

# Ordinary Exam, Fall 2025

*For some interests drive the organization and dynamics of the international political economy. For others ideas prefigure interests. To what extent is this understanding of interests and ideas convincing?*

International Political Economy (BPOLO1286U)

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## **Introduction**

The question asks whether the dichotomy of interests and ideas for understanding the international political economy is compelling or whether there exists a better conceptualization. Although, in certain limited cases, a clear distinction between ideas and interests is practical and useful, it misses the broader and deeper context through which these two are connected. The central thesis of this essay is that ideas create institutional structures and institutionalize ideas, which, in turn, shape and constrain the interests of agents of the international political economy. This does not look at interests driving the international political economy and ideas prefiguring interests in isolation, but rather broadens the picture and emphasizes the historical context from both sides: how certain ideas get institutionalized and how this shapes the contemporary interests of agents of the international political economy. The essay provides two cases in point. Firstly, I will consider the era of neoliberalism and the European Central Bank (ECB) and how the historical context institutionalized certain ideas and how the institution itself spurs interests, shaping the political-economic landscape. Secondly, I will consider trade and the World Trade Organization (WTO): how the prevailing ideas shaped it and how the interests are reshaped by the WTO. In the background, the distinction between materialism, constructivism, and historical institutionalism is kept in mind to blend these into a mixed analysis.

## **Theoretical Framings**

Oatley in “Chapter One: International Political Economy” clearly defines and distinguishes between the terms, such as interests and ideas. Oatley defines interest as “the goals or policy objectives that the central actors in the political system and in the economy - individuals, firms, labor unions, other interest groups, and governments - want to use foreign economic policy to achieve” (Oatley, 2011, p. 13). Then, Oatley goes on to distinguish between two mechanisms to explain the formation of these policy interests. Firstly, people have material interests that arise from their position in the global economy. Secondly, interests are based on ideas, where a particular policy is preferred due to some type of mental model or logic that results in a preferred outcome - what matters here is not whether the idea is correct or not, but whether people with power believe the idea to be true. Oatley defines ideas as “mental models that provide a coherent set of beliefs about cause-and-effect relationships”. With identifying the competing demands and interests, to understand how these are transformed into policies, there comes the third aspect, namely institutions. This focus on interests and institutions is at the heart of international political economy: how political decisions affect economic outcomes and how economics shapes policy decisions. (Oatley, 2011, p. 13-15)

However, here is now a good place to define terms I will be applying and using. Following Oatley, I follow the distinction that interests are something that have real and materialistic components, and ideas are mental models that people have of how they perceive the world. While Oatley sees institutions as simply negotiating places of conflicting interests, I view institutions as carriers of ideas, as institutions are creations of humans based on mental models of humans, thus ideas. When institutions are created, they become real and thus can have real consequences for subjects of the international political economy.

Moving on to the international political economy schools of thought, from the early days, the international political economy (IPE) tradition was completely of materialist ontology. This means that we assume that material interests (or just interests henceforth) are the main driver of change and order in IPE.

The earliest IPE tradition has been called retrospectively mercantilism or economic nationalism and later subsumed under realism, a move that Watson explicitly has pointed out and criticized; yet general principles still hold between those terms - these are that national power and wealth are tightly connected and that the states seek to expand both and that economic strength is a central component of political power through which further wealth can be secured. (Oatley, 2011)

The second traditional school, liberalism, highlighted that free markets produce the best outcomes and pushed governmental efforts aside. (Oatley, 2011)

The third approach, Marxism, has its roots in the critique of capitalism, and it seeks to advance worker interests as it sees the capitalist class exploiting the system and therefore highlights issues of class conflict. (Oatley, 2011)

As we can see, all three have clear materialist objectives. Namely, all three take these interests as given and make certain ontological arguments about the nature of states and markets. Namely, realism sees the global landscape as a state of anarchy, where states therefore always seek to gain more power. In the case of liberalism, they also see anarchy but see the best way to maximize welfare through free markets and no state interventions. Marxism posits that the conflict is not between states but between classes and seeks to advance the interests of the working class.

The (material) interests are, however, not the only source by which to get some understanding of the politics of the world economy. Ideas and other things, such as norms and social identities, also play a big role, and only recently, with the turn of the century, has constructivism carved itself into the international political economy as one of the central approaches to the international political economy. The constructivism at its core turns its attention to that “collectively held ideas shape the social, economic, and political world in which we live” (Abdelal et al., 2011, p. 2). Constructivism

does not take values and beliefs as given, like materialist traditions, and it sees that ideas not only shape interest but also shape identity. From this perspective, IPE is the unbreakable combination of material conditions, normative statements, and academic discipline. (O'Brien & Williams, 2020)

Moving on to institutionalism, I will explain the difference between historical institutionalism and social institutionalism, as these two approaches are relevant here. Institutionalism as such focuses on rules and the role of these rules as institutions shaping the behavior of actors of IPE (O'Brien & Williams, 2020). Fioretos et al. argue in their paper "Historical Institutionalism in Political Science" that in historical institutionalism (HI), institutions shape individual goals. (Fioretos et al., 2016) Historical institutionalism does not only look at the rules but places importance on historical events, and thus institutions are shaped by past events and ideas, creating path dependencies. In HI, not only do institutions provide strategically-useful information to the actors, they also affect the very identities, self-images, and preferences of the actors. Historical institutionalism sees a world full of institutions and directs attention to power relations that enable certain institutions to develop, explaining the institution as 'mobilization of bias' (Hall & Taylor, 1996, p. 954).

In social institutionalism (SI), institutions are not adopted because of rationality but should be seen as related to cultural norms establishing certain institutional practices. Social institutionalists define institutions also broadly, such as not only formal rules but also symbol systems and cognitive scripts. Institutions in SI influence behavior not simply by specifying what one should do but also by specifying what one can imagine oneself doing in a given context. This is heavily intertwined with the idea of a constructivist approach to IPE (Hall & Taylor, 1996, p. 946-948). Similarly with HI, SI sees a world replete with existing institutions but uses it "to explore the way in which existing institutions structure the field of vision of those contemplating institutional reform" (Hall & Taylor, 1996, p. 953)

My argument here is not of a pure kind. My argument is not purely constructivist as I go further. Constructivists would say that only ideas matter, but I argue that institutionalized ideas matter, which persist and structure eventual interest. My argument is neither pure social institutionalist, as I treat institutions as power structures, not just cultural scripts. My argument is also not pure historical institutionalist, as redefining interest goes further than traditional HI, which only constrains certain actions through path dependency.

My argument is the mix of different approaches, and this is a good thing. Just as Blyth argues that a focus only on either constructivism or any other materialist IPE tradition limits the field of IPE, I assert that thinking on the ideas-interests dichotomy misses the point (Abdelal et al., 2011, p. 8). To reiterate, ideas play a significant role and are historically institutionalized. These institutions carry ideas over time, and at any given point in time, we can observe interests, which are the result

of institutional structures.

This is better than looking for tension between interests and ideas, because they are related, and this explains both change and stability. It explains stability as institutions as carriers of ideas persist over long periods of time, and it explains change when new ideas establish better institutions. The clash of contemporary material interests is a direct result of the order of IPE, established by prevailing institutions and institutionalized ideas. Therefore, this is truly a blend of different IPE approaches: namely, in stationary and static lenses, we see a battle of material interests, while identifying the institutions, we can observe the ideas incorporated into the institutions. Now that the theoretical framing is established, the cases of the ECB and WTO are presented to uncover and test the made assertion.

## **The era of neoliberalism and ECB**

With the collapse of the Bretton Woods system, which was established after the end of World War II and which was dismantled when U.S. President Richard Nixon broke the U.S. dollar peg to gold in 1971, the world entered a new world of international political economy. In the Bretton Woods system, Keynesian thought dominated, and the focus was on employment and thus independent monetary policy. Currencies were fixed, and also capital controls were part of a toolkit to protect domestic markets. This was the period of 'embedded liberalism'. Now, since the peg was broken, capital controls were no longer necessary, and the U.S. led the way of neoliberalism, where monetarism prevailed instead. This means that with Milton Friedman and his focus on inflation, inflation became of much bigger issue. The main reason for such a shift was that the previous Bretton Woods system failed to keep prices low, as governmental intervention created inflation and discretionary policies seemed to make things worse. (Blyth, 2002)

Not only did the previous monetary system fall and a new was set up, but there was an even bigger trend that converged the ideational thought of countries. This was globalization, which increasingly included more and more dimensions: economic, cultural, political, and informational, among others.

We can call this combination of neoliberalism and globalization as neoliberal globalization after the Bretton Woods starting in the 1970s-1980s. This meant that economic integration was of interest through removing trade barriers, deregulating, and privatizing. (Kentikelenis & Babb, 2019)

The Maastricht Treaty in 1992 led to the creation of the European Central Bank, which eventually became operational in 1998, and the common currency of the euro came into circulation in 1999 and physical banknotes in 2002. In its charters, the ECB was given massive independence, and it

had only one mandate: price stability (Mcnamara, 2002). It was also not allowed to directly finance government budgets, and the charter was not clear on how to hold the European Central Bank accountable (Mcnamara, 2002). These aspects all highlighted that the ECB was established with certain ideas in mind, namely monetarist thought. With the establishment of the European Central Bank, the ECB also has the responsibility to monitor the fiscal policies of the member states. The Stability and Growth Pact is one example of this, limiting, for example, budget debt to 60% of a country's GDP and budget deficit to 3% of a country's GDP.

It is important to now note how the institution of the ECB has reshaped the interest of states. Members lost independent monetary policy by joining the Eurozone, as now it is the ECB that decides on the monetary policy. In fact, the loss of monetary policy happened in under 10 years as national central banks became independent under the fact that it was forced upon countries in order to enter into the European Monetary Union and ECB system (Mcnamara, 2002). The interest, however, in joining was that it provided stability and more credibility of anti-inflation commitment, and indeed the ECB followed the example of Deutsche Bundesbank, as according to the Barro-Gordon model, inflation targeting had to be lower than in Germany; otherwise, Germans would not have been on board. However, it was not only the anti-inflationary Deutsche Bundesbank that was the model for the ECB; it was also the coercive German negotiating tactic, which institutionalized ideas of low inflation and massive independence into the charters of ECB and eventually the interests of other countries (Braun, 2016, p. 1079). (Mcnamara, 2002)

Here the interest shift was not only that the institution of the EU and ECB created conditions that states accepted on consensus, as the ECB's independence as a necessity was not of an objective material interest of the majority of the member states, but it was the ECB as an institutionalized anti-inflation idea, which also shifted the interests of independent monetary policy to no monetary policy at all. (Mcnamara, 2002, p. 66)

It is also clear that even Eastern European countries that were initially not members of the EU and Eurozone were interested in general stability instead of recently gained independence from the Soviet Union and were interested in joining the EU and Eurozone. This highlights that even countries with different economic structures and historical experiences in the periphery came to redefine their interests consistent with the Maastricht Treaty and terms of the ECB. Of course, realist security concerns, liberal market welfare maximization, or Marxist (critical IPE) solidarity arguments were also part of the rationale for joining these unions, but these materialist interests were not the only ones, because the institutionalized ideas of neoliberalism also created the interest of these countries, perceived as something that is worth having or being a part of.

So far, it is clear that the ECB as an institutionalized idea has reshaped and configured interests of states, but it is important to keep in mind that institutions, which are also important actors within certain traditions of IPE (such as liberalism), themselves have interests, such as material interests of survival or functioning. Braun in paper “Speaking to the people? Money, trust, and central bank legitimacy in the age of quantitative easing” highlights how the ECB’s interest in maintaining price stability to defend its legitimacy was willing to perform the folk theory of money (pretending to control the money supply) instead of debunking it as the Bank of England did. This can be seen as the ECB, as the most independent and least accountable central bank in the world, going as far as to defend this folk theory of money notion, living up to the broken Maastricht Treaty, where the ECB does not have its hands tied and is able to manipulate with vague statements, such as former ECB president Trichet saying that Quantitative Easing (in EU jargon, Asset Purchase Programme) is ‘not printing money’ addressing ‘malfunctioning of markets’ (Braun, 2016; Musthaq, 2023). (Braun, 2016)

The takeaway is that the ECB does not only constrain options of states, such as limited fiscal spending and no monetary policy, but it also redefines what the states want - ECB has redefined interests of states, such as price stability, budgetary discipline, and independent central banks.

## Trade and WTO

In order to exemplify how the WTO plays into this ideas-interests spectrum, we need to go back to the early beginnings of the second wave of globalization. This second global trade regime started with the creation of the General Agreement on Tariffs and Trade system (GATT) in 1947. This was American-led, and the creation of the economic regime had American values and ideas incorporated into the international trade system. One such value was that in order to achieve full employment and economic growth, trade liberalization is the way to do it. The second American belief integrated was the multilateralism to generate a non-discriminatory trade regime. The intuition, in fact, was to avoid historical shortcomings of Britain’s Imperial Preferential Trade System in 1932. The third American idea incorporated was that trade regimes should be based on compromise to settle policy disagreements and disputes. GATT was initially only an agreement, but countries started to rely on it as global trade expanded rapidly. The GATT statutes enshrined non-discrimination, embodied in Articles I to III, where Article I is most favored nation (MFN), which is to make countries treat others as well as they treat any other country in the system, and Article III is non-discriminatory in the sense that imported goods must be treated similarly to domestic goods with respect to taxes and distribution requirements. This means that Article I ensured that a country could not discriminate

externally between the countries, and Article III ensured this internally within the countries. GATT also introduced some safeguards, such as trade restrictions and tariffs, when a country's industry faced significant problems or balance-of-payment difficulties. Nevertheless, GATT was institution-building by accident, and through time, it steadily expanded in scope of issues and membership, eventually culminating in 1995 with the creation of the World Trade Organization (WTO). (Trommer & Capling, 2017)

Kentikelenis and Babb argue that neoliberal globalization spread not only through new treaties, such as was the case with the previous example of the ECB and the Maastricht Treaty, but also through informal institutional change, where the norms were altered with the tweaking and re-interpreting the formal rules. Subtle word changes from 'barriers to trade' to 'distortion' and the neoliberal idea of a legalistic dispute system created ways to reduce domestic policy spaces and effectively open up economies. This reinforces the argument that ideas matter most when institutionalized, as they constrain and reshape interests over time. (Kentikelenis & Babb, 2019)

The institutionalization of ideas is thus clear. WTO took as its role the prevailing American (neo)liberal values: a transparent, open, and predictable system of international trade, where members can have a dialogue for trade issues and disputes. (Trommer & Capling, 2017)

WTO not only, however, constrains the behavior of states and markets in the world economy, as historical institutionalism alludes to with path dependency theory, but also redefines interests of agents of international political economy. The liberal free trade argument is used by the Global South to gain access to Global North markets. They frame their claims in the language of WTO norms, pursuing fair and free trade, openness, and non-discrimination, all enshrined in statutes of GATT and WTO. Developing countries, engaging with the WTO, have turned away from protectionism toward engagement with a rules-based system, illustrating how institutionalized ideas shape the form and content of interests.

In particular, the Doha Round of negotiations in the system of the WTO was a round of global trade talks in 2001 where this tension of interests was very clear. Developing countries had grown of increasing importance, and since they wanted that centerpiece of negotiations to be the development of developing countries, the Doha Round is also known as the Doha Developing Round (DDR). This meant that developing countries used the institutional ideas within the WTO and negotiated to gain market access to the agricultural sector. However, the agreement in the end was not reached, as developing countries stood to lose many of their trade policy tools that historically helped countries develop. Therefore, the interests of free and fair trade were not carried through, while the WTO itself was established for this goal. This highlights the fact that not only historical institutionalism

constrains behavior, because developing states do not have the same tools as now-developed countries used to have, but also the interests of states are redefined as developed countries pursue their material interests, while developing countries used the instruments and norms of the WTO to pursue the ideas of the WTO instead of recent protectionism. (Gallagher, 2007)

## **Discussion**

Across the ECB and WTO, we see the similar logic. Namely, ideas become embedded in institutions, which then redefine interests. Whether through formal treaty change (ECB, WTO) or informal norm substitution, where subtle changes are made through different interpretations like GATT principles broadened a bit, institutionalized ideas persist, and this means that actors, such as states, both inside and outside the institutional clubs, redefine their interests and also institutions themselves as well.

While countries' interests can change under different institutionalized ideas, as shown, it is also entirely possible that in the future, we will see shifts in interests as well. This is clear in both cases, as, for example, the ECB can lose its independence if more democratic accountability is more heavily pushed, or, as, for example, the WTO can give up on its norms to be more accommodating to flexibility of policy spaces.

Finally, it is useful to see how the assertion holds up in (material) interest analysis, which it does surprisingly well. It is natural to expect that realist narrative fits well with the idea that certain ideas get institutionalized and thus not all ideas are equally relevant, as constructivists would say. Indeed, the ECB had German foundations, and the WTO had American ideals, because they owned not only prevailing economic power but also prevailing ideational leverage on the field of ideas. And from a Marxist perspective, we can critique these institutions because they are not as flexible as one would want: the ECB forces heavy austerity on problematic countries (Blyth, 2015), while the WTO favors core economies and shrinks opportunities of developing countries (Gallagher, 2007). But note that these materialistic interest perspectives are possible since the institutions are carriers of certain ideas and these institutions exist. This highlights the effectiveness of the argument as it identifies and explains why certain materialistic interests clash at the current point in time.

## **Conclusion**

The essay understood the question as digging deeper into the concepts like interest and ideas. It argued that, indeed, things are not as clear-cut, and historical institutions matter because they give more substance than looking alone at interests and ideas. In particular, the paper highlighted how ideas get

institutionalized and how institutions redefine contemporary interests of agents in the international political economy. The paper used the cases of the WTO and ECB to illustrate the validity of the argument. The argument can be developed further by highlighting the difference between institutions and institutionalized ideas, because institutions are more than ideas and institutions change without any influence of ideas, indicating another possible angle to look at the relationship between ideas and interests. Also, future research could also apply this chain of logic in more cases to test its viability and perhaps identify more sophisticated patterns underlying the institutions. Ultimately, the interplay of ideas and interests is best understood through their institutional mediation, which explains both stability and change in the international political economy.

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