

**BLOCK II**  
**POLITICAL ECONOMY**

**Unit 1 : International Political Economy- concept**

**Unit 2 : Contending theoretical approaches in  
International Political Economy**

**Unit 3 : Capitalism and Neoliberalism**

**Unit 4 : Bretton Woods system**

**Unit 5 : Global governance**

**UNIT-1**

**INTERNATIONAL POLITICAL ECONOMY: CONCEPT**

**Unit Structure:**

- 1.1 Introduction**
- 1.2 Objectives**
- 1.3 Meaning and Concept of International Political Economy**
- 1.4 Historical Background of International Political Economy**
- 1.5 Significance of International Political Economy**
- 1.6 Summing Up**
- 1.7 Reference and Suggested Readings**

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**1.1 Introduction:**

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Political economy is an interdisciplinary branch of the social sciences that focuses on the interrelationships among individuals, governments, and public policy. Political economists study how economic theories such as capitalism, socialism, and communism work in the real world. It may also be described as a social science that studies production, trade and their relationship with the law and the government. It studies the role of economic theories in changing socio-political and economy of the world in general and a nation in particular. Here we can cite the example of socialism or communism. On the other hand, International political economy (IPE) or Global political economy (GPE) may be described as the study interactions between the economy on a global level and political and economic actors, systems and institutions. In this unit we shall make an attempt to discuss the concept of international political economy.

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**1.2 Objectives:**

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International political economy mainly emphasises on the interrelationship between politics and economics. Moreover, it also discusses problems that arise out of such interactions. After reading this unit you will be able to:

- *explain* the concept of International political economy,
- *trace* the historical background of International Economy,
- *discuss* the significance of International Economy.

### **1.3 Meaning and Concept of International Political Economy (IPE):**

IPE is a contested term as there is no universally agreed definition of IPE. According to some scholars IPE means primarily to study of the political basis of economic actions, the ways in which government or public policies affect market operations. While few other scholars argue that it is essential to focus on the economic basis of political action, the ways in which economic forces shape government policies. So, basically IPE shows the interplay of economics and politics as the two are complementary as politics and markets are in a constant state of mutual interactions. Based on this definition, the traditional approach to study IPE suggests that there are only two important areas of IPE: Market and State. Markets are the common places where buying and selling of goods and services take place and are composed for self-interested individuals. States are mainly political institutions of the contemporary international political system. So, the traditional approach to study IPE indicated that specific differences exist between economic or market oriented activities and political or state-centered ones.

The Concept of International Political economy includes a wide range of concerns like intersection of politics and economics as goods, services, money as well as ideas move across borders. The three dominant perspectives of IPE are economic liberalism, mercantilism and structuralism.

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#### **Stop to Consider:**

#### **Some important concepts of IPE:**

1. International Trade: In terms of the international trade, IPE seeks to bring economic factors in to the study of International Relations by taking note of economic security concerns and economic foreign policy tools. As a result, the process has brought political factors into the analysis of international politics.
2. International finance is the other important concept that falls within the scope of IPE. Some of the important elements of International Finance like analysis of exchange rate policies, foreign exchange mechanisms, global capital movements, international and domestic monetary institutions are studied in the IPE.

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3. Hegemony is associated with power or dominance, both political and economic, that one social group holds over others. In international relations, hegemony refers to the “asymmetrical interdependence” of political-economic-cultural relations among the nation states. Theory of hegemonic stability became central in the IPE theory of history, it started to decline in the latter part of the 20<sup>th</sup> century.
4. Globalization is another crucial element to study within the scope of IPE. It also raises questions about the causes and consequences of increasingly global market structures. The questions include politics, business, culture, technology, the environment, global migration, gender relations, and tourism, knowledge, education etc.

**SAQ:**

Q. Do you think political and economic activities are inter related? Explain.

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**1.4 Historical Background of International Political Economy:**

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From the above discussion we have learnt the meaning and concept of International Political economy. Here in this section we shall try to trace the historical origin of the concept. The term International Political economy (IPE) started appearing in scholarly literature in the mid 1960s. This was the period in which problem of economy as well as development of third world gained international attention. However, the term Global Political economy (GPE) was also used sporadically. Mostly, both the terms were used synonymously. Here we must remember that GPE was more holistic placing states and other kinds of actors within larger structure of global system. On the other hand, IPE emphasises individual nation states as the basic unit of analysis. According to Gill, in the 1980s the terminological difference between IPE and GPE came to mark a difference in methodological orientation, mapping onto more or less mainstream and critical approaches respectively. By the end of 1990s the GPE came to be used by both mainstream and critical scholars.

Hence we can say that International Political Economy (IPE) also known as global political economy is relatively a new addition to the field of International Relations. IPE emerged as a separate field of study during 1970's, over the past 50 years, the subject has underwent a significant resurgence.

According to various historical references, international trade had connected countries together in ancient time. More specifically, during the 15<sup>th</sup> and 16<sup>th</sup> centuries, the development of commercial trade and exchanges have made the global market more interlinked and more competitive along with the advancement of transportation and technology. However, the scholars agree that IPE is a sub-discipline of International Relations that developed in parallel with globalization.

The increasing popularity of IPE as a separate discipline of study is the result of the continuing disappearance of disciplinary boundaries between economics and politics in particular and among the social sciences in general. Over the years, the IPE has grown into a multidisciplinary, interdisciplinary or transdisciplinary approach to various global problems. IPE trains students and scholars to understand the structures, hierarchies, and power struggle that regulate finance and trade, drive globalisation and economic nationalisms, and impact the distribution of wealth and poverty across and within countries, regions, and the world. In simple language, IPE is the study of a *problématique*, or set of related global problems.

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### **1.5 Significance of International Political Economy:**

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You have already learnt that political economy is an interdisciplinary branch of the social sciences. It mainly focuses on the interrelationships among individuals, governments and public policy. It mainly studies the role of politics in shaping global economy. It also studies how global economy influences world politics. Political economy plays an important role in analysing how political forces affect the economy. In every state, the economic policies are highly impacted by the voters and the interest groups. Political economy identifies the relevant groups and their interests and impact of political institutions on economic policies. Changing macroeconomic trends also influence the nature and direction of political activity of firms and institutions.

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Political changes can affect many economic areas like monetary and fiscal policies, food security, global trade, global supply, demand and crisis, GDP, financial inequality etc. these changes again affect the election and government policies. As the economies of more countries become interconnected through globalism and international trade, the politics of one country can have a strong impact on the economy of another. For a resilient economy of a country, understanding political economy is very essential.

#### **Check Your Progress:**

1. What is International Political economy?
2. Trace the origin and development of International Political economy.

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#### **1.6 Summing Up:**

After going through the unit you have learnt that International political economy mainly emphasises on the interrelationship between politics and economics. Its origin can be traced to the 1960s when the economy of new nation states began to draw the attention of the scholars of the world. Reading of this unit will also help you learning that that International Political Economy (IPE) also known as global political economy is relatively a new addition to the field of International Relations. IPE emerged as a separate field of study during 1970's, over the past 50 years, the subject has underwent a significant resurgence. Over the years, the IPE has grown into a multidisciplinary, interdisciplinary or transdisciplinary approach to various global problems. In the next unit of this block you will study about the different approaches of international political economy. After going through the block you will get a holistic idea about international political economy.

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#### **1.7 References and Suggested Readings:**

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**CONTENDING THEORETICAL APPROACHES IN  
INTERNATIONAL POLITICAL ECONOMY**

**Unit Structure:**

- 2.1 Introduction**
- 2.2 Objectives**
- 2.3 What is International Political Economy?**
- 2.4 Some Important Concepts of IPE**
- 2.5 The major approaches to study International Political Economy**
  - 2.5.1 Mercantilism**
  - 2.5.2 Liberal Economy**
  - 2.5.3 Marxist**
- 2.6 Underdevelopment**
  - 2.6.1 Dependency Theory**
- 2.7 Summing Up**
- 2.8 References and Suggested Readings**

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**2.1 Introduction:**

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International Political Economy (IPE) also known as global political economy is relatively a new addition to the field of International Relations. In simple terms, IPE is the study of interplay of politics and economy in the international arena. Although IPE emerged as a separate field of study during 1970's, over the past 50 years, the subject has underwent a significant resurgence. In the contemporary era, the IPE is a popular field of specialisation within the International Relations theory for the university students and scholars around the world. In this particular unit we will focus on the theoretical aspect of IPE and various approaches to study it. This unit will also attempt to define the IPE, summarize major analytical framework in the field and identify several current global debates. A careful reading of this unit will provide the students a better base for understanding and analyzing the concepts, issues and problems that are discussed in this unit.



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## 2.2 Objectives:

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As mentioned already, International Political Economy (IPE) attempts to study the interplay and interaction between economics and politics. Now days, a state really needs to take its economy into consideration while making a political decision. International trade and International finance assumed great significance in international politics. After reading this unit you will be able to:

- *explain* the meaning of the International Political Economy
- *discuss* the different elements of International Political Economy
- *understand* theoretical approaches to understanding International Political Economy

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## 2.3 What is International Political Economy?

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IPE is a contested term as there is no universally agreed definition of IPE. According to some scholars IPE means primarily to study of the political basis of economic actions, the ways in which government or public policies affect market operations. While few other scholars argue that it is essential to focus on the economic basis of political action, the ways in which economic forces shape government policies. So, basically IPE shows the interplay of economics and politics as the two are complementary as politics and markets are in a constant state of mutual interactions. Based on this definition, the traditional approach to study IPE suggests that there are only two important areas of IPE: Market and State. Markets are the common places where buying and selling of goods and services take place and are composed for self-interested individuals. States are mainly political institutions of the contemporary international political system. So, the traditional approach to study IPE indicated that specific differences exist between economic or market oriented activities and political or state-centered ones.

Although IPE was recognised as a separate discipline during 1970's, we could still find its references much before. According to various historical references, international trade had connected countries together in ancient time. More specifically, during the 15<sup>th</sup> and 16<sup>th</sup> centuries, the development of commercial trade and exchanges have made the global market more

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interlinked and more competitive along with the advancement of transportation and technology. However, the scholars agree that IPE is a sub –discipline of International Relations that developed in parallel with globalization.

As a subject, IPE is the fast progressing field of study in areas of Social Science that seeks to understand global issues and international problems by applying interdisciplinary tools and theoretical methods. The increasing popularity of IPE as a separate discipline of study is the result of the continuing disappearance of disciplinary boundaries between economics and politics in particular and among the social sciences in general. Over the years, the IPE has grown into a multidisciplinary, interdisciplinary or transdisciplinary approach to various global problems. IPE trains students and scholars to understand the structures, hierarchies, and power struggle that regulate finance and trade, drive globalisation and economic nationalisms, and impact the distribution of wealth and poverty across and within countries, regions, and the world.

In simple language, IPE is the study of a *problématique*, or set of related global problems. The important concepts analysed by the traditional IPE *problématique* are international trade and commerce, international finance, multinational and transnational corporations, hegemony and North- South relations. However, the scopes are broadened in the recent years as many scholars have aimed to launch a new and revised IPE, which is less focused on International Politics and the problems of the nation-state and less interested on economic policy issues.

Important definitions of IPE are:

- According to Benjamin Cohen, “IPE is the study of the complex interrelationship of economic and political activity at the level of international affairs.”
- According to American Political Scientist Helen Milner, “IPE is the interaction of economic and political variables in the international system.”

### **Stop to Consider:**

#### **Some important points:**

- International Political Economy (IPE) is the mutual interaction between International Politics and International Economics.
- The political decisions of nation-states clearly influence international trade and monetary flows, which in turn affect the environment in which nation-states make political choices and entrepreneurs, make economic choices.
- IPE emerged during 1970s as number of events like oil embargoes and the breakdown of Bretton Woods monetary system showed that how tightly International Economics and International Politics are connected.
- The oil embargo revealed the complex interdependence between and among domestic politics, domestic economics, international politics, and international economics.

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## **2.4 Some Important Concepts of IPE:**

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### **● International Trade:**

International trade is a crucial element of study or *problématique* in IPE. However, politics and economics as a discipline view international trade from different perspective using almost opposite analytical parameters. International trade could be defined in simple term when trade within a market involves buyers and sellers in different countries, which becomes the object of political scrutiny. IPE considers international trade as primarily different from domestic economic activities. Various activities within the international trade like exchange of commodities, services and resources with another country raises number of political questions of national interest. In terms of the international trade, IPE seeks to bring economic factors in to the study of International Relations by taking note of economic security concerns and economic foreign policy tools. As a result, the process has brought political factors into the analysis of international politics. So, IPE seeks to answer the important questions like what should be the state's policy be towards international trade? Many liberal economists agree that

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if countries pursue free trade, it would result in the proper allocation of resources and increase the value of the resources globally. Free trade reduces the waste that happens when goods and services are produced carelessly. After the Second World War, the international trade institutions that emerged were mainly influenced by the free trade views of economists and specific interwar trade policies which created an environment of intense competition and retaliation. In order to counter such environment, organizations like the General Agreement on Tariffs and Trade (GATT) and later World Trade Organization (WTO) emerged to reduce the barriers to free trade increasingly through multilateral negotiations. However, the countries continued to use trade tools achieve their foreign policy goals whenever necessary. So, in the post war environment, we could see that political and economic viewpoints of international trade competed for attention. Numbers of international organizations emerged like the North American Free Trade Area (NAFTA) and the European Union that supplemented the political economy of the international trade. Both the organisations used economic measures frequently to achieve political goals. Therefore, majority of scholars agree that international trade is at the key concept of IPE analysis.

● **International Finance:**

International finance is the other important concept that falls within the scope of IPE. Some of the important elements of International Finance like analysis of exchange rate policies, foreign exchange mechanisms, global capital movements, international and domestic monetary institutions are studied in the IPE. It also deals with the political implications for technical matters of international economic institutions. For example: the Bretton Woods System created as international monetary system based on a dollar-gold standard. The system made the United States mainly responsible for looking after the international monetary systems as dollar become the key reserve currency. The system was managed by the International Monetary Fund (IMF) by providing a multinational institution. The changes brought out by the Bretton Woods system for the US was mixed. As the US had the choice of spending any amount without consequences due to dollar's central position in the international monetary system, it was confronted with the tough choice

between its domestic political worries and its international responsibilities. The Bretton Woods system finally collapsed on 15<sup>th</sup> August 1971 as the US discontinued the fixed link between the dollar and gold.

In the economic history of the world, it is challenging to introduce a new monetary system. The economic and political systems are complex and likely to have undesired political consequences. Also, in order to follow international agreements, states sometimes need to sacrifice their domestic requirements. A strong international and global authority also sometimes acts as barrier to domestic economy. Therefore, many scholars view international finance as less political and more purely economic than international trade.

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**Stop to Consider:**

**Some important points:**

- Money is crucial to conduct trade as it allows people to buy goods.
- Political involvement in economic activities revolves around on enacting measures to regulate the money supply, as well as the flow of trade.
- Issues were raised with the rise of international trade regarding monetary exchanges as there was no international currency. The ‘Exchange Rate’ between any two currencies is likely to vary on a regular basis and create challenges for traders.
- So, the idea of the Gold Standard emerged with a value in gold for conducting international trade.
- The leading trading countries of the world agreed to have their currencies given a set value in reference to gold and so avoid competitive devaluations.
- The gold standard became a key feature of the trading system of the nineteenth century, upheld by Great Britain as hegemon.
- The Gold Standard collapsed as Mercantilism reemerged in the twentieth century.

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● **Hegemony:**

Hegemony is associated with power or dominance, both political and economic, that one social group holds over others. In international relations, hegemony refers to the “asymmetrical interdependence” of political-economic-cultural relations among the nation states. It is the technique of maintaining dominance and subordination in the areas of power relations and ways of gaining and maintaining power. The theory of hegemonic stability got popular during the Cold War era. The theory basically explained the motives and intentions of a hegemonic state. The hegemon was referred to a strong and a rich country that undertook the task to supply public goods like money, security and a mechanism of free trade to the international system. Only a hegemon had the capacity to bear the expenses alone due to its dominant position in the world system. It could basically regulate the world economic system. According to this theory, the world system gets richer and affluent whenever a hegemon undertakes the task to organize the international political and economic system and manage the provision of international public goods.

In the world economic history, we could witness emergence hegemon – Dutch (1620 – 72), British (1851-73) and the US (1945-1971). Whenever hegemon weakens, the international system also suffers and falls into conflict. It disturbs the peace and prosperity in the world. The theory of hegemonic stability supports and advocates the dominance of the hegemon and the maintenance of efficient hegemonic policies. The US hegemony was visible during the Bretton Woods System was functional. The Bretton Woods system was mainly interpreted as a system of economic governance invented to support U.S. hegemony in the postwar era. Each of the main Bretton Woods institutions, the World Bank, the IMF, and the GATT, made the US to play a central leadership role. In addition, the American dollar became the unofficial currency of the capitalist world as it established a monetary system in which values of other currencies of the world were tied to the value of US dollar. The US also became the biggest lender of the world as it did not need to worry about the exchange rates.

Although the theory of hegemonic stability became central in the IPE theory of history, it started to decline in the latter part of the 20<sup>th</sup> century. The

critiques pointed out that while the hegemon took the responsibility to organize the international system and supplying public goods, meanwhile, poor or free-rider states flourish, expand and increase the burden on the hegemon. So, the hegemon will be overwhelmed and will fail to bear the costs of the system it has created. So, finally hegemony will collapse until a new one replaces it by restoring the order. After the decline of the British Colonial Empire, the US emerged as a new hegemon and created the Bretton Wood system, which was viewed as the mechanism of American hegemony. However, the US hegemony declined as the American President suspended the link between the US dollar and gold on 15<sup>th</sup> August 1971, a critical feature of the Bretton Woods financial system. However, the decline of US hegemony and the emergence of Organization of Petroleum Exporting Countries (OPEC) broke down the Bretton Woods era.

As a sub-discipline of International Relations, theories of hegemony are the central to IPE. According to some International Relations experts, IPE is actually a hegemony theory as it is a state-centered concept that includes security as a critical element. However, it also relies on international trade and international finance to explain critically the rise and fall of great powers.

• **Globalization:**

Globalization is a multi-dimensional concept. The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labour. Globalization is another crucial element to study within the scope of IPE. According to many scholars, the *problématique* of globalization starts with the global expansion of production and finance. It also raises questions about the causes and consequences of increasingly global market structures. The questions include politics, business, culture, technology, the environment, global migration, gender relations, and tourism, knowledge, education etc. The globalization also raises the questions about the sovereignty of the state. According to many scholars, the nation –states are not able to address many global issues, which impacts local ones alone. The state basically exists in the “missing middle” of the complex global/local geometry of human

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society. Globalization also creates opportunities for new areas of economic and social relations by destroying the old ones.

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**2.5 The major approaches to study IPE:**

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IPE is a contested subject as there is no definitive approach and theory. However, there are few agreements among the scholars of IPE regarding theoretical approaches that are used to characterize the politics of the international economy. We could find three broad theoretical approaches or schools to study IPE – Mercantilism, liberal economy and Marxism.

**2.5.1 Mercantilism:**

Among the three approaches Mercantilism is the oldest. It is a traditional and still relevant approach to study IPE. Its origin could be traced to as early as the 16<sup>th</sup> century Europe. According to many scholars, Friedrich List (1789-1846) could be regarded as the intellectual father of mercantilist school. Friedrich List wrote his views about mercantilism as a response to writings on classical economics by Adam Smith. The traditional mercantilists assume that a country's economic wealth came from its stocks of precious metals. They further believed that the best way to increase these stocks was to limit imports through tariffs and other protectionist policies, while maximizing exports, thus creating a trade surplus.

The main assumptions of Mercantilism are:

a) The government must involve itself in the international trade:

One of the main assumptions of Mercantilist school is that governments must engage themselves in the international trade in order to protect the interests of the citizens and the states. Like Realism, they believe that world is dark and anarchic, and states are selfish and inward looking entity struggling for power only. So, one state cannot trust another state to follow their part of comparative advantage bargain. Therefore, states always have the choice to switch their trade to another country. It considers state's economic



resources as primary source of power and therefore, should not be made vulnerable or dependent on international market place. The main responsibility of the government is to secure as many resources as it can protect them. According to Mercantilist school, imports must be limited compared to exports to earn more profit.

b) International Trade is competitive rather than cooperative:

Similar to realist thinkers, Mercantilist assumes about the pessimistic human nature and types of government. So, they reject the notion of comparative advantage. They believe the international political system is highly competitive, so the fruits of the collective good will never consumed. Therefore, the government must focus on domestic production. Free trade will create an unequal world as the weak states will be weakened further by not being able to compete with the strong states. Similarly strong countries could be weakened by cheap products from poorer countries with lower salary. So many governments are unwilling to take these risks.

c) Self Sufficiency:

Based on the same assumptions on human nature and government, Mercantilist school advocates that governments must stock goods and reduce reliance on other states. They believe in complete self-reliance. It is not possible for every country to be self-reliant. So the responsibility lies with the states driven by ultra –nationalist ideologies. Sometime countries exploit resources of other countries and become self reliant. Currently, Mercantalism is associated with accumulation of resources allied with implementation of measures to protect domestic production.

d) Protectionism:

The most important feature of mercantilism is the protectionism. Many countries pursue protectionism through variety of economic policies to protect their domestic industries from foreign competition. Various forms of protectionism used by the governments are tariffs, export subsidies, currency devaluations, quotas, government subsidizing of industry and red tape.

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**Stop to Consider:**

**Neo-Mercantilism:**

Mercantilism was discontinued during the free trade era; however, it was revived in the latter part of the 20<sup>th</sup> century. A new variation of mercantilism emerged which put emphasis on holding foreign exchange reserves rather than precious metal. It also put more emphasis on developing a country's domestic manufacturing capacity. It also advocated a more sophisticated and interventionist role of the national economy. States were encouraged to use strategies to help targeted industries by variety of policies like revised tax policy, subsidization, banking, regulation, interest-rate management, labour control etc. State could also exercise a disciplinary action to protect domestic economy by ensuring adequate amount of competition. Japan was the example where all these policies were followed and achieved tremendous economic prosperity.

**2.5.2 Liberal Economy:**

The most popular and strongest approach to study IPE is the liberal economic approach. However, there is no single liberal economic theory as there are number of variations of it. Market is a central theme in a liberal economy approach. A market could be defined as a common place where economic transaction happens between buyers and sellers. Liberal approach endorses free market where economic transactions happen without any restrictions or state's interference. So, one of the principle assumptions of the liberal economic view is that the exchanges between individuals or between the countries in a free market bring mutual benefit. The free market works in a self-regulating fashion and resolves problems by itself.

Economic Liberalism came into existence in Western Europe and North America during era of industrialization and the enlightenment. Immediately, it got popular as a political and philosophical liberal movement. The liberal economic approach is based on the common liberal assumptions that people are good and naturally inclined to cooperate with each other. So, the government must encourage the free enterprise and maintain law and order in the society. Following are the main elements of liberal economy:

**a) Free Trade:**

The core element of economic liberalism is the free trade. In order to support free trade, the government must minimize their involvement in the activities of the free trade so that businesses are done without any restrictions and not interrupted by protectionist measures. Free trade is associated with the capitalist economies.

**b) Invisible Hand:**

First coined by Adam Smith, the term “invisible hand” refers to as “market forces, which means how the business and trade operates in the government non interference. Unlike the assumptions made by the Mercantilists, the advocates of invisible hand accepts that society would function better without government interference because too much state interference has a negative impact on human’s cooperation, business and making money. So government must only protect its citizens and maintain law and order. Too much of protectionism is harmful as own citizens are left to pay more on goods which are available on much cheaper price at open world market. So free trade with invisible hand is desirable.

**c) The Comparative Advantage:**

The theory of comparative advantage is another popular theory advocated by the liberal economists. It simply means a country or economy’s ability to produce a particular good or service at a lower opportunity cost than its trading partners. So the theory provides an opportunity to the producer to sell goods and services at much lower price compared to its rivals and earn profit. The theory supplements the invisible hand by supporting the assumptions of the liberals that free trade produces more trade and wealth for all nations. It believes that due to availability of natural resources and climate, some countries enjoys advantage over others in the production and growth of certain crops. This advantage could be used for benefit for all if allowed to flourish without government’s non interference. State can concentrate more on what they specialize in producing rather than on producing everything if there is a free trade. Under system, the states could import whatever they desire from anywhere in the world. Specilization works for all the countries within the system of comparative advantage. The main

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advocates of the comparative advantage are Adam Smith and David Ricardo.

**d) Peace comes with Free Trade:**

According to the economic liberals, there are political advantages along with economic advantages while adopting free trade. Democracy is the form of government in the liberal economic states, so the supporters agree that democracy brings by providing economic incentives. It was proved historically as the Second World War brought the Western European democracies together to fight against fascist.

**Stop to Consider:**

**Some important points:**

- The collapse of the Communist rule in the Soviet Union and Eastern Europe confirmed the victory and relevance of liberal economic principles, meaning laissez-faire, comparative advantage, free trade, and competition.
- Even Communist country like China also adopted market reform, beginning in 1979, followed by liberalization and fast economic growth.
- Although Mercantilism reemerged based on the success of Japan's economy, liberals point out that the success was more mirage than reality.
- Liberal scholars argue that the free market has not only proven, again and again, to be the only rational basis for countries, both individually and collectively, to flourish, but it has also proven to be tremendously flexible and adaptable.

**2.5.3 Marxist:**

Marxist is the youngest and third most important approach to study IPE. It is based on the writings of Karl Marx and Engels. Karl Marx published his most famous work – Das Capital – 1867, which was a critique of classical liberal economy. According to the Marxist approach, IPE is synonymous

with IR. This approach assumes that international economic structures are the main determinants of the political behavior and events of the countries. They reject the liberal's idea that free trade is a beneficial to all. Later, dependency theory came out from the Marxist school which pointed out that the government of the poor countries follows protectionist measures to save themselves from the exploitation.

Many scholars questioned the reliability of the Marxist approach as the Soviet Union collapsed and surviving Communist states China and Vietnam adopted liberalism and market capitalism in their international policies. But in reality structuralist narrative of the global economy as a whole become very popular in academic field, which was based on Marxist assumptions about industrialized countries. After the start of globalization, Neo – Marxist school appeared who advocated that the competition in the global economy as not being between states rather than between global “haves” and “have-nots.” According to the Neo- Marxist, IPE is based on a system where the global bourgeoisie exploits the global proletariat class. Even some of the bourgeoisie are from the poor countries that turn the economies profiting only to them by exploiting their country's resources to the richer countries. Despite the arguments about its decline, we must note that Marxist school is still relevant as it has raised concern on number of important issues like global and national income inequality, exploitation of labour, child labour etc. Child labours are still an issue of great concern in African countries as many of them are forces to work without payment. Marxist school also point out the damage caused to world environment by the big Multinational Corporations. The advancement of capitalist system all over the world has dangerous impact on the planet and the environment. In addition, capitalist system is not stable as the global financial crises are the example of it. These crises showcase the inherit instability and volatility of the capitalist system as it is based fundamentally on profit making. Only few actors are benefitted from such an unequal system. However, according to Marxist scholars such systems face crisis due to excessive production, investment and competition.

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**SAQ:**

Q. Do you think liberal economy has minimised the role of state?

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**2.6 Underdevelopment:**

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The concept of development and underdevelopment are two important areas of study under IPE. The relation between development and underdevelopment is not just a comparative one, in the sense, that some places are more developed or underdeveloped than others; development and underdevelopment are also related, both through common historical process that they have shared during the past several centuries and through the mutual reciprocal influence that they had on each other throughout the history.

In simple term, underdevelopment refers to the low level of development characterized by low real per capita income, wide-spread poverty, lower level of literacy, low life expectancy, gender inequality and underutilisation of resources etc. The state in underdeveloped economy fails to provide acceptable levels of living to a large fraction of its population, thus resulting into unhappiness and material deprivations. Such countries are characterised by relative development gap in comparison to developed countries.

The standard of living in a underdeveloped country does not match with the developed countries. This is because countries are at different stages of economic development. Development gap basically refers to the difference between the standards of living of richer and poorer countries of the globe. In other words, it is the difference in the living standards of countries at either end of the income distribution. Low income compared to the developed world economies is considered to be a major characteristic of underdeveloped regions. The underdeveloped countries are mainly located in Asia, Africa and Latin America. Following features are common among the underdeveloped countries of the world:

- 1) Low levels of living
- 2) Low levels of productivity
- 3) High rates of population growth and Dependency ratios in the population
- 4) Large scale unemployment or underemployment
- 5) Significant dependency on agricultural production and primary product exports
- 6) Dominance/dependence and vulnerability in international relations.
- 7) Low rate of capital formation
- 8) Backwardness of infrastructure.

Low standards of living in the underdeveloped regions are visible quantitatively in the form of low incomes, inadequate housing, poor health, limited education, high infant mortality, low life, gender gap and work expectancy. The per capita income is low in absolute terms among these countries. The income distribution among the population shows a high level of inequality. There is a high rate of poverty, which is reflected in widespread malnutrition, lack of basic health services, high under-5 mortality rates and lower life expectancy. The labour productivity is also low in the underdeveloped countries. The low levels of living and productivity are self-reinforcing. They are also the principal indications of underdevelopment. The underdeveloped countries also have high population pressures on their resources due to high birth rates and maternal fertility rates.

### **2.6.1 Dependency Theory:**

Dependency school is the product of Marxist theory, which contends that resources flow from a periphery of poor and underdeveloped states to a core of wealthy states, enriching the latter at the expense of the former. Dependency is a concept popularly used in comparative analysis of the third world countries in Asia, Africa and Latin America. It gives the idea of Western Capitalist system, which says that capitalist class of colonial countries allies itself with the capitalist class of the advanced countries and creates a situation of double exploitation. This places the country in a state of semi-dependency. Underdevelopment and economic dependence go hand in hand.

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Contemporary perspective of dependency reveals the contrasting forms of dominance and dependence among the nations of the capitalist world. Dependent nations may develop as a reflection of the expansion of dominant nations or underdeveloped as a consequence of their subjective relationship. Those who employ dependency in the analysis of development and underdevelopment, often focus on the problem of foreign penetration of the political economies of the third world.

Dependency theory mainly developed in the late 1950s under the guidance of the Director of the United Nations Economic Commission for Latin America, Raul Prebisch. Prebisch and his colleagues were troubled by the fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries. In fact, their studies suggested that economic activity in the richer countries often led to serious economic problems in the poorer countries.

Most dependency theorists regard international capitalism as the motive force behind dependency relationships. Andre Gunder Frank, one of the earliest dependency theorists, is quite clear on this point and stated: “...historical research demonstrates that contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries. Furthermore, these relations are an essential part of the capitalist system on a world scale as a whole.”

Dependency theory stands from the assumption that the world has been capitalist since the 16<sup>th</sup> century. The world economies divided into core states and “periphery countries” i.e. underindustrialized. Third world states relying on the production and export of primary products. Between them lie a residual category of “semi-periphery” states. Economic “surplus” flows from periphery to core meaning the division between the wealthy and non-wealthy states. Europeans took possession of non-European colonies in the 19<sup>th</sup> century, especially in Africa and Asia, for the primary purpose of economic gain. As a result, an “interdependent” but unequal relationship was established between colonizer and colonies.

Western capitalism began to emerge in 15<sup>th</sup> century since then the third world is deprived of resources. Basically, an integrated system was based



upon the transfer of resources. These resources went to build up industrial revolution in the Western Europe. At independence, this legacy of underdevelopment continued to haunt the third world countries. They were locked into a unequal division of labour, where they were providing raw materials, labour importing technology industrial products exporting raw materials from the West. Industrial economy produced this inequality in the Western economy which consists of core i.e. US and Western Europe and periphery. A. G Frank called it the development of underdeveloped.

Somewhat strategically the dependency perspective despite its emergence as a challenge to the concepts of the development perspective was the mirror image of the modernization school. It was trapped in same unproductive debate on development v/s underdevelopment. Development was something the West had and underdeveloped world did not. The third world was underdeveloped because it was not developed like Western world. The concept of development itself was never interrogated as value.

**Check Your Progress**

1. What is invisible hand?
2. What is the role of hegemon in international trade?
3. Compare Liberal and Mercantilist theories of international political economy and find out which approach is most relevant in the contemporary world.
4. Is the Marxist approach to study International Political Economy still relevant?

**SAQ:**

Q. Do you think dependency theory has led to underdevelopment?

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**2.7 Summing Up:**

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This unit is helpful for you to understand the correlation between economic and political decision making of a state. You may be in a position to understand how and in what ways interaction takes place between economics

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and politics. So, International Political Economy is the study of the complex interrelationship of economic and political activity at the level of international affairs. You have also learnt about the various concepts of the IPE like international trade, International finance, hegemony and globalization. Each of these concepts contributed towards the development of IPE as a separate subject. The process of globalization has brought the states of the world closer together than ever before into a single economic system. Those states, however, are still tends to act unilaterally in economic policy and where international cooperation has thrived it has tended to be at the regional rather than global level. This unit also helps you to understand the liberal's interpretation of free trade and its relevance.

This unit also discusses in details about various theoretical approaches to study IPE. There are mainly three approaches to study IPE – Mercantilism, Liberal Economy and Marxism. Mercantilism, which is equivalent with protectionist policy, continues in the Liberal International Economic Order and remains a popular alternative for governments at times when the global economy does not appear to be delivering collective goods. However, the most popular and relevant approach is the liberal economic approach. Liberal approach continued through the Bretton Woods system and practice of US hegemony. Liberals support greater political intervention rather than pure market solutions and through the mechanism of global governance. According to the critiques, Liberal approach is not viable as the financial crisis of 2008 had challenged assumptions and encouraged to look for an alternative approach to study the nature of IPE. Marxist approach basically pointed out the global structures and the divisions of the world into rich and poor countries. They also pointed out the global distinction between South and North as poverty still continues in the Global South. So the Marxist school calls for systematic change rather than mere reform. For many, Marxist school has no relevance now as majority of the Communist countries have adopted market model of development. But this approach is still relevant as Marxist scholars pointed out the global imbalance and number of important issues. After reading this unit, you may assume that the future of IPE is far from certain with very different predictions and prescriptions about how the role of the state will be impacted by globalization and the exceptional complexities and dilemmas that it continues to produce for governments.

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**2.8 References and Suggested Readings:**

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**CAPITALISM AND NEO-LIBERALISM**

**Unit Structure:**

- 3.1 Introduction**
- 3.2 Objectives**
- 3.3 What is Capitalism?**
- 3.4 Marxist Interpretation of Capitalism**
- 3.5 Features of Capitalism**
- 3.6 Origin of Capitalism**
- 3.7 Forms of Capitalism**
- 3.8 Stages of Capitalism**
- 3.9 Capitalism and Class Conflict**
- 3.10 Neo-Liberalism**
  - 3.10.1 David Harvey's view on Neo-liberalism**
  - 3.10.2 Characteristics of Neo-Liberalism**
- 3.11 Summing Up**
- 3.12 References and Suggested Readings**

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**3.1 Introduction:**

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There is no doubt that the capitalism has brought vast rise in human wealth and living standard. Capitalism is one of the most dominating and relevant form of social formation in the world. In simple terms, capitalism is an economic system in which private actors own and control property or capital in accord with their interests, and demand and supply freely set prices in markets in away that can serve the best interests of society. The main feature of capitalism is the motive of the people to make profit. In a capitalist economy, important assets like factories, mines, roads, railroads are privately owned and controlled. In addition, labour is purchased in exchange for money wages, capital gains increase to private owners, and prices allocate capital and labour between competing uses. In this unit we will focus on the definition of capitalism, its origin and evaluation and various approaches to study it. This unit will also attempt to highlight the attributes of the capitalism,

summarize major analytical framework in the field and identify several current global debates. A careful understanding of this unit will provide the students a better base for understanding and analyzing the concept of capitalism and neo-liberalism, issues and problems that are discussed in this unit. Also, special focus is given on neo-liberalism as a theory alternative to liberalism/capitalism.

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### **3.2 Objectives:**

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Today, although some form of capitalism is the basis for nearly all economies, for much of the last century it was but one of two major approaches to economic organization. Other major approach was socialism. The term Capitalism denotes free markets, understood as systems of free exchange among persons with well-defined, legally secure, and transferable rights in scarce resources, is a necessary condition for the wealth of the modern world. After reading this unit you will be able to :-

- *understand* the concept of capitalism,
- *understand* capitalism as an important mode of production,
- *discuss* the different stages of capitalism,
- *understand* theoretical approaches to understanding neo-liberalism.

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### **3.3 What is Capitalism?**

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The 21<sup>st</sup> century is the century of capitalism, globalization, industrialization, privatization and liberalization all over the world. It is one of the dominant political and social ideologies, which is still relevant. Simply, it is an economic system in which human beings have to undergo for a series of events. Capitalism deals with social, political, educational, cultural and economic changes in a political system.

The term capitalism does not have a specific meaning. The term is defined and interpreted differently by a number of scholars around the world. Simply, it is an economic system in which the means of production and distribution are privately or corporately owned and development is proportionate to the accumulation and reinvestment of profits gained in an open market. Capitalism establishes a social and economic contract that makes it possible

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for individuals to do their business. It gives people the ability to be secure in themselves and their possessions and, having provided security, it also enables people to assume risk that they were previously unwilling to assume. Capitalism creates necessary conditions for people to escape from poverty and generate wealth for themselves and for others poverty, unemployment, oppression, sufferings and exploitation. Many liberal scholars agree that Capitalism plays important role in the development of any nation.

The term capitalism does not confined only to economics but also draw attention towards logic, history, religion, philosophy, literature, and many other disciplines. It does refer not just to the markets for the exchange of goods and services, which have existed since immemorial. There is no doubt that capitalism has brought a vast rise in human wealth and living standards. It is the system of innovation, improvement, wealth creation, and social change that has brought to billions of people prosperity. Capitalism is a socio political-economic system based on the principle of individual rights. It is the system based on freedom which is an all encompassing theme. Nowadays capitalism has invaded all the human fields such as agriculture, construction, oil, gas, road, health, education, industry, trade. The word has very close relation with life and development. The fact is that capitalism plays a vital role in a market economy than any other mode of production.

Joseph A. Schumpeter defined capitalism as “that form of private property economy in which innovations are carried out by means of borrowed money, which in general . . . implies credit creation”.

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### **3.4 Marxist Interpretation of Capitalism:**

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The root word *capital* goes back to the 1100s, where the Latin term *capitale* was used for stocks of cattle, and later, for goods or money; *capitalist*, meaning simply an owner of capital, appears in the 1600s. However, by 1867, despite the enrichment that the Industrial Revolution had brought, the German political thinker Karl Marx (1818"83) was the main critique of the ‘capitalist mode of production’ “ what today we call *capi-talism* “ in his book *Das Kapital*. Marxist interpretation of capital mode of production is one of the pioneering works in history.

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Many people still regard capitalism as rooted in antisocial or immoral motives, such as selfishness, greed and a lack of concern for others. Often, capitalism is even defined in terms of such motives “ with the presumption that no social good can ever come from them. The word capital stands for a concept “ the abstract idea of the totality of particular capital goods. Just as we use the word animal to describe an idea that actually exists only in particular hawks, so the abstract idea of capital has reality only in particular capital goods, such as tools, machines and finance. But the idea is not confined to the massive factories, mills and production lines of big businesses. Capital goods are available around us “ in every household (washing machines, vacuum cleaners), office (computers, phones), shop (cash registers, display cases), theatre, school and hospital in the developed world.

Capitalism works best if capital goods are privately owned and controlled, whether by individuals or close-knit groups. Though private ownership may not be exclusive to capitalism, therefore, it is normally associated very strongly with the concept. Capitalism is also commonly associated with the distribution of goods through markets. But markets are not the same as capitalism. Capitalism is about the production of economic goods; markets are about their distribution. Capitalism is also associated with market exchange. Other ways of distributing economic goods are possible, but market exchange provides an efficient way of distributing the bounty that capitalism’s producers can create.

According to Marx, the capitalist mode of production comes into being when capital moves into the sphere of production, when it gets hold of the means of production and starts controlling and directing production itself. This is a long historical process, which started in Medieval Europe. Karl Marx stated that economic activity and the economic structure is the basis on which social life rests. The economic base or infrastructure comprises a certain mode of production and certain forces and relations of production. The mode of production is not the same everywhere and at all times; it changes during the course of human history.

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**Stop to Consider:**

**Stages of World history:**

Marx and Engels outline certain stages of world history. Each characterised by a distinctive economic formation. It is this economic formation that shapes other social sub-systems, which are termed as super structure like the political structure, religion, values and culture. In German Ideology, Marx and Engels broadly outline four stages of history.

- (i) the primitive communal stage
- (ii) the ancient stage based on slavery,
- (iii) the feudal stage,
- (iv) the capitalist stage.

The study of human history in terms of stages each with its own distinct mode of production forms the basis of the Marxian theory of historical materialism.

According to Marx, the basic features of capitalism are:

- a) The separation of the producer from his means of production;
- b) The concentration of the means of production in the hands of one class - the bourgeoisie;
- c) The formation of another class, which has no means of subsistence other than the sale of its labour power- the proletariat.

The result of this process of separation is the formation of two contradictory classes, which form the two poles of capitalist society. On the one side we find the bourgeoisie as the class of owners in whose hand the means of production are concentrated. On the other side we find the proletariat as the class who has to find its subsistence by the sale of its labour power. Bourgeoisie and proletariat are the basic classes of capitalist society but not necessarily the only ones. Other classes such as intermediate sections, in various forms may exist as well. But capitalism is possible only if there is a class of owners on the one hand, and a class of non-owners on the other hand.



Secondly, it is the relationship to the means of production, which characterises these classes: ownership/control and non-ownership. It is not simply a question of rich and poor. Not all poor people are workers or vice versa. They may be petty artisans, or hawkers, or peasants who still own some piece of land. An industrial worker may earn more, and yet he is a member of the working class whereas the poor peasant-owner is not. So, the working class is not homogeneous. It consists of various sections, skilled and unskilled, on daily wages or on monthly pay, under the poverty line and well above it. They constitute a common group as they are all forced to sell their labour power, be it under different conditions.

A first characteristic of capitalist economy is that it is a form of commodity production i.e. production for sale, production for the market. That is why Marx starts his analysis of the capitalist mode of production with the analysis of “commodities”. But not all commodity production is already capitalist production. Commodity production emerged thousands of years back in human history whereas capitalism is only a few hundred years old. Production of commodities, of goods for exchange, developed slowly. For a long time, it plays only a subordinate role. Only in capitalist society commodity production becomes the completely dominant form of production, it becomes generalised.

Capitalism is founded on the following pillars:

- **Private property**, which allows people to own tangible assets such as land and houses and intangible assets such as stocks and bonds;
- **Self-interest**, through which people act in pursuit of their own good, without regard for socio political pressure.
- **Production for sale rather than for self-use** - this actually means a shift from a subsistence economy. In most precapitalist economies, production is undertaken for direct consumption. For example, in agricultural economies, farmers grow crops for their own use, only a small surplus is available for sale. This is because technology is not so advanced and domestic or family labour is used for farming. This is not the case in a capitalist economy. Here, a large number of workers gather together in a factory. With the help of machines and through division of labour, goods are produced on a large scale.

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Commodities are produced for sale in the market. For instance in a factory producing candies, the final product is not for the self-use of the producers. It is for sale in the market.

- **The existence of a market where labour-power is bought and sold:** According to Marx, workers are regarded only in terms of their labour power. The capitalist or owner hires their labour-power by paying them wages. Workers can sell their labour power or withhold it because they are legally free. Unlike in the earlier stages of human history, workers are not forced to work like slaves or serfs. Sheer economic need forces them to work. They must either work or starve. So, although they are legally free to enter or not enter into contracts with the capitalist, they are not free from hunger and basic needs, which forces them to sell their labour.
- **Exchange takes place through money:** money is an integral part of capitalism. Production is undertaken for sale, and sale is transacted through the use of money. Money is the social bond that ties together the various elements in the capitalist system. Hence the role of banks and financial institutions becomes important in the system.
- **The capitalist controls the production process:** capitalist class controls the production process as they decide how production is to be carried out. They decide what is to be produced, the composition of raw materials and machines, and the manner in which the output is to be marketed.
- **The capitalist controls financial decisions:** Decisions regarding pricing of the product, wages of the workers, and the amount of financial investment and so on are taken by the capitalist.
- **Competition:** Since the whole idea of capitalism is production for sale, there is bound to be competition between capitalists. It also permits firms' freedom to enter and exit markets, maximizes social welfare, that is, the joint welfare of both producers and consumers; decentralized manner through interactions between buyers and sellers—prices, in return, allocate resources, which naturally seek the highest reward, not only for goods and services but for wages as well; Competition could also result in the formation

of ‘monopolies’ or ‘**cartels**’, where a single producer or group of producers try to dominate the market by pushing or forcing out competitors.

- Freedom to choose with respect to consumption, production, and investment—dissatisfied customers can buy different products, investors can pursue more lucrative ventures, workers can leave their jobs for better pay;
- Limited role of government, to protect the rights of private citizens and maintain an orderly environment that facilitates proper functioning of markets. The extent to which these pillars operate distinguishes various forms of capitalism.

In free markets, also called laissez-faire economies, markets operate with little or no regulation. In mixed economies, so called because of the blend of markets and government, markets play a dominant role, but are regulated to a greater extent by government to correct market failures, such as pollution and traffic congestion; promote social welfare; and for other reasons, such as defense and public safety. Mixed capitalist economies predominate today.

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### **3.5 Features of Capitalism:**

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Following features are identified under capitalism. All these factors jointly contributed to the development of the capitalist mode of production:

- a) Extended Commodity Production system.
- b) Production is for exchange. Maximisation of Profit is the objective of production.
- c) Large-Scale Industrial Production
- d) Increasing specialization and division of labour
- e) Substantial increase in production
- f) Substantial increase in concentration of wealth.
- g) Expansion of market and exchange.
- h) Growth and expansion of trade internally as well as internationally.

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- i) Advancement of technique of production.
- j) Separation of ownership of means of production from producers
- k) Labour power is freely available for purchase and sale as commodities.
- l) Wage-earners have no alternative but to sell their labour power regularly to earn their livelihood.
- m) Increase in production.
- n) Increasing competition among the capitalists.
- o) Private ownership of means of production by a handful of capitalists who control production.
- p) Increasing capital accumulation and wealth by capitalists.
- q) Surplus value, created by workers is converted to capital. Workers are exploited in the sense that wage is much lower than the productivity of the labour.
- r) A system of wage payment, which gives the worker only a means of subsistence and extra products of the workers are appropriated by the capitalists.
- s) There always exists a class antagonism between labourers and capitalists.

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**3.6 Origin of Capitalism:**

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According to Karl Marx, capitalism is among the five types of social formations. The other four are – primitive communism, slavery, feudalism and socialism. Marx explains these social formations through the dialectical method of inquiry which will form the thesis involving productive forces and production relations, culminating in anti thesis and contradictions. In course of time, these contradictions become very intense and they give birth to new social formation which can be regarded as the new synthesis.

Out of the five types of social formations, capitalism emerged in the heart of the feudal system. Basically, the decline of the feudal mode of production gave rise to the appearance of the capital mood of production.

### **Stop to Consider:**

Capitalism is an economic system based on following elements:

- Wage Labour· Private Ownership
- Production for Exchange and Profit
- According Karl Marx, in a capitalist mode of production, there are two classes: the working class and the capitalist class. The capitalist class is the class which owns the means of production as private property. The workers are hired by the capitalist class for production in exchange for subsistence wages.
- Capitalism implies a particular social relation. The labour class is free to sell its labour power which itself a marketable commodity.
- The working class is separated from the means of production. This class has no other means to earn their livelihood, but to sell labour.

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### **3.7 Forms of Capitalism:**

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Capitalism took various forms throughout the history.

**a) Merchant Capitalism (15<sup>th</sup> -18<sup>th</sup> Century):** The Merchant capitalism was the initial form of capitalism which developed during the period of 15<sup>th</sup> -18<sup>th</sup> centuries in several countries of Asia, Africa and Europe. Under this system, trade was the only source for the generation of surplus and capital. Money became an important power, with the expansion of trade. However, the basis of trade was exploitation. Through the expansion of trade and commerce, a new mode of production gradually developed.

Industrial production increased considerably with new inventions and discoveries during the period of industrial revolution (1780 – 1840). However, along with this development, merchant capital continued side by side. Trade led to the sufficient accumulation of capital. In England and many other countries of Europe, the peasants and serfs were available as wage labour, since the time of feudalism. With the new system, peasants were forcibly driven out of their farms. In this way, primitive accumulation took place by exploitation of the peasants and workers who were deprived

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of the means of production. It resulted in the formations of proletariat. The merchant capitalist developed a type of production system which was capitalist in nature. The system is known as putting-out-system, in which the merchant capitalist supplied raw materials to the actual producers and craftsmen in villages for production at their homes for the capitalist. The capitalist was the owner of the finished products. In this system, the workers owned the means of production.

**b) Industrial Capitalism:** It is the next stage of merchant capitalism. During this stage, the workers were deprived of means of production and an entirely new system of production developed where industrial capital gained supremacy over merchant capital. As the industrial capitalism developed, many workers started cooperating in production and the labour process becomes social. It was true of manufacturing production which is an essential concomitant of industrial capitalism. The industrial capitalists in Britain supported parliament which represented their interests. In course of time, there was a transition from manufacturing to factory system. With the growth of capitalism, market expanded and production grew considerably. It also led to technical revolution and mechanical invention, which led to the industrial revolution in Europe. During industrial revolution, new products were produced with new method of production. All this brought a revolution in the mode of production which became more and more capital-intensive and highly productive. However, it increased the gulf between the capitalist class and the working class. The social and economic inequalities between these two classes increased considerably. Production became more and more social but the appropriation of its gain became more and more private. This is the basic contradiction under capitalism.

**c) Monopoly Capitalism:** In course of time, concentration and centralization of capital in a few hands and increasing competition among the capitalists led to the growth of monopoly. This was apparent in all branches of production and in banking finance and capital markets. The growth of monopoly capitalism which was evident in the late 19<sup>th</sup> century, produced imperialism, the highest stage of capitalism as stated by Lenin. However, in the mid–twentieth century, a new form of imperialism made its appearance particularly in third world countries. This new form of capitalism can be called *Neocolonialism*.

**SAQ:**

Q. Explain the main features of Capitalist Mode of Production as stated by Karl Marx (150 Words)

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**3.8 Stages of Capitalism:**

The development of capitalism falls into a number of stages characterised by diverse levels of maturity. Each of them is recognizable by fairly distinctive traits only when we seek to trace the stages and to select one of them as marking the opening stage of capitalism. If we are discussing Capitalism as a specific mode of production, then it follows that we cannot date the dawn of this system from the first signs of the appearance of large-scale trading and of a merchant class, and we cannot speak of a special period of merchant capitalism. We must look for the opening of the capitalist period only when changes in the mode of production occurs, in the sense of a subordination of the producer to a capitalist.

Before publishing his brilliant work “*Das Capital*,” Marx spent many years of his life on the analysis of capitalism, because he was convinced that a thorough theoretical understanding was needed in order to facilitate the practical critique of capitalism, its overthrow by the proletariat. His work is mainly the critique of political economy, which stands for the economic theory developed by the classical bourgeoisie economists like Adam Smith and David Ricardo. Marx studied their theories extensively. Starting their theories and subjecting their categories such as value, commodity, money, capital, etc, to a sharp critical analysis, Marx proceeds to expose the true nature of capitalism. In the process he breaks down the powerful scientific legitimization of capitalist economy and not only provides a new scientific model for the analysis of capital, but lays the foundations for a fundamental critique of the totality of capitalism.

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There are mainly two ways to study capitalism and to get to know its specific character and both ways we need in order to get a full understanding. The first way is to study its history, how it was born, how it developed, under which circumstances, and with what results. This demands a study not only of the economic process but of the development of the whole bourgeoisie society. The second way of study capitalism is the systematic analysis of the economic structure of capitalist society. In that Capital is constructed according to this dialectical logic.

Number of economists classifies capitalism into different groups using various criteria. Capitalism, for example, can be simply divided into two types, based on how production is organized. In liberal market economies, the competitive market is prevalent and the big volume of the production process takes place in a decentralized manner akin to the free-market capitalism seen in the United States and the United Kingdom. Coordinated market economies, on the other hand, exchange private information through non-market institutions such as unions and business associations—as in Germany and Japan. Recently, economists have identified four types of capitalism distinguished according to the role of entrepreneurship in driving innovation and the institutional setting in which new ideas are put into place to spur economic growth. In state-guided capitalism, the government decides which sectors will grow. Initially motivated by a desire to foster growth, this type of capitalism has several drawbacks: excessive investment, picking the wrong winners, susceptibility to corruption, and difficulty withdrawing support when it is no longer appropriate. Oligarchic capitalism is oriented toward protecting and enriching a very narrow fraction of the population. Economic growth is not a central objective, and countries with this variety have a great deal of inequality and corruption. Big-firm capitalism takes advantage of economies of scale. This type is important for mass production of commodities. Entrepreneurial capitalism produces breakthroughs like the automobile, telephone, and computer. These innovations are usually the product of individuals and new firms. However, it takes big firms to mass-produce and market new products, so a mix of big-firm and entrepreneurial capitalism seems to be the best combination.



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### **3.9 Capitalism and Class Conflict:**

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According to Marx, the history of human society is the history of class struggle. Each stage in human history is marked by a division of society into two groups, the ‘haves’ and the ‘have-nots’, those who dominate and those who are oppressed. The very foundations on which capitalism survives, namely, the existence of private property, mass production of commodities under the factory system for profit and the existence of a working class that is forced to sell its labour-power in the market, leads to polarisation of classes.

As capitalism progresses, these class divisions become wider. The interests of the bourgeoisie and proletariat become more and more contradictory. The proletariat becomes united. After all, they share the same problems and begin to seek the same solutions. A ‘class in itself’ becomes a ‘class for itself’. The revolution of the proletariat will, according to Marx, bring in a new stage of history, ‘communism’, where the owners of the means of production will be the workers themselves. The contradictions of capitalism will be overcome and a new social order will be born.

Revolution is inevitable. Capitalism thus is a system, which according to Marx symbolises the most acute form of exploitation, inequality and polarisation of classes. By this is meant that the social distance between the owners of the means of production i.e., the bourgeoisie and the working class i.e. the proletariat becomes greater and greater. The concept of class conflict is very important in Marx’s understanding of capitalism.

Therefore, Karl Marx views capitalism as one of the stages in human history, which emerges out of the contradictions of the previous stage. Capitalism too, is beset with inner contradictions. It is a stage in which class conflict is at its greatest intensity. After all, the means of production are concentrated in a few hands. The labour force is considered only in terms of its labour power, which can be bought and sold for a price namely, wages. The inequalities of the system lead to polarisation of classes. The proletariat comes to realise that they have common interests and common problems and will seek solutions to these problems. The proletariat will not just remain a “class in itself” but become a “class for itself”. Their liberation will be through revolution. The revolution of the proletariat will usher in a new stage, communism, where the means of production will be in the hands of the workers themselves.

**Space for Learner**

**Space for Learner**

**Check Your Progress**

1. How capitalism is different from other mode of productions?
2. What are the main pillars of capitalism?
3. Why class conflict is inevitable in Capitalism?

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**3.10 Neo-Liberalism:**

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The Concept of neo-liberalism is usually considered as a modern alternate of classical economic liberalism. In simple words, it is the revival of liberalism. Neo liberalism is centered in the self- regulating capacity of the market, and correlatively the need to limit the scope of action of the state. These twin principles highlight two features of this ideological tradition: the puzzles of the state and market on the one hand, and of politics and economics as their respective spheres of operation on the other.

During the past twenty years, the concept of neo-liberalism has become widely popular in academic as well political discussions. According to many international scholars, neo-liberalism is an ideology shaping our world today and that people live in an age of neo-liberalism. Neo-liberalism is a revitalization of liberalism. This argument proposes that liberalism, as a political ideology has been absent from political debates and policy-making for a period of time, only to reappear in more recent time is a revived form. It advocates that liberalism has undergone a process of initial growth, intermediary decline, and finally a recent transformation. Alternatively, neo-liberalism could be visualized as a distinct philosophy and in this interpretation, neo-liberalism would share some historical and some of the basic vocabulary with liberalism in general. According to this interpretation, neo-liberalism shares same attributes with American neo-conservatism.

Few definitions of Neo- Liberalism are:

David Graeber, “Neo-liberalism isn’t an economic program – it’s a political program designed to produce hopelessness and kill any future alternatives.”

Henry Giroux, “The ideology of neo-liberalism, with its privaitization, its deregulation, its emphasis on consumption, its elimination of basically apparatus that can provide alternative points of view, has been so powerful and so normalized.”

Neo-liberalism is a political project that is justified on philosophical grounds and seeks to extend competitive market forces, consolidate a market-friendly constitution, and promote individual freedom. The specific content and overall weight of these three components vary as do the motives of those who promote them.

The term “Neo- Liberalism” was introduced in a positive sense, as Neo-liberalismus, by Alexander Rüstow and other members of the Freiburg Circle in the 1930s. It was actually introduced as intellectual-cum-political project in 1938 by German scholar Alexander Rusttow at the Colloque Walter Lippmann ; the conference defined the concept of neo-liberalism as involving “the priority of price mechanism, free enterprise, the system of competition, and strong and impartial state. So neo-liberalism was associated with supporting a modern economy policy with state intervention. Neo-liberal state interventionism brought a clash with the opposite laissez-faire camp of liberals.

It also signified a renewal or reform of classical or laissez-faire liberalism and called in particular for a strong state that would regulate as well as protect and expand freemarkets. In short, it called for a ‘free market, strong state’. This version inspired the Ordo liberal ‘social market economy’ in post-war Germany and has been influential elsewhere in Continental Europe.

Another variant of “Neo-Liberalism” is promoted by the Chicago School, which argues for the self-regulating capacities of free markets and opposes government activities that do not directly support market widening and deepening. These notions were pursued by ‘los Chicago Boys’ in 1973 after General Pinochet’s US-backed military coup d’état in Chile. This circumstance and the alleged failures and side-effects of neoliberal recipes are another reason why the term is rare as a self-description even when market fundamentalist neoliberal policies were rolled out in other countries.

### **3.10.1 David Harvey’s view on Neo-liberalism:**

Prof David Harvey, a contemporary anthropologist, in his book “*A Brief History of Neoliberalism*,” provided a comprehensive and critical definition of neo-liberalism. According to him, “Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being

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can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade.” While defining neo-liberalism, Prof Harvey also outlined the role of the state. The main role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee the quality and integrity of money. State must also set up those military, defence, police and legal structures and functions required to secure private property rights and to guarantee, by force, if need be, the proper functioning of markets. He talked about limited state interventions in markets as”the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit”.

According to Harvey’s theory, the neoliberal state should favour strong individual property rights, the rule of law, and the institutions of freely functioning markets and free trade. These are the institutional arrangements considered essential to guarantee individual freedoms. Based on his views, it appears that Prof Harvey saw neoliberalism not as a continuation of liberalism “proper”, but as something which lives independently of mainstream liberal values and policies. In fact, it seems that some neoliberals are not liberals in any meaningful sense at all, as Harvey seats anti-liberal autocrats such as Deng Xiaoping and Augusto Pinochet among the political vanguard of neoliberalism. With his interesting Prof Harvey emphasises, rightly so, that neoliberalism is a theory of political economic practices rather than a complete political ideology.

Neo-liberalism enjoyed growing acceptance as an economic and political strategy in the 1970s; witnessed panic-stricken meetings in New York and Washington a generation later at the height of the global financial crisis; and, most recently, seems to be undergoing a return to business as usual. There have been many efforts over these long decades to promote or protect ‘neoliberal’ institutions and practices as the best basis for economic, legal, political, social, and moral order in complex social formations. There is an even wider range of commentaries and criticisms concerned with neoliberalism, its core features, social bases of support, and its impact on

various sites and scales from the local to the global. This contribution addresses some of these issues. It has five main aims: to offer a baseline definition of neoliberalism; to discuss different social scientific approaches to neoliberalism; to distinguish four main types of neoliberalism from a critical political economy viewpoint and relate them to the world market, geopolitics, and global governance; to review the contradictory aspects of neoliberalism in actually existing capitalism; and to assess its prospects after the first global financial crisis and first great recession of the 21<sup>st</sup> century.

Neo-liberalism offered a dogma based on the unavoidable truths of modern economies. The basics of modern economics, and of the philosophy of neo-liberalism explained by Adam Smith in his great work, *the Wealth of Nations*. Adam Smith set the foundation of neo-liberalism with his argument that free exchange was a transaction from which both parties necessarily benefitted, since nobody would willingly engage in exchange from which they would emerge worse off. Any restriction on the freedom of trade will reduce well being by repudiating individuals the opportunity to improve their situation. Adam Smith, further argued that expansion of market permitted increasing specialization and so the development of the division of labour. Exchange was the means by which the advantages gained through the increased division of labour shared between two parties to the exchange. According to Adam Smith, any obstacles to the freedom of exchange limit the development of the division of labour and so the growth of the wealth of the nation and the affluence of each and every one of its inhabitants.

In the area of foreign policy and international relations, a neo liberal approach aims to promote free trade and open markets and Western democratic values and institutions. Inspired by such an ideology most of the Western Liberal democracies have followed the United States in its call for enlargement of the community of democratic and capitalist states. Neo-liberalism draws its ideological strength from the belief that all financial and political institutions created in the aftermath of the Second World War have stood the test of time, which provides the foundation for contemporary political and economic arrangements.

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**Stop to Consider:**

**Some important points:**

- Neo-liberalism is a revival of liberalism.
- As a political ideology, liberalism has been absent from political discussions and policy-making for a period of time, only to emerge in more recent times in a reincarnated form.
- Alternatively, neo-liberalism might be perceived of a distinct ideology, descending from, but not identical to liberalism proper.
- Neo-liberalism is understood as an ideology that is shaped in a few centres, which then diffuses outwards.
- Neo-liberal thinkers desired to limit government, but the consequence of their policies has been a huge development in the power of the state.

**3.10.2 Characteristics of Neo- Liberalism:**

- a) Neo-Liberalism is understood as an ideology that encompasses various forms of free-market fundamentalism,
- b) Neo-liberalism is diffused and translated across contexts very quickly.
- c) Neo-liberalism is operative at various spatial scales.
- d) Neo-liberalism displaces established models of welfare provision and state regulation through policies of privatization and de-regulation.
- e) It brings off various changes in subjectivity by normalizing individualistic selfinterest, entrepreneurial values and consumerism.

With the change of time, neo –liberalism has introduced a new mode of regulation or form of governmentality. The main features of this renewed neo-liberalism can be understood at one level as a revival of many central features of classical liberalism. The main features of this neo-liberalism are based on following features:

- a) **The self-interested individual:** It sees individuals as economically self-interested entity and best judge of his/her interests and needs.
- b) **Free market economies:** the best way to allocate resources and opportunities is through the market. Markets must be free from the regulations.
- c) **A commitment to laissez- faire:** Neo-liberalism stands for a limited government as the free market is a self-regulating order it regulates itself better than the government or any other external force.
- d) **A commitment to free trade:** it aims at the abolition of tariffs or subsidies, or any form of state imposed protection or support. It is against any form of protectionism.

Neo-liberalism is broadly divided into four main areas of thinking: Institutional Liberalism, Sociological Liberalism, Republican Liberalism and Interdependence Liberalism.

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### **3.11 Summing Up:**

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This unit is helpful for you to understand one of the most relevant theory i.e. capitalism. You may be in a position to understand the definition, significance and various features of capitalism. You have also learnt about the various stages of capitalism like industrial capitalism, merchant capitalism, and monopoly capitalism. Each of these concepts contributed towards the development of capitalism as dominant mode of production. In addition, you learnt about Marxist interpretation of capitalism and his theory of class struggle. Marx views capitalism as one of the stages in human history, which emerges out of the contradictions of the previous stage.

This unit also discusses in details about another dominant theory in international relations i.e. neo-liberalism. Neo-liberal thinkers are not revolutionaries, who want to limit state to the provision of law and order and national defence. A neo-liberal state can include a welfare state, but most limited kind. The role of the state should be limited to safeguarding the free market and providing a minimum level of security against poverty.

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**UNIT-4**  
**BRETTON WOODS SYSTEM**

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**Unit Structure:**

- 4.1 Introduction**
- 4.2 Objectives**
- 4.3 Meaning of Bretton Woods System**
- 4.4 Significance of the Bretton Woods System**
- 4.5 Collapse of the Bretton Woods System**
- 4.6 Summing Up**
- 4.7 References and Suggested Readings**

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**4.1 Introduction:**

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After the World War II, there was a feeling of need for economic regain in trade and Commerce specially monetary relations. Bretton Woods had become instrumental in bringing about the economic recovery of Europe, but in structuring a framework for commercial and financial behavior which continues to be essential till now. Bretton Woods was regarded as victors' conference and the United States had set the agenda and dominated the proceedings. Bretton Woods focused on a range of measures to stabilise the international financial system and facilitated the expansion of trade.

In this unit, we will discuss on the meanings and significance of the Bretton Woods. We will also lay our focus on privilege of Bretton Woods Currency and its role in world economy. In the present unit, we will make an attempt to highlight on the collapse of the Bretton Woods System.

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**4.2 Objectives:**

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Bretton Woods System had provided a common solution to economic and monetary crisis in world economy. After thorough reading of this unit, you will be able to

- *discuss* the meaning of the Bretton Woods System,
- *focus* on the significance of the Bretton Woods System,

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- *describe* the role and impact of the Bretton Woods System in world economy,
- *analyze* the failure of the Bretton Woods.

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#### **4.3 Meaning of The Bretton Woods System:**

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Bretton Woods System was an agreement which held in New Hampshire in 1944. It can be termed as Bretton Woods Summit. In 1944, a summit was held in New Hampshire, USA to reach an agreement and it is called as Bretton Woods summit. The Bretton Woods system is a set up of unified rules and policies that provided the framework to create fixed international currency exchange rates. Approximately 730 delegates as representatives of 44 allied nations met in Bretton Woods in July 1944 with the principal goals of creating an efficient foreign exchange system, preventing competitive devaluations of currencies and scaling up the international economic growth. They gathered to sketch out the rules and formal institutions that would govern their trade and monetary relations.

The Bretton Woods System had established the rules and regulations for commercial and financial relations among the United States, Britain, Western European countries, Australia, Canada and Japan. The Bretton Woods System became the first example of a full scale negotiation for fiscal order that was intended to govern monetary relations among independent nations. The prime characteristic of the Bretton Woods system was an obligation for each country to adopt a monetary policy that need to be maintained its external exchange rates within 1 percent by tying it's own currency to gold. Though the Bretton Woods conference took place over just three weeks from 1st July to the 22nd of July, 1944, the preparation for it had been going on for several years. The primary designers of the Bretton Woods system were the famous British economist John Maynard Keynes and American chief International Economist of Treasury Department Harry Dexter White. John Maynard Keynes had emphasised to build a powerful global central bank to be called the clearing Union and issue a new international reserve currency which was called the bancor. White's plan envisioned a more modest lending fund and a greater role for the U.S. dollar rather than the creation of a new Currency. White had proposed a new monetary institution called the Stabilization Fund.

By the provision of the Bretton Woods agreement, the U.S. dollar was to be pegged to the value of gold. Moreover, all other currencies in the system were pegged to the U.S. dollar's value. The exchange rate for the price of gold was set at \$ 35 an ounce. The Bretton Woods agreement and system created a collective international currency exchange regime that lasted from the mid 1940s to the early 1970s.

The main purpose of the Bretton Woods system or agreement was to set up a new system of rules, regulations and procedures to ensure economic stability of the major economically advanced nations. Besides this, the Bretton Woods system was to design a post war monetary system which facilitates greater stability of the exchange rates without using the gold standard and to promote international trade and development.

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#### **4.4 Significance of the Bretton Woods System:**

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Bretton Woods system and agreement are of great importance to provide a number of significant financial aspects in the financial world. Due to the efforts and initiative in the Bretton Woods Summit, the creation of the International Monetary Fund (IMF) and the World Bank (WB) is possible. Both the institutions were introduced in December 1945 and have withstood the test of time, globally serving as important pillars for international capital financing and trade activities. The purpose of the IMF was to monitor exchange rates and identify nations that needed global monetary support. The World Bank, initially was called the International Bank for Reconstruction and Development which was established to manage funds available for providing assistance to countries that had been physically and financially devastated by world War II. The IMF is an international organization which at present consists of 190 member nations. It facilitates world trade expansion and thereby contributes to the promotion and maintenance of high levels of employment and real income. It also ensures exchange rates stability to avoid competitive exchange depreciation. Furthermore, IMF eliminates foreign exchange restrictions and supports in creating systems of payment for multilateral trade. Another formal institution was formed in the name of the General Agreement of Tariffs and Trade (GATT) which has now been replaced by the World Trade Organization. GATT was set up to

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break down discriminatory trade practices. All the world's currencies were set to be valued in terms of US dollars and gold was used to determine the value of the dollar. Under the agreement, US made promise to convert dollars into gold on demand. In the twenty-first century, the IMF still continues to support global monetary and financial cooperation. Likewise, the World Bank provides necessary help to promote these efforts through its loans and grants to governments.

In 1958 , the Bretton Woods system was seen to be fully functional as currencies became convertible. Countries had settled international balances in dollars. The United States had taken the responsibility of keeping the price of gold fixed and to adjust the supply of dollars to maintain confidence in future gold convertibility. The Bretton Woods system was in place till persistent US balance of payments deficits led to foreign held dollars exceeding the US gold stock. That is implying that the United States could not fulfill its obligation to redeem dollars for gold at the official price.

Another notable significant of Bretton Woods system was currency pegging. The Bretton Woods system included 44 countries and these countries were brought together to help regulate and promote international trade across borders. As with the benefits of all currency pegging regimes, currency pegs are expected to provide currency stabilization for trade ,goods and services as well as financing. All of the countries in the Bretton Woods system agreed to a fixed peg against the US dollar with diversions of only 1% allowed. Countries were required to monitor and maintain their currency pegs which they achieved primarily by using their currency to buy or sell US dollars as needed. The Bretton Woods system therefore minimized international currency exchange rate volatility which helped international trade relations.

Moreover, the Bretton Woods system has a significant expansion of international trade and investment as well as remarkable macroeconomic performance. By the creation of the Bretton Woods system, there was to avoid the rigidity of previous international monetary systems and to address the lack of cooperation among the countries on those system. The classic gold standard was abandoned after world War I. In the interwar period,

governments took competitive devaluations and set up restrictive trade policies that worsened the great depression. Bretton Woods System envisioned an international monetary system that would ensure exchange rate stability, preventive competitive devaluations and promote economic growth. Although all participants agreed on the goals of the new system, plans to implement them differed. Every 44 nations who have joined the discussion needed to contribute a membership fee to fund the institution. The amount of its contribution was based on a country's economic ability. Member states agreed to fix rates by trying their currencies to the US dollar. Under the Bretton Woods agreement allied nations promised that their Central banks would maintain fixed exchange rates between their currencies and the dollar. Bretton Woods System provided a stable exchange rate and environment that helped in reconstruction of the world economy and the growth of international finance and trade. The Bretton Woods System was the first system where each country had to have a monetary policy that kept the exchange rates of its currency within a fixed value plus or minus one percent in terms of gold.

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**Stop to Consider:**

**The New International Economic order:**

The New International Economic order can be defined as the set of proposals, prescribed rules, norms and procedure. It is advocated by developing countries to end economic colonialism and dependency through a new independent economy. Key themes of the NIEO included both sovereign equality and the right of self determination. In 1974, the United Nations General Assembly had adopted the Declaration for the Establishment of a New International Economic Order. In 2018, the United Nations General Assembly adopted the resolution "Towards a New International Economic Order, which reaffirmed " the need to contribute working towards a new international economic order based on the principles of equality, sovereign equality, interdependence, common interest, cooperation and solidarity among all states.

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**SAQ**

Q. Discuss the significance of Bretton Woods System. (80 Words)

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**4.5 Collapse of the Bretton Woods System:**

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Despite the stable and rapid growth, all were not functioning well after the post world war II. From the early 1960s, the US dollar's fixed value against gold was seen to be overvalued. The rising costs of its overseas involvements had weakened the US's finances and competitive strength. The US dollar no longer made a commandable confidence as the world's principal currency. It failed to maintain its value in relation to gold. This crisis of US's dollar led to the collapse of the system of fixed exchange rates and the introduction of a system of floating exchange rates.

In the 1960s, the world had experienced a substantial economic expansion. From the mid-1970s the international financial system also brought changes in significant ways. Earlier developing nations could turn to international institutions for loans and development support. But now a days they were compelled to borrow from western commercial banks and private lending institutions. This led to periodic debt crisis in the developing world and due to lower income, there is an alarming rate of increasement in poverty especially in Latin America and Africa. The industrial world wss also affected by the unemployment that started rising from the mid 1970s and remaining high till the early 1990s.

The Bretton Woods system was dissolved between 1968 and 1973. In August 1971, U.S. president Richard Nixon announced the temporary suspension of the dollar's convertibility in to gold. Nixon devalued the US dollar relative to gold. U.S dollars had struggled through out most of the 1960s within the parity established at Bretton Woods. One substantial problem was that one national currency ,the U.S dollar had to be an international reserve currency at the same time. This provided the national

monetary and fiscal policy of the United States free from external economic pressures. To make ensure international liquidity, the U.S was forced to run deficits in their balance of payments. In 1960s they ran a very inflationary policy and limited the convertibility of the US dollar due to the reserves were insufficient to meet the demand for their currency. On the other hand the other member countries were not willing to accept the high inflation rates that the par value system would have impacted and the dollar ended up being weak and unwanted. As predicted by the Gresham's law that bad money drives out good money. This crisis had been marked as the breakdown of the system. By 1973, the Bretton Woods system had collapsed. Aftermath, countries were free to choose any exchange arrangement for their currency, except pegging its value to the price of gold. They were able to link its value to another country's currency. An attempt was made to revive the fixed exchange rates but failed. It allowed the market forces to determine its value relative to another countries' currencies. By March 1973, the major currency started to float freely against each other.

Another notable problem was the in the late adjustment of the parties to changes in the economic environment of the countries. Among the nations lack of trust and destabilising speculation have been emerged. Some nations try to buy and selling their own currency to influence the process. Since the collapse of the Bretton Woods system, members of the International Monetary Fund (IMF) have been free to choose any form of exchange arrangements that they have their desire. Lots of changes had been experienced in the field of currency, economy and trade such as allowing the currency to float freely, pegging it to another currency or a basket of currencies, adoption the currency of another country, participating in a currency block or forming part of a monetary union.

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### **Check Your Progress**

1. What do you mean by Bretton Woods system?
2. What is the basic aim of the Bretton Woods agreement?
3. Explain the provisions of the Bretton Woods System in the economic activity.

**Space for Learner**

4. Write true or false

- a) John Maynard Keynes and Harry Dexter White were the prime designers of the Bretton Woods System?
- b) Under the Bretton Woods System, gold was the basis for the U.S. dollar and other currencies were pegged to the U.S. dollar's value.

Here, we can highlight the structural factors, Structuralists' views and Operationalists' view on the break down of the Bretton Woods system. Structural factors play a vital role in the down fall of the Bretton Woods system. The structuralists stressed that it was the deficit in the Bretton Woods system itself that caused the breakdown. The incompatible role of U. S's dollar set an unsteady foundation of the Bretton Woods system. Conflicting sovereign goals and self interests of the big powers of the conference, UK and the USA have caused decolonization which was regarded as one of the main dilemmas faced by the system during the 1960's. Besides, some another operational factors were responsible for the collapse of the Bretton Woods system such as uncoopetative gold accumulation behavior of other countries. Moreover, the structuralists viewed that the Bretton Woods system failed due to the conflicting sovereign goals, divergent objectives of the two powers(America and Britain). The operationalists expressed that the problem lies in the mismanagement of the Bretton Woods system. The uncooperative behavior of the European countries deviated from the original design of the system. Another mismanagement was that other countries failed to comply with the adjustment of exchange rate assigned in the article of agreement. In the agreement, there was a term called fundamental disequilibrium which signifies that countries had rights go adjust their exchange rate at the range of 1% when outward and inward payments did not balance. Though, there are many causes of the breakdown of the Bretton Woods system yet, this system remains as a significant event in the world financial history.



**Stop to Consider :**

**Nixon Shock:**

President M. Nixon in 1971 had made an announcement about his New Economic Policy that was to create a new prosperity without war. It was known as the “Nixon shock” and marked as the beginning of the end for the Bretton Woods system of fixed exchange.

The ideology of globalization would seem to run the global economic order and the industrialised nations have begun to worry about the implications of the growing size and the speculative nature of financial movements in times of globalization. Every industrialised country put emphasis on a “new system of Bretton Woods”. In 1996, the Managing Director of the IMF Michel Camdessus had stated that even though the monetary system had changed since 1944 the aims of the Bretton Woods system were as valid today as they had been in the past. He claimed that international cooperation would be required to create a new Bretton Woods system where countries must have the understanding level of economic policies of other countries.

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**SAQ**

Q. Write down the reasons of the breakdown of Bretton Woods system. (40 words)

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**4.6 Summing Up:**

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This unit has helped you to understand that after world War II, introduction of the Bretton Woods system had changed the economy and currency pattern of the countries. As a result of the Bretton Woods, the three significant international formal institutions were created such as WB, IMF and WTO. Although Bretton Woods system was remarkably successful in reviving an international economy destroyed by war, it was seriously flawed as a long

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term economic strategy. By 1970s, gold stock of US had dropped to US dollar 10 billion. Bretton Woods system failed to provide enough new gold to compensate for the growth in world trade. The Bretton Woods formally became to an end in 1971 when Richard Nixon had announced that the US would no longer exchange dollars for gold. The system of the Bretton Woods with its fixed exchange rates does not exist today.

Despite the formal demise of the Bretton Woods system, the benefits of the Bretton Woods system were a significant expansion of international trade and investment as well as remarkable macroeconomic performance. Due to the pressure of the Bretton Woods system, the United States was not willing to supply the amount of gold yo the rest of the world demanded, because the gold reserve was declined and eroded the reliable in dollar. It can be concluded that significant monetary reforms such as the system of the Bretton Woods can only function if they are integrated into wider economic and political convergence. Undoubtedly the Bretton Woods conference which was held in New Hampshire in 1944 has been a huge impact on the economic situation of the world since 1945.

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[www.ncrb.unac.org/unreform/archive/globalization.html](http://www.ncrb.unac.org/unreform/archive/globalization.html)

[www.worldbank.org](http://www.worldbank.org)

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**UNIT- 5**  
**GLOBAL GOVERNANCE**

**Space for Learner**

**Unit Structure:**

- 5.1 Introduction**
- 5.2 Objectives**
- 5.3 Global Governance: The Concept**
- 5.4 Needs of Global Governance**
- 5.5 Global Organization and Global Governance**
- 5.6 UN and Global Governance**
  - 5.6.1 The role of the UN and its entities in global governance for sustainable development**
- 5.7 Security and Global Governance**
- 5.8 The Global Governance of Finance**
- 5.9 Challenges to Global Governance**
- 5.10 The future of Global Governance**
- 5.11 Summing Up**
- 5.12 References and Suggested Readings**

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**5.1 Introduction:**

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We have already learnt that, Political economy is a social science that studies production, trade, and their relationship with the law and the government. It is the study of how economic theories affect different socio-economic systems such as socialism and communism, along with the creation and implementation of public policy. Different groups in an economy have different beliefs as to how their economy should be developed; hence, political economy is a complex field that covers a broad range of political interests. In simple terms, political economy refers to the advice given by economists to the government on either general economic policies or on certain specific proposals created by politicians. In this unit we are going to study the concept of Global Governance. As we know, 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

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of the world. Despite this, major approaches in the field have often focused more on the international system perspective. In this context study of global governance occupies a predominant position to the study of political science.

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### **5.2 Objectives:**

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After going through this unit you will be able to:–

- *explain* the meaning of global governance in the contemporary international system,
- *assess* the UN's contribution to global governance,
- *discuss* the challenges to global governance,
- *examine* the future of global governance.

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### **5.3 Global Governance: The Concept**

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Global governance is a broad, dynamic, and complex process of interactive decision-making that is constantly evolving and responding to changing global circumstances. The incidence of poverty on cross-border peace, development and the environment is obvious today. Also the consequences of poverty in terms of living conditions call for a unified action to tackle it. Recent research states that poverty is not simply a short fall of money, but also involves the constant day-to-day hard choices associated with poverty and in effect taxes an individual's physical and mental resources. This cognitive tax, in turn, can lead to economic decisions that perpetuate poverty. To face the challenge, the United Nations MDGs suggests that the fight against poverty belongs to the pivotal political challenge of the 21st century involving a network of structures between governmental and nongovernmental actors at various levels in the field of poverty reduction. This perspective is making positive contributions with some regions in the world heading toward the achievement of the target. Even those countries in sub-saharan Africa where most of the global poor live and who are lagging behind, are making frantic efforts to do so, with the assistance of global bodies. The survey research design was used for the study. Data generated were statistically analyzed and it was found that global governance has strong positive relationship with poverty reduction.

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Global governance is a process of international cooperation among transnational actors, aimed at negotiating responses to problems that affect more than one state or region. Government Institutions of global governance—the United Nations, the International Criminal Court, the World Bank, etc.—tend to have limited or demarcated power to enforce compliance. Global governance involves multiple states, as well as international organizations, with one state having more of a lead role than the rest. Private Institutions under global governance includes the international non profitorganisations operating at a global scale. The modern question of international governance exists in the context of globalization and globalizing regimes of power: politically, economically and culturally. In response to the acceleration of worldwide interdependence, both between human societies and between humankind and the biosphere, the term “global governance” may name the process of designating laws, rules or regulations intended for a global scale.

The term world governance is broadly used to designate all regulations intended for organization and centralization of human societies on a global scale. The Forum for a new World Governance defines world governance simply as “collective management of the planet”.

Traditionally, government has been associated with “governing,” or with political authority, institutions, and, ultimately, control. Governance denotes a process through which institutions coordinate and control independent social relations, and that have the ability to enforce their decisions. However, authors like James Rosenau have also used “governance” to denote the regulation of interdependent relations in the absence of an overarching political authority, such as in the international system. Some now speak of the development of “global public policy”.

Adil Najam, a scholar on the subject at the Pardee School of Global Studies, Boston University has defined global governance simply as “the management of global processes in the absence of global government.” According to Thomas G. Weiss, director of the Ralph Bunche Institute for International Studies at the Graduate Center (CUNY) and editor (2000–05) of the journal *Global Governance: A Review of Multilateralism and International Organizations*, “‘Global governance’—which can be good, bad, or

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indifferent—refers to concrete cooperative problem-solving arrangements, many of which increasingly involve not only the United Nations of states but also ‘other UNs,’ namely international secretariats and other non-state actors.”[6] In other words, global governance refers to the way in which global affairs are managed.

States are more likely to formally include civil society organizations (CSOs) in order to avoid a potential legitimacy advantage of their counterparts and to enhance domestic legitimacy if the following two conditions apply: first if they are more central to the global governance network; and second, if other states formally include CSOs as well. Thus, while government choices concerning whether to involve formally CSOs in global climate policy are obviously driven to a considerable degree by domestic factors, the authors concentrate on international network effects.

Thus it can be said that,

Global governance is the process by which sovereign states coordinate and cooperate in pursuit of solutions to transnational issues, often through the good offices of international organisations. Contemporary international society does not constitute a world government in the sense that states are functionally sovereign and are therefore free to determine their own domestic and international policies.

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**5.4 Needs of Global Governance:**

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The techniques, institutions, rules, norms, and legal arrangements used to manage relations between states and to facilitate cooperative action across various issue-areas. In the current international context, governance is carried out in the name of the global polity by both governmental and non-governmental organisations. This concept should not be confused with the term ‘good governance’ that is often used in some international organisations (particularly the International Monetary Fund and the World Bank) to promote a particular reform agenda for specific countries. Democracy, transparency, and market-friendly reforms are usually high on the list of that agenda.

Institutions and regimes help actors to manage transnational issues by creating norms, rules and practices that shape actors' behaviour and build trust between them. This process – known as global governance – often leads to the creation of formal international organisations (IOs) where disputes can be judged and treaties can be interpreted. This chapter will consider the global governance potential of several such organisations. Criticised by some for being too powerful and by others for not being powerful enough, IOs range from specialised agencies – such as the Universal Postal Union and the World Meteorological Organization – to sprawling organisations that deal with issue areas as varied as security, the world economy and regional integration.

The recent surge of interest in global governance has received its impetus from three sources. The first is the end of the cold war. This increased the expectation that international institutions (particularly the United Nations) would play a more central role in the management of the international system. The second is the rise of globalisation and a new sense of 'globality' that pervades much contemporary thinking. For some observers, globalisation is itself a manifestation of global governance in so far as it compels states to conform to the competitive demands of a global market. The third source of renewed interest in the concept is the heightened awareness that our planet is bedevilled by problems that require a concerted and coordinated global approach. Contemporary debates about global governance revolve around the most appropriate location of authority and power within the context of a world experiencing both integration and fragmentation.

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### **5.5 Global Organisation and Global Governance:**

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Global governance brings together diverse actors to coordinate collective action at the level of the planet. The goal of global governance, roughly defined, is to provide global public goods, particularly peace and security, justice and mediation systems for conflict, functioning markets and unified standards for trade and industry. One crucial global public good is catastrophic risk management – putting appropriate mechanisms in place

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to maximally reduce the likelihood and impact of any event that could cause the death of 1 billion people across the planet, or damage of equivalent magnitude.

The leading institution in charge of global governance today is the United Nations. It was founded in 1945, in the wake of the Second World War, as a way to prevent future conflicts on that scale. The United Nations does not directly bring together the people of the world, but sovereign nation states, and currently counts 193 members who make recommendations through the UN General Assembly. The UN's main mandate is to preserve global security, which it does particularly through the Security Council. In addition the UN can settle international legal issues through the International Court of Justice, and implements its key decisions through the Secretariat, led by the Secretary General.

The United Nations has added a range of areas to its core mandate since 1945. It works through a range of agencies and associated institutions particularly to ensure greater shared prosperity, as a desirable goal in itself, and as an indirect way to increase global stability. As a key initiative in that regard, in 2015, the UN articulated the Sustainable Development Goals, creating common goals for the collective future of the planet.

Beyond the UN, other institutions with a global mandate play an important role in global governance. Of primary importance are the so-called Bretton Woods institutions: the World Bank and the IMF, whose function is to regulate the global economy and credit markets. Those institutions are not without their critics for this very reason, being often blamed for maintaining economic inequality.

Global governance is more generally effected through a range of organisations acting as intermediary bodies. Those include bodies in charge of regional coordination, such as the EU or ASEAN, which coordinate the policies of their members in a certain geographical zone. Those also include strategic or economic initiatives under the leadership of one country – NATO for the US or China's Belt and Road Initiative for instance – or more generally coordinating defense or economic integration, such as APEC or ANZUS. Finally, global governance relies on looser norm-setting forums, such as the G20, the G7, the World Economic Forum: those do not set up treaties, but



offer spaces for gathering, discussing ideas, aligning policy and setting norms. This last category could be extended to multi-stakeholder institutions that aim to align global standards, for instance the Internet Engineering Taskforce (IETF) and the World Wide Web Consortium (W3C).

In summary, global governance is essential but fragmented, complex and little understood. In this context, the key questions raised by the Global Challenges Foundation are, how to reform institutions, how to develop alternative institutions, and how to use the new possibilities of technology to improve governance.

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#### **Stop to Consider**

##### **Mechanism for Global Governance:**

- International Governmental Organizations (IGOs): World Trade Organization and the UN system are examples of existing state-centered governance mechanisms. They utilize partnerships with non-state actors that have expertise and resources.
- Public–Private Partnerships (PPPs): UN Global Compact is an example of an international PPP. UN Sustainable Development Goals (SDGs) utilize the PPP strategy across all aspects of implementation of the SDGs.
- Private governance: They set sector-specific standards. Eg: Moody’s Investors Service and Standard and Poor’s Rating Groups sets international accounting standards.
- Tripartite governance mechanisms: It includes involvement of state, private and civil society actors. For example Extractive Industries Transparency Initiative, publish What You Pay and the African Peer Review Mechanism, thus helping in categorizing PPPs.

##### **Challenges:**

- Gridlock: Current international institutions fail to provide a coordinated response to current agendas. Eg: Recent crisis in Syria showed lack of cooperation among international institutions.

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- Principle of sovereignty: Issue of sovereignty comes while dealing with international problems.
- Limited capacity: For eg political divisions and partisan interests within the Security Council blocked any international response to the mass atrocities committed in Syria, thus strengthening impunity and encouraging the expansion of war crimes and crimes against humanity.
- Rise of increased nationalist movements: Eg: The issue of refugees in EU effects global cooperation
- Many alternative institutions: Rising powers as BRICS while advocating for better representation in institutions as UNSC, IMF, WB have developed alternative mechanisms as ADB.

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### **5.6 UN and Global Governance:**

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The United Nations is the most global and all encompassing organisation in the world. This organisation alone through its organs and agencies has contributed not less than 50,000 laws to International Law. Founded by 50 members at the San Francisco Conference of the United Nations, the organisation took its cue from the League of Nations earlier established to prevent conflicts of interests among states but failed to prevent the outbreak of the Second World War. It was assumed, the lessons learnt in the issues that led to the failure of the League of Nations will be corrected in the new organisation now formed with the involvement of powerful countries like the United States whose decline for membership of the league contributed to its failure. It will however, be important to add that students should make conscious effort to having access to the charter and articles of the United Nations as this will benefit students reading and understanding of the United Nations and its formation. The charter consists of 36 articles stating the expected behaviours among states when relating with one another.

Ordinarily, the United Nations is seen as the highest body comprising states of the world. Its establishment has been referred to as compromises among the powerful countries after the Second World War. While it has since then existed and modulated states interaction with one another, it has also acquired

so much power that enables it to touch on state on almost every aspect. The United Nations was established by 51 countries in 1945. Today this number has grown to 194. With its secretariat in New York, the UN has six organs and countless numbers of affiliated agencies that help it to carry out its duties.

As an organisation having universal membership, the UN mandate encompasses security, economic and social development, the protection of human rights, and the protection of the environment. All of these duties, the UN tries to protect through the principles in its charter, its resolutions that regulate states interactions. Organs of the UN also help to enforce these regulations so the international system even though anarchical enjoys some forms of order.

**SAQ:**

Q. Identify the similarities and differences between the League of Nations and the United Nations pointing out while the former failed and the latter has largely succeeded.

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**5.6.1 The role of the UN and its entities in global governance for sustainable development:**

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Global governance for sustainable development is mainly based on formal arrangements and treaty-based institutions with defined memberships, mandates and institutional machinery. Three issues which commonly arise in governance discussions are:

- **Effectiveness:** current arrangements have been unable to satisfactorily address development challenges, such as to free humanity from poverty and hunger, to reduce global economic imbalances and inequalities, to foster inclusive economic growth for human and social progress, to advance international cooperation for development, to reverse environmental degradation or to

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operationalize an effective framework for climate change mitigation and adaptation. Progress has been uneven and the reasons many and varied.

- **Representativeness:** developing countries remain under-represented in several key decision-making bodies. Current arrangements fall short in representing evolving world realities and accommodating changing power relations. Related to this, ways to enhance transparency, accountability and the meaningful participation of all stakeholders, including business and civil society, need greater attention.
- **Coherence:** existing governance arrangements have been largely unable to bridge the gap between globally agreed goals and aspirations, and policies at the national level. The lack of coherence and some degree of duplication is widely evident in the diverse global approaches to sustainable development.

The formal system of international governance in the economic, social, environmental and related fields has been based on two basic principles: specialization of and coordination among specialized international organizations. Most of these institutions were created in a different context in response to specific challenges. In an era of interrelated sustainable development challenges the current structures present a challenge for integrated responses.

Specialized agencies are autonomous entities with their own governance structures. They have specific mandates in their area of expertise and take decisions according to their own decision-making processes and rules. These institutions are accountable to their membership, which could differ from one to another.

In some cases, the respective weight of their members in their related area put the representativeness of International Organizations (IOs) into question. As an example, the Bretton Woods Institutions, which play a crucial role for maintaining global macroeconomic stability, and providing resources, guidance and assistance to their membership, face this limitation. In these institutions, calls have been made to improve the voting systems to adequately

reflect shifts in economic power, and ongoing reforms aim to strengthen the voice and representation of emerging economies and developing countries through quota shares re-allocation.

In other cases and various areas, International Organisations (IOs), whose decision making processes are based on the consensus rule or the “one-state-one-vote” principle, demonstrate broad inclusiveness. However, building consensus among member states can sometime prove complex and difficult, thereby affecting the effectiveness of these institutions to take action. Implementing decisions can also prove challenging. International arrangements face compliance gaps at the national level and difficulties in ratification of signed conventions. Coordination, the second basic principle, has been the responsibility of the United Nations. The overall coordination of UN system activities in economic, social and related areas was explicitly delegated to the Economic and Social Council (ECOSOC), as one of the six principal Organs.

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### **Stop to Consider**

#### **United Nations Economic and Social Council (ECOSOC):**

The United Nations Economic and Social Council (ECOSOC; French: Conseil économique et social des Nations unies, CESNU) is one of the six principal organs of the United Nations, responsible for coordinating the economic and social fields of the organization, specifically in regards to the fifteen specialised agencies, the eight functional commissions and the five regional commissions under its jurisdiction. ECOSOC serves as the central forum for discussing international economic and social issues and formulating policy recommendations addressed to member states and the United Nations system.[1] In addition to a rotating membership of 54 UN member states, over 1,600 nongovernmental organizations have consultative status with the Council to participate in the work of the United Nations. ECOSOC holds one four-week session each year in July, and since 1998 has also held an annual meeting in April with finance ministers heading key committees of the World Bank and the International

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Monetary Fund (IMF). Additionally, the High-Level Political Forum (HLPF), which reviews implementation of the 2030 Agenda for Sustainable Development, is convened under the auspices of the Council every July. It has 54 members.

However, the decentralized structure of the system, with the specialized agencies, funds, programmes and subsidiary bodies of ECOSOC has made internal coordination and cooperation difficult. ECOSOC has been recently reformed through GA resolution 68/1 and clearly assigned the function of promoting coordination, cooperation and coherence among the various parts of the system, and to promote a balanced integration of the three dimensions of sustainable development in the context of the follow-up to United Nations conferences and summits. The Council is also mandated to continue to strengthen and further promote dialogue on and implementation of the financing for development agenda, inter alia, by strengthening existing arrangements, including the special high-level meeting with the World Bank, the International Monetary Fund, the World Trade Organization and the United Nations Conference on Trade and Development.

Along the same lines, the Rio+20 Outcome Document recommends strengthening the institutional framework that “should find common solutions related to global challenges to sustainable development” (Para 75) , and “enhance coherence, reduce fragmentation and overlap and increase effectiveness, efficiency and transparency, while reinforcing coordination and cooperation” (Para 76). To this end, the universality of the UN is critical (Para 77) and the keyrole of the ECOSOC to ensure the UN system-wide coherence, enhance the overall coordination and achieve a balanced integration of the three dimensions of sustainable development, is paramount (Para 82). The strengthening of international environmental governance through the upgrading of the United Nations Environment Programme (UNEP) as the leading global environmental authority (Para 88) is part of the new institutional framework for sustainable development.

Furthermore, the setting up of the new universal, intergovernmental, High-Level Political Forum(HLPF) (Para 84) can help improve cooperation and coordination under the auspices of the GA and ECOSOC. The UN-GA

recently decided that HLPF “consistent with its universal character, shall provide political leadership, guidance and recommendations for sustainable development, follow up and review progress in the implementation of sustainable development commitments, enhance the integration of the three dimensions of sustainable development in a holistic and cross-sectoral manner at all levels”.

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**Check Your Progress**

1. What do you mean by global governance?
2. Write a note on the role of UN in the process of Global Governance.
3. What do you mean by sustainable development?

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**5.7 Security and Global Governance:**

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The most important visible manifestation of global power in this realm is the United Nations Security Council (UNSC). Yet, in the face of increasing discontent on the part of emerging powers, there is a contestation about its legitimacy. It is reflected in increased demand for participation and representation, specifically where representation is not equal as in the case of the United Nations General Assembly. Today’s security multilateralism at its highest level is reflected in UNSC structures that reflect the immediate post-war balance of power that is now nearly 70 years old. As Brzezinski (2012:76) argues, the “here to fore untouchable” UNSC, with its five permanent members with exclusive veto rights, “may become widely viewed as illegitimate” unless it is reformed. Brazil, India, Turkey are the most vocal proponents of a change in the UNSC while Russia and China – with their permanent memberships and veto power – are relatively silent.

A key feature of global governance has been the security cooperation engendered by transatlantic relations since the end of World War II. Despite divergences over perceptions of security interests, it has survived as a key cornerstone of transatlantic partnership. The establishment of the North Atlantic Treaty Organization (NATO) in 1949 was a product of shared

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security concerns on both sides of the Atlantic in response to perceived Soviet expansionism during the Cold War (Müftüleri-Baç and Cihangir 2012). Yet, it was not only the convergence of material security interests that bound the transatlantic allies together, but also their common values. The US and Europe emerged as the main global advocates of democracy, human rights and the rule of law in the 21st century after the Soviet threat had receded (Manners 2010)

Transatlantic security relations have never been straightforward and have survived multiple crises in the postwar period (Cowles and Egan 2012). Now, in addition to a wide range of global issues that pose security threats (especially to Europe), such as illegal migration, trans-border organized crime and international terrorism, there is the existential threat associated with nuclear proliferation, which ultimately requires a military response and a nuclear deterrence capability that increases the importance of the transatlantic alliance and NATO's role in international security. In this context, recent tensions in US-European security relations recede in significance because "NATO would provide an essential link with strategic nuclear forces. Thus Washington chose to perfect the alliance's military set up (implement the long-time-sought flexible response and the equitable sharing of defence burdens) rather than abandon the alliance. Many Europeans for their part still deemed the US commitment to Europe's security important" (Athanasopoulou 2006:116).

Ultimately, NATO remains the most powerful and integrated military institution in the world, despite a growing military imbalance amongst its allies. In military terms, the power of Europe is in decline. Largely for that reason, the outgoing US Secretary of Defence, Robert Gates, cast doubt on the future of the transatlantic security alliance in 2011 while lambasting European states "that are apparently unwilling to devote the necessary resources or make the necessary changes to be serious and capable partners in their own defense" (Gates 2011). But as the (increasingly) senior partner in the Atlantic Alliance, the US remains the dominant global leader in hard security resources and material. And despite being politically bruised and logistically stretched in Afghanistan and Libya, NATO held firm and showed its unmatched operational capability in both theatres.



### **Stop to Consider**

#### **NATO:**

The North Atlantic Treaty Organization also called the North Atlantic Alliance, is an intergovernmental military alliance between 28 European countries and 2 North American countries. The organization implements the North Atlantic Treaty that was signed on 4 April 1949. NATO constitutes a system of collective security, whereby its independent member states agree to mutual defense in response to an attack by any external party. The NATO headquarters are located in Haren, Brussels, Belgium, while the headquarters of Allied Command Operations is near Mons, Belgium. Security in our daily lives is key to our well-being. NATO's purpose is to guarantee the freedom and security of its members through political and military means.

**POLITICAL** - NATO promotes democratic values and enables members to consult and cooperate on defence and security-related issues to solve problems, build trust and, in the long run, prevent conflict.

**MILITARY** - NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military power to undertake crisis-management operations. These are carried out under the collective defence clause of NATO's founding treaty - Article 5 of the Washington Treaty or under a United Nations mandate, alone or in cooperation with other countries and international organisations.

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### **5.8 The Global Governance of Finance:**

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All countries can be affected by international financial crises, with their vulnerability increased or decreased by global arrangements that create rules, pool resources and coordinate actions. These amplify or constrain strategies available to individual governments. In 1997, when a speculative attack on the Thai baht rapidly engulfed East Asia in a major financial meltdown, Thailand tried several strategies. It used up its own foreign exchange reserves attempting to support its currency. It then floated the currency, yet was still overwhelmed. The prime minister sought bilateral

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assistance from China and Japan, but neither was willing to provide emergency loans. Finally, the Government was forced into the arms of the IMF. Its programme failed to stem the crisis, and soon Indonesia, Malaysia, the Philippines and the Republic of Korea were forced to take emergency measures.

Cooperation in global finance since World War II has mostly been coordinated through regional and international institutions, primarily the IMF and the World Bank Group. The 2002 Human Development Report described the system as dominated by the United States and the European Union, but challenged by the rise of powerful, transnational NGOs. Determined to hold the IMF and the World Bank to account, these groups successfully put debt relief, poverty alleviation, environmental and human rights concerns, and transparency on the agenda of international institutions. That said, they were predominantly northern NGOs, challenging a northern paradigm. Since 2002, as emerging economies have become more powerful players in global financial governance, they have taken new places at the tables of discussion and rule-making. They have become financiers in their own right. And they have developed their own regional monetary and support arrangements. This rapid transformation poses new challenges and strategic choices for developing countries. Three issues are analysed here: the rise of emerging economies in global discussions of finance, the new politics of aid and the increase in regional monetary arrangements.

**SAQ:**

Q. Briefly discuss the security aspects of Global Governance.

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**5.9 Challenges to Global Governance:**

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Today, global governance has a new challenge. The rise of the global South and a shift in global power towards emerging economies—China, in particular—has become more obvious. China and other emerging

economies have forged deeper and stronger economic relations with neighbours and across the developing world. They have rapidly expanded their global markets and production. As they rely more on global market access, they will increasingly require global rules to protect that access.

Global rules can be made in formal, multilateral institutions, or (as became very popular in the 1990s and 2000s) in informal, standard-setting networks of private and non-governmental actors. Emerging economies are likely to favour the former. Brazil, China, India and the Russian Federation are state-centred in their own governance, and guard their sovereignty in international relations. Multilateral institutions can formalize representation and decision-making, and respect the power and processes of national governments. Traditional multilateral institutions are not fit for this purpose, however, for decades, powerful governments have.

A growing number of emerging global governance actors aim to contribute to the solution of interdependent issues supplementing, and sometimes clashing, with already established regimes designed to address certain international problems separately from other issues. Hale et al. (2013) define the situation when current international institutions fail to provide a coordinated response to current agendas challenges as “gridlock”. Through the examples of sovereignty, and by discussing the questions of power and equality we will show how new developments in international relations affect and reshape collaborative responses to the most pressing issues.

Various global governance actors coalesce around the ideas and norms of human rights and human security; however, the principle of sovereignty continues to challenge the practical application of those ideas internationally. Huge and severe violations of peoples’ rights and freedoms during inter- or intra-state wars or conflicts continue to erode human security in different parts of the world. However, governance actors working for the maintenance of peace, security, justice and the protection of human rights have limited capacity to improve situations because of complicated approval procedures of humanitarian intervention or authorization of peacekeeping operations. For example, political divisions and partisan interests within the Security Council (particularly the use of veto power by some of its permanent

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members) blocked any international response to the mass atrocities committed in Syria, thus strengthening impunity and encouraging the expansion of war crimes and crimes against humanity (Adams, 2015). A rise of nationalist sentiments and movements in Russia and some European countries also continues to erode international cooperation in response to challenges such as the huge influx of refugees, and the ongoing conflict in Ukraine. All of these threaten the international security, and order in general, that was created during the post-Cold War period. Yet, even as the principle of the responsibility to protect has gained political support and international legitimacy since it was introduced about a decade ago, its contribution to preventing mass atrocities and protection population remains low. As Luck (2015) points out, policy practitioners and scholars need to think in a more nuanced way about sovereignty. Both decision-making sovereignty, when governments choose to independently determine whether a particular course of action for the cause of human rights protection is in their national interest and erosion of sovereignty open the door to more atrocities within and across states' boundaries. This scholar, for instance, argues that the ineffective exercise of sovereignty by a number of states over their own territory becomes a significant barrier to exercising protection responsibilities in other places (Luck, 2015: 504).

Power in the current system of global governance has become more diffused. The power shift accompanying the rise of Brazil, Russia, India, China (the BRICs) and other so-called "rising powers" pose questions about the possible reordering or shifts in the current state of global governance. While advocating for better representation in institutions such as the International Monetary Fund, the World Bank and the UN Security Council, the governments of China, India, Brazil and other emerging economies have started to develop and maintain alternative institutions for economic and political collaboration. The Asian Infrastructure Investment Bank and the New Development Bank are products of these efforts. While rising powers' behaviours are shaped by the structural features of global capitalism, "the differing contours of BRICs' state-society relations provide the foundations for conflicts with Western powers over the most liberal aspects of global governance" (Stephen, 2014). The Western ideas of privatization,

autonomous markets and open capital accounts are challenged by state-controlled approaches to development in the countries of so-called Global South. The proliferation of Sovereign Wealth Funds (SWFs), and national development banks in BRICs challenge an autonomous status of private capital in current global economic affairs. Those developments have led to the conclusion, by some scholars, that the most liberal features of global governance order are being contested by rising powers (Stephen, 2014). In addition, a small group of big and influential countries such as India and China gain more negotiating power (Barkin, 2013), as their non-participation in international treaties and policies (for example, climate change) might substantially diminish the effects of other countries' efforts to solve these global issues. The shifting global power configuration challenges each type of multilateral setting whether it concerns international institutions that have a selective Western-based membership (for example, OECD, NATO, G7/G8); international institutions that shape the state of international policies but do not provide rising powers with equal membership and power in their governing bodies (the International Monetary Fund, the World Bank, the UN Security Council); or multilateral settings in which rising and established powers interact more or less on an equal footing (the World Trade Organization, the UN Framework Convention on Climate Change) (Lesage and Van De Graaf, 2015).

Economic and political inequality have long-lasting implications for governance both within and between states. Inequality in either form contributes to a rise in extremism and social unrest, and it also raises the questions of what responsibility the international community should bear for human development beyond just satisfying basic needs, that is, security, food and shelter. While the SDGs agenda of 2015 prioritizes the goal to “(e)nd poverty in all its forms everywhere” (United Nations, 2015), questions still remain about exactly who will fund this eradication of poverty and which actions are best suited to this fight. Global governance actors, for example, focus more on intervention measures in poor countries, as they are primarily guided by a “narrow” understanding of security rather than thinking of more long-term development issues, or the “everyday” insecurities experienced by individuals in different parts of the world. A huge diversification of financial

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sources of development aid complicates the task of applying a common framework, based on individuals' needs and development interests approach. In addition, the supply of development resources including official development assistance is also moving away from the old North towards the BRICs and other new official donors such as South Korea and Turkey, plus private foundations like the Bill and Melinda Gates Foundation, faith-based organizations, remittances from diasporas, heterogeneous SWFs and a plethora of Exchange-Traded Funds as well as novel sources of finance such as taxes on carbon, emissions, financial transactions and so forth (Shaw, 2015).

Thus, the observed changes in socio-economic and political aspects of the current world pose new questions and create new challenges for previously active participants of global policy processes, as well as for new actors of global governance. Global governance actors will need to critically reflect on the relevance of earlier policy tools to rapidly changing conditions in the current world.

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### **5.10 The future of Global Governance:**

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Global governance is arguably inevitable for the survival of the human race in present and future generations. Although global governance sometimes appears fragile and ineffective in response to current challenges, the trend of globalization and the demand for global governance approaches have already passed the point of no return. The future of global governance will be mainly shaped by the following five factors: individual empowerment, increasing awareness of human security, institutional complexity, international power shift and liberal world political paradigm. We draw this conclusion by applying the findings and observations from different field of studies including security studies, international political economy, global governance field and communications studies.

First, because of information technology and mass/social media, individual citizens—especially in developed countries—have acquired much more information power than a half century ago. Individuals can attain higher awareness of situations related to national and international affairs. Compared with humans in the twentieth century, a majority of those in the twenty-first

century can more easily access international security information, thanks to the Internet and media exposure. Therefore, individual citizens of the world are more likely to understand the importance and the impact of international security on their personal lives. Digital media played a major role in the Arab Spring of 2011 in Egypt and Tunisia: social networks allowed communities to unite around shared grievances and nurture transportable strategies for mobilizing against dictators (Howard and Hussain, 2011). Globalization of the new media illustrates how communities throughout the world can be mobilized for collaborative response as well signals a new trend in the intersection of new media and conventional media such as television, radio and mobile phone (Khondker, 2011). The US National Intelligence Council also identified individual issues and the decreasing influence of the state as one of the main global trends for the twenty-first century, arguing that the potential political power of individuals has significantly increased since the end of the Cold War because of the proliferation of information and transportation technologies (National Intelligence Council, 2012). This trend will strengthen the convergence between domestic and international politics, constraining state behavior (Putnam, 1988) and continue to produce many transnational actors. Considering the dramatic increase of individuals' capabilities in information gathering, analysis and political projection, the trend of individual empowerment is logically supposed to pave a wider road towards cooperative global governance, because peace is generally preferred over war by individual humans.

Second, as the trend towards "individual empowerment" continues, global society through global governance architecture will need to pay high attention to human security, which protects individual humans from fatal threats to physical safety, and human dignity, whether human-made or of natural origin. Human security is an innovative concept for security in response to horizontal (such as military, economic and political) and vertical (such as individual, state and global) threats, which traditional security concepts cannot effectively control (Grayson, 2008). The focal point of state security is too narrow to encompass the myriad threats that challenge societies today. The threat of sovereign states engaging in large-scale war is less probable today than at any time in modern history. War has not been eliminated, rather its

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form has shifted from sovereign versus sovereign to substate wars between differing identity groups or insurgencies against the state. Beyond war, the concept of human security is concerned with varieties of security: economic, food, health, environmental, personal, community and political security (UNDP 1994). Human security provides an excellent compatible conceptual paradigm to global governance regimes in the future, which must respond to transnational, multi-dimensional threats that a single country cannot manage. For example, a number of national security analysts have already begun to recognize environmental degradation and natural disasters such as epidemics, floods, earthquakes, poverty and droughts as national security threats similar to military disasters (King and Murray, 2001–2002).

Third, we must additionally consider “institutional complexity” (Held and Hale, 2011) as another direction for future global governance development. As the trend of individual empowerment gains more momentum, the influence of civil society is expected to grow in terms of authority and resources. Various non-state actors will not only affect their national governments’ behavior more significantly, but will also engage in networks of transnational relations more actively. International institutions in global governance will likely keep expanding to “regime complex”, a concept defined as “an array of partially overlapping and nonhierarchical institutions governing a particular issue area” (Raustiala and Victor, 2004).

Fourth, global governance in the future will be also be shaped by power shifts in international relations. Almost all the traditional institutions of global governance were initiated by Western countries, and their pluralistic political culture and influential civil societies have shaped the political context of global governance. States of the Global South, especially China, have improved their relative power in relation to the Global North. As a result, the voice of actors originating from the Global South is expected to become more prominent in global governance regimes and institutions traditionally dominated by a small number of the Global North states. Therefore, an increase in multilateralism will further complicate the face of global governance.

Fifth, the future of global governance is also rooted in liberal paradigms of world politics. States and non-state or transnational actors tend to be more



cooperative with global governance when a liberal world order is maintained. Global governance regimes to date have evolved with liberal paradigms such as democracy, bottom-up orientations and human rights promotion. While the advancement of democratic practices in the states without strong traditions of following liberal values remain a challenge, democracy has near-universal appeal among people of every ethnic group, every religion, and every region of the world and democracy is embraced as an international norm by more states, transnational organizations and international networks (McFaul, 2004). Liberal approaches challenge the traditional concept of the state as a unified unitary actor that lacks adverse interpretation of national interest. Accordingly, even in traditional security areas, there are more spaces for international cooperation. Global security governance through intergovernmental institutions such as the UN, International Atomic Energy Agency and International Criminal Court has made considerable progresses and gained more influence. If the realist paradigm dominates national security, however, the world would have to overcome deep uncertainty and doubt about the effectiveness of global governance. As a result, global governance today and in the future will be in the face of such serious threats as US–China hegemony rivalry, US–Russia military confrontation and Middle East conflicts. Nevertheless, as long as global society retains liberal paradigms powerful enough to offset the negative effects of mutually suspicious realist paradigms, global governance will continue to generate into effective hybrid regimes that hold the potential of creating a future world that is more cooperative, sustainable and secure.

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**5.11 Summing Up:**

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Thus from the above discussions we come to conclude that, Globalization, the end of the Cold War and increased involvement of non-state actors in global affairs represent fundamentally shifting relations of power, speeding up national economies' integration and contributing to the convergence of policies in different issue domains. This review considers the state of global governance by presenting a variety of global governance arrangements, key challenges facing governance in an increasingly globalized context and possibilities for the future governance. Current global governance

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arrangements favour flexibility over rigidity, prefer voluntary measures to binding rules and privilege partnerships over individual actions. This synopsis of the state of global governance examines the evolving role that sovereignty and the enduring human struggles for power and equity are playing in shaping international relations and governance. This contribution argues that individual empowerment, increasing awareness of human security, institutional complexity, international power shifts and the liberal world political paradigm will define the future of global governance. This article is published as part of a thematic collection dedicated to global governance.

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### **5.12 References and Suggested Readings:**

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