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Author

O'Rian, Sean

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Seán Ó Riain,
Department of Sociology,
University of California,
Davis,
CA 95616.
E-mail: sporiain@ucdavis.edu

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Send correspondence to:

Seán Ó Riain,
University of California,
Department of Sociology,
One Shields Avenue,
Davis,
CA 95616.

Tel.: (530)752-3182
Fax: (530) 752-0783
E-mail: sporiain@ucdavis.edu
Perspectives on States and Markets

Globalization is transforming the relationship between states and markets. Even as some authors predict the demise of the state in the face of increasingly global markets, others focus on the role states play in constructing markets themselves and making sustainable market interactions possible. As the times change so do our theories, generating new concepts which can be used to better understand the previous period. This paper undertakes such a project. I argue that state, market and society are embedded in each other and constructed by their interactions with one another¹. The paper briefly reviews world-systems and comparative political economy analyses of the relation between states and markets. This review provides the framework for a discussion of the variety of models of state-market interaction in the postwar 'Golden Age' of capitalism. Finally I review the challenges which globalization poses to these models and consider contemporary experiments with state-market relations in a transformed international order.

In the era after World War II a particular set of relations between state, society and market was institutionalized internationally, creating a system of relatively stable national economies organized through an international order of 'embedded liberalism'

¹Although the focus of the paper is on the relationship between states and markets this inevitably leads us to a discussion of how these two modes of social organization intersect with the organization of society at large. 'Society' is of course a broad and ambiguous term. Here I use it in two senses. It refers to social groups which become actors relevant to the shaping of states and markets under particular circumstances, e.g., the role of the working class in mobilizing for welfare state expansion. However, I also use it to refer to the pattern of social interaction beyond the realm of the administrative efforts of the state (and corporate hierarchies) and the exchange relations of the market - that is in the more Polanyian sense of the associational life of society. An attention to 'society' is demanded by recent trends within economic sociology which focus on the social basis of market activity and within political sociology toward the analysis of 'states-in-society'.

(Ruggie 1982). These economies were tied together through a negotiated regime of multilateral trade but buffered from the full effects of these international markets by institutions limiting trade and capital flows. A diversity of national models of state-market interaction co-existed uneasily within these institutions even as international markets gradually expanded in scope.

The globalization of the economy has consisted in large part of the weakening and even destruction of these institutional buffers between national economies and global markets. States find themselves trying to respond to pressures from local societies and global markets simultaneously without the breathing room previously offered by controls on transnational trade, finance and production. These developments pose significant challenges to our current understanding of the relation between states and markets.

Within the tradition of comparative political economy, research on states and markets has focused on variations between different configurations of states and markets (Evans & Stephens 1988; Berger & Dore 1996; Boyer & Drache 1996). The >old paradigm= of comparative political economy research analyzed states and markets as self-contained separate entities battling in a zero-sum game for their share of a finite economic space (Block 1994). State administration, the associational life of society and market exchange were seen as relatively distinct forms of social relations which compete as the dominant forms of social action. Where the territorial dimension of state-market relations was considered at all, the assumption was that they operated largely within a defined national economic space. The question became one of >how much= state intervention in the national economy was advisable. While research in this tradition provided a great deal of insight into the sources of diversity in national models of capitalism it was

weaker in analyzing how states and markets shaped each other, both within the national economy and internationally.

World-systems theory explicitly addresses these weaknesses as it emphasizes the ways in which states and markets shape one another at the level of the world-system. States and markets are inextricably intertwined at the level of the world-system in three distinct but related ways. Firstly, states are integrated into markets through the hierarchical structure of international trade and production (Wallerstein 1974, 1989). Secondly, states compete with one another to attract mobile capital and 'core' states struggle over the power to organize the global economy (Arrighi 1994). Furthermore state and market expand in a symbiotic relationship: "Each bout of corporate and state expansion seems to have followed the same general course. A wave of technological change enabled an expansion in corporate size and control, stimulating popular demands for compensatory regulation on a corresponding governmental scale . . . Each round has lead to an expanded state chasing after an expanding corporate size." (Chase-Dunn & Grimes 1995: 402). Third, models of state-market interaction may diffuse through the world-system through the interaction of states and particularly through the influence of transnational organizational actors. In particular, the 'world society' perspective argues that a 'Western liberal democratic' model of the organization of the liberal state and the free market are diffused across the nations of the world (Meyer 1980, Meyer et al 1997). Furthermore, Meyer et al argue that "globalization certainly poses new problems for states, but it also strengthens the world-cultural principle that nation-states are the primary actors charged with identifying and managing those problems on behalf of their societies" (1997: 157). This theory then suggests a process of largely consensual adoption of common cultural and

institutional forms (e.g., state-market relations) in a world of nations which is increasingly under the influence of a world society of stateless organizations and professionals (Meyer et al 1997). As such, it is almost directly contradictory to Wallersteinian world-systems theory.

World-systems theories provide an analysis of some of the elements lacking in comparative political economy studies. However, while world systems theory is valuable in orienting research toward system level processes, the theory is much weaker in explaining the mechanisms at work within subunits of the system. Within this broader structure of state-market relations at the world-system level there are a variety of possible domestic arrangements, arrangements which themselves play a critical role in shaping the world-system. Consequently the theory also tends to be over-deterministic and weak in identifying openings for political mobilization or alternative economic strategies.

Research in world-systems and comparative political economy appear to provide complementary insights into how states and markets construct the international economic order and into the diversity of national models of state-market interaction within that international order. However, until recently, there has been relatively little dialogue between exponents of each tradition. This lack of dialogue lead Evans and Stephens to call for an 'interactive vision' in political economy which aims "to explicate the political and social structural factors that enable individual countries to transform [international] ties to their benefit, while simultaneously analyzing the way in which the changing structures at the international level facilitate or limit possibilities for transformation" (Evans & Stephens 1988: 757).

This 'interactive vision', combining national and world-system factors, was well suited to the era of embedded liberalism where domestic and international arenas interacted but were buffered from one another. However, as those institutional buffers have been weakened by globalization we need a new 'integrative vision'. This vision will see local, national and global processes as shaped by each other but also as intertwined on a continuous basis. State-market interactions and regimes will be built not *between* the local and global but *out of* the local and the global. Under embedded liberalism, states could maintain a 'janus-faced' posture, dealing relatively separately with negotiating international markets with other states and with balancing domestic social and political pressures. Now that the buffering institutions of embedded liberalism have been weakened, states are increasingly faced with the integration of domestic and international policy (Ruggie, 1995) and with negotiating the multiple connections of local society to transnational markets.

Contemporary approaches in political economy emphasize not the relative weight of state, market and society but the ways in which they shape each other (Block 1994, Evans 1997). Building on this research, I argue that the spheres of state, market and society are shaped by each other and cannot exist in isolation from the others. Each sphere is *multiply embedded* within the others. However, the relations between them are inevitably tense, due to the inherent dilemmas of reconciling market, society and state in a capitalist economy. Paths of economic development are determined by the variety of ways in which these tensions are reconciled through combinations of state, market and society. How these three spheres shape one another historically and form institutionalized sets of connections with one another becomes the central determinant of an economy's fate under globalization. This is a dynamic and path dependent process, calling for detailed historical analysis of the mutual shaping of market, state

and society at the local, national and transnational levels.

This emphasis on path dependence, contingency and political possibilities marks this perspective off from the more totalizing narratives of world systems theory. However, its attention to the integration of local, national and global processes goes beyond the classic 'states and markets' studies. State-building, market reconstruction and the constitution of society are interdependent social processes therefore which occur simultaneously at the local, national and transnational level. An understanding of the concrete organization of the world-system at any historical juncture requires not only an understanding of world-system processes, but also of the specific ways in which state-market models interact at each of these levels. The rest of this paper provides a broad outline of the way in which this occurred in the post World War II 'Golden Age' of capitalism and how that particular compromise is currently being re-organized..

States and Markets under Embedded Liberalism

The historical compromise of 'embedded liberalism' was sustained by a number of buffering mechanisms which ensured that states could effectively use national economic policy to promote domestic stability, in the process sustaining support for an expanding global liberal order. In the area of trade, multilateral negotiations focused on the issue of discrimination in tariffs while retaining support for the concept of tariffs themselves. In the area of monetary policy, governments were permitted to maintain capital controls and the focus of multilateral negotiations was maintaining balance of payments equilibrium in conjunction with full employment (Ruggie 1982). To these buffers in the areas of trade and finance we might add the relatively national organization of industrial capital and the relatively limited labour migration during

this period. In the critical areas of trade, finance, production and labour supply, there were significant institutional buffers between the global expansion of markets and capital and the instruments available to governments to intervene domestically. The liberal international order was 'embedded' in national economies which sustained support for it by mediating its effects.

States play a critical role in constructing markets by guaranteeing their rules of operation but also by creating new market actors and shaping their strategies. However, they must balance this activity with the need to maintain support from the society which they claim to represent, placing the state at the heart of the process of managing the tensions between market and society. Society too is caught between supporting state efforts to promote growth and living standards through the market while simultaneously turning to the state for protection against the market (Polanyi 1944). Marxist theorists suggested in the 1970s that these tensions were insurmountable (Offe 1984, Habermas 1976). However, the tensions have been reconciled historically in a variety of institutionalized national models of capitalism, underpinned by different state-society alliances (Scharpf 1999, Evans et al 1985).

Four distinct models of such state-market interaction have dominated the history of the postwar world-system: the *liberal states* of the Anglo-American spheres of influence, the *social rights states*² of parts of the industrialized west, the *developmental states* of East Asia and the *socialist states* of Eastern Europe and China in particular. The fact that these models are embedded within an international liberal order is reflected in the market

²'Social Rights States' refers to the states which are typically labeled 'welfare states'. I follow Block's (1994) term in this paper due to its identification of the critical feature of those states - the extension and broadening of social rights in the market - rather than directing attention to just one, albeit crucial, part of this process - the expansion of the welfare state.

orientation of each, with the exception of the socialist states. In liberal regimes, states promote the domination of markets over society. In social rights states, state and society form an alliance to limit the range of market strategies to 'high road' (high skill, high wage, extensive social protection) strategies. In developmental states, which seek to stake a place for themselves in the international liberal order, the state aggressively mobilizes society to participate in the market and state and society coordinate market strategies. Socialist regimes differ in their position outside the embedded liberalism compromise and in their ability and desire to subsume market and society within the operations of the state. I examine each one in turn in order to examine the range of state-market interactions within this particular institutionalized organization of the world-system. In each case the key features of each model, its international and domestic conditions, and the critical dilemmas it faces are outlined.

Liberal States and Hegemonic Power

The project of the liberal state is state promotion of markets into every sphere of society and even ultimately into the state itself. The irony is that the state is required to secure the conditions of reproduction of the market - laissez faire is inevitably and continuously planned (Polanyi 1944, Block 1996). In a world order where a hegemon exists, such as in the case of Britain in the late 19th century or the US after World War II, then an international economic regime based around free trade is likely to emerge as a liberal world order is consistent with the interests of the hegemonic power (Arrighi 1994, Ruggie 1982). The 'liberal' welfare states of the industrialized west consist of the United Kingdom, the United States and the countries to which the model has 'diffused'

through colonization, investment and cultural connections (including Australia, New Zealand, Canada and Ireland).

Hegemonic states are characterized by external strength and domestic weakness. The US state's central domestic economic strategy in the post-war era was to maintain its position of international pre-eminence, through the promotion of a liberal economic order and the buildup of military power and influence. These twin pillars of US international power are reflected in the character of US domestic policy which is more active than is typically supposed. Military spending has functioned for many years as closet industrial policy in the US (Markusen & Yudken 1992, Hart 1992, Weiss & Hobson 1995) and has been central to the emergence, not only of industries such as aerospace and electronics (Markusen & Yudken 1992), but also software (Mowery 1996) and the Internet (Newman 1998). Furthermore, social support for the state is sustained domestically in large part by the prosperity and status secured by international dominance. The US working class has been tied to capital in part through its support for the international expansion of US firms (Herod 1997) and a social identity based on its role as the industrial backbone of US international economic might (Dudley 1994).

Even the state's relatively minimalist role in defining property rights and antitrust law has been central to the creation and destruction of particular market actors - witness the breakup of AT&T and the potential transformation of Microsoft (Campbell & Lindberg 1990). Fligstein (1990) argues that the U.S. Federal government legitimated certain managerial world views, so that U.S. post-war anti-trust enforcement came to play a central role in reinforcing 'financial' approaches to the large corporation. Nonetheless, the state in the US has a much less direct influence over its major firms

and over the macroeconomy. The economic malaise in the US in the 1970s and 1980s lead many authors to compare the US state unfavourably to the more interventionist European and Japanese strategies for managing 'stagflation' (Scharpf 1999) and promoting competitiveness (Tyson & Zysman 1983, Hart 1992, Magaziner & Reich 1983, Campbell 1988). Britain, even more dramatically, was caught in a 'low-skill equilibrium' and declined rapidly (Soskice 1990).

Furthermore, while the liberal strategy may be well-suited to the hegemonic power, it is less successful in economies which do not share the advantages of a dominant international position. Economies which have proved the most unwilling or least able to shape the actions of market participants (often due to a heavy reliance on transnational capital) are typically those with the closest relations to the most recent hegemonic powers - Britain and the US. These states are typically ex-colonies of either country or have high concentrations of their transnational capital within them. Although states in Africa and Latin America may have expanded in the process of connecting with the global economy they have proven to be restricted in their ability to reconstruct markets around developmental coalitions and outcomes, as illustrated by research in the 'dependency' tradition (see for example Evans 1979, Gereffi and Wyman 1990). Relations of 'unequal exchange' in primary commodity trade and a heavy reliance on foreign investment have been shown to be poor development strategies while 'structural adjustment' programs associated with foreign debt repayment have wreaked havoc on many economies (see Crowley et al 1998 for a review of the cross-national quantitative research on these topics).

Social Rights States

Social rights states are based on limiting the range of feasible market strategies by strengthening society and setting social limits to market action - in the workplace through codetermination and union strength, in the labour market through welfare state expansion and decommodification and in the macroeconomy through corporatist bargaining. Social rights states are more therefore than a bundle of social policies but are states which have institutionalized certain significant guarantees regarding the social, and occasionally the economic, rights of their citizens (Marshall 1950, Esping-Andersen 1994).

These institutions promote economic openness and adjustment to the global economy along with equality. In fact, the two aspects are related. The expansion of social rights sets a 'floor' to cost competition and makes the 'low road' option to development less feasible. This weakens industries which rely on low cost competition and forces firms to move into higher value added sectors (Pontusson 1992) or to pursue higher quality, skill and productivity strategies within those industries (Senghaas 1985, Streeck 1992). Decommodification through welfare state universalism and egalitarianism is a central plank of the strategy for pushing firms into these new, more dynamic sectors and activities. This process is supplemented by active labour market policies (Pontusson 1992) and by industrial policies (Katzenstein 1984). Corporatism improves economic performance as bargaining among the key actors in the economy can facilitate adjustment to change in the global economy (Katzenstein 1985, Scharpf 1999, Weiss 1998). Hicks and Kenworthy (1998) find that between 1950 and 1990 corporatist institutions at the national level in OECD countries were strongly associated with income redistribution while cooperative relations at the firm level are strongly associated with improved economic performance.

There are of course a variety of social rights states (Castles 1993, Esping-Andersen 1990, 1997, 1999). The two most significant are the social democratic and conservative models (along with the liberal model which we have already discussed). The social democratic model is based on a state-society alliance where the power of the working class was combined with social democratic control of parliament and the state bureaucracy, making possible a deep institutionalization of the social democratic model. This institutionalization then served to reinforce the position of the key actors such as unions (Western 1997). In the conservative model the legacy of the authoritarian state shaped the state's constitution of the market, favouring state elites in order to assure loyalty and installing paternalist and familialist policies which incorporated the working class into the nation-building project without guaranteeing universalism and egalitarianism.

The mobilization of society is a critical factor explaining social rights states, although authors differ regarding the relative importance of the working class (Korpi 1983, Stephens 1979), 'risk-classes' (Baldwin 1990, Esping-Andersen 1999) and sectoral coalitions (Gourevitch 1986). Gender ideologies and family structures are also increasingly recognized as central to the shaping of contemporary welfare states (Lewis 1993, Orloff 1993, Esping-Andersen 1999). Hicks, Misra and Ng (1995) combine working class strength with the mediating effect of existing political institutions in their explanation of early welfare state development. Others have argued that political institutions, and particularly the role of state elites and structures, is critical to explaining differences among social rights states (Weir & Skocpol 1985).

Regardless of the variety of social rights state in question, the underlying logic is the same: an alliance between state and society sets limits to the ways in which markets can

be organized. The strengthening of society reconciles the demands of market and society by promoting the ‘high road’ of economic development within the wealthier industrialized economies. The problems which have plagued social rights states in recent years have consisted, not simply of the market dominating state and society, but of the fracturing of these state-society alliances under the strain of a variety of changes. These include the internationalization of business and finance, the fragmentation and dualism of the workforce under Post-Fordism and the transformation of gender relations and family structures (Notermans 1997, Pontusson 1992, Esping-Andersen 1999; Huber & Stephens, 1998).

Developmental States

The most vigorous efforts by the state to shape the market are found outside the ‘core’ industrialized nations, in the developmental and socialist states. Perhaps the archetypal category of a ‘statist’ alternative to the liberal model is the ‘developmental states’ of East Asia. These states have promoted development and attempted to stake out a place for themselves within the institutions of ‘embedded liberalism’ by aggressively mobilizing society to compete in international markets, while retaining a high degree of ongoing coordination of market strategy through state-society ties.

Developmental states achieve their goals in the contemporary era not by taking on the tasks of development themselves but by shaping the capabilities of society and the market to do so. In particular the state pokes and prods domestic firms to compete in the global economy and to constantly upgrade their organizational and technical capabilities to that end. The state assists in the birth and growth of domestic, national firms. The East Asian developmental states forged an alliance with domestic capital in order to improve its ability to compete globally. Through policies such as selective and strategic use of

protectionism, the provision of industrial subsidies and programmes tied to performance and the creation of close ties between financial capital, industrial capital and the state, economies such as Japan, Korea and Taiwan were able to industrialize rapidly based on improved productivity in manufacturing and 'industrialization by learning' (Johnson 1982, Amsden 1989, Wade 1990, Evans 1995, Haggard 1990, Woo-Cumings 1999, Applebaum & Henderson 1992). Although the East Asian economies lay for the most part outside the institutions of embedded liberalism, they benefitted from some of its provisions - such as the right to impose relatively high tariffs.

The state cannot achieve these ends in isolation but in fact depends on its relation to society for its success. Close ties between business and the state can help to generate industrial transformation by improving information flows, generating a reciprocal exchange of subsidies for performance and, over the longer term, establishing credibility and trust on both sides (Maxfield & Schneider 1997). **Of course there are significant differences among the Asian Tiger economies. The Korean model has the most authoritarian state and corporate structures, Japan combines 'corporatism without labour' with 'enterprise unionism' while Taiwan displays a much less hierarchical political and corporate structure (Orru et al 1997).**

The crucial institutional feature of developmental states is that they are characterized by 'embedded autonomy' (Evans 1995). Such states are embedded in local capital through the close social ties between state bureaucrats and domestic business owners and managers. However, these states avoid being captured by local capital by retaining their autonomy. For Evans, this autonomy is safeguarded by the presence of a classic 'Weberian bureaucracy' - based on meritocratic recruitment and promotion and norms of objective, procedural rationality (Evans 1995, Evans & Rauch 1999, Maxfield & Schneider 1997). Of course, coherent Weberian bureaucracies are relatively rare. However, some research suggests that, under certain conditions, encompassing business associations and associations which can monitor and sanction their members can promote a long-term developmentalist orientation to the market, even in the absence of a state which is able to enforce such an orientation (Maxfield & Schneider 1997: 25). Where labour is included in relations between business and the state in developing countries it makes

relations more formalized but is also likely to put pressure on state and business to engage in long-term collaborative planning (Schneider 1997). The situation of labor is typically less benign in developmental states however as trust between business and the state is often consolidated by the repression of labour (Deyo 1989).

Evans (1995) cautions that even the most successful and bureaucratically endowed states may run into problems. The developmental state promotes local firms and encourages them to compete globally. In becoming global firms however their alliances with the state are undermined as they become more and more closely aligned with the interests of their international partners. The Asian development project's basis in the domestic alliance between state and capital was undermined as Asian firms internationalized, became more integrated into international financial markets and ran into the massive debt crisis of the 1990s as Asian and US capitalist institutions clashed, undermining the high debt financing of the Asian corporations (Wade 1998a,b,c,d, Wade & Veneroso 1998, Biggart 1998). The delicate balance of state-society synergy in the East Asian developmental states is under threat from the disengagement of society from the state to form new, and potentially disastrous, alliances with international market actors.

Socialist States

Clearly the most ambitious attempt on the part of a state apparatus to shape market and society was the efforts of the 'state socialist' states of Eastern Europe and some parts of Asia to build an alternative model of socio-economic development, both nationally and contesting with the liberal order at the level of the world-system. Where the theory of socialism had predicted that revolutionary attempts to overthrow capitalism would emerge in the developed nations, famously this has not been the case. Although the avowed goal of socialism was the dominion of society over state and

market, in practice the socialist project turned into the effort of the state to subsume society and the market within itself. The mobilization of society by the state apparatus, controlled by the new class of experts (Konrad & Szelenyi 1979), has been the basis of economic development.

While ostensibly incompatible with the capitalist multilateralism of embedded liberalism, state socialism ultimately made its peace with this world order. As the Cold war became institutionalized and the US and USSR carved out their own spheres of influence, the spectre of communism became a legitimating element of the embedded liberalism compromise. Furthermore, the socialist states themselves used market-like mechanisms to coordinate their international relations, increasing their exports to the world market and their imports from capitalist countries and making deals to host transnational investment (Chase-Dunn 1982, 1989: 85).

How state socialist economies actually worked was a mystery to sociologists and other western social scientists for many years. This was despite the fact that until the 1970s the socialist economies had growth rates comparable to other countries at their level of development and much superior levels of literacy, infant mortality and other measures of social welfare (Szelenyi 1994, Kornai 1989). It was only in the 1980s that studies began to go beyond the 'totalitarianism' and 'modernization' perspectives (Stark & Nee 1989). Kornai's (1980, 1990) major contribution in developing his theory of the economic logic of the plan was to analyze the logic of state socialism as an institutional formation in its own right. He argued that a plan driven system ran into chronic problems of shortage while a market driven system was threatened by problems of demand. Burawoy and Lukacs, in their study of firms in Hungary, developed this insight by showing that significant elements of market and social coordination existed

within the planning system. In contrast to capitalism, where large firms sought to control uncertainty in the market economy by developing significant elements of corporate planning, socialist firms were subject to the plan externally but relied heavily on market-like mechanisms to deal flexibly with the chronic problems of shortages and make the necessary work process adjustments (Burawoy & Lukacs 1992).

Indeed, more generally, socialism was the 'mirror image' of capitalism (Stark 1986). Where society turned to the state to ameliorate the inequalities of the market under capitalism, it turned to the market to compensate for the inequalities associated with the socialist redistributive state (Szelenyi 1978). Similar to capitalism, however, is the importance of social networks and personal ties in mobilizing and allocating resources, ties which may be so important that some authors have suggested a transition in post-socialist economies not so much from 'plan to market' but from 'plans to clans' (Stark & Bruszt 1998).

Socialist states vary a great deal in how these alternative forms of coordination have been combined with planning (Szelenyi 1994). Nonetheless, it was not until after the crises of 1989 that market and society were able to challenge and displace the state as the central organizing principle of the now post-socialist economies. The state system collapsed under the weight of its own inability to deal with the informational complexities of intensive growth in the information age (Castells 1997) and the growing gap between ideology and reality (Burawoy & Lukacs 1992). Authors disagree profoundly, however, on the legacy of socialism and its implications for transitions from socialism. Burawoy argues that in Russia the collapse of the socialist state has resulted in the 'involution' of society with the destruction of the existing infrastructure of social cooperation and flight from production and accumulation into a

degenerate merchant capitalism and usury (Burawoy 1997, Burawoy & Krotov 1992). Others are more optimistic, arguing that the socialist legacy leaves resources for the transition as well as obstacles, resources which are primarily located in the social relations of the populations of these economies themselves (Stark & Bruszt 1998).

Eyal et al (1998) argue that the cultural bourgeoisie of Eastern European post-socialist countries are promoting a 'capitalism without capitalists', creating market spaces before the capitalists are created to fill those spaces. Stark and Bruszt's research suggests that these capitalists are in the process of being created, economically around new 'recombinant' forms of property (Stark 1996) and politically through new 'deliberative associations' (Stark & Bruszt 1998). New actors and institutional arenas are being formed which blur the boundaries between public and private and are deeply embedded in associational networks. Society is to provide the solution to the problems of market transition. Others, however, argue that the involution of society makes this impossible and that a strong state role is required to create a market which does not decimate the society but results in accumulation. Burawoy (1997) points to China as the example of a coherent party-state which has promoted successful industrial transformation while retaining central political control, in contrast to the collapse of the Russian state and the rise of crime and usury to fill the vacuum. Oi (1998) argues that the state in China has not been undermined by its creation of an entrepreneurial class, as theorists of 'market transition' suggest (Nee 1989). To a certain extent, the differences between these authors relate to their choice of cases, Russia and China having controlled society much more closely historically while the Central European nations were left with a more vigorous associational life upon the collapse of socialism. Nonetheless there are critical theoretical differences, reflected in Amsden et al's (1994) vigorous argument for a 'developmental state' strategy for

Eastern Europe. These differences might be fruitfully addressed through an increased attention to the conditions for 'state-society synergy' (Evans 1997) in contexts where *both* state and society are weak.

States, Markets and Globalization

In each model of state-market interaction we see that a particular alliance between state and society shaped participation in markets in a different way. Social rights states strengthened society to promote a 'high road' of economic development within the market. Developmental states mobilize society to participate in the market but are threatened by the increased strength of society. Socialist states veer between state and society as alternative roads to the market, or face a bleak future if they cannot take either path (as in Russia). These dilemmas are themselves intensified by the crisis of 'embedded liberalism' itself in recent years. The institutional buffers which shielded these state-society alliances from the international liberal order are being eroded, creating a new and uncertain terrain upon which new alliances are being tentatively forged.

World trade has expanded rapidly as a proportion of world income since at least the 1970s. More significantly, since the 1980s the value of world trade has been surpassed by the value of internal transnational corporate transactions as transnational industrial capital has become increasingly globalized (Ruggie 1995). Both of these are dwarfed by the enormous volume of international financial transactions, affecting both government's ability to control their own fiscal and monetary policy and making much more significant the 'market for corporate governance'. Finally, migration has once again become a significant feature of advanced industrial economies, creating

significant political problems for many states (for a review of these empirical trends and some of their implications see Held et al 1999). While this period of globalization may be similar in quantitative terms to the late 1800s (Bairoch 1996, Hirst & Thompson 1994) it is qualitatively different in a number of ways. The connections between nations and localities are deeper and more instantaneous. The world-system itself has developed in quite a different manner in the intervening century, so that the current period of internationalization is occurring upon a very different institutional terrain. Furthermore, all of these intensified patterns of globalization occur alongside transformations in social structure (particularly around gender relations and family structures) and in social organization (the decentralization of bureaucratic organizations and the application of the new information technologies). It has also brought with it a rapid increase in within- and between-country inequality (Korzeniewicz & Moran 1997).

Globalization after Embedded Liberalism

Neither is this process of globalization an external, 'natural' force which is undermining embedded liberalism from without. Rather, it is an outcome of the latent tensions within the postwar compromise which were hidden under an apparently stable order for thirty to forty years. For some these trends are manifested in the *market*, through weakening capital accumulation and dwindling profitability. Some argue that this is a result of the increased strength of labour and the welfare state which eroded corporate profits - here the social rights state runs into its inherent limits (Boyer 1990, Bowles et al 1990). For others, however, the crisis of profitability is a function of the global over-competition between the leading exemplars of each state model above - the liberal state of the US, the social rights state of Germany and the

developmental state of Japan (R. Brenner 1998).

Others are less concerned with a crisis within the market itself and in fact see markets as increasingly hegemonic over states and society due to their increasingly global organization. Global competition and trade pressurizes societies and states. Rodrik (1997), reviewing the economics literature, finds that unskilled workers are likely to experience increased labor market insecurity in the face of free trade, that national systems of social security are indeed threatened by trade liberalization and that nations may have legitimate reasons to limit trade. While much commentary has focused on competition from the developmental states, Rodrik points out that there is also increased low cost competition from among the industrialized economies (Sassen 1988). Increasing global mobility of capital gave corporations increased power to demand concessions from states and societies (Harrison & Bluestone 1988). Gereffi and Korzeniewicz (1994) and Harrison (1994) combined these analyses to argue that market processes were increasingly organized on a transnational basis, with trade, production, labour and finance organized through global commodity chains within an increasingly integrated global economy. Market, state and society are in a hierarchical relationship with markets organized transnationally while states remain stuck at the national level and society remains relatively fixed at the local level. The crisis is not of the market but of *society and the state* (and social rights states in particular).

For world-systems theorists a crisis of the *liberal hegemonic state* lies behind these outward manifestations. They see the inability of the hegemon to organize capital accumulation on a world scale as a typical and recurrent feature of 'hegemonic cycles'. The current crisis is brought on by interstate and inter-enterprise competition and by social conflicts which are associated with the emergence of new configurations of

power. Ultimately they expect to see a new hegemonic power emerge to regulate a more deeply globalized economy (Arrighi & Silver 1999:29) . Although these are broad generalizations, the world-systems theorists do point us toward a recognition of the crisis of the institutions reconciling international and domestic economies and social orders.

The current era of globalization is one in which the relationship between state, market and society - and potentially a new institutionalized compromise between them - is being intensely contested . The structural changes outlined above pose a formidable set of challenges for states hoping to successfully remake state-society alliances and to reconstruct market actors, strategies and environments. This is of course likely to be a period of transition and relative chaos to be followed by a newly institutionalized, increasingly globalized international economic order. However, it is the politics of this transition which will determine in large part some of the key elements of that new order.

State Experimentalism

Some authors have argued that these changes have diminished the role of the state, weakening it to the point where it is essentially bypassed by the formation of a global system and transnational social structure (Sklair 1991, Robinson 1998, Mittelman 1997). Others rightly argue that the intensification of global processes has actually made the role of the state more important as an effective state becomes critical to promoting competitiveness within a global economy. However, this increased state role is limited to promoting economic competition and accumulation - even as the state becomes an increasingly critical enterprise association its role as a civil association

diminishes (Cerny 1995). Cerny argues that all states are now faced with the imperatives of global competition, causing a convergence around the model of the 'competition state' (Cerny 1995). Certainly this resonates with aspects of the experience of recent years as states, both within and across national boundaries, compete to offer the greatest incentives and concessions to attract mobile investment.

However, this goes too far. Both the structure of the global economy and the space for local and national diversity are more varied and offer more opportunities than the concept of the 'competition state' allows. There remain a variety of ways of connecting to the global economy, with significantly different implications for local and national populations (Gereffi 1994). It may be increasingly difficult to operate outside the reach of the market economy or in isolation from transnational capital but we are also beginning to better understand the huge variety of ways in which such market activities can be organized - up to and including market socialism (Roemer 1991).

Clearly the specificity of national models of the economy is threatened by the challenges to the buffers which supported those models. However, there remain 'specific assets' which are of necessity tied to local places and can be a basis for persistent diversity in the global economy. These include the importance of local cultural differences in shaping economic systems (Biggart & Guillen 1999, Orru et al 1997). They also include the specific social relations of trust and effective communication which are developed through proximate social relations (Piore & Sabel 1984, Storper 1997). Even the most diasporic or virtual community develops its own rules, resources and boundaries (Wellman et al 1996).

Nonetheless, the governance of the economy has been transformed and states are

scrambling to learn the lessons of the new environment. Economic life and political governance has been 'rescaled' as the national level has become destabilized both from above by globalization and below by the increasing salience of regional economies. In this situation, the 'glocal' state aims to promote capital accumulation by linking the local to the global and creating a location ideal for accumulation within a global set of connections (N. Brenner 1998, 1999). The organizational structure and strategy of these glocal states are only now beginning to be explored. The state which connects a wide range of local networks to a diverse set of global actors and networks must itself be more decentralized and flexible than states which presided over a centrally negotiated national development coalition (Ó Riain 1999).

Although it is transformed to deal with the new circumstances, the national state still plays a critical role in shaping markets by mediating these connections between the local and the global and influencing how local specific assets are mobilized within the range of opportunities available in the global economy. Castells (1997) argues that the state is increasingly moving towards a position as a network state, embedded in a variety of levels and types of governance institution. Ansell's research on regional development in Europe "suggests that the 'network state' can operate as a liaison or broker in creating networks and empowering non-state actors, especially when state actors occupy a central role in these networks" (1999: 35). Network centrality is critical to this new state - isolation from the local or the global spells disaster. However, there remain a variety of ways of organizing these networks. The models of state-market-society interaction under embedded liberalism remain useful as conceptual organizing frameworks in considering the possibilities for the future. What might each of these models look like in such a networked economy and polity?

Efforts to subsume society and the market within the state are increasingly difficult to

sustain as markets spread internationally. Thus we see the wholesale privatization of state owned enterprises in the capitalist nations and the collapse of many of the *socialist* economies. China remains the most significant exception. The Chinese economy is integrated into international networks through the increasingly important Chinese business networks (Hamilton 1996, Arrighi and Silver 1999), transnational communities (Portes 1996, Saxenian 1999) and even foreign investment in China. Furthermore, it relies heavily on dense local networks of cooperation (Oi 1998). Nonetheless, it succeeds in demanding that these network relationships be channeled through the state. The strength of the central state apparatus paradoxically allows it to provide autonomy to the local state while retaining control of shape and direction of economic activity (Burawoy 1997), a control which is reinforced by political and military power. The huge Chinese population and economy and the significance of China in shaping the new international order make it a profoundly important 'exception' to the market hegemony rule.

The *liberal* state is of course likely to prosper as an institutional form under neo-liberal globalization. Jessop's (1993) concept of the 'Schumpeterian workfare state' describes a state which combines the promotion of flexibility and innovation, oriented towards global markets, with punitive measures, such as workfare, directed towards those groups in society who fail to stake out a place in these markets. Although Jessop suggests that this state may prove to be the universal mode of regulation for a Post-Fordist economy (with variations across different systems) it seems to be most advanced in the liberal states of the US and Britain, in particular the Thatcherite regime for which the analysis has been most comprehensively developed (Jessop 1994, Peck 1996). Liberal regimes have clearly moved in this direction, combining an intensified state promotion of markets with a more punitive relation between state and society.

However, the Schumpeterian workfare state may run into its own problems as the 'workfare' component proves insufficient to reproduce the labour force necessary for Schumpeterian innovation (Peck 1996: 206-229). U.S. computer industry success has for example been based heavily on immigrant technical labour (Saxenian 1999), even as technical graduates from US universities decline in number. The success of the industry, based on innovative regional economies combined with the US's dominant international cultural position, is therefore threatened by its own liberalism.

Certainly, this intensified liberal model is no more likely than its predecessor to be successful for any industrializing economies to which it might be diffused (O'Hearn 1998). 'Liberal' states are highly likely to encourage 'smokestack chasing' behaviour with the development of the kind of 'competition state' which Cerny (1995) fears. However, there remains some space for fruitful interaction between state and society, even in the US where some local governments have attempted to make themselves more responsive not only to capital but to their local communities (Sabel 1992, Harrison 1994).

It is precisely the inability of the liberal regimes to provide sustainable innovation which directs attention to the *developmental* states, which have focused precisely on molding society for effective market performance. Surprising examples have emerged of successful, if remade, developmental states in the 1990s. The Republic of Ireland and Israel have both, for example, developed innovative indigenous high technology industries stimulated by a 'flexible developmental state' which promotes development by connecting local and global networks of innovation. It is able to mobilize this 'networked society' to compete effectively in the market due to its own flexible, decentralized and networked organizational structure (Ó Riain 1999). The East Asian

developmental states also contain examples of this more flexible, multi-dimensional state structure. In contrast to the hierarchical, centralized Korean state the Taiwanese state has always had a more decentralized internal structure with more diffuse and less well-understood ties to society (Wade 1990). These ties are well-suited to its industrial structure which is based on small and medium sized enterprises which are closely integrated into international business networks. It is all the more interesting therefore that the Taiwanese economy has escaped the worst of the Asian debt and development crisis by resisting the temptation to dismantle critical elements of its developmental state apparatus (as Korea did) but making the state more densely tied into both the local and the global.

Although the prototypical *social rights* states of Scandinavia have run into difficulties recently they possess certain critical components of a reconstructed state-society alliance - including already vibrant local community institutions within the context of a cohesive state apparatus and an orientation to the global economy. The social rights state which has, perhaps surprisingly, attracted the most attention has been Italy. A perennial straggler among the leading European economies with less well developed social protection, parts of Italy's economy have prospered based on developing strong local economies around networks of small firms. The strength of these local economies has been built on strong craft and civic traditions (Piore & Sabel 1984, Putnam 1993). However, state policies which supported small business (Weiss 1988) and which substituted micro-corporatism for macro-corporatism (Regini 1995) have also been crucial. Combined, these state-society alliances supported highly effective and relatively egalitarian 'polyarchic local orders' (Locke 1995). These local orders are an empirical example of the potential for generating a new social democratic compromise based on exchanging local flexibility and labour force reproduction for industrial upgrading and

local solidarity (Sabel 1995, Amin & Thrift 1994). There are also suggestions in the recent experience of the Netherlands that neo-corporatist institutions can still potentially combine the flexibility of the new statist experiments with the coherence and communalism of the national models of embedded liberalism (Visser & Hemmerijck 1997). While each of the models of state-market relations we have discussed faces serious challenges, these states have not yet given up on their role in the economy and state experimentalism suggests that the future remains relatively open.

Remaking the World Polity

There are signs therefore that states are adapting, whether out of necessity or desire, to the changed circumstances in the transition out of embedded liberalism. States themselves have been instrumental in shaping the current globalization project, often in conjunction with their own national bourgeois classes (McMichael 1996, Sassen 1999). Domestic and international policy can be separated only with great difficulty - the US legal innovations after World War II which promoted the 'financial conception of the firm' (Fligstein 1990: 192) are now playing out internationally through the global diffusion of Anglo-American corporate and trade law (Sassen 1998, Wade 1998a). It is states which have, for example, created a particular kind of market within the European Union and marginalized other rules for structuring the market (Fligstein & Mara-Drita 1996, Scharpf 1999). States may indeed be threatened by globalization but they are also among the primary actors which will continue to shape the process itself.

Globalization is as much a political question as an economic one and the politics of

globalization are particularly crucial given their implications for local political possibilities. The shape of the global order will be critical in determining whether space exists in which alternative state-society alliances can emerge to challenge the politically dominant Anglo-American neo-liberal model (Evans 1998). Currently, the alliance which dominates globally is that between liberal states and transnational capital, imposing a set of market regulations which secure the privileges of capital against the rights of society and the capacities of the state (Wade 1998a). Even in Europe, where transnational governmental institutions are most developed, 'negative integration' through eliminating barriers to trade has dominated over 'positive integration' through the creation of new market-regulating institutions at the transnational level (Scharpf 1999). This is clear, for example, in how transnational pluralism in European Union industrial relations law undermines national corporatist institutions (Schmitter and Streeck 1992).

Any efforts to remake the role of the state in the economy also face an increasingly complex institutional field of market governance. Castells (1997) argues that globalization produces a pooling of economic sovereignty between institutions and across levels of governance. Of course, this may not mean the end of the state but simply its reconfiguration in a new relation to the local and the global. This 'networked polity' consists of the "intermeshing of overlapping [policy] networks operating simultaneously in multiple functional areas and at multiple geographical scales" (Ansell 1999: 35). Ansell points to the possibilities this presents for local interests empower themselves by bypassing the national state and appealing to the transnational bodies. Sassen (1997, 1998), on the other hand, points to the privatization of economic governance as there has been a rapid growth in bodies such as private commercial arbitrators which compete with public corporate regulation.

This is a polity which generates new lines of social conflict, from which a new 'embedded liberalism' may emerge. If so, it will be one which is characterized much less by the creation of buffers around national economies than by the provision of rules governing the ways in which the local and global are connected through the national. Limits to trade and controls on capital flows may be necessary and desirable (Block 1996, Rodrik 1997, Wade, 1998a) but policy debates will increasingly focus on issues such as attaching labour and environmental standards to free trade agreements.

The future shape of the world-system and the potential for new local and national economic models will depend on which state-society alliances emerge transnationally to challenge the alliance between liberal states and transnational capital. Currently, supra-national political institutions and transnational social movements suggest the potential of such alternative alliances. Supra-national governance, although dominated by neo-liberal approaches, may still be steered in alternative directions and the European Union in particular may yet reflect the social democratic aspirations of many of its member states (Scharpf, 1999). Indeed, Scharpf suggests that the strengthening of the European Union state bureaucracy's hand in promoting 'positive integration' is the most likely strategy for successfully creating such a regulatory system. The recent 'debt-and-development' crisis in Asia may prompt Japan to play a more active regional role and contest the dominance of U.S. financial institutions and regulations (Wade, 1998a,d).

The second development which offers interesting new political strategies is the increasing prevalence of transnational political activism - in particular advocacy networks around human rights, women's rights and environmentalism (among other

issues); consumer/labour networks organizing boycott oriented campaigns such as those against NIKE; and, transnational labour organizing (Evans 2000). These transnational political networks have emerged from society as a Polanyian protection against the ravages of global markets and face huge odds. However, they may come to effectively catalyze local, national and transnational political action in constructing an alternative to the neo-liberal version of globalization (Evans, 2000). Even more speculative at this point is how these social movements might connect to states to create new state-society alliances out of the local and the global.

A sociological approach to states and markets must be sensitive to the structuring of their relationships in the world-system but must also retain the tools for analyzing the variability of those relations within the system. Without the tools to analyze this variability, sociology's contribution to strategic and political consideration of developing and potential combinations of state, market and society will be weakened. This paper has briefly drawn together research in sociology which is increasingly adopting an 'integrative vision' of the international political economy. Such an integrative vision holds out the promise of making sense of the transnationally networked economy, polity and society which are being built on the institutional legacies of embedded liberalism. It may also prove to be a tool combating the extreme pessimism and optimism which characterize debates on globalization by helping to identify the political possibilities within the current era.

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