Realism portrays the state as the central actor within IPE. However, more recent critics have questioned this assumption, by focusing on what they argue is the increasingly significant role played by non-state actors, such as firms, international organisations and non-governmental organisations. It is suggested that structural changes taking place in the world economy are gradually eroding the importance of the state.
- The realist approach is ambivalent about questions of equality and ‘who gets what’. Marxists would argue that the state, rather than reflecting the ‘national interest’, is reflective of the interests of the dominant economic class.

Liberalism

The roots of liberalism can be traced back to the eighteenth and nineteenth centuries. Its ideas have become embodied in orthodox economics and it is the most influential perspective in the world today, with most key states and international economic organisations operating broadly along liberal lines.
Central arguments

- It is beneficial in the long run if markets are allowed to operate freely.
- States should be able to trade openly with each other.
- The role of the state in economic affairs should be kept to a minimum.

Liberalism assumes that, at least ideally, politics and economics exist in separate spheres. Markets should be free from political interference for the sake of efficiency and growth. Liberalism assumes rationality in economic behaviour. It is argued that human beings are able to maximise their own utility; in other words, they possess the ability to assess the potential costs and benefits of any individual decision or action. There are clear links here to liberal political theory, which is committed to individual equality and liberty.

The harmony of interests, which liberals argue exists within states, is also said to exist between states. Contrary to the realist position, trade between states is viewed as a mutually beneficial exercise and this is often described as a positive-sum game. International economic relations between states are also judged by liberals to be a major source of peaceful relations among nations. By expanding the interdependence of national economies through free trade relations, more cooperative and less hostile relationships become more likely. The greater the degree of economic interdependence that exists, the less likely states will be to enter into military conflict.

The degree to which the state should be involved in the economy is one of the key debates between various liberal thinkers, and differences of opinion do exist. In general, we can say that from a liberal perspective the state should only concern itself with the provision of the legal framework and infrastructure that is necessary for the market to operate smoothly. Governments should only intervene when imperfections in the market mechanism exist, or in order to provide public goods. These imperfections could be the result of negative externalities, by which we mean spillover effects of the production process that are not included in the costs incurred. For example, there may be social costs to society that result from pollution that is produced by a firm, which the state needs to account for. The market could also ‘fail’ if there are a limited number of producers (oligopoly) or even one single producer (monopoly), where the pressures of competition do not exist. Public goods are specific goods and services that cannot be provided by a free market. At the domestic level, national defence or street lighting are good examples. The consumption of these goods could not be limited under a free market to those who had paid for them. Therefore, they have to be funded by the state through the collection of taxes. At the international level, public goods such as an open international economy and a stable monetary regime are more problematic as there is no ‘world state’ to collect taxes to provide them.

Historical evolution

David Hume laid the first foundation of liberal thinking by demonstrating a central problem with the mercantilist position. Prior to the First World War almost all currencies were convertible into gold, and this was how international economic transactions were resolved. Hume, in one of a series of nine essays published in 1752, showed how changes in price levels would naturally correct the inflows and outflows of gold that resulted from international trade. Before this the mercantilist view was that states should aim for a permanent balance of payments surplus. Hume demonstrated that such a policy would be unsustainable as a continual inflow of gold would raise domestic prices and cause economic activity to move abroad, therefore reversing the flow of gold.

Although there is a tradition of liberal thought that can be traced back to Jeremy Bentham, John Stuart Mill, John Locke and Thomas Jefferson, who all made political arguments for the freedom of
the individual, the central figure in the birth of liberal political economy is Adam Smith (see author box). Smith provided a critique of the mercantilist view, that the pursuit of power and wealth by a nation can only be achieved at the expense of other nations. He also sought to demonstrate how the free market is the most beneficial way of organising the economy, and in doing so aimed to show how this required a minimum of state involvement.

David Ricardo shared Adam Smith's belief in the benefits of free trade, although he arrived at this position for slightly different reasons. Rather than being focused on the protectionist polices supporting businessmen, Ricardo was critical of the landowners. He argued that their desire to protect the agricultural sector would lead to rising food prices, which would in turn be reflected in the need for higher wages, ultimately hindering economic development. He became a member of parliament in Britain, and demonstrated these views on a practical level with his opposition to the Corn Laws. Ricardo also developed a theoretical defence of his belief in free trade. It seems easy to see why two countries should trade if Country A produces different goods from Country B and they are efficient in the production of different goods. But if you want to endorse free trade as a general principle, you will also have to advocate trade between two countries where both countries produce the same goods and where Country A is more efficient than Country B at producing both goods. Ricardo demonstrated this by arguing that although individual countries may not always have an absolute advantage over another country, they will almost always have a comparative advantage in the production of certain goods or services. What type of economic activity this comparative advantage is achieved in depends on a number of factors. These may include the availability of natural resources, climate, and the composition and skills of your workforce. This resulted in a belief that trade had positive benefits for all, although these benefits would not necessarily be equally distributed. It also meant that the international division of labour should become more specialised. Ricardo also talked about how trade would bind nations together and therefore he provided an early example of the view that free trade could contribute to more peaceful international relations.

There was a key difference in the approach adopted by Ricardo in comparison with Smith. His approach was more abstract, and less narrative, and he was not as concerned with the practical difficulties resulting from the implementation of liberal ideas as Smith had been.

**AUTHOR BOX**

**Adam Smith (1723–1790)**

The legacies of the work of Adam Smith are twofold. First, he developed a convincing critique of mercantilism, which at the time still dominated the economic policies of states. Second, he was instrumental in developing a distinctly new approach to thinking about political economy.

Smith was born in Kirkcaldy, a small Scottish port, in 1723. He was an amazingly clever youngster and he took up a university place aged just fourteen. His work forms part of what is commonly called the Scottish Enlightenment. This was centred in the universities and Smith held an academic post at Glasgow University from 1748 to 1764. All the thinkers attached to this ‘project’ were committed to taking a secular and scientific approach to the study of human society. They also shared a belief in progress.

In his most famous work, *The Wealth of Nations*, published in 1776, Smith’s attack on mercantilist thinking focused on the understanding of how we understand the ‘wealth of a nation’. Contrary to the mercantilist view that this was measured by how much gold and silver a state held, Smith sought to demonstrate how production and economic growth were the determinants of wealth. He then explained how this economic growth would be best achieved by the
After successfully challenging the ideas of mercantilism, and in particular developing the idea of free trade resulting in mutual gain, liberal thinking became the dominant theoretical approach in political economy. One early political triumph was the repeal of the Corn Laws in Britain in 1846. This marked the removal of tariffs that had previously been imposed on imported grain.

Subsequently, a significant shift occurred in liberal thought in the period after the First World War and in particular after the Great Depression of the 1930s. The idea that minimal state involvement would result in benefits for all was questioned. At the international level, international institutions were now viewed as necessary to ensure that a system of free trade would be mutually beneficial. Up until this point, the classical liberals had demonstrated a faith in the strength of the interdependence that results from trade. They did not foresee the need for institutions to guarantee world peace. John Maynard Keynes, who was one of the architects of the post-Second World War global economy, led these significant changes in the liberal approach (see author box).

It appears that Smith’s ideas are still influential today. In the celebrations that followed the election of Ronald Reagan as president of the United States in 1980, it is claimed that many of his supporters wore the same necktie, which featured a profile of Adam Smith. In the United Kingdom a pro-market think-tank, ‘The Adam Smith Institute’, exists in his name.

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During the 1920s there had been a steady growth of protectionism, partly as a result of the settlement made after the First World War. The international recession of the 1930s heightened the appeal of economic nationalism. At the Bretton Woods Conference in 1944 there was a liberal consensus among the delegates concerning the causes of the Second World War. The rise in economic nationalism in the 1930s was viewed as a direct cause of economic decline. This was thought to have led to the rise in popularity of fascism, which in turn was seen by the post-war economic planners as the main cause of the war.

The Bretton Woods System was created in an attempt to prevent states pursuing protectionist measures during times of economic hardship. A framework of institutions was created to enable management of the world economy. These institutions were the International Bank for Reconstruction and Development, more commonly known as the World Bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade. The Bretton Woods System reflected many of Keynes’ ideas and has famously been described as being based on ‘embedded liberalism’. The aim was to encourage a stable but open world economy at the international level, while allowing individual states the independence to pursue domestic policies designed to provide employment and social welfare. In other words, it can be described as a system of strong states embedded in a liberal market-based world economy.

CONCEPT BOX

Laissez-faire economics

Laissez-faire is a French term meaning ‘to let be’ or ‘to allow’; this idea is synonymous with free trade policies. The laissez-faire school of thought holds a pure capitalist or free market view that capitalism is best left to its own devices, as capitalism alone will progress and it will advance faster and become more efficient without involvement from any legislative body. The basic idea is that less governmental interference in private economic matters, such as pricing, production and distribution, makes for a better system. Laissez-faire economics emerged throughout the eighteenth and early nineteenth centuries in the wealthier states in Europe and North America. It is possible to argue that despite its many critics laissez-faire is still dominant and drives economic policies in many contemporary states.

It is clear that there have been many different strands of thought within the liberal perspective. However, there are some enduring ideas that remain at the heart of this approach. One of these is the belief that the most efficient way of organising international economic relations is by allowing the free market to operate. The emphasis on free trade, which can be traced back to the work of Smith...
and Ricardo, is still pertinent today. As a general idea this has informed the organisation of world trade since the Second World War (see box below).

**EXAMPLE BOX**

**Liberalism in action: GATT and the international trade regime**

The central liberal contention that restrictions on trade should be removed has had a direct impact on the practice of international relations. The General Agreement on Tariffs and Trade (GATT) that was created after the Second World War was designed to promote and protect this principle. GATT was not a formal institution but a framework for negotiations with the idea being to reduce barriers to trade; initially these were chiefly tariffs and quotas. Different rounds of negotiation focused on increasingly complex issues. In 1995 a new organisation was created as a result of the Uruguay Round of GATT talks. The World Trade Organization (WTO) now has the main purposes of promoting free trade and settling disputes between member states. If you were unaware of the WTO, you probably noticed it after its third Ministerial Conference in Seattle in November 1999, which attracted a large number of protestors. See Chapter 6 for a more detailed discussion of world trade.

**Criticisms of liberalism**

- One of the major criticisms of liberalism is that markets are not a natural phenomenon.
- Economic liberalism is criticised for not looking at the political and social context. It is suggested that this is needed if we are to understand how economic actors operate. In the liberal world, individuals are seen as rational actors operating in a system free from political boundaries and social constraints.
- Liberalism is also charged with being ahistorical. It is charged with being a reflection of the values and ideas associated with a successful minority. This makes the analysis rather static and the virtues of the status quo are assumed.
- One clear Marxist critique of economic liberalism is that the justice and equality of economic outcomes are disregarded. The argument is that liberalism is merely an attempt to manage a market-based economy as efficiently as possible. At the international level, the asymmetry between North and South has led to the charge that liberalism only serves the interests of the strong.
- Liberal thinking has been criticised for underplaying the importance of the state in the international political economy. Although differences exist within the liberal perspective, in general the market is central and the state is given the limited role of only delivering those things that the market is unable to provide. Over recent years fierce debate has taken place over whether the state’s importance is declining or not, and how central it is to our understanding of the international political economy.

**Marxism**

This perspective is extremely broad and wide-ranging. Others may use ‘structuralism’ but this term is employed here to describe one particular strand of thinking within the broader Marxist tradition.
Central arguments

Despite the different forms of Marxist thinking it is possible to identify common elements:

- Historical change is ultimately a reflection of the economic development of society.
- Capitalism is the main driving force of world economic relations.
- In a capitalist society there is class conflict between the bourgeoisie and the proletariat.

The general view of Marxist approaches is that we should analyse the social world in its totality. In Volume 1 of *Capital*, Karl Marx (see author box) decided to begin by studying the simplest form of social relations, from which he could then build on. Social change is explained by alterations in what Marx called the ‘means of production’. These are the various elements necessary to the process of production. These would include knowledge, labour, tools and technology. As these change, the ‘relations of production’ change. These are the institutional relationships (for example, wage labour) that are also necessary for production. Together these two elements create the economic base of society. Marxist approaches tend to argue that changes in this economic base are then reflected in the superstructure (the legal, political and cultural institutions). This approach is known as historical materialism.

Marx was not an impartial commentator but hoped that by increasing our understanding of capitalism it would be easier to ultimately overthrow the system. In Marx’s analysis capitalism was built on a logic that would ultimately result in contradiction and crises that would inevitably lead to collapse. More contemporary Marxists are, in general, less keen to emphasise that capitalism sows the seeds of its own destruction. Marx spent most of his time analysing in great detail the nature of capitalism. In contrast to the liberal approach that emphasises the harmony of interests that exists between social groups, Marxism highlights the central role that class conflict plays in capitalist society. The main clash is between the bourgeoisie (the owners of capital) and the proletariat (the workers). Capitalism is built upon the two key principles of the pursuit of profit and the protection of private property. These principles allow the bourgeoisie to exploit the proletariat by paying them a wage that is less than the market value of the goods and services that they produce.

Historical evolution

The major strength of this approach, in contrast to the other two perspectives discussed in this chapter, is that the analysis is focused directly on the link between the social and economic structure of the economic system (what Marx called the mode of production), and the operation of political power and influence. It also provides students of IPE with a toolkit for the systematic critique of the current international order.

Quite clearly the development of the Marxist perspective begins from the work of Karl Marx. Although Marx did devote a very limited amount of his time to the effects of capitalism on parts of the world outside Europe, his analysis of capitalism was chiefly at the national level. He did not develop an organised account of international economic or political relations. Since his death, others have used his ideas and applied them to many of the issues central to the study of IPE.

Central to Marx’s thought was a critique of the liberal view that had become dominant during the nineteenth century. As discussed earlier in this chapter, this approach suggested a harmony of interests could be possible under capitalism and that economic exchange could lead to mutual gain. For Marx, in a capitalist society there can be no inherent social harmony. On the contrary, he argued that there were three laws governing its operation, which together explain both the evolution and eventual demise of this mode of production. He saw capitalism as composed of internal contradictions that would cause frequent crises and the eventual downfall of the system as a whole.
Theoretical Foundations of IPE

Chapter 1

The first of these objective laws is known as the falling rate of profit. Capitalism is a system based on the private ownership of the means of production and the existence of a wage labour system. In other words, workers 'sell' their own skills at a price determined by the market. Marx highlighted how the rate at which workers are paid is less than the value of the goods and services that they produce. He called the difference between the two the 'surplus value', which is now more commonly known as 'profit'. The driving force of capitalism is the accumulation of as much profit as possible.

One of the ways to do this is to increase the efficiency of the production process by introducing better technology and labour-saving techniques. As competition increases it becomes increasingly difficult to maintain the same rate of profit. We should maybe describe this as a tendency, rather than a law, as Marx acknowledged that there were a number of factors that could halt such a decline. Second is the law of disproportionality. This denies the liberal perception that capitalism has a tendency towards equilibrium. Marx suggested that in reality it is subject to the overproduction and underconsumption of goods and services. Periodically there are periods of boom and slump as the amount of goods produced outstrips the demand by consumers. Over time he predicted that these crises would become increasingly severe and would create the conditions for the proletariat to revolt against the system. Third is the law of the concentration (or accumulation) of capital. The drive for profits makes it necessary for the bourgeoisie to accumulate capital and to invest this in order to maintain their competitive edge. As the system evolves, this leads to the increasing concentration of wealth in the hands of the successful capitalists, at the expense of an increasing number of impoverished masses. This increases the pool of unemployed workers, which puts a downward pressure on wages, and again this makes the capitalist system ripe for revolution.

Marx did develop a critique of why the capitalist system can be maintained for so long even though these inherent contradictions were so obvious to those who examined the system from a critical perspective. This is based on two factors and is referred to as false consciousness: the production and maintenance of tautological values such as the pursuit of material possessions as a 'natural' objective of humans and the importance of spiritual belief and religious observance. Together these things help to reinforce class relations and reduce the chance of manifestations of the 'hidden' class conflict. In effect, the proletariat are kept in a state of non-action against the existing order by the satisfaction of some 'perceived' desires and by the control and distractions inherent within religious belief systems. The Catholic Church in Italy, for example, often professed support for the government of Mussolini and professed that social disobedience was sinful (this included disobedience against the capitalist system). Marx also held a very different opinion of the role of the state. Unlike the realist view that sees the state as directing economic affairs in the national interest, or the liberal view that the state should be kept out of economic matters wherever possible, Marx saw the state as intimately linked to the economic base. He argued that the state was wholly reflective of the interests of the bourgeoisie and that it created a political and legal framework to these ends.

Author Box

Karl Marx (1818–1883)

Karl Marx was born in Prussia. The son of a lawyer, he studied law at university before becoming interested in philosophy during this PhD. He began his career as an editor of a radical newspaper in the Rhineland, but this was soon censored. After brief spells in Paris and Brussels, he moved to London in 1849. There he lived in poverty and spent much of his time in the reading room of the British Museum.

The sheer quantity of Marx’s work makes it hard to make generalisations and there is often dispute about precisely what Marx said. A common approach is to divide his work into two
After Marx’s death it became increasingly apparent that the revolution that Marx had predicted was not occurring. Almost every Marxist thinker since has been concerned with the continued vitality of capitalism. The logical interpretation of his arguments was that change should have taken place in those countries that were in the most advanced stages of capitalist development (at the time this was within Western Europe). However, in the years after Marx’s death capitalism had expanded to other areas of the world.

Lenin (see author box) significantly extended Marx’s ideas. He sought to explain how both imperialism and conflict were also endemic to capitalism. Lenin argued that as capitalism decayed in the most advanced states, the drive for profit and new markets would lead capitalists to export capital abroad. Governments, through colonisation and the extension of empire, would protect these overseas interests. This, in turn, would result in rivalry between states and conflict over potential colonial territories. Hence, Lenin agreed with Marx that capitalism had inherent contradictions, but that imperialism was another stage of historical development necessary before its downfall.

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**AUTHOR BOX**

**Vladimir Illyich Lenin (1870–1924)**

Lenin was born in Russia and was engaged in revolutionary activities, for which he spent both time in prison and in exile in Siberia. He spent over a decade abroad before returning in 1917 to lead the first Soviet government after the Bolshevik Revolution.

He made a major contribution to the debate over the role of imperialism. As an active revolutionary Lenin sought to assess how the capitalist mode of production had remained resilient to the crises predicted by Marx. In *Imperialism: The Highest Stage of Capitalism*, which was...
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The idea that imperialism was contributing to the global spread and eventual demise of capitalism was challenged by dependency theory during the 1950s and 1960s. This approach shares some of the concerns of earlier Marxist thought; however, the structure of the world economy and the nature of the trade relations between states is central. This led to fierce criticism from other Marxist thinkers.

Raúl Prebisch was one of the pioneers of this approach. He was an economist from Argentina who became the inaugural director of the United Nations Economic Commission for Latin America (ECLA). His analysis of the world economy rested on a division between the advanced industrial countries (‘the core’) and the global South (‘the periphery’). Prebisch argued that capitalist development in the core was not leading to industrialisation in the periphery and the conditions for socialist revolution, but rather to the perpetual underdevelopment of the latter. His analysis rested on the nature of the trade between the two. He noted that the core tended to trade manufactured goods (for example, televisions) in exchange for primary commodities (such as bananas) from the periphery. Prebisch argued that this situation was undesirable as in the long-run the tendency is for the terms of trade to work against those economies based on primary commodities. His reasons for this belief were that the application of technology to primary products, to increase efficiency, was far more difficult than in the production of manufactured goods, such as in the example of televisions. Second, demand for primary commodities tends to remain relatively fixed compared to the demand for manufactured goods. To take the example of bananas, demand for this good is unlikely to change drastically over time.

This concern with the structural importance of capitalism was then explored by Immanuel Wallerstein to develop what is commonly referred to as world-system theory. This furthers the view that there is polarisation between countries in the world economy. The essence of world-system theory is that every domestic political struggle or economic difficulty should be viewed as part of the system as a whole. Wallerstein introduced a new group of countries, the semi-periphery, which he argued were vital to the consolidation of the capitalist world economy. The semi-periphery acts as a buffer between the core and periphery. These states are relatively less dependent on the core and they tend to have both some level of industrialisation and more organised administrative structures relative to the periphery.

It is evident from this section that there have been a number of different approaches within the Marxist perspective. With the collapse of the Soviet Union, many scholars of IPE sought to write off the potential use of this approach. This rather simplistic view fails to distinguish between the application of Marxist-Leninism in the former communist states and the ideas of Marx and his followers. Many of these still appear pertinent to the current situation. One key theme that continues to unite scholars within this perspective is the continued existence of oppression and inequality in the era of globalisation (see box on the next page).
Criticisms of Marxism

The classical Marxist view of the state as a tool for the promotion of the interests of the bourgeoisie is often criticised as being overly simplistic. Realist scholars, for example, view the state as an independent actor that is able to promote the ‘national interest’ rather than the interests of the capitalist class. Other theorists have undertaken a comparative historical analysis to demonstrate how the policies adopted by states do not always reflect the interests of the capitalist class.

Marx’s view of history as a dialectical process, whereby capitalism would eventually be replaced by communism is now generally viewed, with hindsight, as optimistic at best. Moreover, with the end of the Cold War and the adoption of free market economics in many former communist states, the alternatives to capitalism appear problematic.

Many critics view the explanation of all issues within the framework of class struggle as an oversimplification. Other radical theorists have highlighted how oppression based on different divisions, for example inequality based on gender, are masked by a purely class-based analysis.

The importance attached to economic factors in explaining relations between states is perceived as a major weakness. Strategic and political issues are also deemed to be essential in understanding the behaviour of states within IPE. Lenin’s view of imperialism as being of purely economic importance to the colonial powers is deemed highly questionable from such a perspective.

Summary

This chapter has provided a simplified account of the historical development of theoretical approaches to the study of IPE. By adopting an approach based on three perspectives it has been possible to summarise some of the major developments over the last few centuries. We have seen that the realist perspective puts states at the centre of its analysis. The pursuit of wealth within a competitive state system
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is viewed as the most important aspect of IPE. The liberal perspective, in contrast, wishes to minimise the role of the state so that markets can be allowed to function freely. This is seen as the most efficient way of organising the world economy. Finally, the Marxist perspective provides us with a critical approach to analysing IPE. Here it is class conflict that is vital to our understanding.

What this chapter has also demonstrated is the relationship between real world events and the development of theory. Social realities have been shown to influence the individual experiences of some of the leading figures in the development of theory. It is therefore important to appreciate that theoretical development does not take place in a vacuum, and that an appreciation of historical context is important. With this in mind, the following chapter considers ‘mainstream’ approaches to IPE in a contemporary setting.

Reflective questions

1. What features distinguish the above approaches from each other?
2. Do writings from the eighteenth and nineteenth centuries still have contemporary relevance?
3. How might the concepts of ‘core’ and ‘periphery’ be applied to contemporary IPE?
4. What historical examples can you give of ‘real world’ events helping to shape theoretical approaches?
5. How significant was critique between the main proponents of each approach in refining their relative positions?

Suggestions for further reading