

# The Political Economy of International Organizations

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## 1. A growing field of research from multiple perspectives

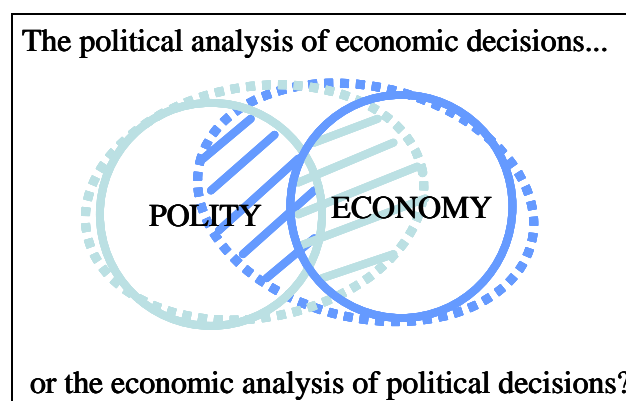
In our globalizing world, the effects of political and economic developments have become increasingly relevant across country borders. This in turn led to a growing importance of international organizations. Correspondingly, a huge body of research has developed in this area. In political science, research on international organizations is a major field within International Relations because international organizations are relevant to shape international policy making and to ensure coordination among member states.

The tasks of many international organizations are predominantly economic in nature, notably at the IMF, the World Bank, the WTO and, to a large extent, also the EU. The activities of these organizations are therefore a natural target of economic research, too.

Unfortunately, the economic and the political science approach to international organizations have remained largely disconnected so far. The political economy perspective offers the possibility to build bridges between the two. Nevertheless, even with respect to the political economy of international organizations, most of the research has grown separately in either of the two disciplines, with little inter-linkages or cross-citations.

Part of the reason may be that even the understanding of what political economy actually means, appears to be quite different between the two disciplines. Can we talk of “political economy” when we look at the intersection of the economy with the polity? Many relevant international organizations can be interpreted as both, part of the polity and part of the (international) economy. Would then all research focusing on international organizations from this perspective be research in political economy?

**Figure 1: What is political economy?**



While a political scientist may agree, a modern economist would probably not. As long as we do not ask a Marxian scholar (a species which has become extremely rare among economists today), he or she would rather tend to define the political economy perspective through a specific methodological approach used for the analysis. In particular, the relevant political actors (here: the international organizations, member countries, political representatives and / or the staff of the international organizations) would be assumed to be rational (or at least bounded rational), so that their actions and corresponding policy outcomes can be

explained (or predicted) as the result of their utility maximization process. From this perspective, political economy becomes a synonym for “Public Choice”, “New Political Economy”, “Political Economics” or the “Economic Theory of Politics” (see e.g. Mueller 2003, p. 1-2, Persson and Tabellini 2000, p. 1-4). With few exceptions (see notably Drazen 2000) these are indeed often used as synonyms among economists.

Especially the term “Economic Theory of Politics” immediately suggests that this implies something quite different from an analysis of the intersection between the polity and the economy. On the one hand, the methodology is restricted to an approach based on economic assumptions and instruments of analysis. On the other hand, the object of analysis is broadened to include large parts of the polity and not only its intersection with the economy (illustrated by the dark blue striped area in Figure 1). As economists’ research thereby reaches out far beyond the economy (overall area in the dark blue dotted ellipsis) they also tend to face the reproach of “imperialism” (Gilpin 2001, p. 26).

In political science, the definition of the political economy is much less restrictive with respect to the method of analysis. However, it also comprises the analysis of the economy with theoretical and analytical approaches more typical for political scientists (illustrated by the light blue striped area in Figure 1). Somehow, this seems to have gone unnoticed – at least the charge of “imperialism” has not been returned to them as yet. All in all, from a political science perspective the term “political economy” appears to be much broader (and less clear cut) than from an economist’s perspective.

## **2. Overcoming the communication gap**

The above discussion suggests that there is some need for a clarification of terms and approaches, and for a better cross-disciplinary understanding of the issues at stake. This is even more relevant as in substance, there is indeed a substantial overlap, notably with respect to the analysis of international organizations.

A series of international conferences on the Political Economy of International Organizations (PEIO) is being planned in order to overcome the communication gap and to encourage interdisciplinary research in this area. The initial conference (PEIO I), co-organized by the ETH-KOF and the Center for Comparative and International Studies (CIS) at the ETH and the University of Zurich, was held from February 3-8, 2008 at the Centro Stefano Franscini, Monte Verità, Ascona, in Switzerland. The conference brought together economists and political scientists working on various international organizations and dealing with a wide range of questions regarding, e.g., the institutional structure as well as its impact on incentives for politicians, the international bureaucracy, lobbies and / or non-governmental organizations.

## **3. Articles in this volume**

In this volume, we selected five studies out of about fifty papers presented at the conference. This selection responds to the attempt to obtain a broad coverage of different organizations, of different analytical approaches and methodologies, and of authors from both political science and economics. In addition, we selected papers with innovative ideas in the more specific context of the particular institution under analysis. All these papers also provide interesting policy recommendations and some further food for thought.

In the first paper on “*Outside and Inside Competition for International Organizations*” Bruno S. Frey discusses the functioning of international organizations in general, and questions the efficiency of existing market structures. When do new international organizations appear on the market, when (if ever) do they disappear, and to what extent are the same tasks shared between several organizations? Is this situation optimal, or do we need more competition?

Apart from this “outside” competition, “inside” competition is discussed which should ensure the responsiveness of the organization to the preferences of the citizens.

In the second paper “*Congressional Voting on Funding the International Financial Institutions*”, Lawrence Broz econometrically analyzes the determinants of decisions by the US Congress on funding for international financial institutions, notably the IMF, the World Bank, and the Asian Development Bank. It becomes clear that apart from the individual member of Congress’ ideology (liberal or conservative), certain characteristics of the constituencies tend to influence his or her decision. Campaign contributions from banks engaged in international lending and a large share of relatively well educated voters (thereby benefiting from globalization) increase the chances for an approval of the funding proposition. In the third paper “*The Effect of ECB Communication on Interest Rates: An Assessment*” Jakob de Haan discusses the use of different means of communication by the European Central Bank as well as the effect of this communication. While existing research points to the fact that ECB communication can effectively increase the predictability of interest rate decisions, de Haan’s own empirical analysis suggests that this positive effect is significantly reduced by partially contradicting statements through different channels of communication.

Nikitas Konstantinidis paper “*Gradualism and Uncertainty in International Union Formation: the European Community’s First Enlargement*” presents a game-theoretic model which shows that asymmetric information may explain strategic delays in membership even if the grand coalition is (weakly) efficient from the outset. The results are illustrated at the example of the delayed British membership in the European Economic Community.

Finally, in a paper on “*The Political Economy of Labor Market Regulation by the European Union*” Roland Vaubel discusses different possible explanations for the rising number of EU labor market regulations over time. While it is difficult to clearly distinguish between regulatory collusion and the strategy of raising rivals’ costs, empirical evidence suggests that the latter was highly relevant in the context of the EU labor market regulation. The results also suggest a strong effect of the move from unanimity to qualified majority rules. This may be relevant even in cases where decisions are still taken unanimously, because a minority too small to block the decision might not want to openly express its dissent.

## References

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