

Exam name: International Political Economy

4. Discuss the ways in which the relationship between states and markets has evolved since the Second World War. Identify and theoretically frame key drivers of this change.

Since the ending of the Second World War, the world has gone through massive changes, herein technological, societal, economic and other factors have influenced the relationship between states and markets massively. Upon the ending of a string of catastrophes starting with the First World War and ending with the Second World War, the leaders of primarily the Western World with the US in front decided a new global, multilateral way for the international society to develop (Ikenberry, 1992). Since then, the institutions, orders, agreements and other implementations have developed tremendously with the world, but the main ideas that were implemented into the world after the Second World War are still very present today (Gourevitch, P. (2008). Thus, this assignment will argue that although the relationship between states and markets has evolved since the Second World War, the liberal ideas of advocacy for global trade, multilateralism through institutions and interdependency remain core aspects of the international society today. This assignment will argue from a liberal perspective by assessing the key developments of the world through liberal core ideas whilst reflecting upon neo-realist and neo-Marxist perspectives. This assignment will analyze the development of the global society chronologically from the Second World War to present day wherein it will examine the key drivers for the developments of the relationship between states and market. Afterwards, it will reflect upon counter arguments of the recent realist trends of the Trade War and Brexit. Lastly, it will conclude with accounting for the influence that the ideas of embedded liberalism have in present day society by focusing on institutions and the global economy whilst addressing the developments in the relationships between states and markets.

Towards the end of the Second World War, the Western world with the United States in front had visions and intensions to revive global trade which had been destroyed completely as a consequence of the first World War, the hyperinflation in the 1920's, the Great Depression of 1931 and the Second World War (Ikenberry, 1992). Because of the impaired economies upon the ending of the Second World War, multilateral action was put into place in order to achieve the visions of global trade markets. This resulted in many multilateral policy implementations that are highly influential on present day, one of the main ones being aspects of the Bretton Woods Order. The Bretton Woods order was a new monetary policy with newly implemented institutions should ensure stability in the global economy whilst rebuilding and growing the economies of the Western World. In the Bretton Woods Order, one of the core aspects was to achieve fixed currency rate whilst facilitating some flexibility for financial expansion policy if a recession would occur. To this

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end, the American Dollar was backed by gold since the US owned two thirds of the international supply of gold after the war. On top of that, many fiat currencies were bound to the US dollars with fixed exchange rates resulting fixed monetary policy whilst having an aspect of flexibility as the US could print currency. A second vision of the Bretton Woods Order was to limit and domesticate financial transactions to reduce speculation towards other currencies whilst also facilitating taxation of the financial markets within each country to provide funding for government spending. Thirdly, the IMF was introduced to provide extra security for developing countries which were in crisis by offering loans to get the economic on track if other states would deem such an investment too risky. Lastly, the World Bank was introduced to promote growth in developing countries with various projects funded by the Western World (Ikenberry, 1992).

In addition to the Bretton Woods Order, the GATT was also introduced upon the ending of the Second World War, which was a set of rules created to promote trade between developed countries. The agreements primarily entailed principles and game rules for global trade with a goal of reducing tariffs with e.g. the principle of reciprocity (Capling, A. and Trommer, S., 2017). Thus, looking at the Western World in the post-war period, embedded liberalism was the main approach to economic policy in which a liberal perspective would explain the large advocacy for multilateralism and free trade as the reason behind the massive economic growth in the postwar period (Jackson, R & Sørensen, G., 2009). This is especially evident in the key liberal ideas of increasing interdependency amongst states with the creation of multilateral institutions and stronger economic ties with global trade. From a realist perspective, however, the events following the end of the Second World War might be explained entirely different. From the viewpoint of Morgenthau and Kindleberger, actions from the side of the US such as promoting global trade and can be explained by an attempt to maintain and maximize their power in order to increase security and secure hegemonic stability in the region (Cohen, 2009). By providing capital to the European markets, the United States has a huge self-interest as it firstly builds up a stronger region compared to the Soviet Union at the time whilst building up an export market for future growth to ensure competitiveness globally and within the region, thereby enhancing regional global hegemony. Thus, from a realist perspective, although the US gave away capital to the US, the actions can be explained by a focus on relative gains in a long-term or global context, wherein they would ensure their hegemony (Jackson, R & Sørensen, G., 2017).

Alternatively, the Robert Cox' neo-Marxist World System Theory can explain the developments in the West entirely differently. Whilst the Western world is the core of the global world that exploits the periphery consisting of poorer countries, the US constitutes the core of the core during the post-war time, whereas Europe with the massive influence of the war is constitutes

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the periphery of the core relative to the US. In this relationship between the US and Europe, the US builds up the industry in Europe in order to rebuild an export market for future exploitation (Jackson, R & Sørensen, G., 2017). Thus, the developments in the Western world during the Bretton Woods era can be explained by absolute gains with liberalism, a security and wealth maximization behavior of the US according to realism, and an exploitation of the periphery of the core according to Marxism. However, Marxism and realism both fail to explain the primary implications of the dominant liberal mindset of the West that is a result of almost every single Western country gaining massively which partly refutes the Marxist argument, whilst the realist theory fails to explain why the US would provide the great opportunity of growth for Europe to gain large economic power it would constitute a threat to the economic hegemony of the US (Jackson, R & Sørensen, G. 2017).

With the economy in the Western World flourishing in the post-war period with an impressive economic stability and increased trade between countries, the major changes primarily happen in a more global context as a clash of between the Communistic Soviet Union and Capitalistic United States in the Cold War Period (Block, F. 2001). From a liberal perspective, the major double movement seen in the Cold War Period can be explained by Immanuel Kant's Democratic Peace Theory, in which he asserts that democratic countries do not fight each other whilst authoritarian countries tend to either conduct war against each other or against democracies. When applying this theory to the dispute between the US and the Soviet Union, the US and its allies consisting of democratic nations took great efforts in fighting Communism as it was the only way to achieve peace according to the dominating liberal world perception of the US. From a realist perspective, however, the Cold War can partly be explained with Kindleberger's hegemonic stability theory, in which the bipolar power distribution has caused instability since the existence of two superpowers lead to global instability (Jackson, R. & Sørensen, G., 2017). Furthermore, Morgenthau's neo-realist perspective can explain the actions of the states by the attempt of both states to maximize security by achieving hegemony. Although the realist perspective can explain the reason behind the cold war quite well with both the hegemonic stability theory and the security maximization of the states, the democratic peace theory can also explain the relationship between the two superpowers during Cold War quite well by simply addressing the core issues of the double movement in which the capitalists attempt to combat the instability and threat of undemocratic superpowers. Furthermore, whilst the realist perspective does explain the relationship during the Cold War, the core aspect of neo-liberalism of interdependency does explain the relationship between the two regions after the Cold War much better. At the point of the collapse of the Soviet Union and the end of the Cold War, the Western world had achieved a very benevolent global market in which the benefits of participating in trade and in multilateral institutions such as the UN

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and the European Union for the East-European countries ended up being the winning approach of nearly all countries in present day.

The well-developed multilateral institutions and global market was not without cost, however, as the global markets met huge economic complications after nearly 30 years of instability with the Bretton Woods Order. With the massive economic growth and rise of the Eurodollar market, the US decided to unilaterally terminate the Bretton Woods Order in 1971 by instead introducing a free-flowing monetary policy wherein the dollar would no longer be backed by gold. This was a critical juncture for the economy, as the following events including the Oil Crisis and stagflation caused major complications throughout the world. The focus now shifted back to inflation from unemployment, as the main beliefs in the correlation between unemployment and inflation was completely debunked with the phenomenon of stagflation (Helleiner, E. 2017) Evolution of monetary and financial system. These critical events caused a movement towards a neoliberal global market lead by Ronald Reagan and Margaret Thatcher, wherein the focus was no longer on stability but rather on economic growth by privatization, increasingly free markets, decrease in government spending and a liberalization of the financial markets. These events had major impacts on all regions of the world, caused a major change in monetary policy and approach to global trade, and a shift of the focus of the IMF. However, despite the large shift in these central factors and the economic impacts, the core ideas that were constituted with the Bretton Woods Order still remained such as the advocacy for free trade and the creation of multilateral institutions.

In present day, the neoliberal ideas that drove the approach to global trade are still the core drivers of today's global economy. However, critical phenomena such as failure to develop many developing economies and the financial crisis of 2008-2009 have had large implications on the economic approach today. Firstly, the Augmented Washington Consensus was implemented to answer for the complications introduced by e.g. the East Asian Crisis and the issue of developing non-industrialized countries by taking a focus to develop these nations. This is furthermore evident in the change from GATT to WTO in 1993, wherein the agreements shifted slightly more towards the development of less affluent nations (Capling, A. and Trommer, S. 2017). Although these attempts are evident in some regard, they are not necessarily evident in how the global economy looks today. Apart from the East-Asian Tigers, most other regions of the world remain relatively underdeveloped compared to the West and, therefore, it is evident that many of the liberal ideas that were introduced after the Second World War remain quite the same in principle. Although the perspective of relative gains of the developing countries, the liberal perspective focuses on absolute gains in which there are massive developments caused by the liberal institutions and policies. Therefore, the relationship between countries and markets have evolved a lot today by a general global increase in

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interdependency both economically, with a massive increase of multinational corporations, and through institutions which still remain with the same liberal principles introduced after the Second World War: Improved global market and multilateral organizations that have increased interdependency which ultimately have resulted in absolute gains for virtually every country in the world.

In the past few years, a growing trend of realist foreign policy in Europa and the US has caused incredibly influential events such as Brexit and the Trade War between China and the US. From this realist trend and these events, it might be argued that the relationship between states is currently shifting away from the liberal ground principles established with the Bretton Woods Order. Firstly, the US has for many years attempted to use the WTO to address some of the inherent issues there are with the ability for countries to self-proclaim their status as developing countries, therefore leading the current administration to ignore the provisions of the WTO and imposing tariffs against China, the EU, Japan and others leading to the current trade war (CFR, 2019). Furthermore, Brexit also constitutes a threat to the current dominating liberal structure of the global relations. Although these events are steps backwards towards the goals of liberal institutionalism, they are evidently still highly influenced by the core liberal aspects that rule the global market. The US and China are highly interdependent as they are both large trade partners, which is evident in the recent developments in the trade war as bilateral agreements seems to prevail. Thus, the realist perspective can explain the superficial reasons behind the trade war: That the countries attempt to gain relative gains over the other country. Although, the prevailing bilateralism is from a liberal perspective a clear sign that both countries clearly see the benefits of absolute advantage wherein they both gain from reaching an agreement. On top of that, the current irrelevance of the WTO might be explained by the provisions not being up to date, which is an issue that might be resolved in the Kazakhstan Round of 2020 (CFR, 2019). On the other hand, the reasons behind Brexit are evidently not economic as they take ground in some of the supranational regulations within the European Union, which is clear in the attempt of Britain to achieve trade deals with both the EU and the US.

In conclusion, the liberal core ideas constituted in the post-war period with the Bretton Woods Order still remain today, although the relationship between states and markets have evolved massively. This is evident in the sense that although the monetary policy and institutions implemented around the termination of the Second World War, the ideas of an improved global market, multilateral institutions, and industrialization still remain the basis of which states and markets are interdependent of each other. Firstly, the global markets have evolved massively by a global economic growth and a massive increase in multinational corporations, which has caused a

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shift in some regions such as East Asia whilst causing absolute gains for most other nations.

Secondly, multilateral institutions were a core implementation of the Second World War, but they have had major influence on the relationship between markets and states today. This is evident in the attempt of the WTO to improve the economic situation of developing countries, but also in institutions such as the United Nations and a variety of non-governmental that seek to improve the rights and say of developing countries. Lastly, the relationship has changed massively from a liberalist point of view by the democratization of the world. Whilst a full democratization has not yet been achieved, the data that is evident after the Second World War shows that assumptions of the democratic peace theory are currently valid.