Global Political Economy

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Global political economy is a field of study that deals with the interaction between political and economic forces. At its centre have always been questions of human welfare and how these might be related to state behaviour and corporate interests in different parts of the world. Despite this, major approaches in the field have often focused more on the international system perspective. A side effect of this has been the relative neglect of non-elites and an all-too-often missing recognition of ordinary individuals. While states remain central to international politics, they have gradually intensified their relations with multinational corporations and strengthened their engagement with international organisations. Naturally, these changes in the world around us have led to a certain rethinking of the way we understand and position individuals as actors in the global economy. To account for this, many scholars now prefer to use the term 'global political economy' (GPE) over the more traditional term 'international political economy' (IPE). Although both terms are often used interchangeably, using the word 'global' is important as it indicates a wider scope in political economy that reaches beyond relations between states.

There are various approaches to global political economy that span the political spectrum and often overlap with the perspectives covered in chapters three and four – though they are often formulated differently to incorporate economic factors. These range from state-centred approaches to Marxist approaches that argue that international capitalism will lead to the end of the state due to capitalism's inherent flaws. Arguably, it has been the liberal approach that has given individual actors (rather than states or social groups) the centre stage for analysis. As such, liberal approaches to global political economy form the bedrock of this chapter as they offer a more tangible way to present complex issues of global economics to a beginner in a way that is relatable.

Liberal approaches

The writings of liberal political economists have become so broad a church that they can include advocates of uncontrolled markets as well as supporters of strong state intervention in the market. This is a reflection of some of the practical contradictions that Karl Polanyi (1957) first discovered in different historical manifestations of liberal ideas in the aftermath of the industrial revolution in the nineteenth century. Consider, in this respect, whether government policy takes freedom of choice away from individuals, or if the state should establish a legal order that enables individuals to make choices and function as participants in a market system. Polanyi's reasoning offers an insight into the globalising economy of the twenty-first century. In this account, markets are not just abstract constructs that settle demand and supply for goods through a specific price, as economists would make us believe. Markets are, and always have been, much more. They are social phenomena embedded in broader communities and directly connected with deliberate forms of state action. As a consequence, economic, social and political life is always interconnected. In particular, the widely held belief in the advantage of a self-regulating market process carries with it a basic contradiction in so far as it leads inevitably to a severe disruption of the social fabric in different countries. This disruption can occur because of rising levels of income inequality (why some are paid more than others), foreign takeovers of companies, or fundamental disagreement on what needs to be done during economic recessions to prevent social decay.

Essentially, Polanyi observed two interrelated processes that explain change in the international system. At first, free market principles dominate and the winners from liberal economic policies exert their influence for further political change. Over time, however, the political pressures created will inevitably generate a counter-movement that is opposed to the direction of reform. Other social groups within society will articulate their interests, slow down the speed of modernisation and demand a different form of economic management and policy making. Seen from this angle, the global political economy of the twenty-first century is an attempt to embed globalising markets in transnational social relations – quite similar to what we observed historically in terms of social and economic development at the level of the nation-state.

The early heroes of the liberal approach were Adam Smith and David Ricardo. Smith argued in favour of government non-interference and the superiority of market exchanges guided by the 'invisible hand' of the price mechanism. This is a process whereby consumers seek the best quality for the lowest price and this, in turn, compels successful producers to find the lowest-cost method of production. Ricardo explicitly added the gains deriving from a system of free trade built around the principle of comparative advantage. Accordingly, 'under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each'. And, 'this pursuit of individual advantage is admirably connected with the universal good of the whole' (Ricardo 1817). From this point, international trade liberalisation has been seen as a useful mechanism allocating labour to its most productive uses allowing in turn a much greater consumption of goods than what would be possible in the absence of such a system.

For Smith, the specialisation in working patterns and the division of labour also created new opportunities for employees to achieve personal growth and professional careers. In the classic example, ten people working to produce pins could produce more in total if they worked together, dividing up tasks and performing each one better than if they all worked separately. Where Karl Marx identified repetitive work patterns and exploitation, early liberal political economy found skills, self-love and natural propensity (O'Brien and Williams 2010, 259). Taking these arguments into the modern era, if governments across the world de-regulated economic activity, cut taxes for the wealthy, privatised and contracted out traditional state services, then unprecedented levels of economic growth would follow. By allowing the free movement of capital, many more people can benefit from high levels of direct investment even if employees are less mobile and more tied to a particular workplace. Thus, in the modern liberal world view, often called neoliberalism, governments are expected to be active promoters and supporters of globalisation. Only left-leaning liberals, by contrast, recognise the increasingly global division of labour as responsible for rising levels of inequality.

What unifies liberal thinking in terms of global economics is an analytical inclusion of a variety of state and non-state actors that form relationships of mutual dependence. Therefore, the historical focus of one country being dependent on another due to a surplus in a vital commodity, like oil or gas, has gradually given way to a much more complex understanding. This does not mean that the classic interaction between states has become obsolete, rather that it is enriched by including and explicitly recognising an ever-increasing number of other international actors such as those explored in chapters five, six and seven. Hence, the policies of one international or regional organisation may rely on the policies of another. This has been the case with the European Union and the International Monetary Fund in the management of the 2008 global financial crisis as they adopted joint programmes to assist states such as Ireland. Another example is the successful implementation of a global environmental policy by the United Nations that benefitted significantly from collaboration with Greenpeace, an international non-governmental organisation. In the literature, however, it has been the multinational corporation (a private business operation with facilities and assets in at least two countries) that has received the most attention in the search for interdependent relationships across borders. Here, as elsewhere, the liberal account does show its broad remit, leaving room for positive evaluation as well as critical reflection. Some liberals praise the overall benefit from competition for international investments played out on the back of the rivalry between states and multinational corporations. Others, by contrast, stress the comparative disadvantage and limited success of less well-funded civil society actors when trying to change corporate behaviour on a global scale.

Individual actors

A convenient way to accommodate individual actors in the global economy has been to see them as economically dependent workers rather than as citizens capable of bringing about social change. The economic globalisation process has modified this perspective to some extent, with greater recognition of the integration of a diverse, but nationally based, workforce into production patterns that can span several sovereign jurisdictions and world regions. This is in contrast to what was mentioned above in classical approaches that envisioned goods and services produced from start to finish within a nation-state rather than anticipating the system of today where production spans across borders. Technological changes have made it possible to control transnational production processes and bring together people from different parts of the world to add value to a specific good or service. By engaging in this practice enterprises can transform their business into a global operation thriving on different wage levels and a diverse set of skills in the workforce. This naturally raises the question of how such changes in the organisation of capitalism influence the lives of everyday people. For example, if people produce only part of a good, such as a microchip for a computer, how are their wages determined?

More recently, the 2008 global financial crisis has shed light on non-elite actors at the receiving end of failures in the banking system and the reckless behaviour of financial elites. Not just blue and white-collar workers, but mortgage holders, house buyers, owners of small and medium-sized businesses, small-scale investors, shareholders, farmers, civil servants, self-employed people and students had to struggle with the implications of rescue efforts taking place simultaneously in several of the major industrialised countries. In the aftermath of government intervention and bail-out measures, many businesses had to restructure and streamline their operations for the sake of cutting costs and maintaining competitiveness. At the same time, individuals in their capacity as voters were asked to support far-reaching reform packages, austerity policies and new government strategies for job creation and employability. Non-elites have also been able to promote new alliances among a range of individual actors with more charitable goals such as income redistribution and equality in mind. Many left-leaning political economists have therefore placed their hope in transnational solidarity and broader social movements unified under the banner of alter-globalisation – which styles itself as an alternative to neoliberal forms of globalisation.

A fundamental requirement for any such processes to work is an increasing number of people-to-people contacts developing various types of cross-border relationships. International migration offers an example where Polanyi's key argument is relevant. Although governments have closely cooperated for the sake of liberalising the flow of goods, services, and capital, the same cannot be said about the flow of people. Restrictions to migration movements have become the rule rather than the exception. In a market economy, key decisions about investment, production and distribution are driven by supply and demand. This has led, as a side effect, to diverging approaches to migration control within liberal political systems. Canada, for example, was the first nation to implement a points-based system by which entry visas are granted on the basis of specialist skills or aptitude tests. Moreover, relative population density and regional distribution is also taken into consideration when residency permits are linked to particular jobs or states within the federal system. Such restrictions on personal freedom are accepted precisely to achieve a better goodness of fit with the demand side for immigration and the requirements of regional economies. Only gradually, and over time, are individual restrictions reduced, thus slowing down the pressures for adaptation that is expected from new arrivals as well as society as a whole.

Another example of the Polanyi-type adjustment process can be found in the area of philanthrocapitalism. These accounts show personal characteristics and entrepreneurial spirit through the activities of billionaires such as Warren Buffett, Bill Gates, George Soros and Mark Zuckerberg. This elitist circle is not just known for its wealth, but also for individual ambitions to transcend the business world and influence political leaders in their decision-making process. Through the funding of global campaigns, each of these entrepreneurs has tried to make a difference in terms of poverty reduction, public health, educational reform and democratisation. In other words, corporate elites are actively translating individual success into altruistic behaviour on a global level. Broadly speaking, the institutional arrangements surrounding philanthrocapitalism help to safeguard core business activities while branching out into new sectors with genuine global reach and potential. The individual actors of this emerging system use their personal wealth to construct new global policy networks that specifically include individuals from governmental and non-governmental organisations susceptible to a particular vision of the future (Cooper 2010, 229). Therefore, personal gain, shareholder benefits or compensation for aggressive business tactics may not be at the forefront of their considerations. Instead, corporate social responsibility in this interpretation can be seen as a form of enlightened selfinterest, recognising the danger of a potential backlash from society at large to excessive market power and business influence.

The Chan-Zuckerberg Initiative is a useful example of philanthrocapitalism. Its aims are to administer the donation of 99 per cent of the married couple's Facebook shares to a range of global projects, which amounts to tens of billions of US dollars. Its founders chose the institutional form of a limited liability company (LLC) rather than extending the model of a charitable trust or social fund to the global level. This ensures that as an organisational form it can continue to generate profit and donate money to specific political causes. More traditional non-profit organisations have stricter requirements for the disclosure of information to qualify for tax exemptions, whereas LLCs have fewer rules in this respect and still allow for investment in profit-driven projects in addition to philanthropic activities. Thus, this type of business structure offers new degrees of flexibility to move shares between separate business operations and to extract profits for the owners, if so required. In this way, the core of the Facebook business model that generates the wealth held by Chan and Zuckerberg remains unchanged. The ambition to do good at a global level is clearly counterbalanced by the need to generate revenue and income through a lucrative commercial service.

Whether financially successful entrepreneurs with celebrity status can have a truly transformative capacity when it comes to the finding of solutions for international policy problems is open to debate. Their activities, as observed at the annual meeting of the World Economic Forum in Davos, Switzerland, at least suggest that they are increasingly recognised as important contributors to global public policy. Fame and fortune, however, is not always the main criterion to be part of an international gathering. The independently organised World Social Forum is deliberately non-elitist in that it welcomes a broad range of civil society organisations and social movements to its annual convention. The 2016 meeting in Montreal, Canada, carried the slogan 'another world is needed – together it is possible' and aimed to 'gather tens of thousands of people … who want to build a sustainable and inclusive world, where every person and every people has its place and can make its voice heard'. What both events have in common is the continuing effort to build transnational alliances that gradually dissolve any neat distinction between the public and the private sphere and make the global count in the study of political economy.

The state and the multinational corporation

The industrialised state of the twenty-first century is going through significant stages of adaptation and transformation in response to economic globalisation and losing its privileged position in the international system. Not only the rising powers of Brazil, Russia, India and China but also multinational corporations represent a serious challenge to its once dominant role. There is now little expectation that major economies will adopt a light regulation economic policy style along the lines of the once dominant US model. Instead, the notion of the competition state captures best how since the 1990s government actors have created more business-friendly regulatory frameworks actively supporting internationally operating firms in their efforts to generate more growth and employment opportunities. A well-trained domestic workforce becomes, in this context, an important asset to promote a particular territory for the allocation of foreign direct investment.

Despite similar pressures to reduce government expenditure, states have also continued to diverge in the way they provide welfare for different social groups within their societies. It has become popular to privatise public services and leave the task of their delivery to companies rather than the state. As a consequence, the role of the civil servant is now similar to that of a business manager overseeing the spread of markets into new areas such as education, health and security. Yet, in line with the Polanyi-type adjustment process, government agencies and state organisations cannot entirely shed their responsibility for some of the negative effects of radical policies associated with market liberalisation, especially in trade and finance. Economic globalisation creates 'winners' and 'losers', which leads to the issue of inequality in societies. To win the support of the 'losers', governments typically have to offer compensatory measures through income redistribution, retraining programmes or further educational opportunities. The budgetary resources necessary for the funding of such activities brings into perspective taxation as a main attribute of modern forms of government as well as an indicator of state power relative to other actors in the international system. As the international controversy around the tax bills of large multinational corporations like Amazon has shown, there is a general public expectation that multinational corporations should make a fair contribution to the states in which they generate their profit. After all, for their business models to succeed they have to be able to draw on a well-developed infrastructure, an educated workforce and general health care.

Furthermore, through direct tax evasion, or the use of regulatory loopholes, large corporations may gain a decisive advantage over local suppliers operating in the same market sector and offering comparable services. For example, due to different tax laws within member states of the European Union, the video streaming service Netflix International was exempt from UK corporation tax despite having around 4.5 million paying customers in the UK. In line with the letter of the law, it only paid 5 per cent income tax in Luxembourg. Although this is a regional example, multinational companies with global operations can also shift profits to countries where lower taxes apply by transferring royalties between different branches of their business. What emerges is a picture of waning state power with global business actors playing off different tax regimes to their own advantage. Seen from their angle, multinational corporations are merely following the rules of the game as implemented by governments in their national systems. If the rules change, their behaviour will change as well. Indeed, due to public pressures there seems to be evidence of a step change in this issue, at least in Europe where corporations like Google and Starbucks have been reprimanded.

Multinational corporations in their interaction with civil society have sometimes been the target of non-governmental pressure groups and trade unions, which call for boycotts due to breaches of international environmental or labour standards. More frequently, however, liberal approaches have singled out their exceptional capacity to create wealth at a national, as well as international, level. Their cross-border investment activities in home or host states are often assessed positively as they ensure technology and capital transfer, develop managerial skills in diverse country contexts and ensure market access while simultaneously creating new jobs, thus providing a ‘social’ service in lieu of those typically seen as justifying the state and, therefore, excusing them from taxes. In the case of Apple this has taken the form of a global supply chain by which the bulk of its products are designed in the United States, but manufactured elsewhere – predominantly in China – due to lower costs. This is also an indication of the impact technological change in the production process has on the multinational corporation–state relationship. Seen from the Polanyi angle it is no surprise that when Apple’s chief executive officer Steve Jobs was asked by US president Barack Obama why manufacturing could not return to the US, he simply replied, ‘Those jobs aren’t coming back’ (Duhigg and Bradsher 2012). Even the most powerful national politicians find it hard to deal with the social consequences of these technological innovations in the global market.

Towards global economic governance?

One popular way to react to the fundamental changes in the production sphere described above has been the signing of regional and global trade agreements. At times this is combined with further steps towards market integration and intensified political cooperation among nation-states. The exponential growth of such deals has generated a major controversy in the field about whether regional and global organisations constitute a new ideal for the international economic system, making it possible to align the multitude of potential actors for the purpose of creating effective global policies.

The widespread appeal of regional governance is shown by the prominent examples of regional groupings loosely modelled on the example of the European Union. This can be seen primarily in the North American Free Trade Agreement (NAFTA), the Southern Common Market (MERCOSUR), the Association of South East Asian Nations (ASEAN) and the Economic Community of West African States (ECOWAS). The evidence available so far is inconclusive as to whether regional organisations can act as the final stepping-stone or, perhaps, present a major stumbling block for the emergence of a genuine form of governance in the global system. In the case of the European Union a prime purpose has been to build a single market, but in many areas this has necessitated a range of measures to deal with some of the undesirable consequences of market liberalisation. For the sake of economic prosperity all European Union member states agreed to remove trade barriers and reform some of their domestic regulations, while at the same time devising measures through which particular groups within society are entitled to direct financial compensation. Through its own legislative process, the European Union has also been actively trying to cushion some of the effects of an open market by enforcing environmental targets, health and safety standards and guarantees for equal opportunities.

The scope of the European Union has also revealed some of the difficulties of regional projects, with member states sometimes wishing to 'opt out' of certain areas when they are not in agreement with regional plans – such as adopting the euro currency. An extreme instance of this can be seen in the British vote to leave the European Union in the 2016 'Brexit' referendum. In a wider sense, negotiation rounds for global trade deals, as opposed to regional ones, have stalled and protectionist behaviour for whole industrial sectors has been on the rise. Although tariffs are at unprecedented low levels globally, it has proved much harder to further harmonise national business regulations and guarantee mutual market access. If the aim is to achieve higher growth rates, enhance consumer choice and create more jobs, then hidden trade barriers have to be tackled much more effectively at the global negotiation table. The liberal ambition to take transnational civil society more seriously also comes at a price. Keenly aware of the historical record and detrimental effects of free trade deals, critics are deeply concerned about the repercussions that new large-scale, inter-regional agreements might have. In different parts of the world voters and interest groups have become increasingly sensitive to the impact of trade liberalisation on labour standards, worker rights, income distribution and environmental sustainability.

More generally, there is a problem with the very institutions of global governance in how they settle a trade-off between their democratic accountability and effective economic policymaking. In the case of the World Trade Organization (WTO), with 164 member states, the implementation of trade rules is not easily reconciled with the demands articulated by international non-governmental organisations such as Greenpeace. These frequently hold the view that the management of international organisations has been captured by a few powerful countries, undermining their role as honest brokers, mediators and enforcers of joint policies (Stiglitz 2002). At the same time, not everyone agrees that giving non-state groups advisory status and better access to the organisation's internal decision-making would solve the dilemma. Due to the intergovernmental character of the World Trade Organization, its democratic legitimacy is set in a 'one country, one vote' system where the governing body consists of trade ministers delegated by the member states.

From the angle of democratic accountability things look even more problematic in other global economic institutions. Most notably, the International Monetary Fund (IMF), which is charged with the task of ensuring economic stability around the world. The International Monetary Fund allocates voting rights proportional to the size of financial contributions made by its 189 member states. At grassroots level critical voices view this as fundamentally contradicting the organisation's goal of global policy change and economic reform. They see a desperate need for new social mass movements to address the failings of deregulated capitalism, build working arrangements for global governance and arrive eventually at a fairer world. Despite pessimistic assessments of the viability of such a system of global governance, an element of optimism can be gained from historical experience of bottom-up community building and the transformative power of human agency (Hale et al. 2013). Although there is always the risk that the political adjustment process at transnational level may offer too little too late, the historical work of Polanyi suggests with a degree of certainty that, under exceptional circumstances, previously passive individual actors – the 'silent majority' in conservative terminology – can proactively instigate large-scale institutional change.

Conclusion

The examples presented in this chapter highlight the diverse social and political adjustment processes that a largely unregulated global market system necessarily entails. While we certainly live in a global economy, for the time being we lack a common response to the challenges this brings. The analytical turn from the international to the global, as mentioned in the introduction to this chapter, alerts us to the fact that change has occurred – though measuring its trajectory is difficult due to the fragmented array of actors and agendas evident at the global level. Liberal approaches stress the inevitability of economic globalisation but place some hope in the responsiveness of particular global actors as long as their activities are made accountable. Accordingly, praise of market mechanisms as a force for good across the globe has been matched by ever-growing demand for reforms enabling ordinary people to share more the spoils of the system rather than being exploited by it. As long as democratic processes such as elections are strongly tied to domestic political communities, a still-evolving global market system built around liberal principles continues to present a serious challenge. If for our own individual benefit we believe there should be an element of control over this process, then regional and international organisations with the power to devise and implement global rules are the natural place to look. Without denying the impact of other factors such as philanthropic acts, or states acting alone, these are a second-best solution in the absence of an effectively coordinated global economic policy.

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