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## Introduction

“Isms matter,” as Jonathan Kirshner has recently observed (2015: 155). Isms – rationalism, realism, historical institutionalism, Marxism, feminism, social constructivism, post-structuralism, and other paradigmatic approaches to understanding the nature of social and political organization – are important because they distill the foundational analytical commitments that anchor scholars’ theorizing about puzzling outcomes in world politics. Isms foreground some explanatory factors and push others farther into the background. Isms also influence the kinds of outcomes that different scholars find puzzling in the very first place.

Clarifying and laying bare the foundational commitments associated with the different Isms we employ in the study of IR and IPE can help us, as Kirshner writes, “to understand the likely strengths, weaknesses, limitations, controversies, and specific attributes of the various theories” (2015: 155). Thus the move, advocated by some high-status senior IPE scholars (see Lake 2011 for a qualified endorsement) and accepted by a good deal of younger U.S.-based scholars in the field, to discard the Isms and head toward a post-paradigmatic model of issue-specific, middle-range theorizing and rigorous data analysis in which the outdated “battles” between various Isms simply don’t matter, is misguided. But, once again with the aid of Kirshner’s insights, we can go further: the “non-paradigmatic” approach preferred by many in what Cohen (2007) calls the “American school” of IPE is in fact itself a paradigm, built upon three core analytical commitments, which Kirshner (2009) labels “Hyperationalism,” (H), Individualism (I), and Materialism (M) (or HIM, for short).

By contrasting one Ism employed in the study of IPE – constructivism – with the near-hegemonic (in the United States, at least) HIM-style approach, I hope to clarify the key differences between the approaches, and I attempt to highlight the contributions that the work associated with constructivist IPE has made (and continues to make) in deepening our understanding of the politics of foreign economic policymaking and the nature of international economic relations.

The comparative strategy I pursue in this chapter differs from Rawi Abdelal’s (2009) review of the constructivist approach in IPE in a previous edition of the *Routledge Handbook of International Political Economy*, which linked the rise of constructivist-inflected work in IPE to large-scale

historical trends and episodes (such as the dismantling of the social welfare and developmental states in the 1980s and 1990s) that were difficult to explain with purely rational-materialist frameworks. In that chapter Abdelal also categorized constructivist work into four “pathways” (labeled “meaning,” “cognition,” “uncertainty,” and “subjectivity”), a categorization schema that was explicated more fully in the groundbreaking 2010 volume *Constructing the International Economy*, which Abdelal co-edited alongside Mark Blyth and Craig Parsons. With the benefit of Abdelal’s review, and with a decade of additional work to survey since Abdelal’s chapter was published, I proceed by, first, contrasting the world assumed by what Kishner calls the “HIM” approach with the world that constructivists tend to think many (if not most) economic actors and policymakers actually inhabit. I highlight three key dimensions of difference between these approaches: (1) whether actors’ decisions are assumed to be primarily made under conditions of quantifiable risk or whether, instead, their choices are assumed to be primarily made in the face of radical uncertainty (see Box 12.1); (2) whether knowing the material conditions facing economic actors is sufficient to determine their interests and preferences or not; and (3) whether the behavior of a collective group can be reduced to the interests of its members. Each of these differences has important implications for whether scholars of IPE choose to foreground material rather than ideational factors as the key shapers of decision makers’ preferences over economic policies—and for how strategic they think decision makers can be in trying to enact their preferences.

In the second part of the chapter I contrast empirical research in the HIM mode with findings from the constructivist vein of research in three of the bread-and-butter issue areas investigated by IPE scholars: the politics of international trade, money, and finance. This review shows that the constructivist approach has yielded a number of important insights that help us resolve research puzzles that are otherwise difficult to explain from the purely HIM perspective.

### Comparing material-rationalist and constructivist approaches to IPE

“Constructivism,” Abdelal writes,

is analytical language composed primarily of the social facts of the world, those facts that exist only because they are collectively shared ideas. Such social facts influence patterns of political economy directly as socially constructed coordination devices; they also influence how agents interpret the material reality around them.

(2009: 63)

Applied to the domains of interest to scholars of IPE, this central constructivist claim contains an important implication: it cannot be assumed that decision makers, ranging from ordinary consumers to the highest-level economic policymakers, facing sufficiently similar “objective,” material conditions (such as exposure to the same price changes for a bundle of goods or a change in an indicator of the direction of their country’s macroeconomic performance), will converge in their expectations about what to do. For constructivists, shared beliefs, values, worldviews, and social conventions constitute the interpretive schemas that decision makers rely upon to make sense of the signals that they pick up from their environments. Material conditions on their own are not enough to drive actors that may have radically different belief systems to arrive at similar expectations and to follow similar strategies: “People can interpret their material environments in very different ways. Indeed, so many ‘similar people’ make so many ‘dissimilar choices,’” according to Abdelal, Blyth, and Parsons, “that our mainstream theories correspond, at best, only to time- and space-specific subsets of the world economy” (2010: 2). And as much research in the constructivist vein has shown, because economic actors’ “mental models” aren’t easily discarded,

#### Box 12.1 Origins of the distinction between risk and uncertainty

The first person to introduce the conceptual distinction between risk and uncertainty was the economist Frank Knight. In *Risk, Uncertainty, and Profit* (1921), Knight tried to explain the puzzle of the existence of corporate profits: in a world of frictionless markets, new suppliers should enter markets until the marginal price of good equaled the marginal cost to make the product. Knight’s insight was that there are two different choice environments facing entrepreneurs: situations of *risk* (agents can calculate objectively correct probabilities for possible future states of the world) and *uncertainty* (there is no way for agents to attach probabilities to a set of possible future states of the world). He explained that successful entrepreneurs are willing to make investments with uncertain payoffs in the future.

In the same year that Knight published his book, John Maynard Keynes published *A Treatise on Probability*. The seeds of Keynes’s future thinking about the dynamics of financial markets can be found in the book. In it, Keynes distinguished between three types of probabilities: *cardinal*, in which there are measurable, objective probabilities for risky events; *ordinal* probabilities where “we reason that some events, based on our evidence, are more likely to occur than others, but not how much more likely, because we don’t have enough inferences to make a proper statistical inference” (Skidelsky 2009: 83); and *radical uncertainty*, which reigns when we have so little knowledge that the future course of events are simply unknown.

By 1937 Keynes was ready to sketch the behavioral implications of radical uncertainty. Keynes noted that for the classical economist theorists, Knight’s distinction was unimportant: “the calculus of probability, tho mention of it was kept in the background, was supposed to be capable of reducing uncertainty to the same calculable status as that of certainty itself” (1937: 213). The classical assumption of decision-making on the basis of objective probabilities is only reasonable when goods are consumed “within a short interval of being produced” (1937: 213). Since production and pricing decisions are repetitive and provide quick feedback, the situation approximates Knight’s view of decisions under risk (Gerrard 1994: 331).

But financial assets are different. We purchase stocks and bonds to trade in the future with no way of knowing what the future price of our assets will look like: “thus the fact that our knowledge of the future is fluctuating, vague, and uncertain, renders Wealth a peculiarly unsuitable subject for the methods of classical economic theory” (Keynes 1937: 123).

Practical men, in Keynes’s view, have no choice but to rely on “conventions, stories, rules of thumb, habits, traditions in forming our expectations and deciding how to act.” *Confidence* is an essential part of Keynes’s view of decision-making under uncertainty. Our expectations about an uncertain future are shaped by the social factors that give us reason to have more credence that investments will yield our desired payoff. Confidence, for Keynes,

is not a statement about the future to be checked against actual outcomes. The state of confidence is an epistemological phenomenon, a state of mind, a belief or feeling about the adequacy or otherwise of the knowledge base from which the forecasts of the future are derived. (Gerrard 1994: 332)

Consequently, for Keynes and his followers, financial markets are particularly prone to unpredictable bouts of euphoria and panic.

shared beliefs can guide action even when the strategy is, from a purely material self-interested perspective, costly, suboptimal, or otherwise just plain hard to understand.

The contrast between the underlying theoretical assumptions of constructivist IPE and its material-rationalist alternative is stark.<sup>1</sup> Unlike constructivists who see decision makers as falling back on beliefs and other non-material interpretive schemas to guide their choices in highly complex environments rife with uncertainty, rationalist explanations typically start by (implicitly or explicitly) assuming that individual agents in any choice setting seek to solve optimization problems. As Dani Rodrik (2014: 190) explains, an optimization problem involves three components: (1) the thing that the agent wants to maximize (an “objective function” – income, votes, power, and the like); (2) the constraints under which the agent operates (the “rules of the game,” constituted by things like budgets, technologies, and formal political institutions); and (3) the set of possible choices available to the agent. Agents optimize by selecting the policy mix that maximizes an expected payoff function (Page 2008: 123). In this analytical mode, “people select certain actions as a rational response to their place in an environment implicitly characterized as an obstacle course, in which payoffs may be opaque, but they are knowable” (Abdelal, Blyth, and Parsons 2010: 3). Information is unevenly distributed among agents, but in the material-rationalist optic *all* decision makers have at least enough knowledge of their worlds to be able to attach payoffs to actions and to assign probability distributions over the states of the world that might be brought about by different choices.

One key dimension that differentiates constructivist from material-rationalist-style IPE, then, is whether choices are made primarily under conditions of *risk* or whether they are made primarily under conditions of *uncertainty* (Box 12.1). Decision makers live with risk – not uncertainty – in the rationalist approach. Betting on a coin flip is a risky decision: you can’t be certain whether heads or tails will come up, but if the coin is a fair one you know the odds. Outside of casinos decision makers rarely know the objective probabilities in a given choice setting, but in the material-rationalist approach they behave *as if* they have a probability distribution in mind. In this analytical mode, as Krishner observes, “if rational actors have access to the same information, they will reach the same conclusions about expected outcomes” (2009: 205). In the approach characterized by risky (again, *not* uncertain) decision settings and “hyper-rational” expectations, people may have different objective functions they seek to maximize and different information, but they don’t fundamentally disagree on what constitutes the objectively “correct” model of reality (Rodrik 2014: 193). The framework assumes “rational people responding to an obstacle course that any human being would perceive fairly similarly” (Abdelal, Blyth, and Parsons 2010: 4).

How do scholars working in the HIM mode of analysis justify the assumption that economic actors make rational decisions in environments characterized chiefly by risk? A line of thinking that grew out of work by economic theorists in the 1950s provides the key theoretical justification: the intense pressure of *competition* in the marketplace weeds out players with beliefs that fail to match the material facts of the settings in which they are embedded. As one of the theorists defending the assumption of strong rationality in the modeling of economic behavior wrote: “those who realize positive profits are the survivors; those who suffer losses disappear ... individual random behavior does not eliminate the likelihood of observing ‘appropriate’ decisions” (Alchian 1950: 213–16). Financial economists later demonstrated that in economies with complete markets inconsistent

In the rationalist mode of analysis, inconsistency is costly. The insight suggests that agents operating in hyper-competitive markets for goods and financial assets should, rationally, invest in gathering information to try to avoid making systematic mistakes. As Mark Blyth puts it: “since being deluded all the time is very expensive, especially when making margin calls, one would expect agents operating in such markets to correct these mistakes” (2003: 243). Over time, subjective probability estimates should converge on objective probabilities.

What David Lake calls the Open Economy Politics (OEP) approach to IPE adds another element to the analysis alongside the assumption of rational decision-making in risky, rather than fundamentally uncertain, choice settings: material self-interest (rather than collectively shared beliefs, values, worldviews, and conventions) underlies economic actors’ policy preferences. Thus the mainstream approach to IPE that Lake calls OEP (and that Krishner calls HIM) rests on two core assumptions: (1) *materialism*, in that foreign economic policies produce income effects that are driven by an agent’s position in the domestic and international division of labor, which allows observers to infer the preferences of economic agents from the activity in which they earn the bulk of their income; (2) *rationalism*, in the sense that economic agents, once they know what they want, make rational decisions as if they know the relevant probability distributions.<sup>2</sup> For example, import-competing producers of tradable goods for the domestic markets will lobby for an undervalued currency and a flexible exchange rate, because they believe that there is a nearly 100 percent probability that these policies will yield better profits than the alternative policy scenarios (Frieden 1991). In most circumstances, according to scholars working in the OEP/HIM style of analysis, it is not particularly difficult for individuals and firms to deduce their preferences from their positions in the marketplace. Jeffrey Frieden, for example, observes: “it is not hard to imagine how to derive a profit-maximizing firm’s strategies toward price, quantity, and quality” (1999: 57). The approach assumes that there are relatively clear and knowable links connecting an actor’s position in the domestic and international economy to the actor’s identification of material self-interest and, further, that in the final step it is straightforward to map those interests onto the actor’s articulable preferences over outcomes.

The OEP/HIM approach also has a staunchly individualist orientation, in the sense that theorizing begins by characterizing the interests of the lowest-level unit of analysis, the individual, before aggregating the interests shared by individuals who are similarly affected by economic policies into larger units (such as firms, sectors, or classes) (Lake 2009: 226). The collective interest of the group, it is assumed, reflects the interests of the average member. Scholars in this tradition, furthermore, tend to regard the political institutions through which organized groups seek to enact policy changes as primarily *regulative*, in the sense that the formal design of political institutions may give some groups advantages over others in shaping policy outputs – but the interests and preferences of the groups are *not* endogenously shaped by the rules, norms, and cultures of the institutions themselves.

Constructivists are skeptical of all three claims underlying the OEP/HIM variety of IPE. (Table 12.1, below, provides a concise comparison of some of the differing assumptions of constructivist IPE and the material-rationalist approach.) As noted above, constructivists by-and-large reject the blanket assumption that actors’ preferences can be accurately deduced from the material conditions in which they are embedded. And, further, constructivist work in IPE tends to be skeptical of the assumption that economic decision-making is made in the presence of quantifiable risk rather than uncertainty. For many constructivists, economic actors’ abilities to think probabilistically about economic problems are hampered by the incompleteness of our knowledge about the incredibly complex structure of the world (we cannot, in Mark Blyth’s terms, always observe the “generators” that produce outcomes) and by large-scale transformations in the underlying economic structures (Blyth 2006). In these kinds of environments there

beliefs are not sustainable, and market forces – namely arbitrageurs such as hedge funds and proprietary trading groups – will take advantage of these opportunities until they no longer exist, that is, until the odds are in line with the axioms of probability theory.

(La 2007: 12)

Table 12.1 Constructivist versus material-rationalist approaches in IPE

	Constructivist IPE	OEP/HIM-style IPE
Decision settings are (primarily) characterized by ...	Unquantifiable uncertainty	Quantifiable risk
Knowledge about the material conditions in which actors operate is ...	Insufficient for understanding why economic actors across different contexts want what they want	Sufficient to deduce actors' interests, which drive their preferences and inform their choices
The behavior of collectivities (unions, firms, classes, states, etc.) ...	Is not reducible to the interests of the individual members of the collectivity, because organizational cultures and identities can drive the organization's behavior and shape its members' beliefs	Is reducible to the aggregated interests of individual members of the collectivity

is simply no basis for people to settle on what the "objective" probability distribution looks like. When faced with uncertainty people depend on shared beliefs and social conventions to guide their decisions (Goldstein and Keohane 1993: 13–17). Instead of following decision rules that maximize expected payoffs, actors fall back on social scripts to guide their choices. In environments characterized by "radical" uncertainty there is no reason why everyone's beliefs should converge on a single, shared model, and worldviews that are wrong "could remain so even in the face of new evidence if that evidence is just used to confirm past beliefs" (Rohrk 2014: 194).

Finally, constructivist research in IPE has often resisted the individualist bent observed in the OEP/HIM tradition; instead, constructivists have pointed out how meso-level forces can transform individuals' perceived interests and preferences.<sup>3</sup> Organizations, ranging from trade unions to national policymaking bureaucracies to international institutions like the International Monetary Fund (IMF), can develop cultures that are not reducible to the interests of the average member of the organization – and yet which powerfully shape the behavior of the organization as a collective and shape the beliefs of the individuals within it (Nelson and Weaver 2016). Ahlquist, Clayton, and Levi's (2014) study of the trade policy preferences of members of international Longshore and Warehouse Union (ILWU) illustrates the point: while material-rationalist theory predicts that US-based ILWU members should be strongly pro-trade (Ahlquist, Clayton, and Levi convincingly demonstrate that the increasing volume of cross-border commerce accompanying lower trade barriers increased these workers' incomes), the union and its members have consistently rejected trade openness and have supported tariffs and other protectionist policies. To resolve the puzzle the authors look to the union's culture, which centers a shared belief among members in international worker solidarity ("an injury to one is an injury to all"). The authors argue that the ILWU case "provides evidence that it is possible for organizations to encourage behavior that goes beyond myopic self-interest ... [the organization's] members may come to reconsider their beliefs and preferences as a result of their organizational exposure and socialization" (Ahlquist, Clayton, and Levi 2014: 35–43).

Table 12.1 distills some of the key differences between the constructivist approach and the material-rationalist alternative to the study of IPE. In the next section of the chapter I move to a non-exhaustive review of the contributions that constructivist-informed work has made in three areas of concern to IPE scholars (the politics of international trade, money, and finance). The "non-exhaustive" clause in the previous sentence denotes three limits of the chapter:

First, the vastness and diversity of existing IPE research in the constructivist mold cannot be fully surveyed in a short chapter. Second, the survey highlights more recent work in the constructivist strain of IPE that has emerged in the years since Abdelal's (2009) essay on the state of the field. And, finally, as in Abdelal's review, the overview of constructivism in IPE in this chapter draws mainly upon research that is broadly positivist in its aims – which is to say that the research strategies adopted by the many of authors of the work reviewed here start from the twin premises that (1) the direction and strength of relationships between variables can be assessed with quantitative and qualitative tests and (2) that causal relationships between those variables can be discerned using conventional research methods. Not all self-identifying constructivists in IPE accept these premises; in particular, the scholars working in what Abdelal, Blyth, and Parsons (2010) call the "subjectivist" tradition, who more often employ interpretive methods than quantitative tests using large-*N* datasets or qualitative small-*N* case comparisons – and who often approach their research topics with the more critical aim of unveiling the historically contingent (and deeply intractable) nature of social relations (such as the debtor-creditor relationship) that are sometimes taken for granted by scholars more concerned with documenting causal connections between variables (e.g., De Goede 2005). Subjectivists are particularly attuned to the more insidious ways in which power relations structure social systems. While a material-rationalist might regard social norms and conventions as devices for managing coordination problems (such as the convention of driving on one side of the road rather than the other), and constructivists informed by economic sociology are more likely to argue that norms and conventions inform actors' role-identities and supply a "menu of means individuals can use to deal with a problem" (Seabrooke 2006: 46), many IPE scholars working in the subjectivist tradition view social norms, instead, as "objects of power that determine the boundaries of possible speech and action and operate by exclusion of alternatives as much as by constitution of identities" (Abdelal 2009: 75).

This divergence within constructivism over research orientations also springs from a difference in basic views of the nature of causality: for adherents to "constitutive" causal accounts, such as Alexander Wendt, claiming that the beliefs that an agent holds in her head explains variation in a behavioral outcome better than the materialist alternatives only captures part of the role of shared ideas in social life; in Wendt's view, "ideas also constitute social situations and the meaning of material forces" (1999: 78). Wendt's alternative "constitutive" model of causality fixes on how shared beliefs generate objects or subject-positions. However, this notion of causation is radically different from the standard "variable X preceded observed state Y, and a change in X produced a change in Y" formulation preferred by positivists. Moreover, sympathetic critics of Wendt's notion of "constitutive causality," like David Dessler and John Owen, suggest that constitutive explanation makes more sense as "constitutive analysis, or constitutive description" than as an alternative model of causality (Dessler and Owen 2005: 599).

### Constructivism and the politics of international trade

The origin of the material-rationalist Open Economy Politics approach, as Lake notes (2009: 226), lies in political scientists' efforts to understand variation in countries' trade policies. Analysts in this research tradition started by assuming, in line with Becker's (1983) model of the "marketplace" for regulatory policymaking, that political influence was increasing in the level of material resources controlled by a particular interest group. Further, they assumed that social groups would act rationally in calculating the costs and benefits of expending resources to try to push their country's trade orientation toward openness or closure: once the marginal costs of lobbying effort exceeds the marginal (material) benefits resulting from efforts to influence the



government's policy agenda, the group would give up and let other groups steer the trade policymaking process. One avenue for research in the OEP tradition focuses on interest groups' varying capacities for engaging in costly collective action to sway trade policy in their favor (Ali and Gilligan 1994).

To answer the question of *why* some groups preferred trade openness rather than closure (and vice versa) researchers in the OEP tradition returned to economic theory. In Ronald Rogowski's (1987) classic analysis, variation in factor abundance predicts political coalition-formation and can account for variation in countries' trade policies. Building on Wolfgang Stolper and Paul Samuelson's foundational economic model, Rogowski argued that pro-trade coalitions would coalesce around the users of the relatively abundant factors of production within a country's borders, and anti-free trade sentiment would be strongest among the users of the country's relatively scarce resources; in settings where labor and land were abundant and capital was scarce, for example, one should observe a "red-green" coalition of urban industrial workers and rural farmers and peasants pushing in favor of openness, aligned against a protectionist bloc of (scarce-factor-owning) capitalists spanning different industries. Others built models of the trade policy-making process on different microeconomic foundations: the so-called Ricardo-Viner model assumes, *contra* Stolper-Samuelson, that the main factors of production could not be costlessly switched from their current usage to a different one (e.g., the workers and machines in a shoe factory could not quickly be retrained and redesigned to turn the factory into a production site for airplane tires), and thus the Ricardo-Viner model predicts not the cross-class coalitions of the Stolper-Samuelson model but rather within-class cleavages (capitalists and workers pitted against each other) based on sectors' proximity to the national comparative advantage. Hiscox's (2001) study found supportive evidence for both approaches, depending on the degree of factor mobility at a given point in time (when factors of production were highly mobile, trade politics looked like the Stolper-Samuelson world and when they were relatively fixed trade politics fell in line with the Ricardo-Viner model).

The politics of international trade looks very different when viewed through the constructivist lens, however. Preferences over an issue as complex as the government's international trade agenda are unlikely to be solely informed by self-interest rooted in the direct economic effects of the policy. Instead, constructivist-oriented scholars suggest, we need to look at how individuals come to understand what trade *means* for them and for the communities in which they are embedded – and this requires paying due attention to meaning-making forces in social and political life, such as shared belief systems and cultural frames. Indeed, a good deal of evidence has piled up in the last decade showing that individuals' attitudes toward trade do not seem to line up with the predictions from the material-rationalist approach to trade policy. For example, in Mansfield and Mutz's (2009) widely read study, Americans' attitudes toward trade were largely unrelated to indicators of their economic self-interest; instead, the strongest predictors of positions on trade were symbolic attachments and cultural values, such as partisan identity and, in particular, ethno-nationalist predispositions. "Trade preferences," Mansfield and Mutz conclude, "are driven less by economic considerations and more by an individual's psychological worldview" (2009: 451).

While much of the recent wave of survey-based research on trade policy attitudes has yielded findings that undermine the materialist bent of the OEP/HIM-style approach in IPE and fit better with the assumption that preferences over international economic policies are socially constructed, the new work in this vein has, with few exceptions, retained an individualist orientation. Another major contribution of the constructivist approach has thus been to connect the collective identities that develop in the context of an international system composed of nation-states to the question of how those collectivities make sense of and select from the menu

of trade policy choices. Abdelal's (2001) *National Purpose in the World Economy* exemplifies this line of research. Motivated by the puzzling variation in how Central and Eastern European countries managed their trade relations after the collapse of the Soviet empire, Abdelal identifies the variants of nationalism that emerged in the post-communist environment as the key driver of countries' trade strategies with respect to Russia. Keith Darden (2009) pursues a similar puzzle in his study of post-communist countries' foreign economic policy choices: given that "the collapse of the USSR left 15 states with remarkable historical and institutional commonalities" (2009: 4), why did these countries take such different routes to membership in international trade-promoting institutions? (Some countries rapidly moved toward membership in the General Agreement on Tariffs and Trade (4) and its successor institution, the World Trade Organization (WTO), while others dragged their feet or resisted accession altogether.) Like Abdelal, Darden sees a large role for collective beliefs – though in Darden's case the animating beliefs are not strictly nationalist but rather are causal beliefs about the nature of trade relations and the likely effects of openness on national wealth (Darden identifies three main types of shared economic belief systems hewed to at different points in time by states in the region, which he calls Soviet integralist, liberal, and mercantilist beliefs).

Organizations, such as firms, trade unions, and consumer advocacy groups, lie at a level of aggregation below the nation-state but above the level of the average individual. Recall that the OEP tradition sees trade policy contests among groups as being fought purely along self-interested lines – the groups that expect to lose from a shift toward openness duke it out for control of the agenda with groups that expect to win from the trade policy change, and all the groups in the contest are reasonably predictable in their expectations and consistently rational in their strategies for winning the battle. The pressure imposed on profit-seeking firms in competitive marketplaces should, material-rationalists suggest, weed out aberrant beliefs and inefficient strategies that may be observed at the level of individual. But that perspective hinges, crucially, on the assumption that groups are formulating their strategies in decision environments characterized chiefly by risk.

Constructivists in IPE, like Cornelia Woll (2008), question that assumption: if firms are fundamentally uncertain about the distributional consequences of trade liberalization – that is to say, they have too few prior episodes upon which draw to be able to forecast with any degree of accuracy who will win and who will lose from the policy change – then they cannot rationally optimize. Instead, Woll suggests, "firms will rely on social devices to reduce uncertainty, such as traditions, networks, institutions, and the use of power" (2008: 12). Woll shows how the changing nature of production (shifting from primarily national to global, via supply chains that span many countries) and the changing nature of cross-border exchange (trading not just physical goods but also services) moved many firms out of the world of quantifiable risk and plunged them into the world of uncertainty. She asks: "How would we predict the policy preference of a large French textile company engaged in an integrated production chain beyond European borders or a small American software company with no international operations?" (Woll 2008: 29). Drawing on detailed case studies of American and Western European firms lobbying actively on the issue of liberalizing trade in services, Woll convincingly shows that business interests in this domain are not given by their material environment but rather are shaped by their perceived identities; and, further, she demonstrates that companies' strategies are shaped principally by what they learn from the national regulatory policymakers with whom they frequently interact.

The role of pervasive uncertainty – and the social strategies that actors adopt in order to cope with it – emerge as key themes in constructivist work on the design, behavior, and effects of international organizations (IOs) that write and enforce rules governing international trade.

This is a distinctive contribution of the constructivist agenda, given that material-rationalist approaches tend to share some core assumptions regarding how IOs operate: actors within and outside of IOs are rational optimizers; formal "authoritative rule structures" are the key factors shaping agents' strategies (Nelson and Tjemeij 2003: 251); and the rule structures within which IO actors operate are strongly influenced by the distribution of material power among the members of the international system. Non-material factors like organizational cultures play a peripheral role in what Barnett and Finnemore (1999) call the "economistic" approach to the study of IOs. In this approach IOs are conceptualized as contractual arrangements among rational, materially oriented actors, varying in their capabilities, seeking to maximize their interests subject to the enduring environmental constraints and opportunities that inhere in their domains of operation.

Research focusing on "legalization" as the key form of variation of international rules illustrates how these material-rationalist assumptions have informed non-constructivist theorizing about the design of IOs. The "legalization" perspective focuses on three dimensions of international rules and rule-making bodies: obligation (the degree to which actors are legally bound to adhere to the rules), precision (the degree of ambiguity in the conduct specified by the international rules), and delegation (the degree to which authoritative interpretation and enforcement of the rules is delegated to third parties, such as an international court) (Abbott et al. 2000). Issue areas are subject to "hard law" when the legal institution governing that area features high values on all three dimensions (exemplified by the WTO's Dispute Settlement System). From the legalization perspective the most important issue is whether law in a given area is soft/weak or hard/strong. The actors that produce legal instruments, in this perspective, can (at least in principle) adjust the three dimensions to "produce an institution exactly suited to their specific needs" (Abbott et al. 2000: 404). International law is conceptualized as a problem-solving device, the terms of which are negotiated by materialist, rational actors. Variation in the strength/firmness of law in different issue areas in world politics is usually explained as an outcome of the struggle between states, whose interests and material capabilities vary, to extend or restrain the force of law, and the competing demands of domestic interest groups whose interests are affected by legalization (Kahler 2000). There's little scope, in this image of global rule-making, for the kinds of social norms and shared beliefs that, as in the constructivist perspective, are necessary for anchoring actors' expectations in the face of uncertainty.

The transformation of the GATT agreement during the Uruguay Round of multilateral trade negotiations (1986–1994), which gave birth to a successor agreement and its institutional embodiment, the WTO, marked a breakthrough for "hard" trade law at the international level. Through the material-rationalist lens it is "reasonable," writes Leslie Johns, to assume that the new WTO agreement and (in particular) "the resulting dispute settlement system was designed by mostly (if not completely) rational actors with an eye to the system's expected effect on international trade" (Johns 2015: 10). The international trade negotiators were operating rationally in the world of risk, in this view.

But the historical narratives of the Uruguay Round negotiations paint a very different picture: none of the key players in the discussions initially came to the bargaining table with clear, unambiguous interests related to the redesign of the system, nor did any of the negotiators expect that the end result would be a radically redesigned dispute settlement system involving an appellate body that could issue binding, enforceable judgments (Croome 1999; Preeg 1995). Manfred Elsig's interviews with trade negotiators suggest, "the ambitious outcomes [of the Uruguay Round negotiations] could not have been predicted at the outset of the process" (2017: 305). Rather, the "legalization leap" that produced the new WTO agreement and its strengthened adjudication system was a product of processes of mutual learning and trust building, conducted

against the backdrop of pervasive uncertainty, that evolved over nearly a decade of negotiations.

Francisco Duina (2006) turns to the role that non-material cognitive schemas play in shaping another important set of rule-making bodies in trade – regional trade agreements. Duina focuses on variation in the design and functioning of three regional trade agreements (RTAs – the North American Free Trade Agreement (NAFTA), the EU, and Mercosur). His study identifies two major discontinuities between RTAs: (1) the development of different legal systems to address harmonization among participants; (2) differences in the way in which interest groups responded to integration. Duina explains the emergences of these differences in two steps: first, he argues that the creation of RTA requires the construction of "cognitive guidebooks" to standardize dispute definitional and normative understandings of trade; second, the variation in the "cognitive guidebooks" designed by officials in each RTA is shaped by domestic legal institutions and customs (namely, common versus civil law traditions) and politics (the interplay of interest groups and elected officials in member countries of RTAs). The key point is that the beliefs underpinning these institutional arrangements – and the ways in which domestic groups and policymakers come to understand those arrangements – cannot be deduced from material conditions.

Beyond the design of international arrangements governing trade, there is a divide between the material-rationalist and constructivist perspectives over the putative effects of international rules and institutions. In the OEP tradition, the international rules and institutions structure the nature of bargaining between self-interested states and provide "credible commitments" to assure others (states and market players) that governments will follow through on their policy promises (to refrain from "defecting") from a codified agreement to refrain from raising tariffs, for example) (Lake 2009). States are strategic in designing international rules and the IOs that embody them, and they are strategic in using the rules – but the rules and rule-makers within IOs do not construct states' interests, preferences, or identities in a social learning process. States come to these interactions with their interests and strategies already determined by the rewards and punishments of the material environments in which they operate.

Michael Barnett and Martha Finnemore's (1999, 2004) constructivist-oriented work gives us a very different lens through which to view IOs. They point out that IO autonomy comes in different forms. IOs may have wide discretion when states are relatively indifferent to their activities, but they also exercise discretion when they avoid following states' directives, when they directly challenge powerful principals' interests, and when, crucially, they "change the broader normative environment and states' perceptions of their own preferences" (Barnett and Finnemore 2004: 27–9). The discretion of IOs like the WTO, in this perspective, is a function of the institution's dual roles: it is *in authority* because it has been formally delegated tasks by its members; it became *an authority* in world politics thanks to its rational-legal bureaucratic procedures and the specialized knowledge possessed by its staff and management. The constructivist lens allows us to see IOs as purposive actors in global governance using "their authority to expand their control over more and more of international life" (Barnett and Finnemore 2004: 44). IOs do more than just structuring the bargaining between states that have conflicting interests or supplying opportunities for states to credibly commit to a course of action (thus helping members realize their interests); they also work to construct boundaries between "legitimate" and "illegitimate" economic policies for their members. "In this sense," Abdalal observes, "international norms define the boundaries of choices. International organizations play an important role in fixing the meanings, thereby constituting the legitimate boundaries of policymaking" (Abdalal 2009: 72).

While constructivist-oriented research on the politics of international trade has not supplanted the material-rationalist perspective that continues to inform much empirical work in the

field, the constructivist approach has generated important new insights. I highlighted three key constructivist claims in this brief overview: first, we need to look at how average individuals and elite policymakers alike come to understand what trade *means* for them and for the communities in which they are embedded (and over which they govern); second, the expectations of groups that are involved in trade policymaking may be formed in the presence of “radical” uncertainty, which requires an understanding of the socially constructed nature of those groups’ interests and preferences; and finally, uncertainty shapes the design of international rules and institutions governing cross-border trade, and, further, those rule-making bodies, once in place, may produce the “scripts” that define how member states come to understand and internalize the boundaries between legitimate and illegitimate types of foreign economic policies.

### Constructivism and the politics of international money and finance

Constructivists have also turned their attention to the politics of international money and finance – and, as was the case for international trade, their work has contributed to knowledge by identifying and explaining empirical puzzles that were difficult to understand through the material-rationalist lens (or were altogether off the material-rationalist radar).

One of the central themes in the IPE of money is the rise of a massive and highly mobile global pool of capital. The international market for capital and financial assets began to dramatically swell in the early 1960s, starting with the development of a large “offshore” pool of money lying beyond the reach of any country’s regulatory authorities (the so-called Eurodollar market, housed in the financial hub of London but largely unregulated by the British (or any other) government) (Helleiner 1995). International economist Robert Mundell soon noted that in a world of global capital mobility governments had to navigate a new kind of macroeconomic policy tradeoff. If they heaved to fixed exchange rates and relinquished tight exchange controls sealing off their national financial system from the emerging global market, they had to ensure that their national interest rates did not deviate too far from the rates set by central banks in the financial centers in the international economy (namely, the U.S., UK, and Japan). If they did, the currency traders and international investors operating out of the Eurodollar market would move against them, putting either upward or downward pressure on the exchange rate. Faced with this tradeoff – currency stability at the cost of monetary policy independence – many states simply decided it was better to give up fixed exchange rates and to let the value of their currencies be set by market forces.

Scholars operating in the OEP/HIM mode invoked domestic interests to explain the politics of the tradeoff generated by large and unrestrained global capital flows. In Frieden’s (1991) seminal contribution, domestic groups vary in their exposure to international market forces and in the degree to which the assets they hold are specific to their current uses – and it is these features that predict groups’ preferences over the tradeoff in a world of unrestricted capital mobility. Others, like Verdier (1999), focus attention on different distributional fault lines in countries grappling with the consequences of international capital flows. One recent contribution, using survey experiments with a sample of ordinary Americans, suggests that self-interested preferences over the exchange rate stability versus monetary policy autonomy tradeoff can be induced by giving people relatively small amounts of contextual information, which helps average people connect the policy choice to their own personal financial circumstances (Beare and Tuxhorn 2017). Regardless of how groups’ and individuals’ interests are characterized, all of this work depicts a structural feature of actors’ material environments (the degree of capital mobility) as the determining factor in the construction of their policy preferences.

Kathleen McNamara (1998) directly targeted that assumption in her path-breaking constructivist work on the politics of European monetary cooperation in a post-global capital mobility world. Her case studies of episodes of policy coordination showed that fluctuations in European countries’ positions on the tradeoff generated by capital mobility were *not* products of interest group politics. The world of capital mobility was not, *contra* the OEP view, one in which clearer price signals and more intense competitive pressures clarified groups’ self-interests; rather, firms and other organized groups were grappling with pervasive uncertainty, and “uncertainty creates highly fluid conceptions of interest” (McNamara 1998: 7).<sup>4</sup> Policymakers’ shared beliefs, not societal groups’ material interests, underpinned European governments’ willingness to forego monetary policy autonomy in exchange for currency stability: the rise of the “neoliberal policy consensus that elevated the pursuit of low inflation over growth or employment,” in McNamara’s argument, turned high-level policymakers’ preferences strongly toward a common European exchange rate system and, eventually, toward monetary unification on the continent (McNamara 1998: 3).

Other work in the constructivist mold questions the assumption that global capital mobility imposes, in law-like fashion, the strict policy choices identified by Mundell in the first place. Where OEP and other perspectives that take the tradeoff as a brute material fact of life in a world of capital mobility go wrong, some constructivists hold, is by assuming that capital mobility

is a non-social machine that creates invariant and irresistible pressures for liberalization.... In this [constructivist] view, the effect of rising ICM [international capital mobility] may be mediated by intersubjective beliefs about ‘appropriate policy’; that is, its impact on actor preferences for greater openness (or closure) may be conditional on variation in social facts.

(Chwieroth and Sindlar 2013: 472)

Shared beliefs about what constitutes appropriate or acceptable deviations from disciplined (which is to say, austere) monetary and fiscal policy agendas provide the interpretive frames through which market players and policymakers understand the choices they face (Kirstner 2003: 14–15; Widmayer 2010).

Along these same lines, constructivists have provided rich empirical studies of the involvement of IOs in the production and dissemination of the “stigma” targeting capital controls (regulatory policies that restrict cross-border flows of money and financial assets) – a policy stigma that emerged and hardened in the 1980s and 1990s and has only eased in the wake of the 2008 financial crisis. Abdelal and Meunier (2010), for example, trace elite French policymakers’ central roles in promoting regional and global rules that prohibited the use of capital controls. Chwieroth (2010) focuses on how a cohort of economic officials heaving to “neoliberal” economic beliefs promoted the norm of capital openness within the IMF.

One of the consequences of the drive toward capital decontrol and the unshackling of capital from within-national borders is an increase in the proportion of countries experiencing serious financial crises (Reinhart and Rogoff 2009). In the OEP/HIM tradition financial crises have typically been treated as exogenous shocks that yield distributional effects or, in a move that partially endogenizes the conditions that give birth to financial market crises, as the suboptimal outcome of rational but myopic market players and market-captured regulators responding to incentives and seeking to maximize their short-term returns, with collectively disastrous results. Even before the 2008 eruption of the largest financial crisis in 70 years constructivists in IPE added a distinctive perspective on the nature of crises. Rather than assuming that crises bring

with them self-evident features that do not require any kind of mediating interpretive framework, understanding how a particular crisis comes to be understood as type “X” rather than types “Y” or “Z” require understanding, first, that because crises are moments of radical uncertainty, distributional consequences are unlikely to be clear and knowable, and, second, that warring epistemic communities composed of policy advocates are *always* involved in struggles over how to define and respond to a crisis (Farrell and Quiggin 2017; Widmayer, Blyth, and Seathrook 2007).

Given that constructivists already had a keen interest in crisis episodes it is not surprising that the 2008 Global Financial Crisis (GFC) touched off a flurry of constructivist-influenced work in IPE. One theme loomed large in many of the discussions of the meaning and lessons of the 2008 crisis for the field of IPE: the failure of economists to recognize a looming crisis, on the horizon and, once it had arrived, to say much of anything useful about it reflected the jettisoning of Knightian uncertainty from the analysis in favor of the assumption of a risk-only world, and IPE scholarship would do well not to make the same mistake as macroeconomists (Nelson and Katzenstein 2014). Some of the most prominent features of the 2008 GFC were difficult to understand without bringing in a role for radical uncertainty (see Box 12.1) and the social conventions that people rely upon to stabilize their expectations in the face of uncertainty. Why, for example, did well-informed market players with large stakes have such confidence in securitized assets that, in retrospect, were flimsily constructed? And why did confidence in the valuations of those assets erode so quickly?

The constructivist lens brought uncertainty into the center of the analysis of the run-up to the financial crisis of 2008 and its aftermath.<sup>5</sup> In this view, important decisions in and around financial markets are undertaken without precise knowledge about the probabilities of payoffs and the size of those payoffs. We simply don’t know enough about the underlying process to reliably forecast future returns from past events.<sup>6</sup> Nonetheless, financial market actors still have to make choices – and they need to be confident that their decisions are the right ones; otherwise, they would be paralyzed by indecision. If financial markets resembled actuarial models of life and property insurance (where, thanks to good information and relatively stable parameters, risks can be reliably quantified), confidence would simply mirror past and current objective economic conditions (Skidelsky 2009: 41). The economic landscape, however, is more treacherous for investors in asset markets than insurance companies: financial market actors can win or lose big as massive, unpredicted swings in market sentiment render prior probability distributions poor guides to decision. Traders can sample the past to predict returns with some accuracy for some time, until catastrophic events that lurk in the far tails of the distribution “radically alter the distribution in ways that agents cannot calculate before the fact, irrespective of how much information they have” (Blyth 2006: 496). Crises occur with alarming frequency, and their causes are very difficult to diagnose, even years after they have passed.

Constructivist approaches informed by economic sociology recognize that financial markets are complex, deeply interdependent patterns of economic and social activity. Market actors, and the policymakers that observe and regulate financial markets, adopt social conventions to impose a sense of order and stability in their worlds, thereby allowing “exchange to take place according to expectations which define efficiency” (Soper and Salais 1997: 16). Conventions are not explicit agreements or formal institutions; rather, they are templates for understanding how to operate in contexts that are experienced as shared and common (Wagner 1994: 174). Conventions vary in their degree of materiality. They can take the form of public discourses and mental models, such as the “new era stories” that encouraged people to treat homes as assets that could not lose value, which anchored agents’ expectations in uncertain environments (Akerlof and Shiller 2009). Conventions in financial markets also take material forms, such as risk

management technologies (Biggart and Beamish 2003: 452–3). Social conventions can stabilize actors’ expectations, but not permanently; Keynes, after all, argued that conventional expectations resting on a “flimsy foundation” are inherently unstable (Skidelsky 2009: 93). The conventions that inform market expectations do not mirror underlying economic fundamentals; rather, the partial and distorted views that market participants impose on the world shape the markets. And these views often evolve in a social environment in which “rumors, norms, and other features of social life are part of their understanding of finance” (Sinclair 2009: 451). In “reflexive feedback loops” these conventional views drive markets, which then subsequently shape beliefs and thus can generate far-from-equilibrium situations.

A distinctive contribution of constructivists studying the politics of finance has been to identify and investigate the purveyors of market-stabilizing conventions. By acknowledging the crucial role of uncertainty in finance and by looking for the conventions that become part of the deep structure of financial markets, constructivists were well placed to answer two fundamentally political questions: who governs, and how do they govern? An important governor in the realm of global finance has been the credit rating agencies (CRAs). The credit rating industry – with Moody’s, S&P, and Fitch as the three largest firms – is indispensable for contemporary finance (Sinclair 2005). The CRAs’ main purpose is to (illusorily) transform uncertainty into quantifiable risk (Abdelal and Blyth 2015; Carnuthers 2013). The CRAs do this work by producing conventional judgments about borrowers’ creditworthiness – judgments that are legible to participants in the markets. As Abdelal and Blyth observe, “contrary to what one would expect, rather than revealing new information, CRAs oftentimes codify what the market already knows: they become a part of the governance of markets by establishing ‘the conventional judgment’ regarding a borrower’s creditworthiness” (2015: 40). Because they help establish market conventions (by codifying and signifying market sentiments ratings help drive upswings and downswings in asset prices), the CRAs’ model-based judgments powerfully discipline many of their subjects: when they downgrade a sovereign state, for example, the CRAs reinforce what the market players already suspect (that the state is a high credit risk), and when the markets react accordingly, the subject of the rating starts to look more like it is indeed not creditworthy (Abdelal and Blyth 2015). And by describing “reality” through the use of ratings, the agencies’ rating “makes that reality correspond more closely to the description” (Rona-Tas and Hiss 2010: 141).

### Constructivism’s contributions to the study of IPE

To conclude, this chapter has reviewed several key analytical commitments that distinguish the constructivist approach to IPE from the mainstream (in the United States, at least) rationalist perspective. I highlighted three main differences between these approaches: (1) whether actors’ decisions are assumed to be primarily made under conditions of quantifiable risk or whether, instead, their choices are assumed to be primarily made in the face of radical uncertainty (see Box 12.1); (2) whether knowing the material conditions facing economic actors is sufficient to determine their interests and preferences or not; and (3) whether the behavior of a collective group can be reduced to the interests of its members. Reviewing well-established and more recent findings from studies spanning three central issue areas of concern to IPE scholars – the politics of international trade, money, and finance – shows that there are payoffs to broadening the scope of theorizing in IPE to bring in the concepts and empirical referents associated with the constructivist analytical style.

Echoing Abdelal’s (2009) prior survey of the field, my efforts to highlight some of the distinctive contributions of constructivist-oriented work should not be taken as a repudiation of the



OEP/HIM-style research against which the constructive approach was compared. We simply don't know enough (and likely never will) to be able to confidently declare a champion in the grand battle between rival paradigms. Instead, we should seek to creatively combine insights from different approaches where appropriate, with an eye kept on the ultimate goal of creeping ever closer to solving the truly important research puzzles that we have yet to fully grasp.

## Notes

- 1 This section draws from Nelson 2017.
- 2 At its core, OEP predicts that an agent would not switch her preferences if the material circumstances remain constant. The great strength of OEP as a research tradition in IPE, for Lake, is that it posits that emergent “from a prior, falsifiable, empirically robust theory ... that both the relevant political actors and their interests are defined by their production profile or position in the international economy is the ‘hard core’ of the emergent paradigm” (2009: 227).
- 3 Meso-level phenomena sit at a level of granularity below the macro-level concepts and mechanisms that define the broader contexts in which collective decisions are formulated (the anarchic international system of states or the system of global capitalism, for example) and at a level above the micro-mechanisms that focus on individual processes, attributes, and traits (be they emotional, cognitive, or genetic) (Hackman 2003).
- 4 Kinderman (2008), looking at German firms' exchange rate preferences and lobbying activities, found additional evidence that firms' preferences became more ambiguous as the complexity of their activities increased over time.
- 5 This section draws on Nelson and Katzenstein 2014.
- 6 Lerner (2010: 38–9) notes: “if we cannot reliably assess predictive means, variances, and covariances for things like asset prices, then we are in a world of Knightian uncertainty in which expected utility maximization doesn't produce a decision.”

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# 1: World order

## Perspectives on lines of transformation

Jens Mortense

### An age of uncertainty

Societal anxieties and political uncertainty related to globalizing economy are, together with global power-shifts, sweeping techno-economic changes, and new security concerns, reshaping the world, as we know it. Mainstream International Political Economy (IPE), understood liberal and realist theorizing about the state–market relationship, frames this as a transformation world order. Liberals see an erosion of the US-led post-war liberal order, epitomized by Donald Trump's trade policy and the surge of economic populism from left and right. Realists see multipolarity as the key structural change underpinning a turn towards a harsher era of globalization. Critical IPE questions whether the world order has transformed at all.

### On the concept of world order

The world order concept bridges the traditional focus of the IPE discipline, understood as the interaction between states and markets, to the contemporary IPE focus on the governance of the global economy. It can be defined, at its broadest, as “... the body of rules, norms, and institutions that govern relations among the key players in the international environment (Mazarr et al. 2016). As such, the world order debate echoes the classic IPE debate of the 1980s on power and institutions, most notably on regimes (Keohane 1983; Krastner 1982 state-centric IPE realism (Gilpin 1987; 2001), non-state structural IPE (Strange 1988; 1997 and the critical theory (Cox 1981). This 1980s debate propelled IPE as a distinct discipline of “states and markets”, challenging the supremacy of economist thinking on the world economy and the economic neglect of International Relations discipline. However, until recent IPE have neglected the transformation of the world order. Liberal IPE depoliticized globalization by overemphasizing the power of interdependence. Liberal IPE was shocked by its maintaining its focus on national sources of economic power. Critical IPE tended to reduce both states and institutions to passive reproductions of transnational capitalist forces. It kept its political purpose intact, however. It kept a consistent focus on alternative visions of the liberal order, and how to promote it in global politics. The different theoretical lenses c