

**Book Review****Foundations of International Political Economy**

Matthew Watson

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Though not on a current basis, debates on economic behaviour and corresponding human nature have grown consistently over recent years. Matthew Watson's book on the *Foundations of International Political Economy* is probably one of the latest attempts to challenge the neoclassical economic tradition and the utility-maximizing behaviour it assigns to the whole range of economic agents.

The thrust of Watson's work is two-fold. On the one hand, he challenges the rationality postulate while, on the other, he objects to the idea that the market economy naturally comes into place and can be automatically applied worldwide. Instead, Watson's aim is to demonstrate that the theory of action underpinning International Political Economy (IPE) should restore cognition, awareness and reflexivity as valid arguments while attempting to explain economic behaviour. In other words, he advocates a return to the classical tradition of political economy, emphasizing how such an approach would provide a deeper understanding of the meaning and real stakes of the key substantive issues in IPE such as globalization, international trade and international development.

Although split into 11 Chapters, the book is logically organized in four main parts, aiming to strike a balance between the outline of Watson's approach to IPE and the practical test of how this theoretical framework can explain international economic phenomena.

In the first three chapters, the current theoretical perspectives within IPE are assessed in such a way as to determine the common foundation shared with neoclassical economics and to also highlight the reason why the classical tradition of political economy would provide a better research framework for IPE. In the first place, Watson identifies the main drawback of current IPE approaches in the fact that almost all analyses are conducted from a 'states and markets' perspective, an issue further developed in Chapters 7 and 8. In brief, the explanation of the prevalence of this approach lies in the assumption that IPE forms a subset of International Relations (IR) and naturally takes over the



methodological dichotomy between politics and economics. Consequently, states and markets are viewed as self-governing actors. On the contrary, Watson emphasizes, it is the human agent that acts within the realm of the international economy, while states and markets are only *arenas for action* and not real actors. Hence, there is the need to view political economy as a social process that is to be explained by value-based theories and less by utility-based theories. It is due to its ability to incorporate moral theory within the study of political economy, to present a historicized perspective on economic relations, to challenge the rational ontology and to provide a theory of social action by focusing on the individual as a conscious actor that Watson supports the tradition of classical political economy as a foundation for IPE.

Nevertheless, Watson does not operate with a homogeneous concept of classical political economy and points out that there are many alternatives that one may choose to place at the foundations of IPE. He puts forward an approach inspired by the works of Adam Smith, Thorstein Veblen and Karl Polanyi, thus suggesting a three-fold perspective on IPE: ethical, institutionalist and historicist. To this end, Chapters 4–6 consist of a broad discussion of Smith, Veblen and Polanyi's contributions to the tradition of political economy, particularly focusing on the aspects that have influenced Watson's discourse.

While analysing the major works of Adam Smith, Watson focuses on his concern to describe economic agents as moral agents. He thus argues that the 'invisible hand' metaphor referred more to a certain stage of development when economic dynamics were to be held responsible for determining human behaviour reduced to instinctive responses to price signals. This line of thought enables Watson to reject the 'methodological ethnocentrism' of neoclassical theory that grants worldwide applicability to the market economy based on instinctive utility-maximizing behaviour.

In order to render his IPE approach an institutionalist perspective, Watson focuses on Veblen's analysis of how institutions emerged out of the manifestation of individuals' habits of thought and play an important socializing role within the economy. For Veblen, far from assuming the utility-maximization logic, rationality consisted of learned responses to socialization processes and, as a result, no institutional change could take place unless the habits of thought had also undergone some changes. Consequently, self-interested behaviour was to be explained not by its innate character in human nature but by the prevailing structure of human norms that conditioned individuals' conduct.

By referring to Polanyi's concept of social 'embeddedness', Watson rejects the assumption of innate instrumental rationality and the neoclassical 'economistic fallacy', according to which economic activities only take place within the market. For Polanyi, economic relations had to be embedded in



social relationships as opposed to the capitalist system where the economy decided over society and imposed the utility-maximizing behaviour required by market norms.

It is also worth mentioning Watson's distinction between 'the state' and its inseparable 'state project' in Chapter 8, and his original perspective on how the state project has to secure the accumulation and legitimation state functions. Thus, the fact that nowadays the state project secures legitimation through an accumulation ideology is to be observed in the way people are encouraged to develop utility-maximizing behaviour and to respond instinctively to market values and rules. It is also at this point that Watson applies his theoretical framework to a critical but nevertheless constructive assessment of the key issues in IPE, such as globalization, international trade and international development, a discussion that covers the last three chapters of the book.

In short, globalization is considered to have added increased emphasis to the accumulative and competitive imperatives that require the worldwide uniformity of economic institutions and trading relations. Likewise, Watson critically evaluates the international development policies for their attempt to bring all economic systems within a single logic of development and to consequently enforce a new economic rationality throughout developing countries. In this way, the argument goes, economic actions are reduced to pure exchange relations, completely ignoring their social worth and embeddedness in the social context.

To sum up, Matthew Watson offers an insightful and timely analysis of the reasons why the classical tradition of political economy should be used as an alternative foundation for IPE. He also makes sharp observations about the different perspectives economists and sociologists have on rationality and constantly emphasizes the relevance of the sociological, psychological and anthropological approaches to the study of economic behaviour. It is therefore surprising that he does not refer to the already existing tendency to overcome the rift between sociology and the economy in the field of economic sociology (Swedberg 2003). In this context, it is also curious that Max Weber's researches within the economic area are not included in the classical tradition approach. This would have been a strong point to support Watson's case since it was Weber who pointed out that in studying economic activities it is not enough to focus on economic actions *per se*, but it is also important to take into account the 'social-economic actions' that concern those economic actions oriented to the behaviour of other actors (Swedberg 1998: 535–36). The same argument would have been supported by referring to Weber's distinction between 'economic phenomena', 'economically conditioned phenomena' and 'economically relevant phenomena' (Swedberg 1998: 543). Furthermore, while discussing the wide-reaching effects of free-market capitalism it would also have been useful to bring into the discussion the Weberian distinction between



rational, political and traditional commercial capitalism (Swedberg 2003: 59–62), the more so as this position involves precisely a cultural and historicized perspective on economic activities.

In addition, since Watson focuses on the issue of the social embeddedness of economic behaviour and criticizes IPE scholars for having ignored the constitution process of economic relations, it is surprising that he does not take the opportunity to bring up Mark Granovetter's major contribution to this subject. Starting from the mid-1980s, Granovetter approached the issue of social embeddedness in order to demonstrate that economic action was embedded in the social structure not only in pre-capitalist societies (as argued by Polanyi), but also in capitalist economies (Granovetter 1985). It would therefore have been extremely interesting to examine Granovetter's position on how under- and over-socialized approaches find themselves on common ground as far as the atomization of individuals is concerned.

Taken as a whole, Watson's book is an excellent starting point for IPE students since it is bound to broaden their perspective on the intellectual tradition and the conceptual and methodological bases of International Political Economy. Moreover, it also provides a comprehensible understanding of Veblen and Polanyi, two authors who are hardly found in any other textbooks for graduate students. It might also be considered a 'must-read' for IPE scholars as it requires their attention to the need to set a new agenda for the field.

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