

International Political Economy: Perspectives, Structures & Global Problems

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Abstract

This essay focuses on contemporary International Political Economy IPE science. IPE today widely appreciated and the subject of much theoretical research and applied policy analysis. The political actions of nation-states clearly affect international trade and monetary flows, which in turn affect the environment in which nation-states make political choices and entrepreneurs, make economic choices. It seems impossible to consider important questions of International Politics or International Economics without taking these mutual influences and effects into account. Both economic (market) and political (state) forces shape outcomes in international economic affairs. The interplay of these and their importance has increased as “globalization” has proceeded in recent years. Today’s Iraq faces many political, economic and social complex challenges, thus its openness and its integration into the global economy are necessary to overcome political and economic transition’s obstacles. This required an analysis within the frame of *IPE* to help economists, policy makers and civil society understand how economic and political conditions around the world impact present and future development in Iraq. The nature of dynamic interaction between state (power-politic) and market (wealth-economy) in changing globalized world will led in Iraq post – conflict country that their parallel existence often create tensions and greater economic and social role for the state. Iraq’s today face three main challenges; political challenge, financial resources challenge, and finally economic reforms challenges. Mixed economy for Iraq is perfect to move into a liberal economic system open to the global market conflict.

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Introduction

The relationship between economics and politics are interrelated, affecting each other and control the policies and practices. Thus in recent integrated world, it is hard to make sense of business investment, or a government policy without an understanding of the theories, institutions, and relationships found in International Political Economy IPE. Currently the research agenda in IPE is being driven by a number of factors and forces that are often collectively labeled globalization has little to do with the traditional state-centered concerns of International Relations, which is one reason some IPE scholars have now begun to think of IPE as distinct academic discipline, not just a sub-field of International Relations. *Significance...* IPE help us understand the issues, forces, and political, social, and economic problems. A central concern of IPE is to understand why the world often appears not to work as basic neoclassical economic models suggest it should, such as the notion of comparative advantage, the Ricardian and specific factors models of trade. As well as to understand why countries open their markets to international trade in some products, but not others; why governments sometime use tariffs but at other times non-tariff barriers to protect domestic producers; why many countries have removed restriction on capital in- and outflows in recent years; what the consequences are of economic globalization, especially increased financial openness. Today's Iraq faces many political, economic and social complex challenges, thus its openness and its integration into the global economy are necessary to overcome political and economic transition's obstacles. This required an analysis within the frame of *IPE* to help economists, policy makers and civil society understand how economic and political conditions around the world impact present and future development in Iraq.

Problem... Consider the question of the transition of Iraq formerly socialist country, hard political transition refers to the constraints due to conflict of interests and the need to make collective choices in the face of these conflicts. Ask the question of how, given the existing political constraints, society can be led to best achieve specific economic objectives. This includes not only how to “overcome” political

constraints within the existing institutional framework, but also the design of political institutions to better achieve economic objectives. Crucial to understanding that transition policies and their outcomes are the conflicts between different interest groups in the economy. The relative performance of different transition economies reflects not only their differing economic characteristics, but differing political characteristics as well. Iraq is currently undergoing a social experiment under which a new form of government is being constructed after the passage of autocratic rule. The government envisaged is a consociational democratic state designed a priori as a political mechanism for the redistribution of resources, mainly oil. The study raise questions such as ; which aspects of economic activities the state is in charge of, which aspects are left to the market? And how strongly and widely market activities are controlled by the state's administrative organization the government? Probably, to combine market and state in the economic system is the most important agenda in development economics in Iraq post-conflict. In finding the right combination, it is vital to understand how these organizations are working under unique cultural and social traditions in each economy.

*Hypothesis...*The nature of dynamic interaction between state (power-politic and wealth) and market (wealth- economy) in changing globalized world will led in Iraq post – conflict country that their parallel existence often create tensions and greater economic and social role for the state in the short and medium terms.

*Purpose...*The research aims to examine theoretical explanations, conceptualizing alternative approaches and assessing theoretical work in IPE, and a careful theoretical critique. Besides, it aims to answer questions such as; what are the implications of Iraq's Political and Economic transition for the relation between state and market. An economic system is defined as an institutional framework by which competition among people for the use of resources is coordinated. It is, also, expressed as a combination of various economic organizations. This study will focus on the relationship between state and market as two major organizations that determine the characteristics of the economic system.

Method of research... The most appropriate way to study the facts of Iraq, and try to develop treatments to its problems, is through; first, analyzing the framework of the IPE. Second, reading today's realities and perspectives historical experiences, national and international, in order to devise challenges. This study focuses on the relationship between state and market as two major organizations that determine the characteristics of the economic system. The study aims to analyze their potential roles to promote economic development in Iraqi economy post - conflict. Relationship forms between the state and the market is an interesting area of study for policymaking in Iraq a country that is rich and fragile state. Thus, in coming parts we will analysis Iraqi economy in transition in order to answer this question ' what combination of state and market would optimize the growth in Iraq'?

Part 1: IPE; Historical Perspectives

1.1. Concepts

Political Economy ...IPE needs to be looked at from a historical perspective. History of Economics shows that the term Political Economy originated on France in the 17th century. The phrase *économie politique* (translated in English as political economy) first appeared in 1615 with the book by Antoine de Montchrétien: *Traité de l'économie politique*. Sir James Steurt (1761) was the first English economist to put the term in the title of a book on economics, *An Inquiry into the Principles of Political Economy*. Political economy most commonly refers to interdisciplinary studies drawing upon economics, law, and political science in explaining how political institutions, the political environment, and the economic system- capitalist, socialist, mixed-influence each other⁽¹⁾. Political economy originally was the term for studying production, buying and selling, and their relations with law, custom, and government, as well as with distribution of national wealth including through the budget process⁽²⁾.

Economics....From Adam Smith's *Wealth of Nations* in 1776, until at least John Stuart Mill's *Principles of Political Economy* in 1848, what we

now call economics was in fact generally referred to as “Political Economy”. In late nineteenth century, the term “Political economy” was generally replaced by the term economics. A famous definition of economics is that of Lionel Robbins, “Economics is the sciences which studies human behavior as a relationship between ends and scarce means that have alternative uses”⁽³⁾. If economics is the study of the optimal use of scarce resources, political economy begins with the political nature of decision making and is concerned with how politics will affect economic choices in a society⁽⁴⁾.

International Political Economy...IPE emerged as a heterodox approach to international studies during the 1970s as the break of the Bretton Woods system and the 1973 world oil crisis alerted academics, particularly in the U.S. of the importance, contingency, and weakness of the economic foundations of the world order. The field of IPE can be traced back to 1971 when Susan Strange helped establish the modern study of IPE at London School of Economics and Politics, then at the Royal Institute of International Affairs at Chatham House, founded the IPE group. In its early days, this company of scholars, journalists, and policy makers focused on issues like how to resuscitate the fixed exchange rate system⁽⁵⁾. Specific definition of international political economy comes from Susan Strange “...concerns the social, political, and economic arrangements affecting the global systems of production, exchange, and distribution and the mix of values reflected therein..”. According to Susan Strange the IPE represent equal weight to social, political, and economic arrangements. She stresses that IPE is not just the study of institutions or organizations, but also of the values, culture, and history they reflect⁽⁶⁾.

IPE characterized by a strong interest in the question of how politics affects economic outcomes. Specifically it is defined by its use of the formal, technical tools, and conceptual approach of modern economic analysis to look at the importance of politics for economics. The term “politics” is defined, in the political science literature, as the study of power and authority. Questions of power and authority are relevant only when there is heterogeneity of interests, that is, a conflict of interests between economic actors in a society⁽⁷⁾. IPE is an interdisciplinary field comprising approaches to international trade and finance, and state

policies affecting international trade, monetary and fiscal policies. As an interdisciplinary field it draws on many distinct academic schools, most notably political science and economics, but also sociology, history, and cultural studies . Besides it is ultimately concerned with the ways in which political forces (states, institutions, individual actors, etc.) shape the systems through which economic interactions are expressed, and conversely the effects that economic interactions have upon political structures and outcomes. Lindblom defines politics as the struggle over authority. Power, in turn, means the ability of an individual or group to achieve outcomes which reflect his objectives. Similarly, authority “exists whenever one, several, or many people explicitly or tacitly permit someone else to make decisions for them in some category of acts”⁽⁸⁾.

1.2. The rise of Globalization

Globalization is part of today’s economic reality. It refers to a wide range of issues within trade, finance and development processes: the growth and distribution of wealth, basic human security, and cultural norms. Sometimes violent protests against globalization have occurred in recent years over its perceived negative effects. It has been blamed for the rise in the dangers of terrorism. Others see globalization as a force for social and economic development, through much of the 20th century; the United States, Japan, and Western Europe exercised most economic leadership. Increasingly, emerging nations in Latin America, Eastern Europe and Asia have gained economic significance, posing new challenges for analyzing the global economy. International Organization such as the International Monetary Fund IMF, the World Trade Organization WTO and the World Bank are key figures in the world economy and thus are important consideration. The oil embargoes of the 1970s and the breakdown of the Bretton Woods monetary system are frequently cited as key events in IPE's development as a field of study. These events posed practical and theoretical problems that necessarily forced scholars and policy-makers to consider economics and politics together.

1.2.1.(OPEC) and the Arab oil embargo

The rise of the Organization of Petroleum Exporting Countries (OPEC) and the Arab oil embargo of 1973-1974 illustrated dramatically at least five key dimensions of IPE as follows⁽⁹⁾:-

- First, it showed the power and influence of economic tools in foreign policy. After OPEC no state could dare make political policy without taking into account potential foreign economic retaliation or reaction.
- Second, the oil embargo showed that East-West issues were not always the state's most important concerns. North-South political and economic problems could no longer be ignored or dealt with as ancillary to Cold War strategy. To the extent that economic issues were closer to the surface in North-South relations, this reinforced the notion that politics was really political economy.
- Third, the oil embargo revealed the complex interdependence between and among domestic politics, domestic economics, international politics, and international economics.
- Fourth, the oil embargo raised questions about the role of multinational corporations (MNCs) in international economics and politics. MNCs had previously been viewed by many scholars as agents of influence of their home country governments (this was especially true of US-based MNCs), but later their political allegiance appeared to be more ambiguous. Were the oil MNCs tools of their western home governments, agents of their OPEC host governments, or were they acting as pure economic actors independent of home or host political ties.
- Finally, the shifting international payments flows that the oil embargo stimulated were the start of the movement towards a global financial system and, with it, economic globalization generally. Increasingly, economic and political problems would be seen as global, not just international, and beyond the control of individual nation-states.

1.2.2. Bretton Woods system

The breakdown of the Bretton Woods system in the 1970s also contributed to the emergency of IPE as a distinct field of study. The Bretton Woods system is generally interpreted as a system of economic governance constructed to support U.S. hegemony in the postwar era.

Each of the main Bretton Woods institutions, the World Bank, the IMF, and the GATT, depended upon the United States to play a central leadership role. On August 15, 1971, however, US President Richard Nixon suspended the link between the US dollars and gold, which was the critical element of the Bretton Woods monetary system. Nixon's action changed everything. The fixed exchange rate system that had defined world money in the postwar era soon collapsed. More importantly, Nixon's policy was seen as a sign that the US had put its domestic political and economic problems ahead of its international responsibilities. The decline of US hegemony was both political and economic in both cause and consequence⁽¹⁰⁾.

Other events such as the Third World debt crisis, the fall of communist regimes, the rise of the East Asian Newly Industrialized Countries (NICS), the expansion of the European Union, and the financial crises in Mexico, Russia, and East Asia all provided impetus for the growth and development of IPE studies.

Part 2: Theoretical Perspective of IPE

IPE is the rapidly developing social science field of study that attempts to understand international and global problems using an eclectic interdisciplinary array of analytical tools and theoretical perspectives. There are different perspectives to the main IPE theories, a problem that results from the "wide open spaces" that are also the strength of IPE. The major theoretical perspectives that provide the basic conceptual foundations of IPE are:

2.1. Mercantilism (Economic nationalism)

Mercantilism is the IPE perspective that is most closely associated with political science, especially the political philosophy of realism. It is the oldest and the most important IPE theoretical perspective. The central focus of mercantilism is that the state should create wealth and power in order to protect the independence and national security in all its forms whether military, economic, or cultural. In IPE, security is a broad term, a nation's security can be threatened in many ways: by foreign armies, by foreign firms and their products, by foreign influence over international

laws and institutions, and even by media which may affect social and culture cohesion⁽¹¹⁾.

Reflecting the core tenets of nationalism, Alexander Hamilton's influential "Report on Manufacturers" justifies state intervention to promote economic development. Krasner's essay analyzes the relative significance and positioning of the state in the global political economy. Evans offers an illuminating examination of the relevance of states in facilitating industrial transformation. Viewpoints deeply rooted in political realism, which looks at IPE issues mainly in terms of national interest⁽¹²⁾.

2.2. Liberalism (International Analysis)

Adam Smith's classic work describes the basic precepts of liberalism with its emphasis on the rationality of the market and free trade. Liberalism is most closely associated with the system of markets that is the study of economists. It looks at IPE issues mainly in terms of individual interests. The 'liberal' view believes in freedom for private powers at the expense of public power (government). Markets, free from the distortions caused by government controls and regulation, will naturally harmonies demand and supply of scarce resources resulting in the best possible world for populations at large. "Laissez-Passer" "Laissez- Fair" is the liberal IPE perspective. Liberals believe that with power diffused in both state and market and with rights and freedoms guaranteed, conflicts can be resolved through peaceful civil means. Liberals tend to focus on the international affairs opposing most state restrictions on free international markets. Liberalism is an approach associated with classical economics, neoclassical economics, Austrian School economics and Chicago school economics. Major contribution to liberal theory was made by⁽¹³⁾:

- Adam Smith - economics. The Smithian revolution against Mercantalism.
- David Ricardo, his theory of comparative advantage suggested that trade between different nations could benefit both parties

even in circumstances where one would intuitively feel that one nation would benefit from trade at the others expense.

- Keynesianism, during the 1940s to early '70s an alternative system chiefly concerned with domestic macroeconomic policy, however in IPE terms his mature views fall squarely into the Realist camp, in that Keynes called for a middle way between public and private power and favored a managed system of global finance which he helped architect at Bretton Woods.
- Friedrich Hayek's Austrian School defense of classical liberalism and free-market capitalism against socialist and collectivist thought. He is considered to be one of the most important economists and political philosophers of the twentieth century.
- Milton Friedman, Chicago School was an American economist. During the 1960s he promoted an alternative macroeconomic policy known as "monetarism". He theorized there existed a "natural rate of unemployment" and he argued the central government could not micromanage the economy because people would realize what the government was doing and change their behavior to neutralize such policies.

2.3. The Hegemonic Stability Theory

The theory of hegemonic stability is another variation on the liberal them, different from Keynes but clearly reflecting the Keynesian spirit and viewpoint. This theory based on the strength and resiliency of the market as a form of social and economic organization. Whereas Keynes thought that the state needed to be active within nations to assure economic growth and stability, hegemonic stability theory asserts that some state - the hegemony - needs to shoulder an international role if markets are to achieve their potential. It looks at the role of state and market in the global economy and observes that international markets work best when certain international public goods are present. It was arguably IPE's most important contribution to Cold War international relations theory. As developed by Charles P. Kindleberger in the early postwar era, this theory focuses on the motives and behavior of a hegemonic state. The hegemon is a rich and powerful state that

undertakes to supply public goods to the international system. These public goods include stable money, security (such as freedom of the seas), and a system of free trade that can be shared by all and that, in fact, work best when widely shared. Providing these public goods is costly, of course, but the hegemon gains even if it disproportionately bears the expense alone because of its dominant position in the world system. If the world system prospers, the hegemon necessarily prospers as well. In fact, this provision of public goods may be a strategy to secure or extend the hegemon's dominant position. The theory of hegemonic stability holds that the world system is most prosperous when hegemon exists to organize the international political and economic system and coordinate the provision of international public goods. Periods of Dutch (1620-1672), British (1815-1873), U.S. hegemony (1945-1971), and the Iron Curtain's fall in 1989 can also be seen as the implosion of Soviet hegemony over Central and Eastern Europe are commonly cited as evidence of this link between hegemony and prosperity. When hegemony breaks down, however, the international system falls into disorder and conflict, with the resulting decline in peace and prosperity. The theory of hegemonic stability puts great weight on the existence of the hegemon and the maintenance of effective hegemonic policies⁽¹⁴⁾. Liberals, generally view the hegemon as the key to a positive-sum game. The hegemon supplies the public goods, such as security and free trade that make the international system function more efficiently. Realists see hegemony as part of a mercantilist strategy of dominance. The modern world system view see hegemony as part of a grand cycle of history as this theory focuses on the long-term nature of IPE relationships and thus views hegemony as part of a long – term cycle within the industrial core⁽¹⁵⁾.

2.4. Structuralism; Modern World System Theory

A viewpoint rooted in Marxist analysis, but not limited to it, which looks at IPE issues mainly in terms of how classes, class interests, and ultimately all of society are shaped by the dominant economic structures. Structuralism is most closely associated with the methods of analysis employed by many sociologists. The 'Marxist' view believes

that only robust application of strong public power can check innate tendencies for private power to benefit elites at the expense of populations at large ⁽¹⁶⁾. One fascinating variant of the structuralism perspective focuses on the way in which the global system has developed since the middle of the fifteenth century. This is the modern world system theory originated by Immanuel Wallerstein, for him, the world economy provides the sole means of organization in the international system. The modern world system exhibits the following characteristics: a single division of labor whereby nation-states are mutually dependent upon economic exchange; the sale of products and goods for the sake of profit; and, finally, the division of the world into three functional areas (core, periphery, and semi periphery) which correspond to the role nations within these regions play in the International economy. In common with Marx, then, the Modern World System theory looks at IPE in terms of class relations and patterns of exploitation. The capitalist core states, specialized in higher skilled industries, dominate the agriculture peripheral states through unequal exchange for the purpose of extracting cheap raw materials. The semi periphery, labor- intensive industries, serves more of a political than an economic role; it is both exploited and exploiter, diffusing opposition of the periphery to the core region ⁽¹⁷⁾.

2.5. Critical Perspective on IPE

IPE is about states and markets, but it is about more than that. Mercantilism perspective (Economic nationalism) is about states, state power, and security. Liberalism is about laissez faire, free markets. Structuralism is about how capitalism pushes states and markets into class warfare. Of the three ideological perspectives most often used to explain IPE, Mercantilism is the oldest and arguably the most powerful. First argument that, as long as states are the final source of political (sovereign) authority, the economy and markets cannot be divorced from the effects politics and the state have on them. States can be expected to use the economy, either legally or illegally, as a means to generate more wealth and power. Second argument, that free trade is a myth. As long as states exist, they will give first priority to their own

national security and independence, including economic security and economic independence. All nations act in mercantilist ways, even nations like Great Britain in the nineteenth century and the United States in the twentieth and twenty- first centuries, and both countries are advocates of free trade. They would promote free trade, as long as doing so is in their national interest. The rise of neomercantilism is proof positive that states favor free trade when it benefits them and protection when it does not. Pragmatic mercantilism is a fact of life, which is why the mercantilist perspective is so powerful. Within IPE the Realist approach was commonly labeled nationalism until the first decade of the 21st century⁽¹⁸⁾.

Domestically the Atlantic nations since the '70s and large Asian states like China and India since the '90s have also largely pursued a mixture of realist and liberal policies. The only close to wholesale implementations of the liberal viewpoint being carried out by smaller developing nations, often with some degree of coercion by actors such as the US treasury or IMF who have been able to apply financial pressure when the developing nations faced various crises. During 2008, liberal influences began to wane in the wake of the 2008–2009 Keynesian resurgence. Where Keynes emphasized domestic policy, then, hegemonic stability focuses on international policies. Realists see hegemony as part of a mercantilist strategy of dominance; they focus on the U.S. as a selfish hegemon. Proponents of the modern world system view see hegemony as part of a grand cycle of history. It focuses on the long term nature of IPE relationships, thus the rich and powerful hegemon nation will fall into decline, and a new period come where may be several important core nation-states hold in a balance of power⁽¹⁹⁾. Wallerstein's conception of the modern world system has gained a good deal of notoriety in the last 20 years. However, many criticize his theory for being too deterministic, both economically and in terms of the constraining effects of the global capitalist system. Nation-states, according to Wallerstein, are not free to choose courses of action or policies. Instead, they are relegated to playing economically determined roles. Wallerstein is faulted for viewing capitalism as the end product of current history⁽²⁰⁾.

Part 3: IPE Structural Problems

The structure of IPE looks at the ways that the individuals, states, and markets of the world are connected to one another and the arrangements that have evolved to connect them. The IPE's problems that have traditionally defined as two major elements of its structure; international trade and international finance. Politics and Economics approach to both of them from completely different points of view using completely different analytical frameworks. The institution, arrangements that govern the behavior of states and markets in the IPE can be analyzed as other power structures; security, production, trade, and knowledge, which together produce, exchanges, and distribute wealth and power. Every country tied to every other country through the complex interaction of these power structures ⁽²¹⁾.

3.1. Political Implications of International Trade

International trade has always been at the center of IPE analysis and is likely to remain so in the future. This is not so much because of the economic and political importance of international trade itself as due to the fact that trade is a mirror that reflects each era's most important state market tensions. The problem is that states think in terms of geography and population, which are the relatively stable factors that define its domain while markets are defined by exchange and the extent of the forward and backward linkages that derives there from. The borders of markets are dynamic, transparent, and porous; they rarely coincide exactly with the borders of states and a few markets today are even global in their reach. When trade within a market involves buyers and sellers in different nation-states, it becomes international trade and the object of political scrutiny ⁽²²⁾. The political analysis of this subject treats international trade as fundamentally different from domestic economic activity, while economic theory sees no important distinction between the two. The international exchange of goods, services, or resources with another country raises many political questions of national interest, especially questions concerning the economic and military security of the nation. Besides, the full impact of export and

Imports on national security depends upon what is exported to whom and on what terms. And, although a trade surplus does increase reserves, an excessively large bilateral surplus of exports over imports can create political problems, such as those that Japan and China have experienced with respect to the United States. High export penetration is sometimes seen as an aggressive policy by the target nation, which may react to defend its perceived security interests. Willingness to permit imports from foreign nations can also be used as a foreign policy tool ⁽²³⁾. The design of the postwar international trade institutions was heavily conditioned both by the free trade views of economists and by the interwar experience of beggar-thy-neighbor trade policies that created an environment of destructive competition and retaliation. Thus the mission of the WTO, and before that the General Agreement on Tariffs and Trade (the GATT), is to progressively reduce the barriers to free trade through multilateral negotiations. This movement towards global free trade, however, has not stopped states from using trade tools to further their own foreign policy goals when they can. Thus we live in an environment where the political and the economic viewpoints of international trade compete for attention ⁽²⁴⁾.

The advent of free trade areas such as the North American Free Trade Area (NAFTA) and customs unions like the European Union (EU) provides a good example of the political economy of international trade. Regional trade agreements like NAFTA and the EU frequently use economic tools to achieve political goals. One of the political goals of European economic integration, for example, was to strengthen the western Cold War alliance. One of the political goals of NAFTA was to stabilize and strengthen Mexico's democratic system. The economic benefits of regional free trade are intended to compensate states and their citizens for the loss of sovereignty and other political costs they may bear in forming a regional bloc. Thus, in theory, regional blocs create both political and economic benefits. At the same time, however, there are political and economic costs. Politically there is the problem of the democracy deficit. As more and more policy decisions are made at a level above that of the nation-state, the link between citizens and policy is necessarily weakened, which may weaken the legitimacy of government generally. Economically there is the problem that regional

free trade is not always consistent with global free trade. Regional trade blocs may experience trade diversion where production shifts from a more efficient producer outside the regional bloc to a less efficient producer within the bloc. This inefficiency wastes scarce resources and reduces global welfare, according to the economic analysis, thus freer trade is not necessarily the road to free trade ⁽²⁵⁾.

3.2. Political Implications of International Finance

International Finance presents the second set of problems that have traditionally defined International Political Economy. The IPE of International Finance includes analysis of exchange rate policies, foreign exchange systems, international capital movements, particularly portfolio capital and debt flows, and the international and domestic institutions and political structures to which they relate. International finance is viewed by some as less political and more purely economic than international trade, but these three examples give evidence to the contrary;

3.2.1. The IPE of US dollar

The first example concerns the political implications of seemingly technical matters such as international economic institutions. The architects of the Bretton Woods agreements designed an international monetary system built upon a dollar-gold standard. The values of international currencies were fixed in terms of the US dollar, which was then defined as a fixed quantity of gold. The responsibility for managing the international monetary system fell on the United States for the most part since its dollar was the key reserve currency. The International Monetary Fund provided a multilateral institution to manage the system and facilitate international payments ⁽²⁶⁾. Regardless of the theoretical advantages or disadvantages of such a system, the Bretton Woods system presented a very practical dilemma for the United States. As the one nation that could undertake virtually any amount of expenditure without consequence because of the dollar's central position in the international monetary system, the US was confronted with an inevitable choice between its domestic needs and its international responsibilities. The problem is this: at some point, the US was likely to feel the need to put its domestic political concerns ahead of its

responsibility to the international monetary system. The Bretton Woods monetary system did in fact finally fail on August 15, 1971, as noted above, when the U.S. formally removed the fixed link between the dollar and gold⁽²⁷⁾.

3.2.2. The IPE of Euro

The second example is the IPE of the Euro, the single currency adopted by many members of the European Union. It is clear that the Euro is both political and it is economic and that the two sides cannot be separated. The principal goal in creating the single currency was political: the Euro would bind Germany forever to its European Union partners and prevent its focus from shifting towards Central and Eastern European relations. In a sense, the economic ties of the Euro were meant to replace the political ties of Cold War alliance. A secondary goal was economic: to create a region of relative currency stability to encourage regional economic growth in a world of increasing financial instability. Globalization might eventually be limited by the instability of international currency markets, but Europe could effectively pursue regional economic initiatives if all nations in the region (or nearly so) had the same currency⁽²⁸⁾.

Nobel Prize winning economist Robert Mundell's theory of the "optimal currency area" predicted that the adoption of a single currency would have more political consequences than simply keeping Germany focused on European integration. Adopting a single currency would in effect remove important economic tools (exchange rate adjustment, monetary policy adjustment) from the policy menus of Euro states. Faced with high unemployment rates, for example, a nation with a flexible exchange rate regime is free to lower interest rates to stimulate economic activity. The lower interest would drive down the value of the currency, making domestic products more attractive and stimulating job creation. Having fixed its exchange rate, however, a Euro nation is not permitted an independent monetary policy. The traditional tools of macroeconomic policies are useless in this situation, so the state must either tolerate joblessness or engage in microeconomic reforms that improve the job creation environment by lowering employment costs

and removing social welfare programs that discourage unemployment workers from accepting job offers. Thus Mundell's theory predicted suggests that Euro states may be forced make previously, unforeseen domestic political choices because of their inability to implement external exchange rate adjustments. The Euro therefore illustrates how complex is the political economy of international money. Political goals dictate economic structures, which can have unexpected political and economic consequences. The relatively simple world of Cold War relations has been replaced by a more complex set of international political and economic relationships ⁽²⁹⁾.

3.2.3. The IPE of international financial crises

The finance structure is really a description of how certain resources are allocated and distributed between and among nations. The problem of global money movement as loans is important to the extent that it creates an obligation between people or states. At other times the money movement is in the form of direct investment, where a foreigner gains control directly over the use of resources. Financial bargains create obligations, which join the interests of different nations. The nature of these obligations, and their effects, are important elements of IPE. The global financial structure has recently been marked by the movement of “hot money” from one country to another, chasing quick profits. Unregulated financial markets were in part responsible for financial crises. Besides, unregulated capitalism associated with increasing globalization may also be partly responsible for breeding both poverty and support for terrorists in some of the depressed areas of the world. The breakdown of the Bretton Woods system was part of a process that, by the 1990s, had created a global financial system. Technological change, financial deregulation, the end Cold War divisions, and the emergence of new economic centers all contributed to or accelerated the transformation of finance from an international economic structure, subject to regulation by national governments, to a global structure beyond the regulatory authority of any nation-state. The problem with global financial markets is that they are not matched by any corresponding global structure of state authority. That is, there

is no political authority that corresponds to the market. In theory the International Monetary Fund IMF could serve this role, but in practice this institution's power is intentionally restricted to limit its ability to undermine state autonomy ⁽³⁰⁾. One result of this asymmetry between political and economic structures has been the sequence of international financial crises that includes the Mexican peso crisis of 1994-1995, the East Asian financial crisis of 1997, and the Russia crisis of 1999 among others, finally the last economic international crisis in 2008. Many scholars suggest that a new international financial architecture is needed to deal the imbalance between markets and their underlying governance structures. The argument is that the range of financial markets has expanded beyond the reach of the regulatory structures that support them.

Global markets require global systems of governance to match. One reason why it is so difficult to agree to a new monetary system is that political and economy systems are complex so that economic changes can have unexpected political consequences Another reason is that international agreements require that states sometimes sacrifice their domestic needs to honor their international responsibilities. It is difficult to design a system that creates an environment where states consistently honor international agreements. Finally, the strengthening of international or global authority threatens domestic autonomy -- the ability of the state to take action in the national interest. The increasing frequency of financial international agreements or have that authority taken away by chaotic global market forces ⁽³¹⁾.

3.3. Global security

Security was an important defining force in IPE in the twentieth century. The nature of the nation's production, finance, and knowledge of structural relationships during the Cold War depended critically on its status as a member of either the Soviet bloc, the U.S. centered NATO bloc, or the group of nonaligned states. The attacks of September 11 and the many responses to them illustrate vividly how complex security has become today.

3.4. Global production

Production is the act of creating value and wealth, and wealth is nearly always linked to power. The issue of who produces what for whom on what terms, therefore, lies at the heart IPE. Recent decades have seen dramatic changes in the production structure, with production of certain high- value items such as automobiles shifting from the United States to Japan and now to other countries, such as Korea, Mexico, Brazil and China. These structural changes affect the distribution of wealth and power in the world and, therefore, impact the other structure of IPE. For example, in 2006 the world’s leading manufacturer of automobiles is the United States (with an output of 6.1 million vehicles in the first half of the year), followed by Japan (5.7 million vehicles), China (3.6 million), Germany (3 million) and South Korea (just under 2 million vehicles) ⁽³²⁾.

3.5. Global Knowledge

Knowledge is power and wealth too, for those who can use it effectively. It is, therefore, an important factor in IPE. Nations with poor access to knowledge find themselves at a disadvantage relative to others. Increasingly in the world today, the bargains made in the security, production, and finance structure depend on access to knowledge in its several forms. The connection between technology and terrorism tightens by the day. In recent decade’s technological change combined with market oriented policy changes have exposed more and more of us to what Joseph Schumpeter a process of “creative destruction.” He used this term to describe capitalist dynamic that brings both good and bad at the same time. As the peoples are drawn more tightly together through trade, capital flows, and information technologies, a growing sense of anxiety has broken out. As consumers, this integrative process gives us access to a larger quantity of new and better products. But as workers and producers, globalization brings greater competition and less job security. An export of technology that has critical military or

economic applications tends to weaken national security, not strengthen it. Nations have frequently imposed export controls for both economic and military reasons. Exports of primary products at unfavorable terms of trade with respect to manufactured goods and technology can create fears of economic dependency. . Although imports may reduce or threaten domestic employment, create the potential for external dependency, and reduce domestic monetary reserves, there is more to the IPE of trade policy than simple protectionism. Imports may be vital to domestic military and economic security, for example, so that national interest requires secure sources of specific imports, not necessarily fewer of them. This is especially true regarding high technology military hardware, which may be assembled in one country but use parts and services from a number of other countries. It may be impossible or impractical to avoid some foreign sourcing, so attention shifts from eliminating imports to establishing secure supply chains ⁽³³⁾.

Part 4: IPE; State – Market relation in Iraq post-conflict

Iraq today, after 7 years of a wave of political and economic change in accordance with U.S. shock method of transition, was still struggle the Tsunami to convert to democracy and market economy system. Iraq was already full of the political, economic and social contrasts, but intensified after the semi- international consensus on the occupation of this country, and subjected to radical changes led Iraq to the dire situation of chaos and breakdown in security and spread of extreme poverty in a country rich in natural and human resources. Emerging from conflict, Iraq badly needs sound and productive investments. The main challenge and the core of the problem lies in the interdependence and complex interrelationship between the political decisions, which almost driven by international forces, trends of economic policies, and the effects of both social and environmental conditions. The challenges to political and economic transition in Iraq post-conflict resulted from many interrelated factors concerning the state and market relation which reflect the history, culture, and values of its social system. The parallel existence of rent - state (politics – power and wealth as well) and market (economics- wealth) creates a fundamental tension that characterizes Iraqi political economy. The interaction of state and market is dynamic,

which means it changes over times and they are not always conflict. They work in different ways to achieve different ends. They necessarily intersect and overlap. The absence of security and trust, the resource curse is a paradox faced by resource-rich countries like Iraq where the natural resource wealth that should propel development actually results in Dutch disease effects, predatory state, increased poverty and higher levels of corruption ⁽³⁴⁾.

4.1. Iraqi State (Power & Wealth) visa Market

As regard to Iraqi situation, observers are frequently surprised by an apparent paradox in Iraq's move to a market economy: The transition has seen a significant expansion of state organs and of the number of state employees, which have grown at rates above that of the economy. This case finds its clearest expression in Kurdistan Region, where the number of regional government employees has multiplied and the number of its ministries has risen from 24 in the fourth cabinet (1999–2006) to 45 in the present cabinet. The number of ministries of the central government increased from 23 in the last cabinet before the occupation to 31 in the interim government and then to 34 in the current cabinet. The public sector imposes additional burdens on an already pressured state budget. Budget allocations to public sector companies for the years 2004–2006 were about \$2.44 billion, at a time when the proceeds of these companies (excluding oil companies) did not exceed \$700 million, of which 66.7% was realized in 2005. And despite the fact that one third of projects in the public sector make accounting profits, they incur very large economic losses. The rehabilitation and reform of public sector companies requires substantial financial resources that are difficult to provide. Private activity played an important role in the national economy following a decline in the contribution of oil as a result of the economic sanctions. The value-added of the private sector formed 24.4% of GDP in 2002. Despite this, however, total private investments were small and their contribution to the formation of fixed capital as well. The transitional phase after 2003 witnessed a setback for the Iraqi private sector when industrial projects ground to a halt owing to the destructive impact of war, high production costs and the dumping

on the domestic market of imported goods. Another factor was widespread insecurity which caused the flight of capital to neighboring countries in search of more stability and security ⁽³⁴⁾. Private investment (Iraqi and foreign) is estimated to have been \$1,080 million (4.2% of GDP) in 2004, rising to \$1,161 million (3.5% of GDP) in 2005. The level of foreign direct investment estimated at \$200 and \$300 million during those two years, respectively ⁽³⁵⁾.

The state continues to lead the development and control 80% of the national wealth while still the budget for consumption more than investment. The volume of the Iraq federal budget for the year 2009 was around \$ 63 billion distributed in the form of operating expenses which constitute 80%, and 20% only for investment expenditure of the total since 2003⁽³⁶⁾. Although the operational expenses considers as consuming expenses, but it was necessary to sustain the national economy in a country like Iraq for the many reasons as unemployment, as well as due to the devastating wars in Iraq led to increasing the numbers of retirees, disabled persons and widows, insecurity, more poverty. After 2003 the unemployment rate rose to 40% and inflation to 30%. A report by the Central Bureau of Statistics and Information Technology of the Ministry of Planning and Development Cooperation announced the unemployment rate at 30% through 2008, it reached (34%) during the first quarter, but fell slightly in Chapter II to reach (31%) continued to decline during the third and fourth quarters to score (29%) and (26%), respectively⁽³⁷⁾.

The estimated number of workers and employees in public sector was one million in 2003 increased to 2.4 million in 2006. The increases in salaries and wages exert pressure on the state budget. The item of wages and salaries consisted 8,3% of public budget in 2004 increased to 28% in 2008 28% presenting 36% of total operating expenses due to increased numbers of workers in the in public sector and the wages and salaries according to the civil service law number 22 issued in 2008. If we include the rate of individuals per family- on average 7 people- the number of beneficiaries of the increased salaries will be 14 million Iraqis ⁽³⁸⁾. Governments had to maintain and enlarge this overstaffing chiefly to absorb high unemployment. This increased the number of unskilled

people in public sector jobs and, while it solved some problems of unemployment, it also created disguised unemployment since worker productivity in the sector is consequently very low. The high increase in employees during the past three years means that the government sector is growing faster than the economically active labor force.

Salaries and pensions presented \$ 2.897 Billion (7.03%) in 2007 and \$ 3.630 Billion (7%) from the operating expenses in 2008. As for the government's contribution in retirement, the application of the retirement law No. 27 of 2006 amending the consequent financial burden. The retired expenses were consisting 1.7% of public budget in 2003 increased to 10.4% in 2005 then declined to 7.6% in 2007 representing 7.6% of total operating expenses included a large segment of society the number of beneficiaries amounted to two million retired (thus the number of citizens benefiting from the increase in salaries and retirement more than half of the population of the Iraqi people. Also the terrorism led to increase allocations of costs for security through creating 30 000 job in the Ministry of Interior to secure their needs, as well as the other 53 000 job at the Ministry of Defense in 2007-2008. Therefore the security services presented \$ 7.399 Billion (18.02%) increased to \$ 9.000 Billion (19%) of operating expenses in 2007 and 2008. In 2004, the International Monetary Fund, in exchange for giving a loan to the Iraqi government, insisted that the Iraqis lift subsidies on the price of oil and open. Besides, the Iraqi government must be committed to controlling the wage and pensions bill, reducing subsidies on petroleum products, and expanding the participation of the private sector in the domestic market for petroleum products.

But the role of state increased to support the increasing number of disabled persons and widows, the expenses of price support Import of oil products and power and import of fuel and ration card system receives All Iraqis, which constitute 5.7% of the public budget or 7.1% of operating expenses according to

For the year 2009, which include (the expenses of electrical energy import expenses claims resolving property disputes, real estate and the expenses of importing fuel power plants Electrical expenses medicines cost of the pilgrimage and the census and Social protection network)

was equivalent to 5% of the budget or 6.5% of expenditures operational expenses which are necessary to sustain the life of the citizen ⁽³⁹⁾.

4.2. Potential to State – Market’s Partnership

The public sector in Iraq has taken on increasing importance over the last four decades, Iraq's SOEs represent large percentage of the industrial economy, and the private sector consists primarily of small and medium enterprises numbering approximately 100.000. Expanding opportunities in Iraq will require both public and private investment; they are strategic complement working in a virtuous cycle. Prudent public investment in certain fields such as; infrastructure, basic needs and security provides a conducive environment in which private investment can flourish. In return private investment will create jobs that generate resources which can be used to improve the same field. One of the major tasks assumed by the state in the transitional phase is the revitalization of the private sector. The necessary conditions for encouraging private sector are; sound policies, institutional economic order, rule of law, an overall strategy, and a sound physical infrastructure, expanding lending by granting small loans and credit to small and medium-sized enterprises (SMEs), and completion of the requirements for accession to the World Trade Organization (WTO), the revival of regional trade ties, and increasing access to telecommunications, the rehabilitation and expansion of air and rail transport . State should create a supportive investment environment by reforming institutional frameworks and laws in finance, trade, banking, insurance and related areas. And adopt an effective strategy for private sector development. That task is directly linked to the reform of the public sector through economically feasible privatization policies. It requires improving the investment environment, the labor market and economic growth. A successful economic and democratic model for Iraq requires a clear development strategy in

which non-oil activities should be encouraged, and oil and gas production and revenues maximized and utilized mainly for public infrastructure. The Liberation from excessive dependency on oil export revenues and an immediate start on diversifying the national economy and expanding sources of income. This entails developing other productive sectors and basic services, such as industry, agriculture and tourism, and stimulating the growth of non-oil exports. For rebuilding the social structure by rehabilitating the middle class and expanding its social and economic role. The growth of a new middle class will support democratic and liberal currents and actively foster a liberal political system responsive to the needs of development and modernization⁽⁴⁰⁾.

4.3. Challenges to Iraqi Rent- Seeking State

Iraqi economy is characterized by low levels of production and productivity, very high unemployment and structural problems, substantial increase of aggregate demand financed by oil revenues and exogenous sources led to high inflation in basic needs, housing and food, availability of goods and domestic appliances in the markets does not reflect equivalent increase of domestic production. Other than trade and construction activities, the industrial and agricultural activities are in a state of stagnation and private entrepreneurial initiatives are lacking. Iraq's proven oil reserves plus probable remaining reserves of ١١٨ Billion bbls, this total could be increased by up to ٢٣٥ Billion bbls through enhanced recovery and exploration. Iraq's proven gas reserves plus probable reserves of 78 Trillion Standard Cubic Feet; this total could be increased by up to 110 Trillion Standard Cubic Feet through enhanced recovery and exploration. Concerning the investment perspective is estimated between \$246 through \$ 394 Billion of investment will be required by Iraq's oil and gas industry over the next 30 years to unlock its production potential⁽⁴¹⁾.

Iraqi Economy faces a combination of economic and political challenges known as the “resource curse.” The resource curse is a paradox faced by resource-rich countries like Iraq where the natural resource wealth that should propel development actually results in;

- **Slower economic growth**
- **Increased poverty**
- **Higher levels of corruption**
- **Worse governance**
- **Greater potential for violent**
- **Poor fiscal policy**
- **Capital intensive industries**
- **Difficulties in budget planning**
- **Significant political problems**
- **The economy move away from productive activities into rent-seeking**

In the fall of 2003 with Iraq in ruins, the American-led Coalition Provisional Authority imposed a series of reforms reminiscent of the shock therapy attempted in the 1990s in most of the transition economies of Central and Eastern Europe. Overnight, Iraq became the most open economy in the Arab world. Iraq economy based – oil faces many interrelated political, economic and social challenges negatively impacts. The economic-policy challenges facing the new government are daunting. Among the most immediate: creating jobs for millions of dislocated workers, establishing a social safety net, rehabilitating agriculture, guaranteeing stable food supplies. The relation relating resource availability, state structures and economic growth has been explained by Dutch disease effects and Olson rent – seeking. Putting upward pressure on the exchange value of the dinar and raising the likelihood that domestic goods other than oil will be priced out of world markets. The overvaluation of a currency linked to booming exports of raw materials – dubbed “Dutch disease” because of the economic damage suffered by the Netherlands after the discovery of vast quantities of natural gas – is not a trivial problem. Indeed, it partly explains the relatively poor long-term performance of a host of economies that seemingly had the advantage of generous export earnings⁽⁴²⁾.

Besides, Iraq is undergoing a social experiment under which a new form of government is being constructed after the passage of autocratic rule. The government envisaged is a consociational democratic state designed a priori as a political mechanism for the redistribution of resources, mainly oil. In the resource-rich countries such as Iraq, the consociational project leads to an Olson-type rent-seeking confessional behaviour that hampers economic growth and development, and undermine the efficiency of state-led or private-sector led economic development, particularly in postwar conflict societies rich in resources and with ethnic and religious divisions and, consequently, may lead to the prolongation of conflict or resurgence of political violence and fragile state. In addition, war when followed by consociational political system can strengthen such coalitions rather than weaken them, as Olson had observed in the case of Germany after the Second World War .The level of resource availability plays a role in formulating the desire of groups for setting up state authority. Consociational democracy—in addition to being a system of distribution of political power between different ethnic or confessional groups is also a mechanism for dividing state-controlled resources. In Iraq this type of democracy must provide a distributional mechanism for the country's oil resources. However, the necessary condition for establishing and successfully applying such a system is the existence of a resource-threshold that permits the formation of a state ⁽⁴³⁾.

The last challenge concern the impacts of the global economic crisis on Iraq based – oil economy. Iraqi economy has been hit hard by the global financial crisis especially from lower oil prices, forcing the authorities to diversify the economy and not to focus on the oil industry only. The financial crisis had a serious impact on the Iraqi economy, since the low oil prices forced the obliged the government to reduce its spending. It is expected the government to reduce spending on public services is also due to lack of budget .In addition the crisis has been positive in some respects on Iraq; because it forced the government to focus on economic reforms and diversify the economy away from oil and given special emphasis to the development of agriculture in Iraq force us to improve the infrastructure of production. The Ministry of Finance has created 126000 job opportunity in public sector for the year 2009, but

due to international financial crisis the number has been decreased to 26000 job only ⁽⁴⁴⁾. The financial crisis led to drop in official development assistance and international aid as well. As some major donor countries are moving into recession and increasingly face domestic fiscal pressures, there are strong concerns that the levels of official development assistance (ODA) and international aid cannot be maintained ⁽⁴⁵⁾.

Concluded remarks

- The IPE approach is to synthesize methods and insights derived from economics, political science, and sociology as conditioned by an understanding of history and philosophy and an appreciation of the importance of culture.
- The simple divisions between state and market, domestic and international, and politics and economics were no longer applicable to a wide range of issues. An increasingly complex world required a complex approach to analysis, which IPE provided.
- One lesson to be learned from the collapse of the Bretton Woods monetary system is that economic arrangements create political obligations and are subject to political manipulation.
- No economy of any contemporary significance country operates without the state and the market. Difference in economic systems reflects a difference in the way in which the state and the market are combined.
- Iraq's today face three main challenges; political challenge, financial resources challenge, and finally economic reforms challenges. Scholars and policy-makers should think about International Economics with much attention to International Politics and vice versa. The combination of political and economic arrangements must be "incentive compatible" if it is to succeed in the long run. That is, the political and economic incentives that individual members of the system perceive must be consistent

with the behaviors necessary for the continued existence of the system.

- The transformation of Iraqi economy to free market capable to integrate successfully with the world requires success on several fronts: Settling internal conflicts and restoring security, Progress in completing economic reforms, and openness to local and foreign privet investments.
- It is necessary to achieve the empowerment of the Iraqi economy before the liberation and transformation, because without it will not harvest but more internal crises as a result of free economic policies.
- IPE of Iraqi economy suggested research surrounding; its position within international trade, the relationship between democracy and market , international finance, Integration in global markets, the structural balance of power between and among states and institutions.

Recommendation for mixed Economic System

The study is going forward with the assumption that despite their opposite roles in resource allocations, the state and the market are inseparably interdependent, and a mixed economy is the best economic system to be applied in Iraq during the near stages of reconstruction. State – Market partnership within mixed economic system led to the gradual movement from Mixed to Liberal Economic System. Reforms to reduce government control and intervention will be ineffective or even damaging in low-income economies. Maximum care must be taken that the reform plan is consistent with country- specific conditions, it depends on social tradition and development stag. The choice of a mixed economy , one that lies between socialism and capitalism , seems to be the right one to help rebuilding Iraq and introduce the country to a semi-free market economy . Mixed economy involves less government; it is a mixture of freedoms and regulations. The economy will have more freedom with the respect to the use of private property. Mixed economy

is perfect to move into a liberal economic system open to the global market conflict. The government does provide security features similar such as minimum wages, social security and bailouts for failing corporations, welfare and medical care. Also, the government is going to implement policies like free trade, privatization of industries, allowing the market to set prices and a smaller role for government. The goal of these structural modification policies is greater efficiency and economic growth for Iraq which experience instability, unemployment and inflation and inequities. Further argument in favor of mixed economy are state, with good measure of planning, will continue to control the oils revenue, the principal source of the nation's income. Oil sector will stay nationalized, but most other areas of the economy will be open to private enterprise. The mixed economy in which the state plays the central role is necessary because rebuilding the transportation needs investment cannot all come from private sector. And to rebuild Iraq's economic infrastructure, which will allow for the country to become independent enough to start its economic rise into what hopefully will become a more stable, secure, and successful nation. Trying to establish the free market might be difficult in a young democracy, where trading economic benefits becomes the favorite tool of generating political opportunity. Iraq is suffering from intense separation between the rich and the poor. Only state can make sure that the poorest Iraqis get a better deal through improved health care programs , education , welfare services and social safety net for the poor. Even in advanced and democratic countries, public finance maintains developed and costly social welfare and benefit systems.

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