

Underhill, Geoffrey R.D.

Article

State, market, and global political economy: Genealogy of an (inter-?) discipline

Economic Sociology: European Electronic Newsletter

Provided in Cooperation with:

Max Planck Institute for the Study of Societies (MPIfG), Cologne

Suggested Citation: Underhill, Geoffrey R.D. (2001) : State, market, and global political economy: Genealogy of an (inter-?) discipline, Economic Sociology: European Electronic Newsletter, ISSN 1871-3351, Max Planck Institute for the Study of Societies (MPIfG), Cologne, Vol. 2, Iss. 3, pp. 2-12

This Version is available at:

<http://hdl.handle.net/10419/155795>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

STATE, MARKET, AND GLOBAL POLITICAL ECONOMY: GENEALOGY OF AN (INTER-?) DISCIPLINE¹

By

Geoffrey R.D. Underhill

Chair of International Governance,
Universiteit van Amsterdam,
Oudezijds Achterburgwal 237,
1012 DL Amsterdam, Netherlands
underhill@pscw.uva.nl

Introduction

If one may for a moment commit the error of anthropomorphizing a scholarly discipline which is diverse and fragmented, International Political Economy (IPE) has often had trouble making up its mind whether it is a sub-field of International Relations, or whether it is something broader and more inclusive: sub-field *versus* inter-discipline? Should it focus on the special nature of the system of states, along the lines of more traditional international relations,² or should it develop its roots in the intellectual movements which emerged as classical/radical political economy, in turn developing branches across a broad range of social science traditions?

This schizoid nature of the discipline is not surprising. This problem is similar to those which face scholars of the emerging discipline of economic sociology – the need: a) to establish theoretical and methodological orientation and, b) to define their relationship to related fields of economics, sociology, and political science. Over time, IPE scholars have hailed from a wide variety of backgrounds. While many have emerged as dissenters (to a greater or lesser degree) to traditional, state- and security-centric international relations,³ this is not necessarily the dominant background of scholars in the field. Many who have contributed to the emergence of IPE have come from comparative politics or political economy, recognising that as the global system became more integrated and interdependence increasingly a feature of relations among states, national systems could not longer be considered on their own.⁴ Still others hailed from economics, including the pioneering and much missed Susan Strange, recognising the need for insights from both international relations/political science and

¹ This article is a condensed version of one of the same title which appeared in *International Affairs*, vol. 76/4, October 2000, pp. 805-824.

² In the vein of Hans Morgenthau, *Politics among Nations: the struggle for power and peace* (New York: Alfred A Knopf, 1956), or Kenneth Waltz, *Theory of International Relations* (Reading, Mass.: Addison-Wesley 1979), or Stephen Krasner, 'International Political Economy: Abiding Discord' in *Review of International Political Economy*, vol. 1/1, Spring 1994: 13-28.

³ Examples include Robert Keohane and Joseph Nye, or James Rosenau in his more 'IPE mode.'

⁴ Examples would include Peter J. Katzenstein and Peter Gourevitch, who have both long been associated with one of the most important the journals in the field, *International Organization*.

international economics to be brought together in a social science synthesis,⁵ or from economic history, such as Charles Kindleberger.⁶ Still others emerged from the world of international organisations, turning practical insight to innovative theoretical contributions.⁷ In addition, IPE scholars have covered an extraordinary range of subjects in the global system, from regional or country focus to north-south issues, from particular policy issues/sectors to specific social groups.

What holds the field together amidst such diversity is a few shared conceptual assumptions: i) that the political and economic domains cannot be separated in any real sense, and even doing so for analytical purposes has its perils; ii). political interaction is one of the principal means through which the economic structures of the market are established and in turn transformed; and iii). that there is an intimate connection between the domestic and international levels of analysis, and that the two cannot meaningfully be separated off from one another.⁸ This leaves room for considerable disciplinary ecumenism and an innovative willingness to draw insights from fields as diverse as the scholarly backgrounds of the IPE pioneers themselves.

This article will argue that this diversity of origin and of analytical approach militates strongly towards interpreting IPE not as an off-shoot of traditional International Relations, but as rooted in the broad tradition of political economy which emerged in the European enlightenment. The field has outgrown IR and should not feel constrained by the debates which have framed state- and security-centric IR scholarship in the post-war period. In time, IR will come to IPE as a more comprehensive approach to understanding world order, not the other way around, especially as IR itself is forced to come to terms with the world post-Cold War.⁹ The article will begin by summarising the emergence of IPE in its contemporary context, demonstrating in the process that IPE has emerged in a far from coherent fashion, though this diversity and ecumenism is not to be deplored. The second section will go on to briefly discuss the ‘state-of-the art’ of the field, and then to argue that the core conceptual issue in IPE remains the nature of the state-market relationship, and that further conceptual work is required. The way we view this relationship has a considerable impact on how one understands prospects for change in the structures – the normative and material underpinnings – of world order. IPE remains based on the premise that the dynamics of state and market are interdependent, intertwined. The article argues that most IPE scholars, despite their protestations, still see the state and the market as separate and indeed antagonistic dynamics, the dynamics of state *versus* market. Scholars need to take a final a decisive step in accepting that, in empirical and conceptual terms, the state and the market are part of the same, integrated system of governance: a state-market condominium. This state-market condominium operates simultaneously through the competitive pressures of the market and the political processes which shape the boundaries and structures within which that competition (or lack thereof) takes place.

⁵ Her clarion call came in Susan Strange, ‘International Economics and International Relations: a case of mutual neglect,’ *International Affairs*, volume 46/2 (April 1970), 304-315.

⁶ Whom Susan Strange always regarded as the founder of contemporary IPE and whose hegemonic stability hypothesis (in *The World in Depression 1929-39* (Berkeley: University of California Press, 1973) had enormous influence on the discipline as it developed.

⁷ Robert Cox clearly fits this category – see discussion below.

⁸ Geoffrey R.D. Underhill, ‘Conceptualizing the Changing Global Order,’ in R. Stubbs and G. Underhill (eds.) *Political Economy and the Changing Global Order* (second edition), (Oxford: Oxford University Press, 2000): 4-5.

⁹ See *The Interregnum: Controversies in World Politics 1989-1999*, special issue of *Review of International Studies*, ed. M. Cox, K. Booth, and T. Dunne, vol. 25, December 1999.

Emergence of Contemporary International Political Economy: a Tale of Ecumenism and Diversity

The beginning was a revival. During the 1960s, a range of scholars in IR and foreign policy analysis (not to exclude other branches of political science) began to consider the observable fact of *interdependence* and what it meant for our understanding of the world around us. Increasingly, foreign affairs would not be understood on their own, but in relation to the tensions between domestic considerations and relations with other states and their own domestic dynamics. The otherwise rigid division between the international domain, international politics as politics among states, gave way to a blurring of the levels of analysis distinction in the work of a range of scholars. To this end, James Rosenau produced *Linkage Politics*, having examined in his earlier work the various domestic influences on the formulation of American foreign policy.¹⁰

This merged into a debate about ‘transnational relations,’ wherein *international* was placed in opposition to the more sophisticated concept of *transnational* relationships. While *international* was taken to denote relations of state to state, *transnational* politics involved relationships which cut across the domestic-international divide but need not necessarily involve states, but would include their activities as well. Interdependence among states and their societies¹¹ was central to this debate, and transnational relations involved a wider range of actors than feature in traditional IR: both non-state and sub-state actors, including private actors and official institutions of more less formal nature.

The bag was open – such concepts represented a serious challenge to the traditional contention that world politics was about what states-as-units did, and greatly expanded the empirical terrain on which the nascent IPE would operate. One should note an important point, however. There was always division on how far one should go in this direction, especially as established disciplines did not always welcome scholars hailing the newness of IPE. Were ‘interdependence’ and ‘transnational relations’ primarily about what states did, with the influence of a few sub- and non-state (but nonetheless essentially official) actors like international organisations thrown in, or was it about a more radical conceptual departure from traditional IR scholarship, to include a wider range of issues and actors, including those with nothing to do with formal government? The difference is well represented by two special issues of prominent journals on transnational relations: the 1971 issue of *International Organization* edited by Keohane and Nye, and the issue of *International Affairs* edited by Susan Strange in 1976.¹² These two special issues laid out an important division in the discipline which still remains. The dispute has yet to be settled: are we studying the ways in which economic and political factors in the international system affect each other in an ongoing fashion, or are we seeking to explain the ways in which underlying social structures and relationships, among a range of actors and institutions, generate the patterns of institutionalised and other aspects of political authority in a transnational world? As Strange

¹⁰ James N. Rosenau (ed.) *Linkage Politics: Essays on the Convergence of National and International Systems* (New York: Free Press, 1969); *Domestic Sources of Foreign Policy* (New York: Free Press 1967); *Public Opinion and Foreign Policy: an operational framework* (New York: Random House, 1961).

¹¹ Robert O. Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little Brown, 1977): 8-11.

¹² Robert O. Keohane and Joseph Nye (eds.), *Transnational Relations and World Politics*, special issue of *International Organization*, vol. XXV, summer 1971; Susan Strange (ed.), ‘Transnational Relations,’ special section of *International Affairs*, vol. 52/3, July 1976.

might have put it, ‘politics of international economic relations,’ or ‘transnational *political economy*’?

There were also disputes about basic assumptions of agency and method. One trend was the application of methodologically individualist rational choice to IPE.¹³ These more formal and quantitative rational choice contributions under the ‘positive political economy’ label represent a growing direct overlap of neo-classical economics and IPE.¹⁴ Meanwhile, the world economy was undergoing rapid change from the early 1960s, leaving room for other research methodologies. International trade was developing rapidly, and (in particular US) corporations were spreading throughout the world. The rise of the Euro-markets signalled a transformation of the financial system, and the 1970s proved to be a decade of economic turmoil, of oil politics, and of developing country challenges to the structures of the global political economy. This process of economic transformation had a clear international politics dimension to it – trade policies had always been highly charged politically, both *within* and *among* states in the system, and the emerging strains in the international monetary system likewise proved politically controversial. This was fertile ground for a series of major and interdisciplinary research projects on the political economy of trade and monetary relationships among states and their societies.¹⁵

Further contributions to the debate on interdependence came from comparative political economists¹⁶ as European and other regional integration projects accelerated.¹⁷ It was increasingly difficult to remain a country specialist without absorbing the impact of structural changes in the global economy – the debates about corporatism and the role of organised interests were forced to ‘go global.’¹⁸ IPE and comparative political economy needed each other as much as ever, though this was not of course universally accepted.

So far I have entirely neglected the radical tradition in international political economy, the better to deal with it now. The Marxist tradition of political economy has never undergone the bifurcation of ‘orthodox’ political science and economics. In other words, radical political economy has provided some of the most fruitful ground for advancing the cause of IPE. Indeed, over time the radical and the ‘orthodox’ have moved closer together – we are all ‘marxian’ (small ‘m’) in one way or another as we argue about the impact of economic structure and problems of inequality in this period of global economic integration.

Perhaps the most obvious of the long-standing radical contributions to IPE is the contribution of dependency theorists, in the sense that north-south relationships are by definition global in scope. Dependency theory was critical of Marxist work while drawing heavily upon it, emphasising the uneven development and inequalities of capitalist system. Dependency

¹³ Robert Axelrod, *The Evolution of Co-operation* (New York: Basic Books, 1984); Robert O. Keohane, *After Hegemony: co-operation and discord in the world political economy* (Princeton, NJ: Princeton University Press, 1984); M. Olson, *The Rise and Decline of Nations*, (New Haven: Yale University Press, 1982).

¹⁴ J. Alt and K. Schepsle, *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990).

¹⁵ See A. Shonfield, V. Curzon et. al., *Politics and Trade* (vol. 1) and Susan Strange, *International Monetary Relations*, (vol. 2) of *International Economic Relations of the Western World 1959-1971*, A. Shonfield (ed.), (Oxford: Oxford University Press, 1976).

¹⁶ See respectively Peter J. Katzenstein (ed.), *Between Power and Plenty: foreign economic policies of advanced industrial states*, (Madison: University of Wisconsin Press, 1978); Peter Gourevitch, ‘The Second Image Reversed: the International Sources of Domestic Politics,’ *International Organization*, vol. 32/4 (Autumn 1978): 881-911; *Politics in Hard Times* (Ithaca: Cornell University Press, 1986), and J. Zysman, *Governments, Markets, and Growth* (Ithaca: Cornell University Press, 1983).

¹⁷ See Helge Hveem, ‘Explaining the Regional Phenomenon in an Era of Globalization,’ in Stubbs and Underhill (eds. 2000), op. cit.: 70-81.

¹⁸ See Justin Greenwood and Henry Jacek (eds.), *Organized Business and the New Global Order*, (London: Routledge, 2000).

theories were often genuinely systemic in their approach, lending themselves to international relations though seldom finding favour with the mainstream discipline. The insights of dependency theorists concerning uneven development and inequality have been difficult to ignore, and despite ongoing discomfort the mainstream has increasingly accepted some of the basic observations of dependency theorists.

Some radical political economists have found their way closer to the mainstream discipline. Fred Block's analysis of post-war international monetary relations remains as useful today as when originally written in the turbulent 1970s.¹⁹ More recently, Robert Cox was the author of an important innovation with an approach which bridged international relations/international political economy and the domestic level of analysis in important respects. His 'neo-Gramscian' approach,²⁰ resolutely post-structuralist in its theory, has been embraced in whole or in part by a sizeable proportion of IPE specialists. It provides a flexible set of intellectual devices which help one grasp the relationship between economic structures and political interaction, at the heart of the market-authority relationship to which Susan Strange constantly drew attention. Cox also served to remind one of the importance of linking IPE to its historical roots as he drew heavily on Marx, Gramsci and Karl Polanyi (as had others), and other disciplines, particularly history as represented by Fernand Braudel. While Cox (like dependency theorists) focused more on inequalities and class in the global system, his conceptual devices cross levels of analysis and admit the relevance of a wide range of public and private actors and, crucially, the *relationships* among them in a pattern of global governance. The emphasis on the transnationalisation of class and (related) corporate power was also developed by Kees van der Pijl and the 'Amsterdam School',²¹ as well as scholars such as Stephen Gill at York University in Canada.²²

Similar to wider developments in the social sciences, 'new' issues have made their way onto the IPE agenda. Of particular note is the rise of feminist scholarship and work on the environment – heralding feminist and 'green' approaches to IPE.²³ As with many questions in IPE, the normative content of these debates is important, indeed central. Different perspectives and scholars emphasise different aspects of the normative agenda, and much of the underlying debate is ultimately about values, not simply analysis and research tools.²⁴

¹⁹ Fred Block, *The Origins of International Economic Disorder* (Berkeley: University of California Press, 1977).

²⁰ See Robert W. Cox (with T. Sinclair), *Approaches to World Order*, (Cambridge: Cambridge University Press, 1996); *Production, Power, and World Order* (New York: Columbia University Press, 1987).

²¹ See the widely cited Kees van der Pijl, *The Making of the Atlantic Ruling Class* (London: Verso, 1984), and more recently, *Transnational Classes and International Relations* (London: Routledge, 1998).

²² Stephen Gill (ed.), *Gramsci, Historical Materialism, and International Relations*, (Cambridge: Cambridge University Press, 1993).

²³ See Sandra Whitworth, 'Gender and International Political Economy,' in R. Stubbs and G. Underhill (eds.) *Political Economy and the Changing Global Order*, first edition, (London: Macmillan, 1994): 116-129, and the same author's article 'Theory and Exclusion: gender, masculinity, and international political economy' in Stubbs and Underhill, *Political Economy*, second edition, op. cit. (2000), 91-101. Other recent works in the veritable explosion of feminist writings on the global political economy include Marianne Marchand and Jane Parpart, *Feminism/Postmodernism/Development* (London: Routledge, 1995); V. Spike Peterson and Anne Sisson Runyan, *Global Gender Issues* (second edition) (Boulder: Westview Press, 1999). On green approaches, see Eric Helleiner, 'IPE and the Greens,' in *New Political Economy*, vol. 1/1, 1996: 59-77.

²⁴ See chapter one of Susan Strange, *States and Markets* (Oxford: Blackwell, 1988).

Core Questions/Diversity of Response: IPE in the New Millennium

To summarise the previous section, the more the state-market relationship was explored, the more the traditional analytical assumptions of orthodox economics and political science/international relations could be questioned. The empirical examination of social and economic interdependence across political boundaries threw into question the levels of analysis assumptions of comparative politics and international relations. What is the respective role of international versus domestic constraints, and how are they linked as the world becomes more transnational in nature? What role for structure versus agency in this process of transformation?

In other words, emergence of IPE was a re-awakening and re-linking of the study of ‘things international’ with the broad tradition of social science scholarship from the French Physiocrats onwards, via Smith, Marx, Keynes, Polanyi, and the pioneers of the contemporary period. It came into its own as a diverse, open, and contentious subject field well-rooted in the broader concerns of social science and drawing on a considerable range of disciplines and conceptual devices/traditions. The ecumenism of IPE is welcome and will aid, rather than hinder, successful understanding of the complex world around us, as it has always done in pursuits of the human mind. Over time the field has become characterised by a concern with how the pieces of the global puzzle fit together: the social, the normative, the formal and institutionalised, the public and the private, the local and the global. This leaves considerable room for specialised research and investigation (one might say, *requires* it), but requires a broad understanding of the nature of political authority in a variety of settings.

Something, however, is needed to give focus to the empirical and conceptual diversity. It was argued in the Introduction that a core set of concerns *does* frame the debate and hold the enterprise more or less together, and that these grew out of the revival of IPE from the 1960s onwards. To remind the reader, these core assumptions were: i) that the political and economic domains cannot be separated in any real sense, and even doing so for analytical purposes has its perils; ii). political interaction is one of the principal means through which the economic structures of the market are established and in turn transformed; and iii). that there is an intimate connection between the domestic and international levels of analysis, and that the two cannot meaningfully be separated off from one another. These assumptions derive from the roots of the field in classical and radical political economy, and from the challenge issued to economics and IR/political science by IPE scholars.

But what do these core assumptions imply in terms of questions to structure enquiry? Given my arguments about roots, we might look (unexpectedly for some) to Adam Smith for guidance.²⁵ He sought to explore the considerable tension between the pursuit of narrow self-interest and the public good. His core question was, how might this tension be resolved? One might not agree with his market prescription, but this central issue is useful for us concerning the contemporary global 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 economic structures and political authority (loosely defined) in the ongoing and accelerating process of global change?²⁶

²⁵ On Smith’s contribution to political economy, see: Andrew Skinner, ‘Introduction’ to Adam Smith, *The Wealth of Nations*, (London: Penguin, 1970); Robert Heilbroner, (ed.), *The Essential Adam Smith* (Oxford: Oxford University Press). The points under discussion here draw on an earlier article, Geoffrey R.D. Underhill, ‘The Public Good versus Private Interests in the Global Monetary and Financial System,’ *International and Comparative Corporate Law Journal*, volume 2, no. 3, 2000: pp. 335-359.

²⁶ Once again, the point Susan Strange made so long ago in ‘The Study of Transnational Relations,’ op. cit., 1976.

This question is central because it encapsulates what the field has come to be about in all its diversity. It brings together debates about actors, structure and agency, about the nature of the domestic-international relationship, and about which issues should be on the research and policy agendas. And the core institution of political authority remains the state, however embattled, embedded as it is in the fabric of the global and the local. What do we think a state is, what do we think a market is, and how, if at all, are they/should they be related? Even if one focuses on formal patterns of political authority, in particular the state, one should be drawn to investigate how it is situated in the wider (increasingly transnational) social context, how public and private interact, how the politics and markets interact. 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 the global order.

If the relationship between political authority and markets is the core question, then 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 the way we conceptualise political authority, the market, and their relationship affects how we respond to them, what 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 IPE literature insists that political authority and markets are interdependent and cannot be considered in analytical isolation one from the other, 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.

Over time, specific approaches to IPE have characterised the state-market relationship in different ways. One may start with the relative polarisation of liberal versus realist thought on the question of transnational integration and its effects on the state. Transnational integration dominated by market processes is often seen by economic liberals as an ideal state of affairs²⁷ in which there would be an end to the interference of the sectional interests which characterise most forms 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 liberty. The other side of the debate most typically starts from realist principles in international relations theory and IPE, underpinned by a corresponding (but often more explicit) assumption that the economic and political domains are again separate entities. Here the argument is that politics and 'national interests' will, in the nature of things, dominate economic processes, particularly in the international domain.²⁸

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 inter-war period and beyond. Radicals, with their roots in

²⁷ 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.

²⁸ 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.

the marxian critique of classical political economy, have long resisted both positions in this polarised debate, situating both state and market institutions in the context of the historical emergence of capitalist social structures. The economic and political domains are part of an integrated whole, but the laws of motion of the economic system ultimately determine the outcome in terms of political institutions and policies. This is a problem which the post-structuralist neo-Gramscian school has worked hard to overcome as, in Gramsci's footsteps, they sought to re-emphasise the importance of political agency. Nonetheless, the general criticism of the marxian tradition stands: there is a failure to explain conceptually how the economic structures themselves 'originate, change, work, and reproduce themselves.'²⁹

A number of IPE scholars have attempted to get around the problems of these three approaches. They focused typically on the interaction and interdependence of states and markets over time, thus fulfilling the aspiration of IPE as a discipline to insist that the political and economic domains could not be considered separately. Nonetheless, most once again characterised this interaction of states and markets as a sort of tug-of-war between market forces and state attempts to control or direct them.³⁰ It was still a matter of the parts interacting, but not an integrated political economy approach as such. 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, as shall be seen, 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.³¹ Yet even Strange was strong on invocation of the state-market relationship, and relatively short on theoretical explanation. She too invoked the epic struggle between states and markets, arguing that the latter were winning in the contemporary period of transnational integration. This yielded a 'retreat of the state' in the face of market ascendancy,³² largely self-induced, with grave dangers for the legitimacy and functioning of the global system. Yet we need to take our Polanyi³³ and the notion of political economy seriously: he argues that the market makes no sense without the state, that indeed the market was structured and enforced by the state. The idea of a separate economic domain without politics was a stark utopia which failed, resulting in surely the greatest human tragedy of the modern period, the depression and the Second World War. Here once again we are on shared ground with economic sociologists, who likewise focus on the complex mix of what we analytically distinguish as political, economic, and underlying sociological phenomena.

²⁹ P.G. Cerny, *The Changing Architecture of Politics: Structure, Agency, and the Future of the State*, (London: Sage 1990), p. 15.

³⁰ 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 Schwartz and 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.

³¹ In G. 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): 126. The discussion here draws on this article, pp. 126-132, and also on G. Underhill, 'Conceptualizing the Changing Global Order,' op. cit.: 16-19.

³² Susan Strange, *The Retreat of the State: the diffusion of power in the world economy* (Cambridge: Cambridge University Press, 1996).

³³ Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944).

Somehow we need to conceptualise how states are embedded in wider, increasingly transnational social structures; how key socio-economic constituencies of non-state actors are integrated into the institutional processes of states; how the agency of these constituencies, mediated by state institutions, are central to the process of global economic transformation and to the terms of competition among market agents. The claim is 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 entities is an often useful abstraction, but we need to remind ourselves that states and markets are not separate *things* as such. They 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 constituencies involved in the policy process as by the process of economic competition itself; likewise the political and regulatory process is as much part of the strategies of firms as the game of investment and marketing.³⁴ 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 firm decision-making, conferring advantages on some and costs on others just as some are more capable of affecting the policy outcome than others.

This can be demonstrated empirically through case material, whether it be on global financial markets or international trade.³⁵ The private interests of market agents are integrated into the state, asymmetrically in accordance with their structural power and organisational capacity, through their close relationship to state institutions in the policy decision-making process and in the ongoing pattern of regulatory governance of market society. This is particularly prevalent in financial market governance, affecting the terms of market entry, of competition, mode and nature of regulation, and level of openness to capital flows.³⁶ What we tend to consider state prerogatives are in turn often delegated to self-regulatory associations of private interests anyway, demonstrating that ‘public’ responsibilities can be exercised by private bodies in many instances, just as private interests can appropriate public institutions for their own particularistic purposes.

The adjustment process and structure of economic interaction in the political economy is managed simultaneously through the process of economic competition among firms on the one hand, and the policy and regulatory processes mediated by the institutions 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 policy processes of the state and in less formal institutional settings. This is clearly visible in corporatist systems

³⁴ G. Underhill, *Industrial Crisis and the Open Economy: politics, global trade, and the textile industry in the global economy* (London: Macmillan, 1998): 18-25; passim.

³⁵ Geoffrey R.D. Underhill, ‘Transnationalising the State in Global Financial Markets: Co-operative Regulatory Regimes, Domestic Political Authority, and Conceptual Models of the State,’ paper presented to the annual meetings of the European Consortium for Political Research, Bern, Switzerland, 27th February-4th March 1997, and Underhill, *Industrial Crisis*.

³⁶ See G. Underhill, ‘Private Markets and Public Responsibilities in a Global System: conflict and co-operation in transnational banking and securities regulation’ in Underhill (ed.), *The New World Order in International Finance* (London: Macmillan 1997): 17-49.

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 ‘regulatory capture’ of the agencies of governance in the US 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. 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 the political economy: if the state does not rig the market, private interests will. That the state exists in symbiosis with private interests explains how private interests are an integral part of the pattern of market governance even in so-called ‘strong state’ systems like France.³⁷

Of course this conceptualisation of states and markets appears counter-intuitive in our era of global integration increasingly dominated by private sector market processes. The case also appears difficult to support in view of the existence of multiple sovereignties in the global economy. Our contemporary experience of modern capitalism and the prevalence of economic modes of analysis engraves on our intellects the idea of the state-market dichotomy. Yet it is precisely against this sort of orthodoxy that IPE teaches us to rebel. Adam Smith is again useful here – he pointed out that the very public responsibilities of generating and distributing wealth are better accomplished through a free interaction of private economic agents.³⁸ This however does not render the economy any less political: one can delegate authority and decision-making power, but one cannot de-politicise the system as such. It remains an ensemble of governance.

There is also nothing surprising in the idea that a transnational market structure, or indeed any market, should have multiple institutional nodes exercising authority in different ways and even with different functions. There is nothing necessarily coherent about the institutions and preferences of the state in this regard, anymore than we would expect coherence across a system of multiple sovereignties. The federal state analogy is useful here. Therefore, we should not misconceive the identifiable institutional/organisational structures of the state as a separate phenomenon external to the dynamics of the market. The phenomenon of multiple sovereignties does not detract from this view – it simply means that the market is structured by multiple sovereignties, legal fictions all, rather than one single institutionalised locus of authority. Again, anyone who lives in a federal state or indeed the European Union should be comfortable with this assertion.

If the process of market structuration is as much a phenomenon of the policy and regulatory processes of the state as it is of the process of competition among firms, then it is not difficult to understand the role of ‘non-state’ private interests, integrated into the complex institutional fabric of the state, in driving the process of global integration. 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

³⁷ Underhill, *Industrial Crisis*, chs 2-3.

³⁸ See discussion in G. Underhill, ‘The Public Good versus Private Interests,’ op. cit. Public goals could be accomplished by private agents, and (more worryingly in Smith’s opinion) *vice versa*.

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 economic structures. We have changing forms of state emphasising different functions over others, not an emasculation as such. This is akin to Jayasuriya's argument concerning the transformation of sovereignty: there has been a steady transnationalisation of the institutions of governance of the global political economy.³⁹ 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.

This argument also implies that the state could claw back (at a cost!) its authority should political and market circumstances make this likely. Political agency, depending on the balance of social forces and their organisational and institutional capacities, can be deployed to liberalise or indeed to invoke closure, as has happened many times in history – humankind does have free will where the market is concerned. The question then is not why is the state in retreat, but how long is the current form of state-market condominium sustainable in the face of the increased volatility of the global financial markets?

Conclusion

The state-market condominium model therefore operationalises political economy and infuses 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. The argument also demonstrates the real importance of Strange's insistence that we should focus not on states and markets as such, but on the interaction of *political authority* and the *market*. Political authority is not just vested in the formal institutions of states and their offshoots of governance such as regimes, but 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.

³⁹ Kanishka Jayasuriya, 'Globalization, the Law, and the Transformation of Sovereignty: the emergence of global regulatory governance' in *Indiana Journal of Legal Studies*, vol. 6/2, Spring 1999: 425-55.