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Private interests, the public good, and the democratic process

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States, Markets and Governance

Vossiuspers UvA
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States, Markets and Governance

Private Interests, the Public Good, and the Democratic Process

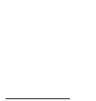
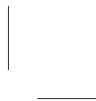
Inaugural Lecture

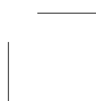
delivered upon accession to the office of
Professor of International Governance
at the Universiteit van Amsterdam
on 21st September 2001

by

Geoffrey R.D. Underhill

Vossiuspers UvA



Mijnheer de Rector Magnificus,
geachte collega's, vrienden, en aanwezigen,

I. Introduction

The words 'states, markets, and governance' surely draw together the great issues of our times in this apparently 'global' era. Despite the unprecedented prosperity of the Netherlands and a range of other societies, a recurrent *frisson* of doubt regularly penetrates the collective consciousness when the issue of governance and the global market is raised. Frequent financial crises in the developing world are not the only reason, nor is the growing inequality which has accompanied the market integration process. Unease is perhaps particularly prevalent when one invokes the issue of democratic accountability, and one observes the tension between global market integration and the resolutely national forms of governance which, for the most part, prevail. The rioters of Genoa, Stockholm, Quebec, Prague, and Seattle (the list will no doubt become longer) are no longer needed to keep the issue on the public agenda. The past twenty years of liberal market reforms across a range of societies have wrought changes which make many nostalgic for past certainties which probably never were.

This lecture is based on the premise that how 'we' as a society think about states, markets, and governance affects what we believe 'we' can do about or with them. The clear implication is that, if much thinking about states and markets is flawed, as here I argue that it is, then it is highly likely that policy-makers among others will make mistakes in their responses to the undoubted pressures of change. In this sense, if we intend to change the way things work for us, we must also change the way we think about them. We need to think about the market, in particular, in ways which empower and help to realise our normative preferences about the sort of world in which we wish to live. We should retreat from understandings of the mar-

ket and governance which involve ideas of spontaneous order and the inevitability of market forces. We need to rethink what the market actually is, and I would argue this means rethinking politics and governance as well.[1] More specifically, this requires rethinking our understanding of the state-market relationship, which has considerable implications for how we distinguish between the public and the private.

My argument begins with an observation about our everyday manner of discussing states and markets. We find it quite natural to speak of each as if they were two fundamentally different things. Our common way of talking about states and markets leads us to make assumptions about the 'governance' of each, by which I mean the way in which each is managed. Typically, we discuss both states and markets with an assumed clarity of distinction between them. Markets and market forces are all about what business, labour, and consumers do. Markets are part of a private domain wherein individuals and companies interact so as to determine prices through the interaction of production, supply, demand and other allocative decisions. The market is based on a private right of actual or corporate individuals to enjoy the principal benefits of private property and the 'fruits of one's labour'. What one does in the market is no one else's business, as long as whatever is done commands a reasonable price and does not break the law or grossly offend a general sense of decency.

States, on the other hand, are about politics, domestic and international. Politics is about what governments, political parties, and (in a democratic context) electorates do in a complex pattern of interaction. Politics too is based on rights defined by law and constitution, but few besides an arbitrary dictator would argue that politics is a private affair. Politics is, particularly in a democracy, about inherently *public* interaction; it is about the way a society settles its fundamental and not-so-fundamental conflicts of interest about how government and governance should and shall work. Politics is, then, at the heart of the public domain[2] and, at its best, the political process aims at ensuring that politicians serve the 'public good'. So, underpinning our clear understanding of the difference between the state and the market is a distinction of corresponding clarity between the public and the private.

At this point, political economists might quite rightly point out that there is an ongoing relationship between states and markets. Political decisions on taxation levels, for example, may of course affect market conditions, as the Argentine and Turkish governments could no doubt relate in this latest financial crisis. My argu-

ment in this lecture is that we need to take a radical step beyond insistence on the *interaction* or *interdependence* of states and markets in the process of governance. In our world at least, they are only found together and they are *both* very much about governance: about the way in which society is ordered and structured, the way in which authority is patterned. While one might make a case for maintaining the analytical distinction for the sake of a better understanding, I would argue that they should be seen as embedded together in the wider social whole. In this sense, we should not view them as *separate* things, but as part of the same dynamic of governance: a state-market 'ensemble' or *condominium*. After all, if politics is *not* about who gets what, when, and how, I am not at all sure what it is about. Of course, in a market system, 'who gets what, when and how' is largely decided by the market, but let us remind ourselves that there are other ways of determining the outcome and contemporary market systems in fact contain a mix of these. In this sense, the core question in political economy today remains as it always has been: the relationship between the market (and the private interests and prerogatives it includes), and political authority at various levels of governance (and the notions of the public interest which we like to presume are inherent in politics).

I will begin the body of this lecture by outlining the conceptual case for the state-market condominium as a model for better understanding the substance and process of governance. I will then use concrete examples from my own research to illustrate the point. I will go on to outline what I consider to be some of the more important practical and, in particular, policy implications of the model in a situation of what scholars refer to as increasingly 'multi-level governance'. I will conclude by linking the model to my research in the coming years, and to the broader issues of the balance between private interests and the public good, which suggests a discussion of political legitimacy and the democratic process.

II. Models of State and Market

The State-Market Dichotomy

The distinction between the state and the market is a commonplace in everyday discussion. The intelligent media reveals just how common it is. Newscasts and newspapers are divided into sections on politics, business (which really ought to be la-

belled 'economy')[3], culture, media, sport, and so on. At the edges, these worlds meet in important ways in day-to-day terms. Politics can interfere with the Olympics, which is 'sport', and governments might interfere in merger and takeover business decisions, something which they should or should not do, depending on one's standpoint. Yet we all, in contemporary society, understand the clear distinction between the state and the market.

The distinction goes so far as to anthropomorphise 'the market,' to treat markets as if they were agents with actions, intentions, and consciousness of human beings or individual corporations. One might read daily in the newspaper about how 'the market reacted vigorously to the announcement by the minister' or, 'the market did not react to the announcement by the European Central Bank,' or 'the market has succeeded in getting around government policy'. Policy-makers ask themselves how the market will react to a measure proposed to the legislature. The potential reaction of the market is often invoked as a reason why a particular solution would not work. In this way, we assign to markets the capacity to circumvent regulations, tax laws, or to be fruitful and multiply their kind. We all know that this is a sort of shorthand for the reactions, or lack thereof, of a range of different economic agents interacting in complex circumstances. Yet we live and breathe this shorthand as if it were real, as if markets really did do these things. The concept of markets as 'things' goes very deep; our societies are organised in large part around market mechanisms for production and exchange, so this is not surprising. Yet if the concept implicit in this discourse is inaccurate, as I claim it is, then we are prisoners of our own rhetoric to the extent that we act as if it were true.

Where does this clear distinction come from? I would argue that we can find its intellectual and ideological roots in the nineteenth century and the rise of both industrialisation and the emergence of democratic forms of governance. The arguments of Karl Polanyi, to whom we shall return later, are useful here.[4] In the first place, industrialisation could not have taken place without the process of 'commodification' of the vital factors of production, land, labour, and capital, beginning in Britain. By this, Polanyi literally meant creating new legal devices whereby these factors of production could be exchanged freely and privately on the market. Common land and ancient occupancy rights of ordinary rural dwellers were thus revoked through the 'acts of enclosure'. Some landlords opposed this, but others saw it as an opportunity to release themselves from a paternalistic burden and improve agricultural productivity, or even to sell up in order to repay debt borne of aristo-

cratic extravagance. Money as capital over time entirely replaced land as the store of value and became common throughout the economy as a medium of exchange for commodities, while money itself came to be bought and sold on financial markets. Finally, labour had to be 'set free' in the sense that without a certain mobility of labour, from the land to industrial employment, the industrial market economy was unlikely to function effectively. Correspondingly, 'Poor Laws' restricting the poor to their parish of origin and the common law rights of tenants to occupy their dwellings were superseded, sending the dispossessed in search of employment, usually in the new industrial towns. Industry could draw on the new mobility of labour, and agriculture emerged as a business employing new machinery, just like industry. This sort of story was repeated in different ways and circumstances across Europe and beyond.

Once the market began to function as the core element of industrial society, it was not long before individuals and social constituencies forgot that things had ever been different. A private realm of commodity and financial exchange, including labour, emerged to replace the world of mercantilism and the residue of the Middle Ages. The private business affairs of individuals interacting in the market were largely separate from the concerns of state, especially as states in the nineteenth century did relatively little in terms of today's expectations. At the risk of considerable simplification, states worried about other things, especially security and empire building. The state-market distinction was born and entered the collective consciousness as part of an inalienable reality, except to radicals (for example, Marx), who questioned the very basis and justice of the system itself, and continue to do so.

The public-private, state-market distinction is mirrored in scholarly debate. Alongside these historical developments emerged a science of economics which focused on explaining the pattern of market interactions, both in terms of how it worked and how it might work better. It was a science which was relatively unconcerned with how the transformation to the market had taken place, or whether it might be in turn superseded. Debates *within* economics were varied and complex enough, and remain so today, to maintain intellectual momentum.

Meanwhile, developments in what is more readily acknowledged as the realm of the public domain, government, helped to reinforce the state-market, public-private distinction. Democratic movements sought to wrest private power over government from the king and his cronies and to place it in the hands of elected representatives. Limiting the private, arbitrary power of the monarch meant creating a

public domain of interest to everyone, the sphere of government in the public interest and for the public good. This movement was accompanied by ideas of individual rights, constitutionally and legally enforced, which would limit the capacity of government to intrude in the day-to-day affairs of citizens, as people came to be known. The roots of this democratic constitutionalism were deep in the Enlightenment which started in the late seventeenth century, ironically at the very moment that absolute monarchy was perfected by Louis the Sun King.

Not surprisingly, the liberal ideas behind this political movement had links to the ideas which had produced the private domain of property and the market – as a bulwark against the arbitrary exercise of power by authoritarian landlords and monarchs. Political philosophers such as Rousseau, Montesquieu, Locke, and Kant shared much with the classical political economists of the Scottish Enlightenment: David Hume, Adam Smith, or David Ricardo. The public-private distinction became part and parcel of the cry which echoed across Europe and the Americas for rights and freedom in the context of representative government based on democratic practices. Not surprisingly, private 'economic' freedoms, the right of ordinary entrepreneurs and labourers to pursue legitimate economic activities free from the restrictions of the mercantilist oligopolies maintained by the monarch and his political allies, were included in the movement. The result was first the eventual emergence of the market mechanism as a powerful organising principle promoting industrialisation and commerce. This was followed, on the whole much later, by the emergence of limited and eventually largely-democratic forms of representative government. Democracy was in many cases as much a response to the misery of industrialism as it was to the arbitrariness of absolute monarchy.

So there came to be a realm of private, democratically and constitutionally guaranteed rights of individuals to participate in the very public business of selecting the government. At the same time there was a private domain of economic freedoms which constituted the market, from which some, as always, did better than others. It was a short step towards an intellectual system which not only justified and reinforced this state-market dichotomy, but also quite rightly recognised the historical interdependence of market and constitutional freedoms. It is worth noting that democratic practice never succeeded in penetrating the private domain of the market, and indeed it was often part of the argument that it should not.

In this regard we can now take a moment to observe how contemporary scholarly disciplines continue to reinforce the very strong popular perception of a state-

market dichotomy. We can do this through a brief examination of what remain the two most prevalent strains of political and economic thought in western European societies, the liberal and realist schools. Liberal and realist scholars represent more or less polar opposites in the debate on the state-market relationship in the global economy, but each in its own way maintains a clear distinction between the two.

Liberal scholars, particularly in neo-classical economics, have strongly advocated the market as an organising principle for our developing world political economy. In a long tradition of liberal idealism, advocates of the global market view it as an escape from the disabilities of politics,[5] and a march towards the natural and spontaneous order of the Austrian school,[6] underpinned by the harmony of interests which Adam Smith was convinced could be allowed to flourish under certain carefully nurtured conditions.[7] While Smith himself was ultimately sceptical about the possibility of preventing the eventual corruption of a market economy into a series of rent-seeking arrangements sponsored by the market actors themselves, others have rushed in where Smith was very careful to tread.[8]

Despite the caution of Smith and others,[9] transnational integration dominated by market processes is often seen as an ideal state of affairs[10] in which there would be an end to the interference of the sectional interests which characterise most forms of political interaction, and the states of the international system in particular. This view is of course underpinned by the usually implicit assumption that states and markets are antithetical organising principles: hierarchy, power, and coercion versus decentralisation, spontaneous interaction, and even liberty.

The other side of the debate most typically starts from realist principles in international relations, underpinned by a corresponding (but more often explicit) assumption that the economic and political domains are again separate entities. As Hans Morgenthau put it in the sixth of his six principles of political realism: 'Intellectually the political realist maintains the autonomy of the political sphere, as the economist, the lawyer, and moralist maintain theirs.'[11] Here the argument is that politics will, in the nature of things, dominate economic processes, particularly in the international domain.[12] It is not surprising that a lively debate exists which pits the tradition of political realism against the 'globalisers' of liberal-idealist heritage. It is a continuation of the realist-idealist controversy which goes back to the interwar period and beyond.

In sum, the intellectual apparatus of scholarship provides considerable reinforcement to the commonly-held view that states and markets, private versus pub-

lic domain, are distinct entities, and that indeed they *should* be so. However, political economists, comparative or international, will be apt to protest at this point that there are other ways of looking at the question which focus on the *relationship* between states and markets. This point provides an appropriate bridge to the next section, in which I offer a critique of the state-market dichotomy and develop the state-market condominium model.

The State-Market Condominium

Can one really claim a meaningful and empirically verifiable distinction between political authority and the market? If so, where does one place authoritative political decisions on environmental regulation, trade law, or competition law, all of which have huge implications for transaction costs in market-based economic competition, both within and across borders? Are these very political matters in the public domain of politics and states, or the private domain of the market (and one should note that these policies are heavily influenced by the interests they affect)? How would one answer such a question? I would argue that one cannot, if one attempts to maintain a distinction between states and markets for other than occasional analytical purposes.

If one were to go back in time, one would discover that the distinction between political and economic interaction was not perceived as clearly as it is today. Perhaps that is simply because we are now so much more sophisticated, and one mark of sophistication is a greater degree of analytical specialisation. Yet the way in which the production and distribution of wealth was accomplished, the way in which society produced and distributed benefits (or lack thereof) across social constituencies, was historically tied in an intimate fashion to the way in which the powerful chose to organise it for the rest of us. A mediaeval landlord saw little difference between control of the land and food production on the one hand, and the broader pattern of governance of the world around him on the other. Peasants laboured to produce food and gave most as taxes in exchange for the use of common land and for security in a turbulent world. Peasants also represented expendable bodies for defence. The landlord and the Church on whom the system rested used a mixture of accepted spiritual doctrine and naked power to ensure that this continued to be the case. In turn, Louis XIV of France, a rather successful ruler, saw little difference between his personal interests and fortunes as monarch and the centralised economic organisa-

tion of the realm which he initiated: 'l'Etat, c'est moi', as he put it, and that included control over the production and trade of many key commodities in the economy. In both cases, the system of production was intimately and consciously linked to the broader socio-political order.

Political economy focuses precisely on the reciprocal relationship between political authority and the private pursuits of economic agents in the market. Adam Smith himself put this question at the core of political economy. Smith lived in times of rapid change in eighteenth-century Scotland and northern England, and was therefore strongly aware of history, and how the different ways in which societies provided for their sustenance and surpluses (and the distribution thereof) affected the patterns of social structure and political authority over time. The changing ways in which who gets what, when, and how lend form and substance (sometimes rather unpleasant) to society and to its more formal institutions of governance, to the rules by which it lives, and shapes who has power over whom. In this Smith shared much with his eventual critic, Marx.

Critically, Smith observed that there was an ongoing tension between the private passions and interests of individuals, and the collective needs of the wider community - a tension between the pursuit of self-interest and the fulfillment of the public good. His core question was, how might this tension be resolved?[13] Are we permanently faced with iniquity and compulsion to order the affairs of humankind? Must the powerful always abscond with the lion's share of the benefits of human endeavour, making the world miserable for the rest? What forms of governance might help us to curb the exclusionary excesses of rulers and the rich, usually one and the same, and permit the innovative capacity of human beings to come to bear on the process of economic development?

He argued that, under certain conditions contrived and enforced by political authorities, competitive markets might help us to turn the pursuit of private gain toward achieving the important common aim of producing and distributing wealth in the most optimal fashion possible. One might disagree with his prescription, but the problem he posed remains central to political economy and governance, international or otherwise. Smith's core question can also be reformulated in more contemporary terms. We have the market, indeed an increasingly global one, but not always the carefully contrived conditions Smith recommended. The market has furthermore proved less stable, less equal, and less harmonious in operation than he and many of his successors thought would be the case, hence radical critique. Power

is clearly not the preserve of the formal institutions which pretend to monopolize it, particularly states. Private market power is very much part of the pattern of governance we experience.

Seen in this light, Smith's core question can help us re-evaluate the state-market dichotomy and its relevance to our understanding of the contemporary global economy. He gets us back to the nature of the reciprocal relationship between political authority and private pursuits in the market: what ought to be the public good in terms of the wider process of governance? Whose interests do and should prevail in the various tiers of institutions and less formal arrangements which constitute global governance? What is the relationship between market structures and political authority (loosely defined) in the ongoing and accelerating process of global change?[14]

These questions encapsulate what the study of political economy is about, despite all its diversity. What do we think a state is? What do we think a market is? How, if at all, are they/should they be related? This leaves ample room for normative concerns such as who should get what and how, the appropriate nature of governance, and guidance as to how we might improve global order. Yet, if the *relationship* between political authority and markets is the core question, I argue that the discipline must move beyond mere invocation in terms of dealing with it. For too long, scholars have either merely *invoked* the interrelationship in terms of mutual effects, or *assumed* it. Either way, the relationship has not been adequately conceptualised. This is important, because as stated at the outset, how we think about political authority, the market, and their relationship affects how we respond to them, what we believe we can do with them in terms of policy both within and beyond the context of state decision-making. It affects how we can change global order, and for what purposes.

The problem is as follows. If most scholars of political economy insist that political authority and markets are interdependent, the relationship is usually portrayed as one of interdependent antagonism. Political logic, particularly the logic of states, pulls in one direction. Economic logic, the logic of the markets, pulls in another. Political expediency or legitimacy may be invoked to override market forces, or market forces may defeat attempts at political definition of outcome, but either way, states and markets exist in *antipathy* to each other. Thus a discpline trying to get away from the state-market dichotomy characterises the interaction of states and

markets as a sort of tug-of-war between market forces and state attempts to control or direct them.[15]

If we really do have a *political economy*, we must demonstrate, empirically and conceptually, how the whole is greater than the sum of its parts, *how* states and markets are integral to each other in the process of governance. If not, it is impossible to resolve the argument about whether states or markets are really in control, and to explain why both states and markets appear so different today relative to three decades ago.

Perhaps the best known and most insistent on the point was Susan Strange; she was a 'states and markets' scholar, as I have argued elsewhere.[16] Yet even Strange was strong on invocation of the state-market relationship, and relatively short on theoretical elaboration. She too invoked the epic struggle between states and markets, arguing that 'markets' were winning in the contemporary period of transnational integration. This yielded a retreat of the state in the face of market ascendancy,[17] largely self-induced, with grave dangers for the legitimacy and functioning of the global system.

Yet we need to take our Polanyi[18] and the notion of political economy seriously: he argues that the market makes no sense without the state, that indeed the market system was created and enforced by the state, as I outlined earlier in this lecture. The idea of a separate economic domain without politics was to him a stark utopia which failed, resulting in surely the greatest human tragedy of the modern period: the depression, fascism, and the Second World War.

Somehow we need to conceptualise how states are embedded in wider, increasingly transnational social structures; how key socio-economic constituencies of non-state (usually business) actors are integrated into the institutional processes of states and government; how the agency of these actors, through state policy institutions, are central to the process of global economic transformation and to the terms of competition among market agents. The claim is, then, that the political economy is something greater than the sum of the state-market parts.

This means that there is still one more and crucial conceptual step to take in order to move beyond the tug-of-war position of state-market dichotomy. The concept of states and markets as separate (if interacting) entities is often a useful abstraction, but we need to remind ourselves that states and markets are not discrete *things* as such. They are never, in fact, found alone, and so are not *things* at all. Many of the most important political decisions a community can take concerns the way in

which markets should and shall work. In this sense, states and markets are part of the same integrated ensemble of governance, a state-market *condominium*, and should be thought of as such. The regulatory and policy-making institutions of the state are one element of the market, one set of institutions, through which the overall process of governance operates. The structures of the market are constituted as much and simultaneously by the political processes of the state – and the political resources of the various private or public actors involved in a specific policy process – as by the process of economic competition itself. Likewise the political and regulatory process is as much part of business strategies as the game of investment and marketing.[19] The preferences of market agents and other constituencies of market society are integrated into the institutions of the state through policy and regulatory processes at domestic and international levels of analysis, depending on their individual organisational capacities/coherence, and of course power. The incentives and constraints of state policy and regulation are in turn part of the landscape of decision-making by businesses as they compete with each other. Policy and regulation, just like the competitive strategies of firms, confer advantages on some and costs on others. At the same time, some are more capable of affecting the policy outcome than others.

In creating a market, then, we take a political decision to *delegate* to private individuals the very public responsibility of organising the creation and distribution of wealth. This implies a certain accountability of private economic agents to the public domain, especially in a democracy. We can argue about the terms of that accountability, but the idea that the private sector somehow exists in another world of 'free' enterprise is not sustainable in fact, nor in normative terms. Echoing Polanyi, there is nothing spontaneous or natural about a market as the primary organising principle for economic activity; it is an act of public policy. For good or ill, political economies have been different in the past (which includes Soviet-style central planning), and may well be so in the future. Furthermore, markets work in very different ways depending on the economic activity in question, the sector, and the historical and cultural setting across the global economy.

III. Applying the Model

I have not arrived at this intellectual conclusion through idle, armchair reflection. Purely abstract theoretical enquiry, for all its undoubted intellectual satisfaction, is too often the source of the serious misunderstanding of concrete phenomena around us. It thus runs the risk of becoming the source of potentially ruinous policy recommendations or programmes. Elegant argument in itself does not constitute understanding. There are some very elegant arguments around as to why the world is flat, but they just happen to be wrong. The same can apply to many theories of the economy or politics. As was made clear to me by my own doctoral supervisor, one must roll up one's sleeves and get one's hands dirty in the trenches of empirical research if anything is to come of the intellect. So my state-market condominium model comes as a result of many years of primary research, and as such can be demonstrated through case material. I will develop two examples, one concerning international trade, and the other concerning the global integration of financial markets.

States, Markets, and International Trade

The first case concerns the development of the global trade regime in the textile and clothing sector over the past forty odd years.[20] In this case, states and a coalition of market agents in Europe and North America used their combined power to shape the market for textile and clothing products largely to their own private advantage. The private interests of the market did not compete with new producers in the developing world on textbook economic terms, far from it. Private interests appropriated the mantle of national policy, of the *public* good, for their own purposes. They systematically got the better of both European and North American consumers, and of developing country producers in a range of often fragile emerging market economies. The established producers successfully defended their competitive position not through innovation, nor investments in technology, nor better management. Instead they captured the policy process at national and international levels and employed their political resources, through state policies, to maintain terms of competition advantageous to themselves. Never mind that developing country firms succeeded in producing equal or better products for a better price – this 'economic' factor was not allowed to come to bear.

The outline of the case is as follows. From the 1950s onwards, European and United States textile and clothing producers began to face a moderately liberal trading environment. They also enjoyed rapidly growing domestic markets. On the strength of rising consumption, the future looked golden. There was little incentive to do other than expand capacity to meet the growing demand. Over time however, new producer countries also began to enter the market. Their meddlesome competition was usually in cotton production, and mass-market clothing assembly. The first was Japan, and access to the American market was initially easy. Japanese producers, with lower wage costs, competed successfully in a quite limited range of straightforward products. The expansion of demand made domestic adjustment for United States producers relatively painless. According to trade theory, everyone would have been better off to steadily liberalise the global market and to allow price and product competition among different national producers. 'All the liberalisation that the traffic would bear' was in fact the trade policy of the United States government, both generally and towards the textile sector.

This was not to be. National producers were unhappy with even the most minor intrusions into their home turf. One should be reminded that textile producers represent the original wave of industrialisation in the older industrial economies. One result of their established nature is that they became well entrenched politically both in relation to the Congress, and to government departments in the form of the Department of Commerce and what became in time the Office of the United States Trade Representative (USTR). Historically, textile and clothing producers in the United States had prospered behind protective tariffs walls, well sheltered from competition from older (read United Kingdom and European) producers. Though European producers were no longer a worry, these protective walls were under threat. Textile and clothing producers used their political connections and began to complain of 'unfair' Japanese competition, which became a familiar refrain.

Government policy-makers became hostage to senators in the congress who supported the textile sector industrial alliance.[21] As Japan was a member of GATT, overt protectionism through tariffs or formal quotas was impossible. Instead, so-called 'Voluntary Export Restraints' or VERs, were invented whereby Japan not-very-voluntarily restricted its exports in cotton textile products for five years from 1956. Over time, Japan became less important as an alleged source of 'unfair' competition. Poorer countries with yet lower wages tried to climb the economic ladder through textile-based industrialisation. The advanced countries sought to put ob-

stacles continually in their way. The 'voluntary' quotas became formalised in the multilateral Short-Term Arrangement (STA, 1961-62) and the Long-Term Arrangement in Cotton Textile Trade (LTA, 1962-1973), aimed at most developing countries.

Meanwhile, in Europe similar developments were taking place in a different way. Markets grew as consumption increased, but companies did not appreciate adjusting to the challenges which did arise. Some European textile and clothing industries (particularly in the United Kingdom) faced competition from colonial, soon to become ex-colonial, producers, which paid lower wages. For others, particularly France, historically protected access to colonial markets was closed off as a result of decolonisation. European countries also faced more intense competition from other GATT countries. Most important was the intensified competition which resulted, after 1968, from the removal of internal tariffs within the Common Market partnership. Suddenly, national industries faced intra-EU competition, which was intense for the ill-prepared. It is also worth noting that competition from man-made fibres (nylon and rayon) played a significant role in reducing what should have been good fortunes of traditional textile and clothing producers in Europe. Firms began to react to the 'market disruption', to which competition was euphemistically referred. They joined the United States firms in the STA and LTA trade agreements aimed at an ever wider range of developing countries.

The industries of the two dominant economic zones of the world economy thus became a transatlantic state-market alliance, often including trade unions as part of the coalition, which consistently resisted competition by invoking 'voluntary' quotas. Furthermore, this alliance accomplished its objectives *against* the clearly expressed liberal trade policy objectives of *both* major economies involved, the United States and the European Union.

It has been robustly established that the lion's share of competitive challenges to firms in difficulty came from fellow European Union, United States, and high-wage producer firms. Developing country producers made relatively few inroads in a limited number of product ranges, mostly mass-produced cotton clothing, same as in the United States. Italy was probably the biggest source of competitive pressure on other industrialised countries, particularly in Europe.[22] It was anyway politically difficult to challenge full GATT or Common Market trading partners in the industrialised world. But the developing countries were politically weak and an easy target; their exports did grow rapidly, even if they were not proportionately very sig-

nificant. Middle income countries such as Spain or Portugal were also 'responsible', and they too became subject to quotas until EU entry. Eventually the LTA hardened into the Multi-Fibre Arrangement (MFA), signed in 1973 and renewed consistently with ever broader country and product coverage through until 1994. Though in its death throes, it is still with us. A wide range of Mediterranean and other middle-income countries also faced quota restrictions in this period. The European Union and the United States were effectively protected from competition from all newly industrialising and developing economies for well over forty years on an ever-widening range of products, not the best way to help international development prospects.

How does one interpret this story? The traditional Ricardian explanation, based on factor endowments and perfect competition, should have been one of a steady shift in the division of labour in the sector, with more labour-intensive activities moving to countries with lower wages. To an extent this happened, but developing country products, as mentioned, in fact made relatively few serious inroads into developed country markets. A 'market competition/international division of labour' story in fact does little for our understanding. Relatively open competition did not prevail, and the strategies of firms did not engage on 'economic' turf alone.

In the first place, rigorous analysis of optimal available cost structures and available new technologies demonstrates that labour costs were far from crucial for most textile sector products, the exception being clothing manufacture. Dynamic firms in the advanced economies preserved their competitive advantages in most segments of the sector. For those which did not, this was largely due to their *own* failure to take advantage of opportunities through investment in technology or marketing/management skills. Many firms simply did not want to change their ways and engage in the more open competition which international trade liberalisation implied. Investment levels were often chronically low, and product innovation did not keep up with the market and the changing patterns of consumption as society changed in the late twentieth century. If the firms could not compete, it was their own fault for not taking advantage of viable alternative strategies. They turned to protection as the way out.

Thus we cannot understand the evolution of the sector without simultaneous reference to both the (failed) competitive strategies of many firms in the advanced countries, *and* the political bargains they were able to strike through their capture of the global trade regime. So, instead of firms responding to competition through ad-

justment, or paying the ultimate price in a Darwinian economic universe, they responded by shaping the terms of competition in their own favour. A transnational policy process emerged in symbiosis with the pressures of global market competition, successfully erecting a complex rent-seeking operation and thwarting the development aspirations of poorer countries in the process. There was a clear integration of the political dynamics of the trade regime and the market game of competitive advantage as played by firms.

There is a further irony to the story. Over time, the more innovative firms in the advanced countries did find responses to the competitive challenges of liberalisation within the European Union and across the advanced economies. For many this was through investment in new technologies, product innovation, marketing strategies, and better management. In clothing production it also involved outsourcing labour-intensive production to neighbouring low-wage countries. States began to respond to the demands of firms in this regard by setting up favourable tax and finance regimes for the re-import of the finished clothing products for both domestic and export markets. The United States Caribbean Basin Initiative and EU agreements with Mediterranean countries included such measures. The problem was, this outsourcing and re-importation of production grew rapidly, and the quota system steadily became an obstacle. The industries of the advanced economies were *themselves* increasingly responsible for the rapid growth of imports from low-wage economies. Industries found themselves requesting that quotas be exceeded so that outsourcing activities could grow. Policy preferences once more began to shift, this time in a more liberal direction. The Uruguay round trade accord saw the industries of the advanced economies eventually agree to phase out the MFA over ten years from 1994. By this time, well over a third of US and EU imports from low-wage producers were initiated through outsourcing by American and European firms themselves. They had mastered the terms of competition and no longer needed protectionist devices. In fact, the more outsourcing spread, the more liberalisation would be the order of the day. As long as they could control the terms of competition one way or another, they were happy rent-seekers but a far cry from the textbook version of entrepreneurs. The idea that the end of the MFA in 2005 ushers in an era of free market competition is false. States and firms have stopped fixing the market together, because the firms are now able to do it themselves.

In the end, the scope of competition was adjusted to the limits of the *politically possible* rather than adjustment of the strategies of firms to the limits of the *competi-*

tively successful. A model based on state-market dichotomy could not help us to understand this situation, and why firms did not adjust to 'economic' pressures. An explanation based on the state-market condominium model allows us to appreciate the dynamics of the sector's political economy. States, and international regulatory processes such as the trade regime, are at the heart of operationalising markets as broader systems of governance in the global political economy. Private interests successfully used the cloak of state legitimacy to institutionalise their preferences in shaping the game of competition at the level of national governments and international agreements. It is my contention that all markets operate in this fashion, which is very far from the spontaneity of the Austrian school.

The Liberalisation and Global Integration of Financial Services Markets

Perhaps one can understand relatively easily how an essentially *protectionist* story is appropriate to the state-market condominium model. A case of *liberalisation*, however, fits more easily with traditional notions of markets as natural phenomena which, if left to their own devices, will multiply spontaneously. Even though the emergence of global banking and securities markets is commonly viewed as the archetypal market process beyond the reach of states, I would contend that the case of contemporary global financial services sector development is more adequately explained by the state-market condominium than by more traditional approaches based on a state-market dichotomy. The process was far from spontaneous: the creation of global financial markets was a political strategy by a state-market alliance of interests which became transnational in nature. Once again, private interests converted themselves into public and legitimated purposes through their successful integration into key policy processes across the G-10 economies. Private preferences were converted, through state policy, into the evolving structure of the global market.

Financial regulation, supervision, and market development has always involved private interests. In fact, self-regulation through private authorities is historically speaking the dominant historical mode of financial sector governance, often led by privately-owned institutions which eventually (through nationalisation) became our contemporary central banks. This legacy lingers on in important ways, but the rise of democracy coupled with the tragedy of the Great Depression and Second World War fundamentally altered the relationship of states to financial markets.

The financial and monetary system is rightly viewed as being so central to wider social and political stability that a strong sense of public interest has developed around the issues of supervision and regulation. As I have argued elsewhere, the financial and monetary system is, or at least *should be*, squarely at the centre of the public domain.[23]

States thus became involved in defining the scope and nature of financial market activity. The Bretton Woods conference famously attempted to subordinate private financial markets and firms to national public policy goals of long-term economic development and stability. This restrictive financial regime was much to the dissatisfaction of the New York banking community.[24] The purpose was 'to drive the usurious money-lenders from the temple of international finance', in the words of the United States Secretary of the Treasury of the time, Henry Morgenthau.[25] One cannot imagine a similar declaration from the present incumbent or any recent occupant of that office. In this way, it was hoped that the pressures of adjustment to international monetary and financial flows would be rendered compatible with the imperatives of domestic social stability and democratic political legitimacy.

The postwar growth miracle sustained this vision for some time. Despite the appearance of state dominance, a closely-knit policy community around financial supervisory and regulatory issues, including monetary policy and other questions of macroeconomic governance, represented a public-private sector condominium defining the nature and structure of financial markets.[26] Finance ministries and central banks worked closely with private and state-owned financial institutions in the implementation and design of policies in this crucial domain. By the 1960s, particularly in the United States, private financial institutions began to outgrow their local context and to seek a more liberal regulatory regime from their governments. This was politically difficult on the United States domestic front, given the recent experience of the Depression and the war. But cracks appeared in the Bretton Woods compromise, and it collapsed in 1973 with the advent of floating exchange rates and increased private capital mobility. Private coalitions, in close alliance with public institutions like central banks and financial supervisors (sometimes one and the same), began to negotiate deregulation at the same time as states themselves had to adjust to the pressures of the brave new world of floating exchange rates and capital mobility. Many states needed high levels of credit in the harsher economic climate where expensive welfare states were committed to vast expenditure in order to soften the blow, and the liberalisation of global capital markets served this purpose.

A state-market condominium aimed at the construction of globally-integrated capital markets became increasingly successful.

These political pressures translated into the world-wide movement for liberal financial reform, making the condominium transnational in nature, though the policy was not universally accepted. Many states reformed their financial systems in a liberal direction, starting with the United States in the 1970s and through into the 1990s. The UK implemented perhaps one of the best-known reform programmes in 1986, the Big Bang, after a long drawn-out political battle to overcome overly-comfortable vested interests in the City, especially the monopoly brokerage community.[27] In a wider European context, the EU geared up for the single market in financial services, fostering further financial reform in member countries. Many developing countries liberalised unilaterally or under external pressure, or a combination of both. Meanwhile, the GATT process moved towards an agreement on the liberalisation of trade in financial services, finally concluded by the WTO in December 1997. This was driven in the main by G-10 state-market coalitions seeking access to those financial markets which remained relatively protected. Up until the Asian Crisis of 1997-98, the momentum appeared unstoppable.

These developments were supported and facilitated by a further form of state-market initiative – regulatory and supervisory co-operation centred on the Basle Committee on Banking Supervision for the banking industry, and the International Organisation of Securities Commissions (IOSCO) for the securities industries. Their work has become increasingly intertwined as the distinction between the banking and securities industries has become blurred. Their agreements most famously includes the Basle Committee capital adequacy standards for credit risk, with radical new proposals close to adoption, and the Committee's market risk accord, which overlaps considerably with EU and IOSCO standards. Recent attention has also focused on standard-setting in the reform of international financial architecture. The trend is towards more market-oriented methods of supervision and regulation in a global context, and a corresponding adjustment of national practices.

These co-operative agreements, negotiated within the policy community of the state-market condominium, serve to contain some of the risks of systemic financial and monetary instability which result from global financial market integration. Yet it is crucial to understand that transnational regulation and supervision through co-operative policy processes is more than a risk management device to protect the

public interest. The development of global standards for banking and securities supervision and regulation serves also to contain the risks for market participants, and thus to facilitate the process of global market integration itself. If global markets are to work in a sustained fashion, the simultaneous development of a transnational state-market condominium is on the order paper and under construction. That is in many ways what the financial architecture reform debate is all about.

In this sense, market regulation and supervision is far from being evidence of ways in which states assert themselves over markets in an antagonistic relationship. It is instead systematic evidence of the ways in which market interests and state policy processes are integrated. The outcome is of course open-ended and the interests of transnational firms are not the only ones which come to bear on the process of market development. States and firms do have their differences on policy issues. The development of global markets and corresponding regulatory and supervisory policies imposes a differentiated set of costs and benefits on the various players, public or private. The process could well be reversed through the agency of social forces inside or outside the sector, particularly if increased financial market instability leads to a revolt by substantial segments of the business community. However, a combination of domestic regulatory reform and transnational regulatory and supervisory processes is currently driving and institutionalising the emergence of global financial markets.

As with the textile case, an examination of the nature of the regulatory and supervisory policy communities in the financial sector confirms the contention that the state and the market are not antagonists competing to define the principles on which society will be based. States and markets were a unity wherein private interests played a fundamental role in defining the purposes of public policy. The objectives of policy, designed through the interaction of both state and market players, extended the market across borders and permitted the reordering of the competitive practices of firms in the sector. While state agencies may sometimes have confronted market interests with their own 'autonomous' policy preferences, and compromises have emerged which differed from the expressed preferences of any one set of agents, the state-market condominium remains integral to financial market development.

Summary

The state-market condominium model provides for an empirically sustainable explanation of states, markets, and governance. According to the model, the adjustment process and pattern of economic interaction is managed simultaneously through the process of economic competition among firms on the one hand, and the policy and regulatory processes of the state, on the other. Market agents enhance or protect their position and prosperity by making simultaneous calculations through their business strategies, deploying their competitive resources, and through the deployment of their political resources in the decision-making processes of the state. This is clearly visible in corporatist systems in western Europe, where even labour is integrated into both state policy processes and the strategic decision-making of firms, or in the close integration of private firms/associations into the system of bureaucratic management which characterises the economic development process in Japan and other parts of Asia. The point is less obvious to observers of Anglo-Saxon political economies where the independence of the private sector appears more marked than in other societies. But the considerable evidence of 'capture' of regulatory agencies in the United States economy should indicate the need to avoid the stereotypes developed in particularly the economics literature. A market without institutions and governance, including some form of judicial authority or arbitration, is inconceivable.

Of course this conceptualisation of states and markets appears counter-intuitive in our era of global integration increasingly dominated by private sector market processes. Our contemporary experience of modern capitalism and the prevalence of economic modes of analysis engraves on our minds the idea of the state-market dichotomy. Yet Adam Smith is again useful here: he pointed out that the very public responsibilities of generating and distributing wealth could be successfully accomplished by private agents. More worryingly in Smith's opinion, the reverse is also true, as will be seen below. Not that it renders the economy any less political: one can delegate authority and decision-making power, but one cannot de-politicise the system. It remains an ensemble of governance.

There is also nothing surprising in the idea that a transnational state-market condominium may have multiple institutions of authority, some state, some international. In this sense, the phenomenon of multiple state sovereignties in the global economy does not detract from the model. Anyone who lives in a federal state or in-

deed the European Union should be comfortable with this assertion. Furthermore, as the pattern of material interests in national political economies has become more transnational, so the state has changed. The state has become far more a facilitator of global market processes than a protector of domestic market structures and interests over the past three decades. The pattern of political authority becomes more transnational in symbiosis with the transformation of the market. The state has progressively delegated a number of tasks either to private bodies or to institutions of international co-operation, though it maintains its functions in terms of domestic political legitimacy and all the tensions that entails.

In this sense what we have seen is not so much a *retreat* of the state in the face of market forces, but a transformation of the state in symbiosis with the transformation of markets. We have changing forms of state emphasising different functions over others, not an emasculation as such. There may be a retreat of the state from particular activities and functions, but if one properly understands the dynamics of the state-market condominium, it should be clear that the form and functions of the state will continue to evolve as indeed they have in the past.

IV. Practical and Policy Implications

This brings me to a brief discussion of the practical and policy implications of the model in a situation of increasingly multi-level governance. I have alluded to some of these in the summary of the previous section. I shall make five interrelated points:

i) If we cease thinking about states and markets as opposing dynamics in permanent tug-of-war with each other, we might put an end to a particularly sterile debate. We would stop expecting, or indeed hoping, that one might triumph over the other, whatever one's preferred outcome. It is not going to happen, because the two go together. We cannot somehow wish politics out of markets, while the behaviour of private market constituents is anyway inherently political, whether we choose to recognise it or not.

This both complicates and liberates the process of governance from the constraints of more orthodox approaches to states and markets. The model certainly implies that a variety of solutions is possible. There is no single alternative, but the

choice may not be easy. Although we may opt for more or less liberal solutions, we cannot simply rely on market forces to 'sort it out', and must devote more time to the question, 'what kind of market, to serve what kind of society?' The nature of the market is inherently contestable, and there is no single equilibrium point which can be rationally determined. In this sense the outcome and potential solutions to problems are genuinely open-ended and societies are free to choose. Multiple equilibrium models are much the order of the day, but the variables are political and institutional as well as 'economic' as such. This greatly complicates the task of decision making. We need to confront this world of bewildering choice and imperfection head on, remembering that perfection is itself nothing to do with the real world. It is an abstract concept which may inspire, but which can also get us into trouble through the pursuit of utopia and misplaced idealism.

ii) The model implies that *exclusive* reliance on concepts of perfect competition, optimality, and general equilibrium is likely to yield misleading policy prescriptions and even a misunderstanding of the problem at hand. By understanding that the market operates simultaneously through competitive processes and the policy process, now a policy process which extends across borders, we can much better come to terms with the rent-seeking behaviour of both private and public actors. If we do not expect firms or other market agents to behave according to models of perfect competition, we will more easily understand that rent-seeking behaviour is not the exception, but the rule. If we all admit that perfect competition is an abstraction from a messy, more prosaic reality of various forms of second best market-fixing, we can begin to see more clearly the reality of political economy: if the state does not rig the market, private interests will. It is better that we make clear and well-informed decisions about how and why we want it rigged in particular ways.

We can never therefore disconnect the world of policy choice from the rather tawdry world of self-interest and particularistic advantage. We should be aware that governments sometimes constitute the most private interests of all, and a fully democratic process is there for a reason. We should *also* understand that there is nothing particularly noble about the interests of business or any other economic agent. Nobility of intent is bound to be in short supply. Business in a market system, particularly big business, carries huge responsibilities in terms of the realisation of public policy objectives. It does not exist in some purely private market domain where it can do nothing but good, or indeed ill to its detractors. None could be

more clear on this point than Adam Smith, who advocated market solutions but remained guarded in important ways:

> The interest of the dealers (…) in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and narrow the competition, is always in the interest of the dealers (…). The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with the greatest precaution…[28]

Democratic processes should be understood as much for keeping private interests accountable for the public interest functions they perform in our societies, as they are for keeping politicians accountable to the electorate. The rhetoric of the free market makes it all too easy to forget this point.

iii) If the state-market condominium model helps us to come to terms with the endemic nature of particularistic rent-seeking in the market, we might stop expecting a smooth, equilibrium process. The global integration process is not about the rational pursuit of optimality or spontaneous market development, but is driven by particularistic interests. As different constituencies compete to shape the process to their own advantage, the multiple equilibrium idea comes back to mind, and there are good and bad equilibria in various guises. Furthermore, as political and economic competition to control the terms of market integration gains momentum, it becomes apparent that we are not integrating like entities. Just as even the most 'rational' of corporate mergers often founder on tensions between contrasting corporate cultures, we should expect local and regional ways of doing things to come together in dynamic and sometimes difficult tension. Integration is not of like with like, but a linking together of diverse state-market condominiums. It will be a bumpy process and diversity is bound to persist. Strict convergence to single 'rational' standards is unlikely to be possible or healthy, and there is no single formula which can admit of universal application. Many models will work, each infused with different values. The democratic process must ensure that a choice of values and solutions is consistently available, even to the weak and economically deprived.

iv) If global integration is an imperfect, bumpy process infused with rent-seeking activity and the pursuit of private gain, and a straightforward equilibrium outcome is unlikely, then we should expect and prepare for crisis, particularly financial crisis. The Asian crisis caught everyone napping, bar a few, and we should have been better prepared. But there is a further point: if equilibrium is problematic and crises likely to occur, perhaps we should devote less time to casting aspersions on solutions which appear to 'interfere' with the rationality of the market, such as capital controls. Such policy devices can obviously be wrongly and inappropriately employed. But my model would indicate that the same can be said of free market solutions too. Private greed must not be allowed to plunge the political economy into troubled waters.

v) Most importantly, the state-market condominium model allows us to understand how markets are integral to governance and the formal activities of government. The state *is* involved in the market and *should* be involved in the market; the market cannot function as a system without the political and regulatory processes which the state represents. We should be very wary, echoing Smith, of those who argue that the state should leave market agents alone to get on with the job; there is nothing sacred about them and market agents are more than likely pursuing a narrow private agenda. State interference could well be ill-informed or simply wrong, but the same can be said of the public interest functions delegated to market agents.

Thus the market is also closely tied to the issue of political legitimacy, particularly in a democratic context. If the functioning of the market does not satisfy enough of the people enough of the time, we have a problem. This might apply as much to 'no growth' or 'slow growth', as it does to *unequal* growth. In this sense, distributional outcomes *do* matter:[29] aggregate gains may not always be the crucial variable. If market pressures bring democratically unacceptable results, they must be rethought and redesigned, and they *can* be. If change induced by market forces comes at a politically unacceptable pace, the potential benefits of liberal solutions may be lost for lack of political realism. The bottom line is therefore not an economic one, but a political one, and the *outcome* must be perceived as legitimate.

V. Conclusion

In this lecture, I have argued that we need to take a conceptual leap and to rethink the way in which we understand the relationship between states and markets in the context of an increasingly integrated global economy. I argued, and supported with case material, that we should abandon models of state and market which see them as different, opposing dynamics in constant tension one with the other. We need to develop a model of states and markets which sees them as part of the same ensemble of governance. This implies a reassessment of the distinction between the public and the private, and of the nature of the public good.

It is my intention to pursue my research on the basis of this theoretical reflection, with the aim of contributing to the policy debate on global financial architecture and monetary system design, in a project entitled 'The Public Good versus Private Interests in the Global Monetary and Financial System.' The project seeks to analyse the changing nature of political and regulatory authority in the governance, across national and international levels, of the increasingly integrated global financial and monetary system. The central hypothesis is that in the context of ongoing integration, emerging forms of governance involve a shift in power and authority from public sector institutions, across institutional layers, to forms of private sector and, increasingly, private interest governance. In addition, the role and influence of private sector firms and associations in the elaboration of public policy with regard to financial and monetary governance has been and continues to be considerably enhanced, again at both national and international levels. This situation pertains in both developed and emerging market economies. In such a context the realisation of wider public sector policy objectives across a number of policy domains, from economic development goals to social policy objectives, has become more difficult. This is a result of the central importance of financial and monetary system governance to the wider context of economic development in a market system. In this sense the project involves an exploration of the changing nature of political authority in world political economy in relation to the objectives of democratic states, focusing on the constraints of short-term capital mobility and the monetary and financial volatility which has accompanied the liberalisation of global finance over recent decades.

In the longer run, I believe my research will demonstrate that the state-market condominium model permits a more realistic assessment of the possibilities and

constraints on governance in our global era. My argument is important because it re-establishes the role of agency, the capacity of human beings to make normatively informed policy choices about the nature and direction of change. We need to reflect on which political constituencies need to be challenged or encouraged in order to correct the balance of costs and benefits of global economic integration, particularly with reference to inequality and poverty.

The state-market condominium model will therefore underpin policy relevant research in political economy and infuses our understanding of the global economic development process with agency. There *is* room for discretionary policy and action, even for the relatively vulnerable. We can, at least to a limited degree, affect the norms and values which underpin global order. As long as we see only a tug-of war between the state and the market, then the benefits of one will be overshadowed by the costs of the other. The point is that we cannot have one without the other. They exist in symbiosis.

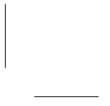
Political authority is not just vested in the formal institutions of states and their offshoots of governance such as regimes, as legal and constitutional theory would have it. It is also present in the agents of the market as part of the state-market condominium. The market *is* governance, even as it appears to work in mysterious, private ways. Herein lies one of the most fundamental problems: our systems of democratic accountability are nationally based, whereas our systems of production and the market are so no longer. The EU is wrestling with this problem, and the speed of institutional adaptation is frustratingly slow. The model suggests that if global capitalism is to remain stable and to produce benefits which outweigh the costs, then we must fully confront the Bretton Woods problem: whether liberalization is good or bad, it will only work if it satisfies enough of the people enough of the time. The 'people' are still organized in political communities called states. If the shadow of financial crisis so darkens their horizons, states can and will react and withdraw, with ugly results for us all as they default on debt and renege on their co-operatively negotiated obligations. This is not very likely in the advanced economies, which are relatively well placed to cope, but we all anxiously watch Argentina and Turkey. Other large and militarily powerful states with disastrously weak economies, like Russia, have been recently on the brink. We do not yet know the fate of the modernisation process in China and India.

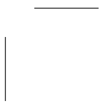
Whether we like it or not, we are in a situation rapid change; we cannot go back. We must use what political agency we have in government and as citizens to shape

the process in ways which tend towards stability, preserving vital aspects of local and national autonomy. We must help weaker societies to adapt, thus preventing the rise of political ugliness of the sort we saw in the 1930s, in the breakdown of Yugoslavia, or in the ongoing crisis in Indonesia. We know that markets often derail, and we should anticipate this. Europe, with its long-run commitment to social justice, has a vital role to play but has done little to develop the political coherence which its important place in the global economy presumes. There are many routes to global integration. We have choice, and we should exercise it.

As a last word, I would like to observe that I have spoken for some forty-five minutes about global economic integration, and not once have I pronounced the G-word, 'globalisation', until now.

Ik heb gezegd.





Notes

1. *Rethinking Politics: Transnational Society, Network Interaction, and Democratic Governance* is the title of the five-year research strategy of the political science group in the Amsterdam School for Social Science Research, written by my colleague Maarten Hajer and myself, and to which I belong.
2. See the wide-ranging discussion of the 'public domain' in Daniel Drache (ed.), *The Market or the Public Domain? Global Governance and the Asymmetry of Power* (London and New York: Routledge, 2001).
3. The Anglo-Saxon press is particularly guilty of this, as if 'economy' were only about what business does, and not about labour, consumers, or regulators.
4. Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944).
5. Walter Wriston, in *The Twilight of Sovereignty* (New York: Scribner, 1992), argues that the global integration processes driven by the rapid growth of information technology spells, if not the end of the nation-state as such, a rapid and beneficial dilution of state power over space and peoples; see particularly chapter 8, 'Borders are not Boundaries.' Kenichi Ohmae argues from a more conventional standpoint, arguing that contemporary business strategies and the rise of consumer choice has produced an increasingly interlinked economy bypassing traditional state functions, a process once again characterised as fundamentally liberating; see *The Borderless World* (London: Collins, 1990) and *The End of the Nation-State: the Rise of Regional Economies*, (London: HarperCollins, 1995).
6. See F.A. Hayek, *The Constitution of Liberty* (London: Routledge and Kegan Paul, 1960); — , *Individualism and Economic Order* (London: Routledge and Kegan Paul, 1949); K.R. Leube and A.H. Zlabinger (eds.), *The Political Economy of Freedom: Essays in Honour of F.A. Hayek* (Vienna: Philosophia Verlag, 1985).
7. Claudio Napoleoni, *Smith, Ricardo, Marx* (Oxford: Basil Blackwell 1975), p. 30. See also Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. by Edwin Cannan (New York: The Modern Library, 1937), eg. p. 99; pp. 118-143.
8. Smith was particularly wary of the role of vested interests in policy-making; see citation p.28-9 below.
9. Such as the renowned interwar realist E.H. Carr, *The Twenty Years Crisis 1919-1939: an Introduction to the Study of International Relations* (London: Macmillan, 1946), esp. chapter 14 (Conclusion).
10. Cerny discusses globalisation as an ideal-typical discourse in P.G. Cerny, 'Globalisation and Other Stories: the Search for a New Paradigm for International Relations,' in *International Journal*, vol. LI/4, Autumn 1996, p. 625.
11. Hans J. Morgenthau, *Politics among Nations* (New York: Knopf: 1956), p. 10.

12. Ethan B. Kapstein, in *Governing the Global Economy: International Finance and the State* (Cambridge, MA: Harvard University Press, 1994), has argued that states are still very much in control of the process of global financial integration, working through the co-operative regulatory and supervisory processes of the Basle Committee on Banking Supervision, among others.
13. See Napoleoni, op. cit.
14. A point made by Susan Strange some time ago in 'The Study of Transnational Relations', in *International Affairs*, vol. 52/3, July 1976, pp. 333-345.
15. See for example Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1986); Herman M. Schwarz, *States versus Markets: History, Geography, and the Development of the International Political Economy* (London: Macmillan, 1994), which is particularly useful for putting contemporary developments in historical perspective; and Robert Boyer and Daniel Drache, *States against Markets: the Limits of Globalization* (London: Routledge 1996). It is in fact a small step from some of the contributions in the Boyer and Drache volume to the position argued in this paper, particularly where they draw on the works of Harold Innis and Karl Polanyi.
16. Geoffrey R.D. Underhill, 'Global Money and the Decline of State Power', in A. Verdun, T. Lawton, and J. Rosenau (eds.), *Strange Power: Shaping the Parameters of International Relations and International Political Economy* (Aldershot: Ashgate 2000), p. 126.
17. Susan Strange, *The Retreat of the State: the diffusion of power in the world economy* (Cambridge: Cambridge University Press, 1996).
18. Polanyi, *The Great Transformation*, op. cit.
19. See Geoffrey R.D. Underhill, *Industrial Crisis and the Open Economy: politics, global trade and the textile industry in the advanced economies* (Basingstoke: Macmillan 1998), pp. 18-25; passim.
20. See ibid.
21. H. Richard Friman, *Patchwork Protectionism: Textile Trade Policy in the United States, Japan, and West Germany* (Ithaca: Cornell University Press, 1990), p. 95.
22. Underhill, *Industrial Crisis*, op. cit., chapter 1.
23. See Geoffrey R.D. Underhill, 'The Public Good versus Private Interests in the Global Monetary and Financial System', *International and Comparative Corporate Law Journal*, vol. 2/3, 2000, pp. 335-59.
24. Marcello de Cecco, 'Origins of the Postwar Payments System', *Cambridge Journal of Economics*, 3 (1979), pp. 49-61; 'International Financial Markets and US Policy since 1945,' *International Affairs* 52/3, July 1986, pp. 381-99; Fred Block, *The Origins of International Economic Disorder* (Berkeley: University of California Press, 1977), chapter 3.
25. Henry Morgenthau, as cited in Richard Gardner, *Sterling-Dollar Diplomacy in Current Perspective* (New York: Columbia University Press, 1981), p. 76.
26. See Geoffrey R.D. Underhill, 'Private Markets and Public Responsibility in a Global System: Conflict and Co-operation in Transnational Banking and Securities Regulation,'

in Underhill (ed.), *The New World Order in International Finance* (Basingstoke: Macmillan, 1997), pp. 17-49.

27. See Michael Moran, *The Politics of Banking*, 2nd edition (London: Macmillan, 1986).
28. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. by Edwin Canaan (New York: The Modern Library), p. 250.
29. In contrast to the arguments presented by chairman of the US National Bureau of Economic Research, Martin Feldstein, 'Income Inequality and Poverty', NBER Working Paper no. W6770, October 1998.