PSPA 101
Issues in Contemporary Politics
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TRADE, MONEY AND MARKETS

Remember, it is better to know how to formulate questions and go about finding answers than to know the answers. For one thing my answers may not be fully exhaustive (and will never be), and for the other, you should come up with new information to share using your intuitive senses of observation and analysis.

1- Why do we study economic issues in politics? What is the relation between influence (holding assets) and security (protecting the asset)?

In order to study how human behaves when they are together basically led many to divide the work into several branches of intellectual inquiry, from psychology (the unit being most of the time the individual) to politics, economics and sociology (the unit being most of the time groups of individuals). These divisions are tools (and not ends in themselves) for us to simplify the reality we are observing.
Politics is often said to be the study of "who gets what, when and how".

When politics involves the study of power and security, economics is that of the management of resources and the study of value (or such it claims).
Goods are always held by someone (or a group) and there are always rules governing how goods are transferred (through the market) from one party to the other, or else people could just steal or kill to get things done. The concept of private property and the existence of the public sphere make economics inherently political because it requires a political force (a wielder of power) to protect goods that are either private or public. It is from this perspective that political variables cannot be understood without looking at the economic dynamics and vice versa.

For example, studying politics would involve looking at how security is maintained over a given territory which is made of resources and a (or several) community/society. It also involves how institutions are formed to regulate the conflicting interests found in a given community/society.
Studying economics also involves looking at the formation of these institutions and how efficiently they function in mobilizing resources and making sure the market can function properly. And because conflicts between individuals and groups in a given country are most of all based on how resources are allocated and managed then there understanding the economic always involves a parallel understanding of the political. For example, conflicting interests are most of the time based on economic concerns.

2- Why is trade an important variable in the study of relations between states? Are there different trade policies adopted by countries? How does this affect the

international system and individual countries? What are the main intellectual debates around appropriate trade policies?

Trade is the basic activity that creates markets. Human beings started trading probably since they recognized value in things (meaning that they always traded).
Trading usually creates bonds but sometimes can be a cause of conflicts. Trade can easily be substituted by outright plunder. For example, when the Spanish and Portuguese ships arrived on the American shores they tried to trade in order to acquire native's artifacts. When the latter did not cooperate, they would simply tear the place down and steal everything valuable.

When they can, human beings will prefer to dominate than to give in order to receive back. The first option calls for war, the second for trade and diplomatic relations. But trading can also be an exploitative mean to protect interests at the expense of others like trading at a very high price because one controls the market of a given good, or trading at a really low price in order to throw out a given competitor.
Countries have traditionally protected their respective economies - since the formation of modern states that is – as a result of strong interest groups from specific industries and sectors that would favor high barriers to entry and because of a nationalist push that wanted to build capacity of economic production in order to be self-sufficient (independent from outside in terms of consumption needs).

This came at a time when those countries were still industrializing. Mainstream thought of this time espoused "Mercantilist theories" namely the general notion that countries could only build their productive capacity by restricting foreign entry into their markets. The priority was for 'national industries' to develop. Infant industries were thus nurtured with heavy subsidies and development strategies.
But by the end of the nineteenth century, voices (such as the one of Adam Smith) were stating that it is only by achieving free trade between countries that those countries may develop and maximize the revenues derived from a more efficient (less costly and richer in quality) exchange of goods. Of course, the political background of this situation was a powerful British empire that had strategic advantage to open up as its industries were strong enough to face competition and to reap the benefits of lower costs for imported materials.

The world saw the first international trade institution that would work on the eventual phasing out of trade restrictions between countries after WWII under the framework of the General Agreement on Tariff and Trade GATT, although the different powers of the international system were heavily protected economies.
It is much later on in 1995 and as a result of a long process of negotiation from 1984-1994 (the Uruguay Round) that the World Trade Organization (WTO) was finally created.

Intellectual property rights (IPR) protection and the free flow of capital were the primary concerns of Developed Countries (DCs) while the opening of the DCs agricultural and

manufacturing sector was crucial for Less Developed Countries (LDCs) – although they preferred to protect their own sectors at home.
The Uruguay Round posed the institutional foundations for the respect of IPR while leaving sensitive issues such as agriculture, heavy industry, and manufactures untouched. A political analysis would show that the creation of these institutions reflected the interests of the big powers like the US and Europe, although ideally, LDCs were bound to profit from the lowering of barriers to western markets.

4- How did the international system evolve from history's dawn until today? What are the new features specific to the contemporary political world order? What is the role of international institutions?

With the rise of states, government discovered that they could affect development levels and the overall structural economic situation in their respective countries by managing their economies. Throughout the nineteen century, Europe was in the final stage of industrialization. Inflated with the huge assets it grasped from its colonies, and undergoing a revolution in terms of production techniques, Western European countries did not interfere in their respective economies except sometimes to protect nascent industries.
Social inequalities were high as the differences between the richest and the poorest were enormous. The more state's institutions were being consolidated (at first to protect the new capitalist system that was emerging), the more demands of the disfavored started to be heard for social and economic reasons. Trade unions, syndicates and other bodies came to defend those interests.

Now after WWI, the times of prosperity could not be sustained and states went into difficult economic crises one after the other starting with the great depression in the US. The absence of a safety valve to the newly born economic system made it quite vulnerable to shocks. Banks used to lend money without having a proper system of checking if the money went into viable projects, and the absence of a central bank made it hard for policy makers to track the level of the money supply in a given economy and some other indicators of the economic situation.
The great depression was the consequence of the overheating of that system as increased speculations about the value of so many projects were brought down to a more conservative reality. Banks were drastically emptied from their available capital and bad debts could not be repaid by failed projects. And so, the economy was paralyzed. And because every economy depends partly on another country's economy (through exports and imports) many countries were hit by this crisis.

After WWII, the world leaders agreed that some form of regulation should be created so as to ensure that this type of crisis does not spread again on the world level. This is how the Bretton-Woods (BW) system came into being. Backed by a new hegemon a the center stage of the international scene (the United States), a fixed exchange rate system with heavy emphasis on fighting balance of payment disorders was put in place.

BW was depicted as a politically asymmetric system where the US had more power than all other countries as it could issue the currency to which all other currencies were fixed. But this soon turned at the US's disfavor when its economy began experiencing a downturn. As its currency was beginning to be outrageously overvalued enriching so many others outside the US, but paralyzing the latter's economy, the government decided to let the currency float, thus losing the peg it had on gold. The BW system was thus rendered obsolete and the dollar went for a big fall.

Today there is no more a clearly defined multilateral system, and countries adopt more or less managed floating currencies or pegged to some extent to other fluctuating hard-currencies or to a basket of currencies, depending on the nature and direction of their exports.

Countries now concentrate on building a "sound" economy which would attract investors. This involves building "credibility", and prioritizing the goodwill of the investors and other foreign entry in order to activate economic processes in the country. The state is considered to be a disturbing element in this process. We are far from the post-WWII idea of a managed economy where the emphasis was on fighting unemployment and getting economic fundamentals right. Today the biggest evil is inflation (loss in the value of money) and building credibility facing investors.

Some say that today there is no hegemon, and this is putting at stake global economic stability. Because the hegemon initially supplies what no one on the world level (such as an anchor currency, or an system of reference for the management of its economy) is ready and is able to supply thanks to the size and power it enjoys.

5- How can we understand state's sovereignty in light of growing economic interdependence?

Some scholars say that the state is not a relevant entity anymore as it surrenders to the economic forces that govern the world order. State's are at the mercy of multinationals, macroeconomic indicators (unemployment, inflation, trade balances, etc.) as they have to bend to the imperatives dictated by the latter or else they will fall.

One should never forget that the market will always be a political construct. Meaning that without an agent to back the respect of private property, all the pieces to this beautiful puzzle would collapse. All the laws and regulations needed for a market to function are supplied by the state until further notice (Check Rodrik's article for alternative, though utopian choices such as world government).

More than that, groups constantly tend to exploit their position in the economy with political power. The state in this sense is always a strategic agent in the suppression or the favoring or tacit acquiescence of such networks of privileges.

The globalization "trilemma" that Rodrik talked about in his "Feasible Globalization" paper is one of the most innovative and interesting way to depict the current dynamics between states and the international political economy.

As globalization is putting severe strains on the ability of states to conduct independent economic policies, societies (which are the principal actors states represent) are voicing concerns and trying to put a brake to specific integration movements because of the redistribution of wealth that results from this process.

Those who end up drafting these policies and are in the negotiation rooms unaccountable technocrats moved by long-term convictions that the opening up of markets is a fairly good thing for the people. Thus, the more state try to align their respective economies, the more this is done with a democratic.

Now if we had a global government where everyone would be represented (meaning that everyone can voice concerns through say one single big states) then economic integration is possible, or to be more precise, would be a given.

But the state, as a political organization is most probably going to be for some time to come an anchor institution, even if its bargaining power has drastically changed with technological and economic changes which led countries to be more dependent on each other.

This is why Rodrik thinks that the most probable alternative in the foreseeable future is a new international compromise (like the one we had under the Bretton Woods' system) that will safeguard democratic processes, keep the nation-state as the most likely form of governance, and put a brake to the globalization process.

Useful websites or links:

Paul Krugman's archives (Key American economist):
http://www.wws.princeton.edu/pkrugman/
Dani Rodrik's webpage: http://ksghome.harvard.edu/~drodrik/papers.html
www.economist.com (The Economist)
www.ft.com (Financial Times)

Additional Reading (There are so many that I feel biased to just give you those):

Pauly, Louis (1997) *Who elected the bankers?*
Ferguson, Niall (2001) *The Cash Nexus: Money and Power in the Modern World, 1700-2000*
Stiglitz, Joseph (2002) *Globalization and its Discontents*