

**GLOBALIZATION BETWEEN THE
HAYEKIAN AND POLANYIAN
PERSPECTIVES: SPONTANEOUS ORDER OR
EMBEDDEDNESS?**

by

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DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

In the
Department
of
Political Science

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SIMON FRASER UNIVERSITY

Spring 2006

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ABSTRACT

The history of economic systems is the history of the creation and redistribution of wealth for the use of human communities, and of the epistemological paradigms that have underpinned this struggle. In my thesis, I present one facet of this enduring clash through the analysis of two such paradigms, and explore their relation to the current phenomenon of globalization. I believe that the nature of the current explanations of globalization, which are generally one-dimensional, is unsatisfactory and that we need to respond to the challenges to the legitimacy, distribution of benefits and costs that are increasingly brought against globalization. I use of three tools in my analysis:

1. A multifaceted approach to globalization;
2. A theoretical premise that allows for complex links between market activity, the social sphere and the individual. In this sense I use, at the highest level of abstraction, the dialectic between Polanyian and Hayekian perspectives to highlight the concerns regarding the interplay between states, markets and individuals;
3. An Austrian-Weberian inspired theory of institutions and organizations that, as a mid-range theory of action, organically links the two and leaves individuals room for meaningful action within the two.

I argue that the challenges that the globalization is encountering can only be tackled by incorporating a strong participatory process inspired by a deontological vision of human beings. Only by allowing individuals meaningful and free choice can the current model of globalization develop into a legitimate, sustainable socio-economic regime.

DEDICATION

To Kirsten, without whose support, patience and love none of this would have been possible.

ACKNOWLEDGEMENTS

This thesis could not have been written without the help and support of many people and organizations. This list is but a sample. I am grateful for the generous and ongoing financial support of Simon Fraser University through my academic career there. Among the individuals who were crucial to the completion of my dissertation I especially want to thank my Senior Supervisor, Dr. Laurent Dobuzinskis for his help and advice, and for enabling me to find the best format and most interesting way of expressing my theories. My thanks also go to the other members of my committee, Dr. Michael Howlett and Dr. Theodore Cohn for their encouragement and invaluable advice throughout the process of writing and reviewing my work. Particular thanks go to my examiners, Dr. Eugenie Samier and Dr. William Coleman who took time out of their busy schedules to read the thesis, attend the defense and who offered precious advice on how to make this work better. Among the other members of the Department I must thank Dr. Lynda Erickson for her constant help and support and for giving me the inspiration to undertake my doctorate; Dr. Patrick Smith for his humor and help when I was starting out and Dr. Stephen McBride for his advice and support. A special thanks to Dr. Giorgio Sola for his mentorship and his belief in my potential.

On a more personal note, I would like to thank a group of close friends at Simon Fraser University Political Science department who helped me stay sane. To Scott McLeod, for sharing wit and coffees on campus: 'let's go fishing.' To Greg Clarke, Karen Lohead, and Russ Williams, thanks for being there throughout. Finally a big

thank you to the administrative staff at the Department of Political Science who helped with the day-to-day details of academic work making it all seem simple and effortless. Last but certainly not least, I want to thank my parents Marialuisa and Riccardo Migone, and my sister Chiara for their love and support and for instilling in me the love for knowledge and research.

Andrea Migone

January 2006

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1. INTRODUCTION

The history of economic systems is the history of the creation and redistribution of wealth for the use of human communities, and of the epistemological paradigms that have underpinned this struggle. Here, I present one facet of this enduring clash through the analysis of two paradigms, and explore their relation to the current phenomenon of globalization. I believe that the nature of the current explanations of globalization, which are generally one-dimensional, is unsatisfactory. There is a need to approach the issues (legitimacy, distribution of benefits and costs, and role of the actors) that exist within globalization itself. This requires the use of three tools:

1. A multifaceted approach to globalization, which I build in part from Held and McGrew (1999; 2002a; 2003) and in part from my own analysis;

2. A theoretical premise that would allow complex links between market activity, the social sphere and the individual. In this sense I use, at the highest level of abstraction, the dialectic between Polanyian and Hayekian perspectives to highlight the concerns regarding the interplay between states, markets and individuals;

- 3 A theory of institutions and organizations that, as a mid-range theory of action, organically links the two and leaves individuals room for meaningful action within the two. This I premise on the Austrian-Weberian theory of institutions and organizations.

As a result, I contrast two perspectives, one of which I call Hayekian because F.A. Hayek is its central referent, and a Polanyian one, the latter being grounded in the work of the Hungarian author, but both incorporate other, more recent secondary literature developments and critiques of the original works. These are not intended to be fine-grained analyses of the two authors' production or a detailed recounting of the

textual variations their production underwent. They are, instead, used to draw inspiration for the theoretical framing of the issues that I work upon in the rest of the thesis.

In assessing the issues on which the current globalization debate hinges (lack of transparency, incomplete legitimacy of organizational and institutional structures, problems with the redistributive side of the processes of globalization and with the amount of “coercion” that certain practices involve) the choice was made to use these two perspectives as the ends of a continuum of analysis for socio-economic systems. Both authors engage in the observation of the institutional interaction¹ that develops among individuals, states, and markets even if they approach it from different points of view.

Here I argue that to understand globalization we must explore both the “classic” flows that much of contemporary literature has highlighted (technology, Foreign Direct Investment, goods and services) and the responses that they elicit. The pressure on states and peoples has not simply caused the fragmentation of the nation state and its passing out of existence (Krieger 2006), nor has it forever obliterated the notion of nationalism. In fact, some of these pressures have had the opposite effect, of fostering some kind of nationalism and of entrenching some state responses.

I provide a discussion of the multi-dimensionality of globalization, but focus on the dialectic between flows and responses. Ultimately, the idea of re-embedding globalization is about finding the spaces for including these responses in the policy-

¹ This institutional interaction is understood here as the framing process that occurs at the ideational level, rather than at the organizational one.

making agenda. I argue that we must understand globalization flows and the responses that they face in a complex manner, relying on a Weberian/Austrian notion of institutions to approach these processes, but I also argue that organizations are a crucial locus of power and that we may be able to influence their output by focusing on changes to their rules.²

Globalization studies can be interpreted as a subset of International Political Economy. Traditionally, the latter has been divided in two methodological camps: the “methodologically individualist” one that harkens back to the “economic” explanation of human activity, and the “sociologically oriented” field. The division is rather crippling for the discipline in that it excludes from the toolbox of the researcher some necessary approaches to the study of socio-economic activity within human societies. I felt that it would be crucial to reconcile these differences at a higher level of analysis. To do so, I have attempted to distil a “grand theory” of human action paying special attention to the realm of socio-economic activity. Hayek and Polanyi represent, archetypically, these two traditions, but are also linked to one another, as I explain below, because they both rely on an understanding of institutions as ideational frameworks for human action.

At the same time, once I had implemented this choice, I was left with a situation in which the “grand framework” pointed at the relevance of institutional notions and of organizational structure as the principal analytical locus for

² I shall delineate my argument about institutions and organizations more completely below. Here, I wish to state that I am not unaware of the importance and resilience of power structures within organizations, especially within those that, like the International Monetary Fund or the World Bank, underpin globalization. By arguing that we should focus, at least initially, on modifying procedural rules to make the more inclusive and to open participation to more diverse voices, I argue for an incremental but achievable set of changes that aims at widening the debate and the options for analysis about both sides of globalization.

globalization, but offered little in the way of tools to operationalize that analysis. In particular, both Polanyi and Hayek were relatively silent regarding how to deploy institutional-organizational analysis beyond the higher level of generalization.

It was possible to bridge this gap by building an institutional-organizational model that was inspired by the work of Max Weber and by the more recent contributions of the Austrian School of Economics on methodological individualism (Boettke and Storr 2002). Weber's theory offered a model that recognized the limits and the potentials of individual activity within the context of the polity, and that did not do away with power differentials, bounded rationality or historical development. Boettke and Storr's (2002) work offered a strong link between Weberian analysis and the Austrian School of Economics through the concept of complex methodological individualism.³ Together these elements allowed for the creation of a middle range theory, to borrow Robert Merton's (1968) terminology, that I use to look at organizations in Chapter four, both as the key locus of institutional activity and to show what kind of embeddedness has emerged in the current phase of globalization.

The argument, therefore, proceeds from the question of how to approach the analysis of globalization, to a "grand theory" level in which a model of socio-economic activity is presented, to a mid-range model of institutional and organizational action is presented as the necessary step to begin operationalizing the former.

³ Complex methodological individualism, according to the definition of Boettke and Storr (2002) is an approach that understands the economy, society and the polity as three overlapping and interlocked rather than being shaped in a hierarchical format, one contained into the other.

I introduce a more sophisticated vision of globalization, one that goes beyond simple causal processes, addresses the novelty of these economic, social and organizational flows and problematizes their effects on societies. This approach, which relies on an Austrian-Weberian theoretical foundation of complex methodological individualism and historical analysis (Boettke and Storr 2002), offers much-needed comprehensiveness to the field.

I contrast the Hayekian vision of the spontaneous market order (Hayek 1964a; 1973) and the Polanyian one that interprets the market as an eminently political construct primarily serving the needs and will of the capitalist class (Polanyi 1944; 1957a). These two approaches embody the ends of a continuum of concerns with the interaction among the market, individuals, society and the state. These concerns hinge on the respective roles of these actors and on the relative benefits and costs that a specific structuration of their interactions will generate. The image of a state actor planning with complete disregard for individual preferences should be just as worrisome as the image of unfettered capitalism leading to child labour or 20 hour workdays.

There is an inescapable relationship, a continuing dialectic, between the Hayekian and the Polanyian perspectives. An analysis of markets as social systems requires that they be used together in framing the multifaceted nature of economic exchange. I apply this framework to look for a new kind of embeddedness that applies to modern globalization. In this sense, I argue that many of the challenges that globalization is facing, such as charges of lack of openness, accountability and representation depend on the poor job that (especially) international organizations

have done in incorporating dissenting and critical voices. There are multiple roots to these problems; the solution is not to provide to all actors specific formulas to solve them (which is what we have done by and large up to now) but in a processual approach which is the key to true embeddedness. Ruggie (1982) does talk about embedded liberalism but, as I make clear below, he focuses more on the results of the process than on the process itself (the latter is what Polanyi does). The reason why embedded liberalism had so much more legitimacy than the current model of globalization resides in the processual freedom that every state had in designing the details of its socio-economic regimes, within the limits of the Western capitalist, Fordist model. All socio-economic regimes are embedded, one way or another, because they all depend on specific “rules of the game,” but the key to keeping the benefits of globalization while legitimizing it and making it more egalitarian is to allow for more processual participation to those groups that are currently disenfranchised from this process. In other words, if embeddedness means the rules of the socio-economic game, and if these rules are first constructed through individual interaction and then enshrined in the dominant organizations (which in turn are the reflection of existing power relations among groups in the polities) then we have two choices to change them:

- 1- we change the power relations thereby changing the pattern of access to the organizations;
- 2- we allow for a process in which the organizations become more open to different views (and this can be done by exploiting, if nothing else the rhetoric of participation)

I chose the latter proposition as the guiding principle of my analysis. In Chapter Four international organizations are examined, as noted above, to show

among the rest that they are a necessary site for embeddedness. If more debate is allowed and it is supported by wider inclusion, there is hope that novel solutions and increased legitimacy may emerge from the process. From a theoretical point of view, I argue that both Karl Polanyi (1944) and Friedrich Hayek's (1973) analyses can be framed methodologically and contextually within the scope of German economic sociology. The anti-positivist approach embodied by the works of Max Weber and Georg Simmel sets the foundations for the analysis of modern capitalist society by grounding it in complex methodological individualism. The latter is, at the same time, a sophisticated theory of markets as arenas where both economy and power are contested, and a theory of social institutions of which the individual is part and parcel rather than a mere spectator.

The backdrop of this analysis is the process of globalization, something that many now see as inescapable. I shall provisionally define globalization here as the institutional and organizational response of polities to two different processes: on the one hand to economic and social interdependence and integration and, on the other, to the decline of nationalism as the theory that legitimated states. The manner in which these responses have developed has much to do with the activities of those groups and entities that are functionally able to operate within this new environment, especially multinational corporations, international organizations and non-governmental organizations.

Many of the attempts at measuring the spread of globalization have relied on calculating the reach of FDI, financial flows and investment in general (Chesnais 1997; Kim and Shin 2002). The United Nations Development Programme (UNDP),

for example, has regularly published its *Human Development Report*, and in 1999, the report focused on the disparities that have emerged from the processes of globalization, noting that most of its benefits are concentrated in the wealthiest parts of the world (UNDP 1999).

Table 1 Disparities in Global Trends

	<i>Shares of world GDP</i>	<i>Shares of exports of goods and services</i>	<i>Shares of foreign direct investment</i>	<i>Shares of Internet users</i>
Richest 20%	86%	82%	68%	93.3%
Middle 60%	13%	17%	31%	6.5%
Poorest 20%	1%	1%	1%	0.1%

Source UNDP 1999: 2; Data for 1997.

Others have cast a wider net, trying to balance human development indicators, like life expectancy and medical advances, and basic economic ones, such as agricultural yields and commodity prices (Johnson 2002). Since 2000, the A.T. Kearney/Foreign Policy Globalization Index measures relative changes in the global status of countries. The index provides measures for 14 variables organized in four distinct categories: economic integration, technological connectivity, political engagement, and personal contact (Kearney 2004). The 62 states included in the 2004 report, account for 96% of world GDP and for 84% of world population. The ranking is an ordinal arrangement of data measuring the relative openness of the different states to global trends; among the figure collected by A.T. Kearney are the size (in minutes) of incoming and outgoing telephone traffic, the membership in international organizations, the contributions made by the individual states to peacekeeping missions in terms of both finances and manpower, travel statistics, and FDI and portfolio investment data.

The final ranking is then determined by the relative position of the country in the four categories. In 2004, Ireland was the most “global” state scoring 1st and 2nd in the economic and personal categories respectively, but 14th in the technology area, and 11th in the political one. Singapore, which was awarded the second overall spot, did nicely in the first three sectors, but was only 40th in the political category.

Whatever tool we use to measure it, the process of globalization remains highly correlated with the wealthy OECD core, its economic model, its policies, its technological innovations, and the organizational structures that it has fostered.

Table 2 A.T. Kearney Globalization Index, Selected Rankings

Ranking	Nation	Economic	Personal	Technological	Political
1	Ireland	1	2	14	11
2	Singapore	2	3	10	40
3	Switzerland	9	1	7	33
4	Netherlands	3	11	8	14
5	Finland	7	15	4	12
6	Canada	18	5	3	20
7	United States	56	35	1	28
8	New Zealand	35	10	2	3
9	Austria	13	6	13	1
10	Denmark	12	8	6	10
53	Brazil	40	60	34	45
54	Kenya	57	44	57	31
55	Turkey	53	49	38	52
56	Bangladesh	62	43	62	35
57	China	37	59	49	56
58	Venezuela	51	58	42	54
59	Indonesia	47	61	51	53
60	Egypt	58	47	53	49
61	India	61	53	55	57
62	Iran	59	62	48	61

Source: Kearney 2004: 57.

Globalization has a complex and interconnected nature, and the flows that shape and embody it have definite effects on societies, economies, politics, and

cultures. As the OECD states moved towards a Post-Fordist economic model, industrial, financial and trade flows changed; with them changed the networks of credit, production, consumption and labour that underpinned their polities. These changes were then carried over into the economies and societies that became part of the new global economy. Their impact was uneven and diverse precisely because of their complexity: economic, cultural, organizational, and technological flows combine in manners and times that make globalization in South Africa different from globalization in Canada or in India. This is, no doubt, the result of historical and material contingencies like resource endowments, but it also hinges on political culture, active policy choice, individual attitudes and predispositions, which help analyze, filter, shape, and redefine the cultural and material signifiers of globalization.

Consider for example, the Coca Cola® brand. This is an eminent symbol of Western business and, rightfully or not, of Western cultural practices that has attained a truly global reach. Of late, business interests in the Middle East and Europe have used the successful models of the soft drink itself, and began offering products like Mecca Cola® that are obviously designed as an alternative if not as a counter to the “Western” or “American” nature of the original soda.

The example is, in and of itself, simple and relatively insignificant. Yet, it involves multiple facets and layers: the Western drink is not rejected in its chemical formula or in its function, the lettering is also in Latin characters (at least for the Western markets), nor are the business motive or the marketing techniques, which one would consider much more obvious evidence of “Westernization,” abandoned.

What is consciously noted is the “Islamic” character of these drinks, their cultural identity that juxtaposes them to the “Western,” and therefore alien and negative, product. Whether this is simply a marketing device or a truly felt need on the part of the entrepreneurs, is probably immaterial. Ultimately, it speaks of complex socio-economic interrelations in which the pure and simple rejection of a model, a product or an attitude is less and less of an option. Consider the issue of technology, which is often paired with globalization: the global landscape is unlikely to produce Neo-Luddites; processes of partial integration and of creolization appear much more common. Today, the anarchist belonging to the Black Bloc is just as likely to use e-mail and wireless communications as the Wall Street banker or the police officer. Environmental and labour groups now design their campaigns less with direct lobbying in mind than by enlisting the power of consumers in achieving market change (McKenzie 2002). The same is true of individuals: some North-American families are, at the same time, consumers of organic foods and the owners of environmentally unfriendly SUVs, they decry the power of the multinational corporation, flock to (MNC-owned) theatres where the latest Michael Moore movie is playing and keep shopping at Wal-Mart.⁴

⁴ The readers will notice that much of the antiglobalization references in the thesis are of an anecdotic nature. The reason for this choice is that the varied and discontinuous responses of antiglobalization movements are not collated in an organic fashion. This depends on a variety of factors. On the one hand, the fact that fair-trade data are not as easily and inclusively available as free-trade ones speaks to the relative “value” that these have in the dominant paradigm. On the other, it depends on the fact that many responses are local in nature, and that many forms of organized protests (as with the demonstrations against the WTO in Genoa, Cancun and Hong Kong) are very broad in scope and difficult to quantify. Therefore, my approach was to use these references, where I thought they would be relevant, in the same anecdotic form in which they are found in the literature.

The activities of individuals and groups have become, if you will, prismatic. They reflect multiple preferences, constraints and approaches to social, political and economic choices. Something that is likely to reflect the unbundling of identities (and of the sort of choices and constraints that go with this process) rather than disassociative behaviour (Elkins 1997).

In this introduction, I set out to briefly delineate the nature of markets, the theory of institutions and the model of globalization that I use throughout the thesis. While I present the key facets of these concepts I do not explain them in detail; this I leave for the following chapters. In the next section, I present the Austrian-Weberian roots of complex methodological individualism and of the institutional theory I use here, in the following one I deal with the notion of markets and their activity, and I close with a brief overview of what I consider to be the key tenets of globalization.

Human Activity and Institutional Frameworks

I have noted above that I ground my analysis in the complementary Weberian and Austrian approaches. Three elements are at the forefront of this effort. Methodologically, the exercise is premised on the adoption of complex individualism (Boettke and Storr 2002). From an ontological perspective, this choice reiterates that ideational and material factors always coexist, interlacing with power relations, and that they cannot be separated at the analytical level without undermining the analysis itself. From an epistemological point of view, research must be context-sensitive,

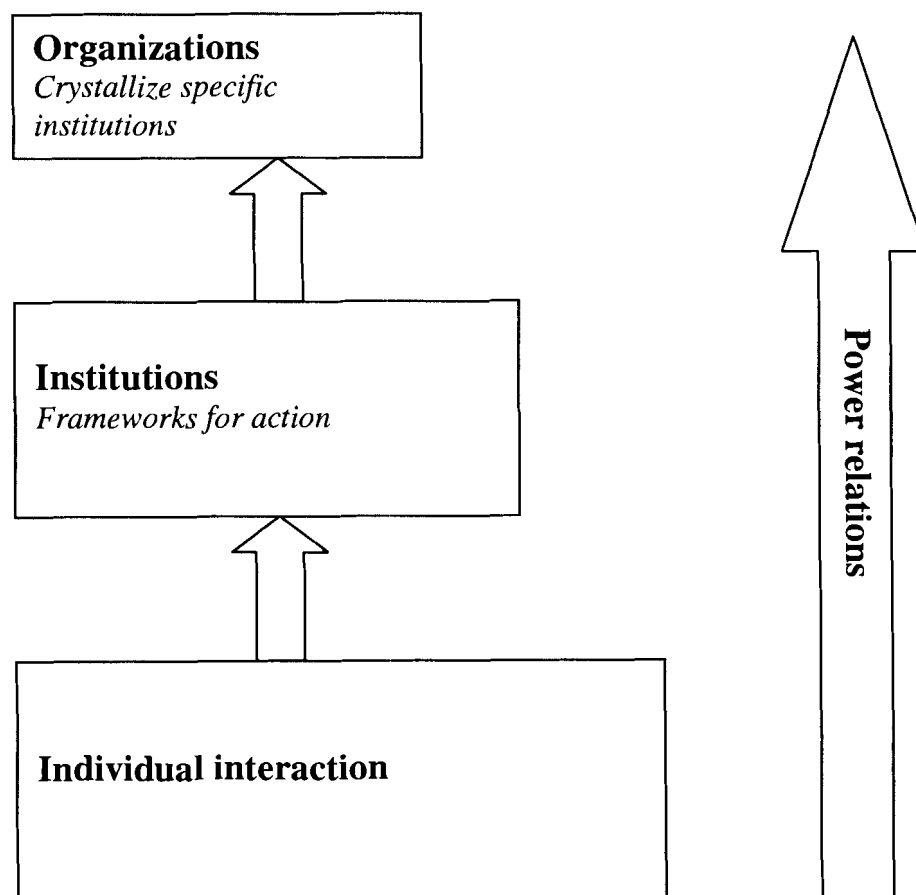
refusing to employ ahistorical approaches that discount the complexity, discontinuity and multiple causality of historical processes (Hobson 2002).

In both the Weberian and Austrian traditions, individuals are the primary agents of human activity but they are socially constituted, and exist in an interdependent relation with the institutional framework in which they operate. This concept excludes simplistic unidirectional causality in the debate regarding the agent/structure issue. Rather it forces us to recognize that individual choices are influenced (but not determined) by the institutional and organizational structure in which they exist, but that these same choices also influence and shape that very structure. To both Weber and Hayek, institutions are fundamentally inter-relational processes emerging over time, which frame the modes of human interaction. We may think of institutions as the spontaneous orders of which Hayek (1964a; 1973) speaks and to which Weber (1978 [1922]: 30) hinted in *Economy and Society*. Institutions are also central in Polanyi's work: the core argument of *The Great Transformation* (Polanyi, 1944) revolves around their resilience in the face of Liberal efforts to constrain their scope and reach. Both of the Hayekian and Polanyian traditions have retained these characteristics. Institutions are higher-order frameworks that are likely to be different in different cultures. Many of these variations may be embodied and directed by organizational structures. Within organizations, particular institutional principles are captured, and structures are created that "force" specific decisional pathways so that the evolution of institutions is channelled in a definite direction. Consider, as an example, the many variants of market exchange that exist in the

global economy and the very specific one that is embodied in the International Monetary Fund (IMF).

Organizations, which are crucial in operationalizing institutions, depend on and reflect power relations. Therefore, the IMF embodies not only the views of the richest states on how to manage international financial issues, but also the power differentials among its members.⁵

Figure 1 Institutions and Organizations



⁵ Power is contextual: the US financial clout gives it specific advantages within certain organizations, but it is not fully transferable to other ones, like the Whaling Commission.

Individuals work and operate within these organizations. They are constrained by the “rules of the game,” by organizational cultures, by laws and traditions, and by material power relations. This is not to say, however, that whether the Canadian government is composed of Liberal or Conservative politicians, or whether the head of the World Bank is James D. Wolfensohn or Jagdish Bhagwati does not matter. But it also matters how inclusive and representative the policy process is, and how much accountability decision-makers owe to those they represent. From a Weberian point of view, institutions and organizations develop historically as frameworks for social interaction within a context of political struggle, and evolve according to the nature of this relation (Weber 1964b). It is a case of constrained dynamics in that individuals are partially bound by institutional and organizational elements but are able to modify them, if often only at the margin. The link between individuals and organizations is, therefore, complex and multifaceted. Not only does it involve the relative “power” of the office that the person occupies (there is a difference between the Secretary of the US Treasury and the typist working down the hall), but it also captures the relation of individuals with the rules that frame their action.

When talking about institutions and organizations it is impossible to not mention the resurgence of the topic through New Institutionalism (Lecours 2005a; Lowndes 1996; March and Olsen 1984; 1989; Peters 1999). The discipline is rather complex in this area, with different approaches competing with one another. Hall and Taylor’s (1996) division in three sub-fields (Historical, Sociological and Rational Choice Institutionalism) is probably the most accurate summary of the situation. I am not completely comfortable pigeonholing my research in any of these specific fields. I

think that the institutional/organizational analysis that I derive from the Weberian/Austrian tradition is superior to these models since it is able to differentiate handily between institutions and organizations.

In the model that I use there are elements of Historical and Rational Choice institutionalism, but one can also find references to the Sociological strand. I believe that it becomes crucial to stress that the model I use here is more flexible and integrated than the ones described above. While I recognize that there is an important intellectual debt to New Institutionalism in my work, the latter goes beyond the former.

To summarize, institutions emerge from interactions among individuals. These interactions are bound by unequal power relations and existing institutional and organizational structures. The latter are the practical, physical if you will, embodiment of particular institutions, they are generally designed to generate certain results in a manner resonant with a specific power distribution. The market economy is one of the institutions that can be analyzed in that light.

Table 1 Types of Institutionalism

Type of Institutionalism	Nature of Institutions	Effect of Institutions on Agency	Methodology and Models	Sources of Change
<i>Historical</i>	Norms and values whose importance is a function of the material institutions from which they emanate	Path dependency; institutions drive the political process	Mid-range theoretical approach produces historically based generalizations	External shocks or institutional tensions
<i>Rational Choice</i>	Rules of the political game	Institutions offer opportunities and set constraints for strategic calculation	General theories	Dysfunctional institutions or sub-optimal results spur change
<i>Sociological</i>	Culture, ideas, norms, values separate from formal structures	Norms are internalized and shape action	Cognitive approach	Convergence of institutional models (Isomorphism)

Source: (Lecours 2005b)

The Nature of Markets

Markets are a specific example of institutional structure. They are more than just arenas for bartering and trading; they represent epistemological paradigms, embedded in the social fabric and actively interacting with it (White 1981; Wilk 1996). Mainstream economists describe them as arenas bringing together those actors who want to purchase goods and services, and those wishing to sell them. Mediated through the relative abundance of and need for these commodities, a price is fixed and an exchange takes place. According to this model, the great strength of markets is that, in most cases, nobody must purchase a good they deem too expensive. Because the demand generates the offer, market exchanges are positive sum games, enhancing the position of all actors involved. This, in turn, leads to a process of imitation: if a commodity fetches a high price more actors will try to procure and offer it for sale and, after a while, its price will decrease.⁶

While this is an appealingly straightforward description, it is also an incomplete one. Markets are more than clearinghouses for goods and services: they frame exchange within specific socio-institutional constructs, which necessarily embody power relations (Elliott 2000; Fligstein 2001; Fligstein and Merand 2002; Weber 1922) that are continuously reconstituted and recast during the process of exchange, while marginalizing alternative modes of exchange (Li 2001). Throughout, I define markets as

⁶ There are real issues with the notion that markets may be universally beneficial. The literature of post-communist and transition states is quite vast and its analysis goes beyond my scope here. It should be noted, anyhow, that market frameworks must develop over time and that their absence is an important predictor of the failure of capitalist organizational structures.

socio-economic loci involving both ideational and material factors, where commodities are exchanged. Because market exchange is fundamentally a type of social exchange (Sen 1976; White 1981), it involves an element of socialization. As is the case with all social institutions, the market and the individuals engaged in economic exchange have a dynamic interrelation. Just as political, social and economic market rules influence the decisions of individual actors, the latter can change the practice of market activity through their choices, as the demand for organic foods and fair-trade commodities shows.

The Liberal market model has enjoyed an enormous expansion and success, having become the dominant framework for economic exchange in all advanced economies and having, more or less imperfectly, supplanted alternative models in post-communist and developing countries. The process may have been uneven and less than complete (Chopra 2003), at times leaving behind entire polities (Minc 1993), but its true success was the establishment of a powerful metanarrative in which the market system is seen, largely uncritically, as the only efficient, and therefore legitimate, method of economic exchange. The very *Doxa* of economic exchange, the central tenets that explain and legitimize its specific nature, is suffused with Neoliberal values and assumptions (Bourdieu 1998) making not only opposition to, but even the discussion of economic exchange outside of Neoliberal parameters very difficult.⁷

⁷ Economic theory has moved forward in the last few years, but the classic neoliberal vision of markets certainly flattened the complexity of economic interaction by eliding its historical specificity (Hodgson 2001) and its human character (Sen 1976). Because of its fetishization of the rationality hypothesis, it seldom admitted to the fact that the former alone is insufficient to generate a solid theoretical structure with which to analyze real socio-economic activity. To do so it is necessary to support it with auxiliary assumptions (Blaug 1992). Furthermore, the insistence on the concept of actors as utility maximizers is non-falsifiable (Hodgson 2001) because, in principle (and in practice) economists can always add some dimension that actors are supposed to be maximizing (Boland 1981; Winter 1964). Therefore, the proper critique of the simplistic version of neoliberal economic theory is not through an attempt at falsification, but by showing that it is unfalsifiable.

Transition countries like Russia and Estonia have been left in a different place than the advanced capitalist states of the North of the world and in an even more precarious limbo stand the African and Asian countries that have often retained the dictatorial or autocratic states of the Cold War and have been hit by the institutional revolution that was brought about by neoliberalism. In their cases, the mix can be extremely dangerous and volatile. The increasing poverty and social dislocation is layered on top of the progressive dismantling of organic social relations and traditional networks.

From the point of view of material realities, the organizational structures of global markets have changed. Globalization has brought about a veritable explosion in the number, type and size of the actors that have engaged in cross-border activities. MNCs may be just the most evident example: long past are the days in which Foreign Direct Investment (FDI) was the preserve of giants like Exxon or Union Minière. Today medium- and small-sized multinational companies abound in sectors as varied as manufacturing, services, and technology. The increasing success of export-oriented, open economies has been coterminous with the progressive erosion of the national dimension of Fordism and with the creation of organizations that would embody and support the tenets of this new economic model. To support or oppose this large network of business concerns, a host of International Organizations (IOs) and Non-Governmental Organizations (NGOs) have emerged. As the framework of reference of human activity began to escape the carefully set borders of the Westphalian state system, businesses and a few select IOs emerged on the world stage acting across those very borders. Initially, the process was slow and even tentative but, by the end of the 20th century, its pace had

increased considerably. Globalization had emerged as one of the key concepts of late modernity.

A Theory of Globalization

Globalization has become the new buzzword of the social sciences. Thousands of articles and books have been written about it, trying to analyze its provenance, impacts and processes. Applied to a host of different human activities, from Foreign Direct Investment to cultural diffusion and variably shifting from the state of *explanans* to that of *explanandum* (Rosenberg 2000), the term morphs into a troubled concept (Migone 2003). Its meaning becomes flexible and uncertain, and its role contested. I ground my analysis of globalization on the dialectic between the Hayekian and the Polanyian perspectives at the higher level of abstraction, and on the tenets of Austrian-Weberian theory at the middle-range level, relying on the capacity of these approaches to draw out the complexity of the phenomena while, at the same time, providing a tool to analyze the sophisticated institutional environment in which individuals interact and continuously validate, modify and generate the rules of these social interactions.

I argue that the current wave of globalization is qualitatively different from previous combinations of technological advances, institutional developments and economic interconnectedness. I believe that its originality resides in the premises that allowed for diffusion of the specific institutional and organizational structures that characterize it today. After the end of World War II, the nation-state jettisoned its nationalist mould, and stopped imagining itself as the unique pinnacle among a group of

insular, mythically pure national cultures. This vision was replaced with that of the state as member of a community of peoples. Central in the literature on nationalism are the integrative capacity of the national myth within the national borders, and the differentiating impact the same notion has at the international level as it clearly distinguishes and irrevocably ranks and separates states one from the other (Gilbert 1998; Hobsbawm 1991; Mann 1993; Marden 2003). I wish to argue that the reduced power of the national myth, at least of the 19th century vintage, allowed for the emergence of a more cooperative worldview.

After World War II, most states, but especially capitalist democracies, began to present themselves as the representatives of their people (rather than using the people to support the notion of state) and the concepts of variance, difference, interconnectedness and cooperation found new spaces and opportunities in this model. This was not a universalist attempt, as with the Enlightenment. Patriotism and national pride have a place in it, just as diversity does, but the hierarchical duo of national superiority/inferiority that 19th century nationalism had made coterminous with cultural sameness/otherness, was, if not elided, greatly reduced and cooperation and multilateralism emerged as the key of the new international institutional framework. Interdependence and interaction became positive, desirable traits for societies and the recognition of the value of difference both within societies and among them was affirmed as one of the values of the post World War II world.

Economic integration emerged first, especially among blocs of military allies, but its pace and reach exploded in the last 15 years of the 20th century. As Gilpin (2001: 8) notes, the end of the Cold War in the early 1990s certainly “provided the necessary

political condition for the creation of a truly global economy,” but this remained far from being a sufficient condition for global markets. The end of the Soviet Bloc marked the formal collapse of the planned economies, but the organizational and institutional elements of global capitalism were already in place. The socio-economic “takeover” of Eastern European markets and polities by liberal notions was a quick affair, premised on often-tested, familiar models that the IMF and the World Bank had been applying, with mixed results, for well over a decade elsewhere (Barro and Lee 2003; Stiglitz 2002; Thacker 1999; Vines and Gilbert 2004).⁸

The premises of this process were much older than the fall of the Berlin wall or the demise of the Politburo; they also were multi-causal and far from linear. Economic and political needs affected its development: American wartime Fordism needed new markets and the military threat posed by the Soviet bloc required a united opposition. At the same time, old imperial powers that had suffered under Axis occupation showed callous disrespect for the wishes and yearnings of people in their own colonies. Gender, race, and sexual orientation remained the best proxies for discrimination. Nonetheless, the process was set in motion and, at least in the areas of interconnection and interdependence, it achieved remarkable results in a very short time. Businesses were the first to exploit this new model, integrating and connecting trade flows and industrial patterns, making use of and fostering new institutional and organizational structures that increasingly pushed societies towards integration and exchange. The progress was quite

⁸ That the results were far from what the high priests of the Washington Consensus had noted they would be is also true (Coase 1992; Sachs 1993) Jeffrey Sachs’ contention that “markets spring up as soon as central planning bureaucrats vacate the field” (Sachs 1993: xxi) turned out to be less than prophetic. There had been dissenting voices, of course, and not all of them from the left. Ronald Coase had, the previous year, noted that “the ex-communist countries are advised to move to a market economy ... but without the appropriate institutions, no market of any significance is possible” (Coase 1992: 714).

amazing: in the last decade of the 20th century, Western European citizens and goods were able to move unhindered across their national borders, something that had not been consistently possible since the fall of the Roman Empire of the West early in the 5th century A.D.

Developments in communication and transportation have increasingly given substance to McLuhan's metaphor of the global village but this "compression of space and time" is important for more than just cheap shipping fees and far-reaching air travel. This is more than internationalization, as I explain in more detail below, going beyond the simple extensions of financial, trade and political networks, to touch upon their very structuration. Opportunities emerge for interaction that were impossible one hundred, fifty, or even twenty-five years ago, this interaction slowly builds institutional patterns some of which are captured within organizational structures, and generates a web of complex interdependence between agents, institutions and organizations that redefines existing realities. Interaction is the key to this change. With interaction generally constrained by space and ease of travel, and by the ethnic, linguistic, and political relations among peoples, institutional and organizational structures developed, for a long time, at primarily local or national levels.⁹ Innovation in these structures tended to emerge from the liminal areas where human beings came in contact with one another to trade, study, work, and fight (Braudel 1975). Current globalization is in part an extension of these historical processes; yet the institutional and organizational developments of the past fifty years touch an unprecedented number of areas of human activity and are

⁹ Of course there were exceptions in the past to this model: the Roman Empire, the Christian Εκκλησια, and the Goth Confederacy, all included different peoples and developed upon a, at least partially, non-territorial model that relied on shared beliefs and common institutional and organizational spaces.

qualitatively different from the limited, if important, evolutions that came, for example, from contacts between Europeans and Arabs in the Frankish *Outremer*.

Technological change allows these interactions to take place and affect human organizations, transforming us not so much into a global village, but a global *limen*.¹⁰ The differentiation between the village and the *limen* is important because it highlights the factor at the root of current globalization: while the village could be counted upon to obey a specific domestic institutional and organizational logic, the *limen* is a place of contact for dissimilar logics. It is, at the same time, a place of contrast and creolization, of contact and separation, the locale that allowed for the maintenance of the internal “purity” of institutional and organizational structures, by being “contaminated” itself. In liminal areas, selective cultural permeability is possible or even encouraged. Here cultures, economies, languages, and peoples develop a more or less continuous interaction and the patterns that support their activities. Dockworkers in busy ports often develop a *patois* that allows communication with the ships’ crews; some cities, like Singapore and Hong Kong, become unique cultural, economic and human referents for certain geographical or functional areas, attracting ethnic groups, businesses, professions, and organizations that seek to operate there. They become the “gateways” to these areas: symbolic stepping stones to the geographical, economic and cultural beyond, where preparations can be made and context can be properly interpreted and learned.

¹⁰ In Latin, the term *limen* defined the imperial borders, settled generally by ex-legionnaires. The *limen* was more than just a border; it represented an active attempt at Romanising the region, at bringing a measure of both military security and cultural presence to a newly settled area. While often fortified and militarized, it remained an important example of the civilization that stood behind it and of its institutional and organizational elements. It was the first contact that outsiders had with Rome.

For a long time, the *limen* remained coterminous with the geographical border, an effective and efficient site where different, at times incompatible, institutional and organizational features could be relegated, where they could undergo a selective process of filtration and creolization and where the individual contact among the bearers of different *Weltanschauungs* could be concentrated¹¹. Today this *limen* is not contained at the geographical border anymore; it has fragmented and diffused beyond its original limitations and while not universal in reach, this process has redefined the spaces of human interaction towards complex interdependence and multiple causality. An important reason for its development has been the technological change that has allowed for quicker, cheaper, and more widespread human contact. A second reason has been the increasingly favourable attitude towards intercultural exchange. Economic, human and cultural flows have also been accompanied by an increasingly prominent role of international organizations, which have gained unprecedented weight and access to the domestic realm, becoming prominent carriers of messages and symbols of interconnectedness and contact (Aglietta and Moatti 2000; Barker and Meander 2000; Bennett 2002; Taylor 2003).

The practices that in the past we found largely circumscribed to the *limen* have begun to seep into the rest of society and it is possible that heterogeneous arrangements will emerge from this contact. Obviously, business communities have already engaged in constructing such institutional and organizational terms of reference (Armijo 2001; Braithwaite and Drahos 1999). Environmental and anti-globalization groups have also

¹¹ Of course, the *limen* was never a completely insulating structure, it could not stop all and every influence, and at times, the population there was deeply influenced by external elements. Its true nature was to offer an opportunity for filtration of these influences and to develop viable patterns of interaction between them.

been able to coordinate their activity and goals across borders in novel ways (Burbach 2001).

The establishment of such interactions was only one step in the evolution of the current phase of globalization. I noted how, at a most fundamental level, there is the abandonment of the 19th century nationalist concept of the superiority of the national race and culture as the accepted principle legitimizing the state and organizing international relations. At the economic level, the progressive erosion of Fordist arrangements led to the development of industrial and financial internationalization. The Cold War itself was an important factor in the process. On the one hand, it demanded the creation of cooperative organizations to confront and keep at bay the Soviet bloc and China. Along with the creation of military organizations like the North Atlantic Treaty Organization (NATO), the primacy of strategic interests over economic ones allowed the development of relatively autonomous national economies premised on Fordist models. This had the effect of ensuring that at a time of great socio-economic change the Keynesian Welfare State was able to reduce the intensity of social conflicts so that liberal democracies remained the legitimate political expressions of Western and Japanese polities. On the other hand, the end of the Cold War in 1990 opened the communist world to “market colonization.”

All along, organizational development emerged from these processes: first the United Nations and its specialized economic agencies, which often go under the moniker of the Bretton Woods Institutions, soon after NATO and the European Economic Community (EEC), then the many regional agreements of the 1960s. Later we saw the European Union (EU), the North American Free Trade Agreement (NAFTA), Mercosur

in Latin America, and the World Trade Organization (WTO) just to cite a very few. At the same time, multinational corporations took center stage in the new industrial and financial landscapes of the last twenty-five years of the 20th century (Gilpin 2000). Non-Governmental Organizations (NGOs) like Amnesty International or Greenpeace began to redefine the terms of bargaining and policy-making, by redrawing the boundaries of acceptable policy advocacy. The institutional and organizational structures that underpin the current phase of globalization are truly new and innovative. It is because they actively demand and foster integration and interdependence among governments, businesses, groups and individuals across national borders, that they assume such relevance in the study of global trends. In a way, one could say that the study of current globalization is the analysis of the arrangements that emerged from this new approach to human interaction. Globalization is then to be understood as the institutional and organizational response of societies to the process of interdependence and integration of both economic and social flows, and to the decline of nationalism as the theory of legitimacy of the nation-state. To this process are linked the activities of those groups and entities that are functionally apt to operate within these new structures: multinational corporations, international organizations and NGOs. Here, I ask to what extent this is a process emerging spontaneously from economic pressures, and to what extent it challenges the “embeddedness” of social structures and how does this affect on globalization’s development, legitimacy and efficacy.

Globalization has been confronted with increasing resistance from below and above (Crotty 2000); the calls for disengagement from it often rely on the “uniformity” or “insensitiveness” of its characteristics, on the cultural, social, and economic dislocation

that globalization seems to require. Those who support globalization counter that, to one degree or another, this is a process of spontaneous and necessary reorganization within the world economy (Ohmae 1999) and that, while problems do arise and their effects are regrettable, anti-globalization measures are a mistake (Bhagwati 2000c). The contrast in the argumentation is sometimes quite strident, but both sides agree that the socio-economic experiences that were commonplace in the 1950s and 1960s, have now been replaced and are unlikely to return (Gray 1998; Greider 1997; Helleiner and Pickel 2005). The particular embedding processes of individual societies are being challenged and the resistance that is emerging seems to be correlated to what Polanyi (1944) called, within the context of the Liberal Century, a “double movement” (Birchfield 1999), a concept that within a Polanyian perspective has known a strong revival. Within the context of my work, it will become clear that I consider economic systems to always be embedded within specific social and political structures: there is, in all cases, a social framing to markets. What is relevant is that the resistance that global flows are experiencing today is linked with the dissonance that these same flows create with the common experiences of individuals. When the economic, political, cultural and technological processes that are linked to globalization are imposed on individuals, without allowing for viable and continued avenues of participation, there can be no room for the emergence of a broadly negotiated definition of “socially acceptable” globalization. The latter, I argue is a process in which society “metabolizes” global trends and creates responses to both their challenges and their benefits with which specific societies can identify (Borg 2001; Boyer 2001; Choi, Murphy, and Caro 2004).

The problem, I argue, is that the institutional and organizational frameworks that are emerging are lacking in comprehensiveness and inclusiveness. By denying a voice to a broad spectrum of individuals and interest, these frameworks become sources of possible friction. I submit that the overly economist underpinnings of globalization tend to propel this situation even further. I shall argue that a necessary change at the institutional meta-level is to embrace a Kantian image of individuals (Kant 1785: 429) inspired to the principle of “Humanity as an End in Itself,”¹² of which Economic Personalism is an example (Cleveland 2003; Finn 2000; O’Boyle 1998). Globalization can be embodied with ethical elements and its legitimacy increased only by allowing for increased participation in its “design and delivery”, and by fostering a pluralist and creative approach to the issues of economic and social dislocation that it generates, in which primacy is given to including individuals and groups beyond the business community and the most powerful international organizations.

The next chapters articulate the dialectical tension between civil society and the political economy of the recent wave of globalization (Chapter 2). I then propose that this tension can be better understood and explored by dialectically using the Hayekian and the Polanyian perspectives to analyze socio-economic activity. The tension emerges, in the first place, as a result of the ontological split between society and economy that rests at the base of the neoliberal paradigm (Chapter 3). As I argue throughout, this foundational interpretive framework of neoliberalism limits both analytical efforts and curtails policy options by presenting a rather limited and simplistic notion of socio-economic relations.

¹² Immanuel Kant encapsulated this principle in the formula of “Humanity as an End in Itself “ – “Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end” (Kant, 1785: 429).

The importance of the approach rests, I argue, in its ability to overcome this rather narrow vision. Chapter 4 is dedicated to the organizational side of globalization and to the role of MNCs, NGOs and IOs. For this I rely, as noted above, on a Weberian-Austrian model of institutional and organizational activity that, by shifting the analysis from the grand theory level at which the interplay of the Hayekian and Polanyian analysis had placed it, to the middle range one, enables a more effective approach to organizations. In the final chapter, I propose a notion of re-embeddedness for modern globalization that is aimed at increasing the participation and the voice of actors so to overcome the increasingly evident crisis of legitimacy and the democratic gap that is so often used to challenge global interconnectedness. I do so by looking at the sort of radical centrism, at the long tradition of the third way (Kloppenber 1986) and to its philosophical and practical suggestions for a balance between free markets and state control. This appeal to an integration of the socio-economic system with the process of democratization offers a manner to approach practically the issue of embeddedness.

2. DEFINING GLOBALIZATION

骑虎难下。

Once on a tiger's back, it is hard to alight.

Globalization presents unique challenges to its would-be analysts: it is a wildly popular and popularized term and yet, it is almost impossible to find broad agreement on its meaning, scope, or content. It appears to sink its roots in Western capitalist models, and to necessitate the active participation of actors like the multinational corporation (MNC) that have developed within, and sustained the growth of, a specific model of liberal-capitalist democracy. At the same time, it presents novel characteristics that escape easy categorization and explanation, and that are difficult to link to extant processes, as is the case with multilateralism, or to modern international organizations (IOs). Whether we choose to portray globalization as either completely novel or as just a continuation of old trends, the answer is unsatisfactory. Globalization, like any complex social process, is the result of complex dynamic evolution. I shall argue that globalization is the development of institutional and organizational responses to the decline of the Fordist economic model and the subsequent emergence of internationalization, premised on the collapse of nationalism as a legitimate premise for political identity construction.

Because of the increased relevance of international linkages, especially at the economic level, and of the attendant push towards policy integration and convergence,

many states have seen their policy options shrink. Often this was a deliberate choice, aimed at taking advantage of the opportunities afforded by developing international regimes, in other occasions, few choices were truly viable. In both cases, the result was that MNCs, states and IOs now tend to operate with a more homogeneous set of rules both across borders and within them.

Current globalization is multifaceted and I shall deal with each facet in more detail below. For now, I emphasize the idea that globalization has a complex nature, that it operates according to specific core institutional notions (such as free trade and open financial flows), and that it is elastic enough to allow for varied organizational and normative responses. Nonetheless, there are costs (both political and economic) associated with diverging too much from its key tenets. One of the central contentions regarding globalization has been whether it truly has a necessitating effect on policies, if, in other words, it is true that “there is no alternative,” as British Prime Minister Margaret Thatcher was fond of saying. Deterministic approaches, whether hailing from a Marxist or a neoliberal camp, seem to me to be quite weak, especially when juxtaposed to the increasingly differentiated set of responses emerging from global pressures. It is in this context that I explore the nature of globalization, its relations with the state, and the patterns of resistance that emerged against it.

Sophisticated vs. Unsophisticated Notions of Globalization

The purpose of this chapter is to clarify the notion of globalization. First I discuss the basic premises upon which globalization rests, then I briefly analyze the recent history of this notion. Finally, I discuss its relationships with the state and with society.

Globalization is used to refer to economic, political, social and cultural trends along widely differing territorial and temporal horizons. It is used as an explanatory variable in the analysis of local policies (Amin and Thrift 1995; Barnes and Kaplinski 2000; Dockemdorff, Rodriguez, and Winchester 2000), social justice (Bienefeld 2000; Borg 2001; Deacon 1996), religious organizations' activity (Bloomquist 2001; Camdessus 2001a), agriculture and food (Bonanno et al. 1994), immigration (Borrelly and Delforno 2001), postmodernism (Burbach 2001), and of course culture (Elkins 1997; Featherstone 1990; 1995; Feigenbaum 2002). The list could go on; I have left out, on purpose, the massive literature on economic globalization, which has burgeoned in the past decade. Such broad use has attracted sceptical accounts of how novel or powerful an explanation it can provide (Feigenbaum 2002; Rosenberg 2000). Critics point out that most of these definitions tend to focus on one or on a small set of explanatory variables (Marden 2003; Migone 2003; Sklair 1999), and there is little agreement on the nature and impacts of globalization (Schaeffer 2003).

Scholars disagree with the timeframe and scope of globalization. World System Theory scholars (Arrighi 2000; Chase-Dunn 1999; Hugill 1999), some economists (O'Rourke and Williamson 1999), and some political scientists (Held and McGrew 2002a; 2002b; Held et al. 2000; Marden 2003) describe it as a long-term process, if

having novel connotations. Others define it as a novel process that began only sometime in the past quarter century. It is said to lead towards a uniform way of doing business, working, living, buying, and so forth. In short, it would tend to transform a formerly diversified and divided world in a homogeneous “global village” of the type envisioned by Marshal McLuhan (Dirlik 2003; Falk 1995; Greider 1997). This is probably the most contested of the assumptions about globalization. There is, in fact, a rich literature highlighting the limited nature of “global commonalities” (Garrett 1998a; 1998b; Hirst and Thompson 1999; Jones 1995). Often, though, globalization is presented as having a necessitating nature: its dynamics, the critical mass of certain investment patterns, the nature of trade flows, all are taken to mean that its general direction is immutable and irreversible because it stems from the “needs” of “society” and “economy” (Giddens 1990). This is interpreted as either a positive development enabling sustained economic and social growth (Larsson 2001; Ohmae 1999; Suter 2000; Yergin and Stanislaw 1998), or as a renewed attempt by capitalist elites to create a market-friendly environment in which to continue exploiting their structural advantages (Albritton 2001; Amin 2001; Jessop 2000a; Sklair 2001).

Some believe that globalization is simply unbound internationalization, either from economic (Jones 1995), financial (Rugman 2001) or political points of view (Hirst and Thompson 1999). I am not of the same opinion. There is internationalization at play in the process of globalization, no doubt, but it would be reductive to bring the process down to this alone. On the one hand, as Herman Daly (1999) noted, internationalization still assumes the traditional unit of analysis of the 20th century: the nation state. Globalization is much more integrating and tends to redefine and elide some of the

traditional elements of internationalization. On the other hand, internationalization was always too concerned with the almost unidirectional study of its flows. It was not very often that it did concern itself with the wide responses of the local communities and of people to these flows. With the current globalization these responses have become much more important. Local communities react differently to similar stimuli. These differences depend in part on the institutional frameworks that are in place in these societies, in part on the nature of the stimuli, and in part on the material and historical conditions that exist. The analysis of globalization, therefore, must incorporate both sides.

Another contested interpretation of globalization rests with the analysis of its effects, which shows an obvious ideological divide. On the left, the division of labour achieved by globalization is sometimes explained as the natural extension of the *long durée* movement of the capitalist economy (Arrighi 1999; 2000; Wallerstein 1999), and it is noted that the principles sustaining it are derived from, and therefore are structurally bound to serve, the powerful position of capital (Amin 1995; 2000); a reality that is only thinly disguised by theoretically poor explanations of economic globalization (Friedman 2000). Other left wing literature abandons this classically Marxist explanation of globalization to embrace a more nuanced political image dealing with the project of governments and of their representatives at the international level to willingly construct a new division of labour and economic system that benefits a trans-national business elite (Hirst and Thompson 1999; Sklair 1997; 2001).

Neoliberal thought focuses mainly on economic variables and the struggle to assert the new vision of the market, (Irwin 1996; Yergin and Stanislaw 1998). It underlines the fact that the increasing breadth, speed, and depth of the financial,

industrial, trading, and consumption patterns brought about by globalization are a natural (and irreversible) evolution of the capitalist system that will lead to positive aggregate gains for those economies that accept the necessity of painful short-term restructuring (Albrow 1996; Luard 1990; Ohmae 1995). The flip side of the coin is that countries that cannot or will not incorporate the characteristics of the Washington Consensus (Naim 2000; Williamson 1990; 1993) within their economic policy will find it ever more difficult to enter the club of economic globalization.¹³

In practice, all these are broad generalizations that turn out to be less than precise. For example, while there is little doubt that most of the processes generally subsumed under the rubric of globalization (increased financial flows, increasingly common pool of goods and services available for consumption, increased spread of North American cultural images and ideas, increased presence of MNCs, and so forth) tend to be interconnected, not everywhere and not always do we witness a process of real

¹³ In a somewhat correlated vein Beck (Beck 2000) summarized some of these issues, noting how globalization had brought politicians outside of the familiar stage of the state and may even have undermined the parameters through which we defined something to be worthy of political action. He argues that we live in a transitional period during which societies are moving out of the “first modernity” that was dominated by state action and into a “second modernity” that is fuelled by the private sector in which globalization is irreversible but its market appendix, globalism, is still controllable. Beck distinguishes between:

- *Globalization*: a process through which states and their sovereignty become interconnected through a network of new international actors;
- *Globalism*: the creed of market domination as a mode of production;
- *Globality*: the reflective perception that we have been living, for some time now, in a world society that is not unitary but fragmented.

It is in this set of dynamic constraints and opportunities that actors experience the fragmentation of modernity in the shape of new and unknown dangers but also as new opportunities for democratization. It is, in his words, a *Risikogesellschaft*, a risk society. Confronted with such a varied set of approaches and interpretations, it becomes necessary to develop a comprehensive definition of globalization. I tackle this task in the following section.

homogenization. Individuals are usually able to choose among the messages presented to them, those that they judge to be preferable.

Consider the issue of cultural globalization. Chadha and Kavoori (2000) and Goldin and Harris (1997) identify the current dominance of American-style capitalism with North American media imperialism, and make the somewhat simplistic assumption that eliminating American influence would be tantamount to eliminating cultural imperialism. Yet, while both American economic and cultural pressure can be quite strong, they do not necessitate acceptance of, or adherence to, a specific model. In fact, there are a variety of examples of resistance towards both. During the GATT trade negotiations of the early 1990s, for example, the United States was unable to convince European officials to introduce legislation that would eliminate restrictions on American films, TV shows, and music imports. The result was that European cultural industries retained a limited, but important space in their own countries. In a very real way, the current resurgence of Islamic fundamentalism is also partially determined by a rejection of Western values and culture. One does not have to agree with the notion of McWorld or with the idea of the “clash of civilizations” (Barber 1995a; Huntington 1996), to be able to pick up the consistent process of cultural interchange that is at the heart of the contemporary world. The flows of people and capital (and their attendant impacts) that Arjun Appadurai (1990; 1996) described as ethnoscapes and finanscaples, certainly contribute to rearranging and redesigning power structures and communication flows, because the state must find ways to deal with their content and their impact on power relations. At the same time though, they have created liminal areas in which individuals actually shape culture in an independent manner. These individuals are, ultimately,

responsible for the development of those sets of human-produced artifacts (physical and non-physical) functioning as identifying elements for groups, which we call cultures. It is undeniable that goods sold by Coca Cola, McDonald, and Adidas, the decisions of the American Treasury or the IMF, and the creation of free trade, had an impact on the way in which cultural models are constructed and used. But this process is far from being either ineluctable or un-opposable, contrary to what some politicians argue (Burnham 2001; Hay 2004).

In addition, the organizational support structure of globalization (the IMF, WTO, OECD, Quadilateral Group) does not constitute an all-powerful decision-making body able to direct and control its path. The various economic and financial crises of the past few years are an indicator of the volatility of the international financial system, which is increasingly seen as partially autonomous (Soederberg 2001). The international organizational framework is more a way to manage and prevent some of the dysfunctions of globalization, especially on the economic side, rather than a way to steer economic globalization, or a tool to control the policies of member states and the life of their citizens.

The “inevitability of globalization” theorem holds only if we assume that the policies it stimulates, like free trade, are not reversible; but the historical record on that front is not at all certain. The most pertinent example is the end of the liberal arrangements that spanned the 19th century (O’Rourke and Williamson 1999; Polanyi 1944) and sustained its imperial trading patterns. A marked change is also evident in the focus of the GATT/WTO members’ approach to free trade now that the highly sensitive areas of agricultural commodities and garments are being negotiated. Globalization will

not necessarily undergo a transition similar to that of the first half of the 20th century, but it remains a set of processes the costs and benefits of which are unevenly distributed within and among states and this is likely to create demands for change.

Tensions have emerged in the past twenty-five years. At the domestic level, neoliberal policy approaches, coupled with the end of communism as a potential economic alternative to capitalism, have resulted in wide-ranging transformations in the underlying discourse of socio-economic relations. Diverse factors coalesce within the Post-Fordist paradigm to reshape the socio-economic relations in the OECD. On the one hand, there are the progressive weakening of the redistributive arm of the Keynesian Welfare State (KWS) (Jessop 2002a), and the impact of the consumerist paradigm (Brütt 2001; Deleuze and Guattari 1988). On the other, is the tendency to reorient the political discourse away from class and towards individual and group rights (Clark and Lipset 2004). Closely related to the latter are the sizeable reduction in the size of the industrial working class across the OECD, and its substitution with a service industry worker, who is predicated upon “client service,” commissions, the culture of sale, and the flexibilization of work rather than the experience of production within the system of the factory. Class relations have not disappeared. Rather, they have been reconstructed and re-designed along the lines of the new economic arrangements. They have also been partly masked by the elimination of the working class from the dominant political and economic discourse within the core economies; a large part of which directly pins the reasons for economic failure upon workers (high wages, low productivity, and lack of flexibility). At the same time, this discourse uses these exact notions as a justification for

the deterritorialization of labour,¹⁴ the flexibilization of the workforce, and the transfer of production units in states that enjoy a comparative advantage in labour costs.

At the international level, states have chosen to bind themselves in a web of broad and differentiated agreements that have increasingly come to constrain their policy autonomy. While the relative economic, political and military weight of the individual country remains significant in determining the scope and reach of these constraints, the current wave of globalization has been marked by increased convergence, which is to say less autonomous options for governments. This, I argue, depends on the need to integrate both policy choices and economic flows across borders: the increasingly reduced viability of purely national responses has led to a set of processes that range between regionalization and globalization that both erode old fixed national identities and foster new nationalism, depending on the context and the actors that are involved.

Globalization is a complex and fluid process but its effects are not always open to change, or that they can be completely rolled back (Gray 1998; Jessop 2001a), but they are open to contestation and debate and allowing for an important role for civil society to play (Bruner 2003). Held and McGrew (2003) describe the contrasting claims of “sceptics” and “globalists.”

¹⁴ The process of deterritorialization of labour is a process through which not only the production phase, but also part of the workforce is transferred abroad to take advantage of comparative advantages in costs. For example, Italian factories have been set up in Romania; in these factories work, alongside the Romanian labour, a number of Italian workers. These latter, generally young and unmarried, are paid the same wage that they would receive in Italy, and sometimes transfer costs (a small allowance and rent) in hard currency. As a result, this Italian workforce enjoys a much higher standard of living in Romania than it would in Italy; from the point of view of labour relations, the Romanian and the Italian workers tend to remain separate, thereby reducing the likelihood of unionization and the like. Furthermore, the Italian workers who are working abroad are further removed from the Italian workforce’s class struggle both by their geographical location and by their standard of living.

Table 4 The Debate on Globalization

	<i>Sceptics</i>	<i>Globalists</i>
1. Concepts	Internationalization not globalization Regionalization	One world, shaped by highly extensive, intensive and rapid flows, movements and networks across regions and continents
2. Power	The nations-state rules Intergovernmentalism	Erosion of state sovereignty, autonomy and legitimacy Decline of nation-state Rise of multilateralism
3. Culture	Resurgence of nationalism and national identity	Emergence of global popular culture Erosion of fixed political identities Hybridization
4. Economy	Development of regional blocs Triadization New imperialism	Global informational capitalism The transnational economy A new global division of labour
5. Inequality	Growing North-South divide Irreconcilable conflicts of interest	Growing inequality within and across societies Erosion of old hierarchies
6. Order	International society of states Political conflict between states inevitably persists International governance and geopolitics Primacy of the ethically bounded community	Multilayered global governance Global civil society Global polity Cosmopolitan orientations

Source: Held and McGrew 2003: 38.

How, then, to deal with the notion of globalization? By applying complex methodological individualism to this analysis, we are able to connect individuals' interaction to the emergence of new institutional and organizational spaces and opportunities. In this sense, globalization is not to be understood as either an *explanandum* or an *explanans*, as Rosenberg (2000) provocatively puts it, but as a set of processes that are both the result of, and foster, changing institutional and organizational frameworks. This will be done against the backdrop of the Hayekian and Polanyian perspective on socio-economic activity.

Grounded at the metalevel in the transition from nationalism to interconnectedness, globalization displays a particular historical and ideological history. In the past twenty-five years, this process has been deeply interconnected with the processes of economic liberalization and internationalization and with a progressive retreat from the ideological and practical tenets upon which the welfare state was premised. This was paralleled by a simultaneous ascendancy of notions like shareholder value, and a focus on profit generation rather than on social spending and redistribution buoyed by referring to the duty of the citizen to be economically productive and active, and by using the mantra of the “small state,”¹⁵ a vision that is increasingly challenged in many European countries.

The Post-Fordist economic model that began to assert itself in the 1980s was premised on flexibilization, free trade, economic internationalization, and the renewed focus on financial and speculative markets. Crucial to its success was economic internationalization, one of the pillars of globalization. By allowing private companies increased domestic and international freedom, Neoliberal policies enhanced their ability to compete. In a Hayekian sense, the market process is now encompassing a much wider

¹⁵ In truth, some of the changes the Neoliberals were clamouring for were long overdue. On the left, the strength of Neoliberal parties and the popular support that buttressed these changes is often discounted or explained away, uneasily glossing over the fact that many of the governments that “razed” the welfare state were comfortably re-elected throughout the 1980s and 1990s. It is unhelpful and historically incorrect to categorize the electorate of the OECD countries as a large flock of hapless sheep that could either be duped or prodded in the direction of the new political wind. They were no more so than they had been under left-of-centre governments. A testament to the staying power of the tenets heralded by the New Right is the fact that, twenty-five years later, Neoliberal ideology, beautifully synthesized in simple formulas for economic change, something that Marxist and Neomarxist thought was forever unable to achieve, still survives in the political platforms of most parties, including those that earlier railed and fought against it. A case in point: during the 1990s, personal responsibility, a favourable business climate, balanced budgets, free trade, less red tape, and lower taxes became the policy staple of the Liberal Party of Canada. It is hard to reconcile this image with the party that, in the 1970s, had committed itself to classic Keynesian social spending, saw American investment in its oil industry with scepticism, and maintained a large, very powerful government sector. Some of British Prime Minister Tony Blair’s “Third Way” or President Bill Clinton’s economic policies are not so distant from Neoconservative precepts either.

arena than before. Because markets do not function well in an institutional vacuum (Hayek 1994: 111), international agreements began to emerge and assert themselves as central to the new model (Duina 2004; Mansfield, Milner, and Rosendorff 2002; Mansfield and Reinhardt 2003), with over 3,600 multilateral treaties, especially in the economic realm, having been signed in the second half of the 20th century (Ku 2001: 4).

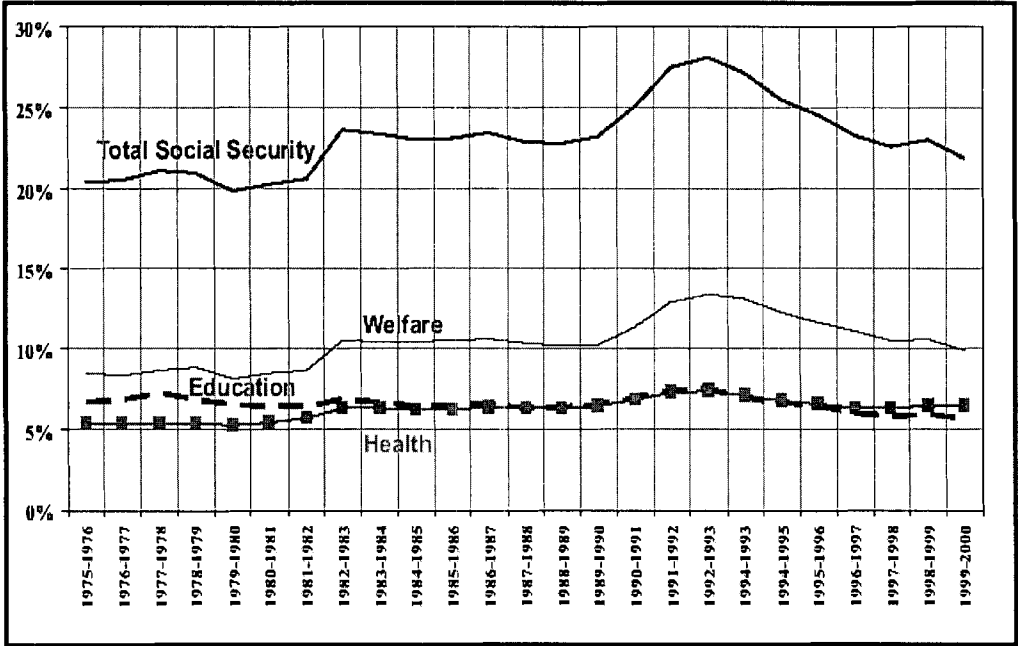
International organizations modified their core competences and outlooks to meet what were perceived as the needs of economic internationalization. Organizations like the IMF showed instances of “institutional slippage” as Babb (2003: 7) puts it, and scholars found “significant variation in the [IMF’s] activities over time - even if its formal charter remained relatively stable.” To meet these needs they exhibited a Neoliberal bias in their decisions (Stiglitz 2002; Williamson 1993). The global market did respond very much in the way Hayekian theory argued a catallaxy¹⁶ should. Private actors reacted to new opportunities/needs to keep themselves afloat, and institutional frameworks emerged around them, sometimes created through governmental *fiat*, sometimes in a more spontaneous manner, and sometimes because of the power and influence of the business community, as with the creation of the International Standards Organization (ISO) standards, or of voluntary regulation in the chemical and software industries.

As Neoliberal philosophy was applied, more and more people began slipping through the cracks of an increasingly less comprehensive social safety net. In OECD economies, the points of contact between the citizen and the state have lessened in number and have grown dimmer in scope. Today it is more difficult and more expensive

¹⁶ Hayek (1945; 1978:109) defined the catallaxy as “a special kind of spontaneous order produced by the market through people acting within the rules of the law of property, tort and contract.” This praxeological approach argues that market process allows for the growth of wealth due to the use of price mechanisms.

to bring forward demands and requests; the results of these challenges are also less impressive than they used to be (Ekins 1992; Keck and Sikkink 1998; McKenzie 2002; Molyneux and Razavi 2002; Peterson and Sisson Runyan 1999). This does not necessarily mean that the percentage of GDP devoted to these tasks has decreased over the long run. In Canada, for example, the percentage of GDP that was devoted to social security between 1975 and 2000 in fact grew. The chart below indicates this evolution by looking at the percentage of gross domestic product that was devoted to education, welfare, and health care between the mid 1970s and 2000. While it is clear that this percentage has declined since the 1990s, the general trend is still marginally up.

Figure 2 Total Canadian Social Security, Welfare, Health and Education Expenditures as a Percentage of Gross Domestic Product (GDP), 1975-76 to 1999-2000



Source: <http://www11.sdc.gc.ca/en/cs/sp/socpol/publications/statistics/9999-000096/figure2.shtml>

At the same time, there is little doubt that homelessness, for example, is a growing problem in Canada (Falvo 2003), nor are waiting lists for medical services improving. Marginal groups are becoming more susceptible to these reductions. Poverty

indicators differ widely, and the definition of poverty itself is often disputed, but there is little doubt that within the members of the OECD group poverty has become more visible. This is true even as public social spending has actually risen between 1980 and 2005 as a percentage of GDP (OECD 2005).

At a second level, there is the tendency towards the harmonization of national rules with international standards. While OECD states still have a firm grip on regulation, policy convergence has been a way to further advance the decoupling of national policies from the mechanisms of political accountability and control, by removing the latter from the national context and placing them within the context of international organizations and agreements. An example is the recently proposed Bolkestein Directive. Named after its Dutch proponent, Frits Bolkestein, it aimed at creating wide regulatory homogeneity for the provision of services within the European Union. While the supporters of economic integration were thrilled by the proposed directive, many on the left saw it as a tool to introduce further Neoliberal principles within the Union's structure. The fact that the Directive has the potential to deeply restructure economic activity in Europe left many sceptical of it, and as a result it has now been, at least temporarily, shelved.

Here I wish to stress the existence of a problem in the current model of globalization that can be called the disembedding of its socio-institutional framework. Embedded Liberalism does not seem able to do for the global economy what it had done for the internationalization phase of national economies, and challenges to the economic regimes that have emerged are increasingly common (Ruggie 1982; 2003a). This is worrisome because it undermines the legitimacy and reach of the economic process along with dislocating the social. The two processes are not necessarily separable, but they can

be integrated so that the “pain” generated by one can be balanced by the “gain” that is intrinsic in the other. Neoliberalism has failed in generalizing this process relying, rather, on a narrow system of embeddedness. I use a Polanyian perspective in the analysis of globalization exactly because of this movement away from the reach of national polities, disembedding the socio-institutional frameworks within which the Fordist accumulation regime was premised. Since re-embeddedness is its major concern, this is a natural fit for the analysis of the processes of globalization, as they appear below. It is the goal here to address just how deep the caesura between the present and the past is within OECD countries; how far reaching are the new demands and opportunities brought on by the internationalization of capitalism, and how much our national systems have had to change to accommodate the new accumulation process.

The Aspects of Globalization

I organize my study of globalization around four main sets of processes: economic flows, organizational adaptation, technological innovations, and cultural-ideological changes. The results of globalization are sustained, legitimized and underpinned by the notion that these “new” flows are more beneficial than they are disruptive for our societies; they are often enforced by selectively allowing access to the world trading system to the actors that chose to comply with its economic and ideological premises (Bhagwati 2004; Cohn 2000; 2002). The most successful conduit for these processes have been the international organizations that, especially in the trade and financial sectors, have provided fora for the management of differences through

multilateral agreements and repeated contact among the parties involved. Modern international organizations, especially those created and staffed by the nation-state and its representatives, seem to offer an excellent backdrop for the sustained growth of globalization's key institutional factors.

Economic and Financial Flows

While economic activity is common to all societies, modern and pre-modern, recently the frequency and range, and the sheer size of these transactions have increased dramatically (Gilpin 2001; Held and McGrew 2002a; 2002b). The key parts of this process have been the extension of production and consumption chains across the globe, the fast, if selective, pace of Foreign Direct Investment (FDI), the increased relevance of trade (Cohn 2002; Pitruzzello 2004), and the undisputable presence of global flows of capital, with both negative and positive effects (Bhagwati 2000a; Stiglitz 2002; Yergin and Stanislaw 1998).

Since the early 1990s, the capitalist system has been the hegemonic organizational arrangement upon which these economic flows are premised. While always dominant, the capitalist organizational model has extended its reach and consolidated the legitimacy of its theoretical and philosophical premises during the last 15 years. At the same time, increased interconnectedness among actors led to the heightened internationalization of the rules that regulate economic activity in a variety of fields (Teubner 1997). The role of international actors in the regulation and implementation of economic flows has started to seriously rival that of domestic institutions and organizations even if they are not about to

displace them just yet (Fратиanni, Savona, and Kirton 2002). So, while there are many indications that these economic changes are not completely new in world history, their causes and the way in which they have been nurtured and kept alive are certainly different from those that prevailed in earlier times (O'Rourke and Williamson 1999).

Much of the pressure to develop such a system has come from MNCs and states themselves but, at the same time, entities such as the IMF, the World Bank, the WTO, and the OECD have been a constant presence in the post World War II organizational landscape. Their role was perhaps muted until recently, but they nonetheless played a fundamental part in giving companies and governments the opportunity to shape the ground rules for global markets and create homogenous epistemic communities. These bureaucratic structures¹⁷ and their political counterparts have had enormous success in globalizing the notions underpinning the hegemonic spread of the free-market. Intrinsic in this process is the blistering pace and broad reach of economic and financial globalization. Here international regimes have facilitated trade flows and the exchanges upon which the system is premised and on which both the nation-state and the MNC depend for their economic survival. Whatever the critiques that can be moved against the goals and methods of economic globalization, and there are many that are both valid and deeply concerning, there is no doubt that its institutional and organizational models have made it an ideal tool for the diffusion of the notions of interdependence and interconnectedness.

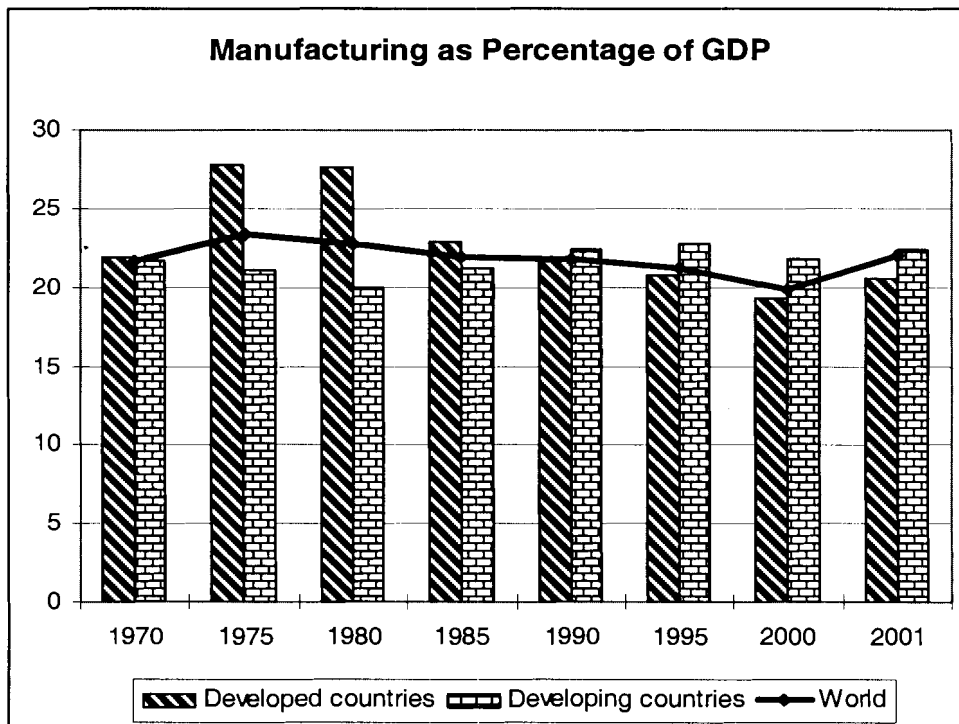
¹⁷ I use bureaucratic here in the Weberian sense of highly organized, professional structures that have rationalized not only the use of resources but also the process of legitimization and the type of authority on which this use is based and, I would submit, the rules that they employ.

Those who argue that the current wave of economic globalization still has to catch up with economic convergence in the 1860s-1910s period are misinterpreting the whole process (Gray 1998). The main difference between the economies of the 19th and 20th centuries is that in the former commodity markets' integration was premised on, and sustained by, falling transportation costs. The hegemonic power of the period, Great Britain, provided much of institutional framing behind the liberal policies of the era; even if it was unable, in the end, to sustain them when its own strategic and economic position eroded. While this is partially true of the current period, after the 1950s a crucial role was played by the increased relevance of liberal policies (O'Rourke and Williamson 1999), especially in the areas of trade and finance (O'Hara 2002b; 2003b; 2004a) as they emerged within international organizations and regimes. Such policies have been increasingly devised, fostered, and enforced by international organizations (Stiglitz 2002; 2003a).

One of the questions that I ask here is how this relates to the broader socio-economic structure of polities. In the late 1960s the Fordist approach to production, consumption, capital accumulation and its extant mechanisms of mediation ceased to be viable. The national dimension of the economy, which had been one of the hallmarks of Fordism, proved increasingly unsuitable to the new economic and industrial realities. Capital began to look at (and demand) internationalization as an alternative. By the end of the 1970s, Fordism was irremediably obsolete as far as profit generation was concerned. The nation-bound industrial model on which it was premised was suffocating under the strain of bad economic policies and small returns.

In the 1980s, OECD economies adapted by internationalizing, introducing flexibilization and new technologies, by increasingly moving away from manufacturing to seek higher returns in the service and financial sectors (Allen 1996; Boyer 2000a; Chesnais 2001; Duménil and Lévy 1993; 2002a; 2002b; Jessop 2003). The percentage of GDP that is represented by manufacturing activities has remained largely constant over the past 25 years: in 1970 in developed countries, it accounted for 22% of GDP, in 2001 for 20.6%. In developing countries, it had a share of 21.8% in 1970 and it was 22.4% in 2001.

Figure 3 Relevance of the Manufacturing Sector 1970-2001

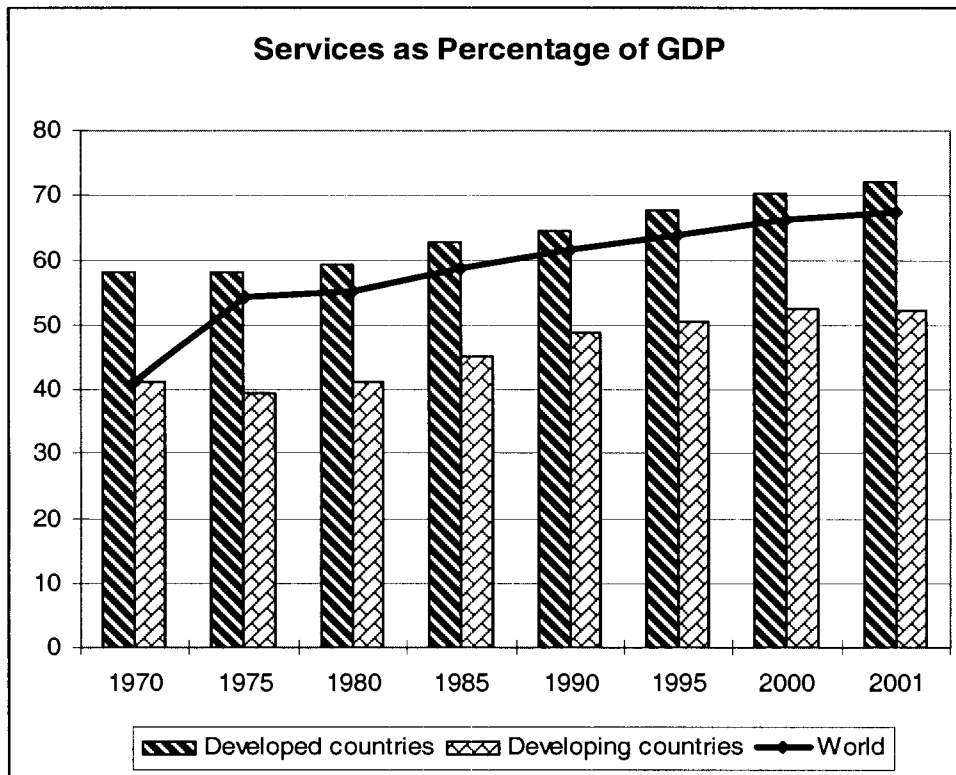


Data in this table are shown as percentage of GDP at current prices. Source: UNCTAD Handbook of Statistics

Services have seen a more marked increase: between 1970 and 2001, their share of GDP in developed countries went from 58% to 72%, in developing countries from 41% to 52% over the same period. The growth here is comparable in terms of GDP

percentage, but it does hide the differences in the types of services the developing states host and among developing states. Nonetheless, the numbers signify a progressive shift towards services.

Figure 4 Relevance of the Service Sector 1970-2001



Data in this table are shown as percentage of GDP at current prices. Source: UNCTAD Handbook of Statistics

This was possible because deep ideological and economic changes accompanied the economic collapse of Fordism. The relative ease with which capital accumulation could be achieved in the 1950s began to fade in the 1960s and, after the oil shocks of the 1970s, it came into direct competition with the redistributive policies of the welfare state. This required that a choice be made between accumulation and welfare services; both voters and politicians chose the former. Buoyed by strong electoral support, Neoconservative politicians were able, during the last two decades of the 20th century, to shift policy focus to the right of the political spectrum. Prime Minister Margaret

Thatcher, President Ronald Reagan and those who followed them looked at the development of the economy as their primary objective. Building a “favourable business climate” meant introducing a series of radical reforms in the way the state intervened in the socio-economic realm (Gray 1998, Jessop 2002a). Not only did business interests and agendas become paramount, but also the political discourse within OECD polities changed profoundly. As the notions of individual responsibility and competitiveness displaced solidarity and redistribution, governments pulled back from the economy and from many areas of the social state. Efforts towards balancing budgets and “realigning wages” were accorded higher priority than providing full employment or high minimum compensation. The same notions became deeply embedded in the polity. Had the 1980s simply been an anomaly in the voting patterns of OECD states, there should be no reason for at least some of these policies to not have been reversed since. The truth is that much of the electorate seems to have espoused this platform and even where nominally left of centre parties, like the Blair government in Great Britain, are in power their policies have moved remarkably to the right, embracing the core of Neoliberal economic philosophy.

Here, I focus on the period that followed the Second World War, and especially on the more recent decades but a few points need to be made with regard to the history of economic internationalization. International trade and finance not only span different economic regimes, but also easily extend back to pre-capitalistic time as with the case of the Fairs of Champagne and with long range Muslim trade with China and India (Abu-Lughod 1989). While economic exchange is almost a constant in human interaction, it is important to note that the institutions that surround it do change according to the type of economic regime in which commerce took place. Considerable effort had gone into the

creation of a free trade regime (Irwin 1996) and of conditions favourable to liberalism (Polanyi 1944). In the post-war period, the leaders of the Western capitalist democracies were particularly aware of the problems that had plagued the international scene in the previous half century at the economic and political levels. The mistakes that led to the emergence of the nationalistic, autarkic tendencies of the 1920s could not be repeated.

Many took to heart Polanyi's statement that:

If there ever was a political movement that responded to the needs of an objective situation and was not the result of fortuitous causes it was fascism. At the same time, the degenerative character of the fascist solution was evident. It offered an escape from an institutional deadlock which was essentially alike in a large number of countries, and yet, if the remedy was tried, it would everywhere produce sickness unto death. That is the manner in which civilizations perish (Polanyi 1957b: 237).

The question was how to reduce corrosive competition and autocratic behaviour using a free-market model, while maintaining social, economic and political ties intact. The answer that emerged was three-pronged: on the one hand, the political solution demanded that the now bankrupt nationalistic ideologies be replaced with the notion of liberal democracy. Closely intertwined with this first component was the creation of a viable socio-economic compromise: the free-market mechanism was to be the organizational principle of these economies, but its more intense effects would be mitigated by welfare measures through domestic regulation. An important part of the drive to establish a free-market mechanism as the underlying structure of this system was the recognition that international commerce was to be an important pillar of a truly integrated international community, but that nationally regulated markets would be at the core of the paradigm. This was the essence of the Fordist model.

From an economic point of view, the current Post-Fordist phase of globalization can be identified with the progressive internationalization of both the consumption and production phases of the economy, with the heightened relevance of the financial sector in creating a viable process of capital accumulation (Boyer 2000a; 2000b; O'Hara 2002a; 2003b) and with the increasing relevance attached to free trade (Emadi-Coffin 2002; Grinspun and Kreklewich 1994; Irwin 1996; Kelsey 2000; Koch 2002; Larsson 2001; Luterbacher and Norrlof 1999; Milner 1999; Werle 2001). There is much more to globalization than economic activity, but the latter has the most evident and immediate effects on politics. This is one of the main reasons for the enormous amount of work and research being done at this level.

This is also the area that best embodies the duality of Hayek and Polanyi's concerns: the attention to market processes and individual freedoms, and the concerns with the strain those same issues are going to put upon established socio institutional structures. How much of this world-changing process should (or can) be left to the process of spontaneous creation that emerges from the free market? What is the role to be played by institutions, and what part should the state take in creating these institutions or in helping to enforce their rules? These conceptual yardsticks limit the expanding field of the study of globalization. This is a study that needs to be multidisciplinary but that must also be anchored in the assessment of economic activity. While globalization cannot be reduced to economic globalization, it must include and explain it. There are many different opportunities to measure economic globalization; here I look at trade, Foreign Direct Investment (FDI), and financial flows.

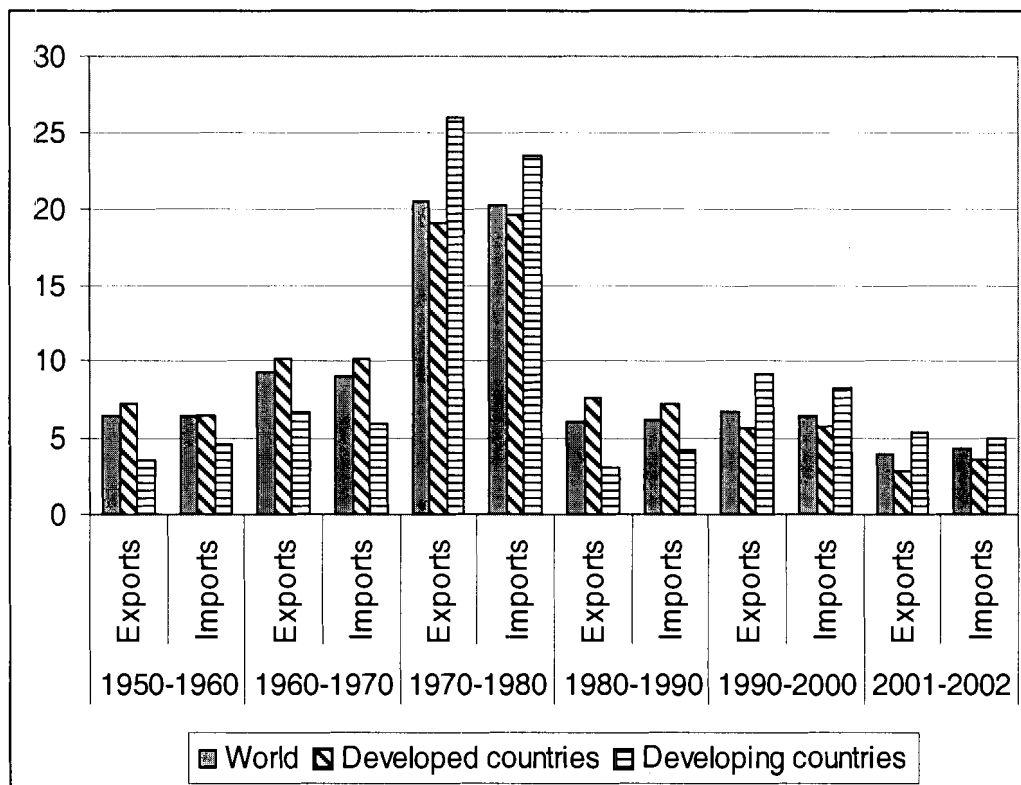
The Patterns of International Trade in Globalization

There is no doubt that the impact of economic globalization is particularly obvious when dealing with international trade, the exchange of services and goods across borders. The past half-century has seen an unprecedented increase in the openness of states in engaging in this exchange (Cohn 2002) and an impressive array of products being traded. Free trade has positive effects on the prices of commodities, because it stimulates competition among producers, drawing out the most efficient techniques and rewarding comparative advantage (Irwin 1996). At the same time, states should take care of “living within their means” and keep a close eye on their balance of trade: the difference between the money spent importing goods and the money gained through exports. It is very important to exploit comparative advantages and obtain cheap food or goods from other states, but if there is no way to repay what we import, debts accumulate and end up hurting economic growth. There is no doubt that trade has been increasing at a quick pace since the end of the Second World War. The general statement made by globalization advocates is that the progress of trade is symbolic of the advance of global trends and networks. It becomes then interesting to assess the growth of these links, in particular, how fast did the exchange of goods increase, and which group of states engaged in it? The following chart assesses the percentage growth rates of merchandise trading in the decades between 1950 and today.

While the trend is certainly towards growing interconnectedness and increased trade linkages, the years between 1970 and 1980 show the highest percentage increase in both exports and imports. Since then, the pace of trade has not kept up with the previous decades, the increases of the 1960s being generally higher than those of the 1980s and

1990s were. No doubt, world commerce has expanded and it is continuing to do so, but the efforts of the GATT/WTO and of the various regional trade blocs appear to be facing diminishing returns.

Figure 5 Percentage Growth Rates of Merchandise Exports and Imports

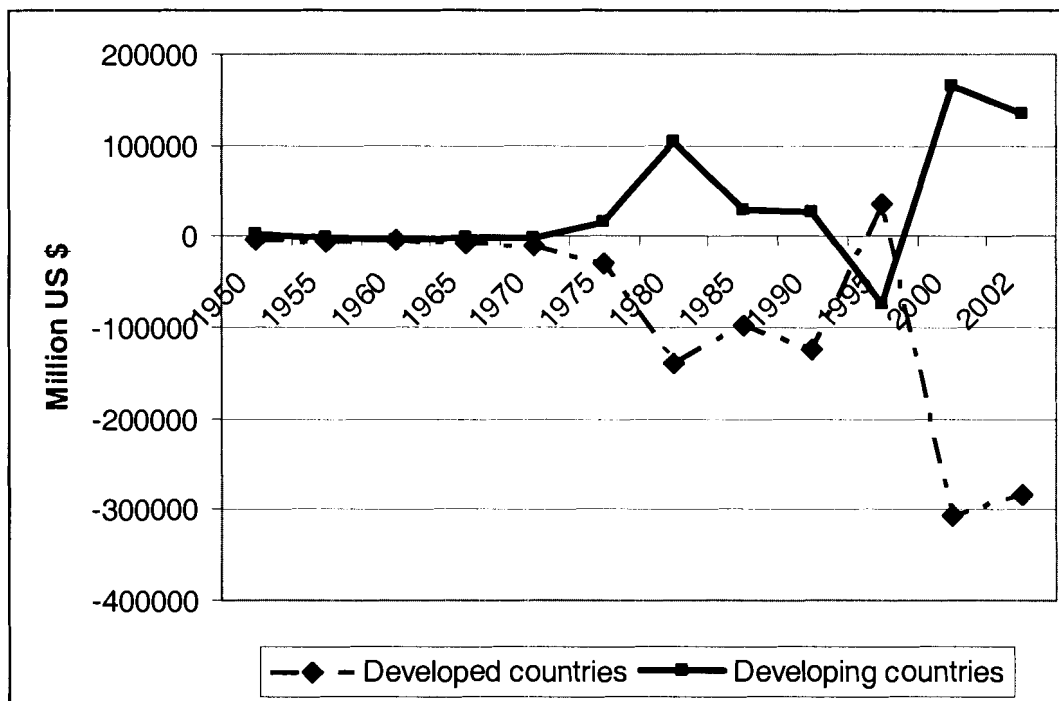


Source: UNCTAD Handbook of Statistics, various years.

Who benefits the most from free trade in goods and how it is structured? It is immediately evident that the developing states have accrued an advantage, at least in terms of their balance of trade, since the 1970s. Trade flows show that developed states are, as an aggregate, importing many more goods than they export. If we break down these data, as for example with chart six, we find that, while the USA runs an enormous deficit, which began appearing in the mid 1970s, China, Japan and the EU have run trade balance surpluses. It should be further noted that the deficit of the United States is one

deriving from the trade in goods: in 2000 the trade deficit for goods stood at US\$ 449,794 million, the trade deficit for goods and services was US\$ 375,385 million. The same trend is valid for the previous years.

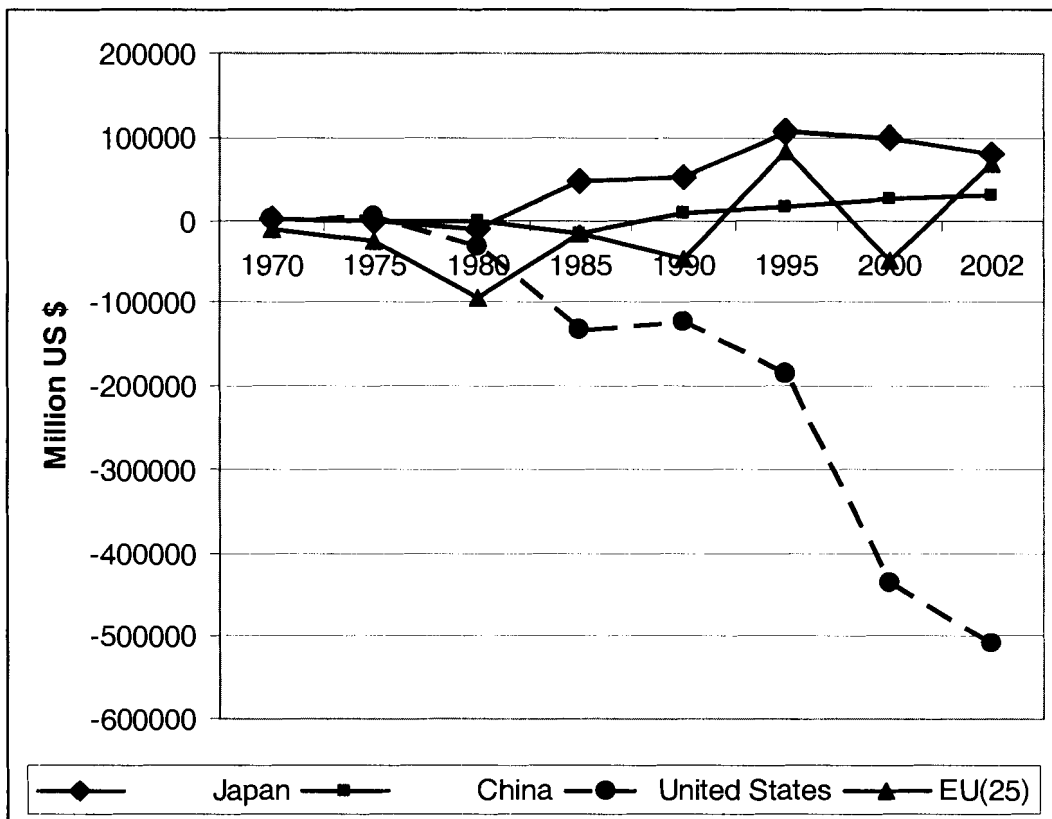
Figure 6 Balance of Trade – Developed and Developing Countries



Source: UNCTAD Handbook of Statistics, various years.

The chart above highlights the economic gains that freer trade has brought to the developing countries. While during the Fordist period relatively closed national economies prevailed and imports and exports remained close to the balance level, since the mid 1970s the developing world has increasingly taken advantage of open markets, especially in the United States, as chart six illustrates. In fact, most trading countries rely heavily on the US to consume their exports.

Figure 7 Balance of Trade – Select Trading Groupings



Source: UNCTAD Handbook of Statistics, various years.

Trade has developed alongside trading blocs that, since the end of World War II, have ceased to be coterminous with Imperial geographies even as they retained rather looser political and geo-strategic characteristics. Today a large amount of world trade is captured by free-trade areas. The table below details the increasing percentage of intra-trade occurring among some of the most important trade groupings in the world. The increase since 1970 can be partially explained by the fact that these areas tend to become more integrated and to add new partners. The European Union, for example, has seen a three-fold increase in members since the 1970s and the rules for free-trade in goods have been supplemented by those for free-trade in services and free labour mobility within the

borders of the Union itself, and by special arrangements with other countries, especially in the developing world since 1980.

Table 5 Intrade of Trade Groupings

Trade Groupings	Date of Creation	1970	1980	1990	2002	Total Exports 2002
North American Free Trade Agreement	1992	36.0	33.6	41.4	56.0	612 965
Free Trade Area of The Americas	1994	45.0	43.4	46.6	60.7	788 114
Southern Common Market	1994	9.4	11.6	8.9	17.7	16 544
European Union	1957	59.5	60.8	65.9	61.0	1 469 856
EU & Accession Countries	2004	60.1	60.9	67.1	66.6	1 699 581
Asia-Pacific Economic Cooperation	1989	57.9	57.9	68.4	73.5	2 169 919
Association of South-East Asian Nations	1967	22.4	17.4	19	22.8	94 760

Intra-trade as % of total exports and total 2002 exports in million US\$.

Source: UNCTAD 2004: 55.

At the same time, it is important to notice that the most economically advanced countries tend to trade disproportionately among themselves (Fligstein and Merand 2002) and account for the greatest majority of world trade. According to OECD analyses and projections, OECD countries held between 1990 and 2005 (and will continue to hold in the future) a commanding, if marginally declining, control over international trade flows.

Table 6 Average Distribution of Import and Export Shares – 1990-2005

	Average Imports	Average Exports
Total OECD	74.0%	73.5%
Non-OECD Asia	14.7%	15.1%
Latin America	2.8%	2.8%
Other Non-OECD Countries	8.6%	8.7%

Source: OECD. Note: Regional aggregates are calculated inclusive of intra-regional trade.

If economic globalization is premised upon the development of powerful trade networks that span global markets, then the true winners are the OECD members and the handful of Asian countries that have been gearing their economic development strategies towards export-oriented growth. Together, over the last 15 years, they have accounted for a staggering 88.6% of world exports, leaving Latin America with a mere 2.8%, and the other non-OECD countries with 8.7%. Nonetheless, the volume of trade has increased quite markedly in the past quarter century and economic integration has had the most impact on developing countries and Least Developed Countries (LDCs). As an example, developing countries have increased their exports and imports by a factor of six.

Table 7 Volume Indices of Exports and Imports (1995 = 100)

		1980	1985	1990	1999	2000	2001
<i>Exports</i>	World	45.7	53.8	72.8	130.9	148.7	144.9
	Developing countries	22.6	26.5	53.7	123.5	140.9	137.1
	Developed countries	49	56.8	74.3	126.5	139.4	137.8
	Least developed countries	30.1	43.3	66.3	130.3	125.8	139.3
<i>Imports</i>	World	45.6	50.4	70.2	127.2	142.6	141.4
	Developing countries	25.6	27.9	49.1	118.2	136.4	133.1
	Developed countries	47.1	51.5	75.1	133.1	147.1	145.4
	Least developed countries	34.7	45.7	62.5	116.8	121.3	128.4

Source: UNCTAD 2004: 59.

When comparing unit values of exports and imports we find that increasing trade has made goods more affordable for importing, with developed countries benefiting the most from these trends.

Table 8 Unit Value Indices of Exports and Imports (1995 = 100)

		1980	1985	1990	1999	2000	2001
Exports	World	82.5	67	92	84.6	83.5	81.9
	Developing countries	137.5	98.4	94.5	88.1	92.4	90.1
	Developed countries	73.7	64.5	94.9	85.8	83.5	81.6
	Least developed countries	133.5	112.5	123.7	91	110.9	100.2
Imports	World	83.6	73.8	97.6	87.3	88.4	85.1
	Developing countries	95.8	80.9	96.1	89.5	93.3	90.3
	Developed countries	86.1	77.2	99.6	85.7	86	83
	Least developed countries	125.7	106.4	123.2	101.3	98.3	97.5

Source: UNCTAD 2004: 59.

Table 9 Exports by Commodity Group in Percentage

Year	All food items	Agricultural raw materials	Ores and metals	Fuels	Manufactured goods
World					
1960	17.4	16.7	3.6	9.9	51.3
1970	13.2	10.6	4.0	9.2	60.9
1980	11.1	3.7	4.7	24.0	54.2
1990	9.3	3.0	3.6	11.0	70.5
2001	7.4	1.8	3.0	9.1	74.1
Developing Countries					
1960	29.1	28.7	4.9	25.2	11.9
1970	24.1	18.6	6.6	31.1	19.0
1980	11.9	3.8	4.8	59.4	19.1
1990	11.6	3.1	4.1	26.5	52.7
2001	7.9	1.9	3.6	16.3	65.2
Developed Countries					
1960	13.7	12.8	3.3	4.0	64.7
1970	10.7	8.5	3.3	3.4	72.4
1980	11.2	3.5	4.8	7.0	71.3
1990	8.9	2.8	3.2	4.2	78.4
2001	7.4	1.8	2.6	4.7	79.7

Source: UNCTAD 2004: 57.

As noted by the most recent UNCTAD (2004a) report, the flows of international trade have changed during the last four decades. In particular, the overall percentage of manufactured goods has increased by over 20% since 1960, moving to just over 74% of total exports. This has been at the expense of all other commodity groups, especially agricultural raw materials and food items.

Another very important trade sector in an increasingly globalized world has been the provision of services. The WTO reserves an important section of its mandate to the protection of this growing sector (Hockman and Kostecki 1995; Stephenson 2002). The importance of services in the global economy has increased consistently in the past decades (UNCTAD 2004b), becoming a key sector in OECD countries and beginning to heavily influence some developing economies like India and China.

Table 10 Services Exports and Imports

Country groupings	1980	1990	2000	2002	1980-2002	2002
Exports						
<i>Developing countries</i>	17.9	18.1	23.1	22.6	9.4	363 549
<i>Developed countries</i>	79.1	79.9	73.2	73.2	6.1	179 682
North America	14.3	20.1	22.2	20.2	9.1	325 917
Europe	57.6	52.7	44	46.9	7.1	755 184
Others	7.2	7.1	7.1	6.1	7.3	98 581
Imports						
<i>Developing countries</i>	30.7	21.4	26.3	25.3	6.7	404 401
<i>Developed countries</i>	66.7	75.9	70.3	70.6	7.1	126 053
North America	12	16.9	17.6	16.9	7.7	269 861
Europe	44.6	46.6	42.7	44.8	7.8	714 277
Others	10	12.4	10.1	8.9	7.2	141 915

Percentage of the world total, 1980 - 2002 average annual growth rate in % 2002 exports in million US\$. Source: UNCTAD 2004: 61.

Along with free trade has come an increasingly loud protest against the negative effects that these flows are supposed to have on the conditions of workers in developed countries and, correlated with the phenomenon of foreign direct investments, upon environmental and labour standards in developing countries (Grinspun and Kreklewich 1994; Tonelson 2000). The charge is, at times, well warranted, even if it generally falls short in the case of job losses in advanced economies, which are mostly linked with shifting technological paradigms (Bhagwati 2000b). So, it is important to recognize that free trade opens up both opportunities for welfare gains and some pitfalls.

The solution, when market failures emerge within the context of free trade, is not to switch to protectionism. It is to fix these market failures, while proceeding with free trade; the latter is likely to impact on socio-economic process in a complex manner; the answer is neither to discount these market failures, nor to block free trade. The economic growth that is derived from it is a powerful tool to fight poverty and illiteracy, and to create opportunities for economic and social development that go beyond the simple process of income redistribution. At the same time, the issues of fair redistribution of the socio-economic benefits and costs of economic globalization must be addressed. As this latter process becomes more contentious, as NGOs become more vocal and well organized, and as economic and financial globalization continue to increase their reach, there is an increasingly large group of people who contest the process and the results of globalization on the basis of its “social” shortcomings. Bhagwati (2000b; 2004) argues that social issues are unlikely to yield positive discussion of the problems of globalization. These arguments tend to fall under three main categories:

1. Arguments regarding wages: these generally revolve around the idea that wages in advanced Post-Fordist economies will come under increasing competition from the areas where labour costs are low. Globalization is then likely to eliminate labour intensive jobs in one country and create new ones in a different country where the input cost is lower. The appropriate response, it is claimed, is to limit free trade so that these disruptions will be eliminated. This is a fallacy and is premised on the notions that markets are much more closely integrated than they actually are, and that low-wage countries are in direct competition with people in the developed countries (Bhagwati 2000).
2. Arguments about Fair Trade: while we must certainly be careful as to the operation of MNCs abroad and at home, most of the “race to the bottom” appears to have been concentrated at the fiscal level rather than impacting upon the environmental or labour areas, especially within OECD countries
3. Arguments regarding social and moral agendas: these should be advanced, but linking them to trade is likely to disrupt both processes and achieve little in the way of either.

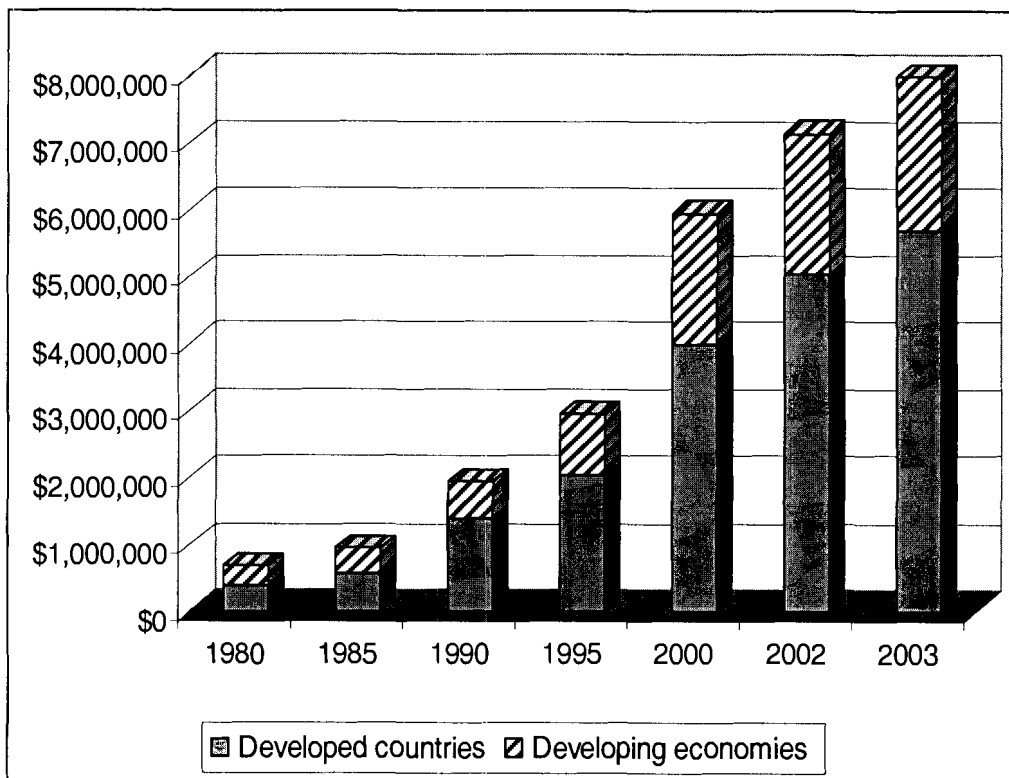
While it is possible, as some scholars argue (Tonelson 2000; Wood 1994), that global competition would compress wages in the developed world, shifting manufacture to low-wage countries, there is very little evidence that this is the main explanatory variable for falling wages in the OECD area (Bhagwati 2000 [1999]; 2002). Political variables and technological change appear much more likely to drive the process (Mahler 2004). The process that Bhagwati and Dehejia (1994) called “kaleidoscopic comparative advantage,” the very high volatility of comparative advantage in the face of closely integrated markets, has certainly put pressure on wages, especially for the unskilled, and such pressure should be countered using appropriate policies rather than by stopping free trade.

There is little doubt that trade has played a central role in the process of economic globalization. While its benefits are unequally distributed, they have generally been positive in aggregate terms. Closely linked to globalization is also the spread of Foreign Direct Investment (FDI), which I examine in the next subsection.

Foreign Direct Investment

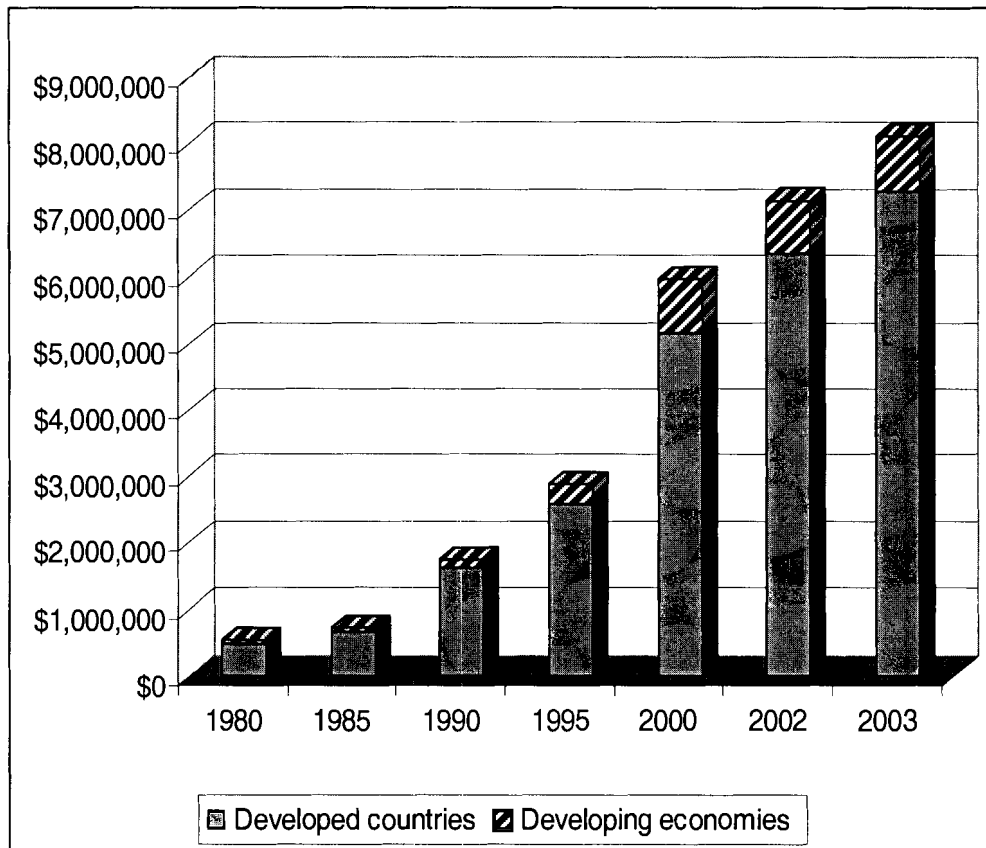
Foreign Direct Investment is defined by the United Nations Statistics Division as “investment made to acquire a lasting management interest (usually 10 per cent of voting stock) in an enterprise operating in a country other than that of the investor (defined according to residency), the investor's purpose being an effective voice in the management of the enterprise” (Code 400 – United Nations Statistics Division). There is no doubt that the importance of this tool for economic development has been one of the pillars of current globalization, increasing many times since 1980.

Figure 8 World Stock of Inward FDI – Millions of Dollars



Source: UNCTAD 2004b

Figure 9 World Stock of Outward FDI – Millions of Dollars



Source: UNCTAD, 2004b

Until the 1970s, the prevalent view of the multinational corporation was that it represented just another component of the process of capital exports (Casson 1987). This could take the form of FDI if the investors actually controlled foreign assets or of portfolio investment if they did not. The classic explanation held that FDI was determined by interest rate differentials: MNCs were simply seeking better borrowing opportunities. Hymer (1960) in his seminal work put forward four propositions that radically modified the field. First, he asked why a company would choose to seek favourable interest rate differentials by purchasing or starting a company, when banks are much better suited to the task. He also noted the FDI does not capture locally raised money or reinvested profits, which should, by rights, be a factor in the classical analysis

of foreign direct investment. Finally, why would companies choose to buy controlling interests in foreign operations instead of simply investing in smaller participation, and why would they so seldom choose to diversify their operations and continue to invest in the sector in which they traditionally operated. Another important differentiation in investment strategies is the one between vertical and horizontal integration approaches. The former is undertaken when companies attempt to secure control of downstream and upstream activities (a mining company may integrate vertically by acquiring interests in intermediate manufacturing and distribution), the latter when it acquires business at the same level in the value chain (a television company expanding to own radio and newspaper business). This will also impact on the FDI approach that companies have. In the early part of the 20th century, United Fruit operated according to a vertically integrated model, which led the company to own vast tracts of land, infrastructure and transportation facilities across Latin America (Adams 1914; Kepner and Soothill 1935; McCann 1976). Today the approach in the agribusiness sector has changed radically and FDI stocks have declined. In the end, the theories that have emerged around the nature and motives of FDI, like internalization, transaction costs, and OLI, all address the incentives that companies have increasingly been aware of and have been acting upon.

Internalization Theory: in a world of segmented national markets dominated by domestic monopolies, with falling transportation costs and weakening trade barriers, contact would happen among these oligopolies. If nothing was done, financial externalities would exist that reduce the profits of companies, but by utilizing FDI such externalities may be internalized. To Hymer (1960) MNCs seek to reduce competition, which is inherently bad for them because it reduces profits. The theory still leaves some

interesting questions unanswered. For example, why do MNCs operate in a very competitive market, and why is the use of a cartel not more widespread than FDI?

Transaction Costs/Internalization Theory: this group of theories focuses on the non-pecuniary externalities derived from market failures (the costs of using markets, including coordination and cooperation, negotiation, enforcement, monitoring and so forth). They argue that it is possible to reduce these costs for both the MNC and the consumers by seeking opportunities abroad. In other words, MNCs as organizational models are designed to organize and exploit interdependencies between agents located in different countries.

Ownership Location Internalization (OLI) Theory: John Dunning (1977; 2000) combined various elements of other theories of international investment to create an “eclectic” approach to the process of FDI. The OLI approach relies on the analysis of the advantages of Ownership, Location, and Internalization confers to the firm to explain internationalization of business. Ownership explains “why” a corporation decides to invest abroad, whereas location advantages deal with “where” the company decides to go, and internalization explains “how” the process of FDI takes place.

As the charts presented above show, the process of foreign direct investment is solidly in the hands of the developed states. Both inward and outward FDI flows shows the importance of the correlation between a well established market system and the level of investment that is attracted (inward FDI) and that can be exported (outward FDI). It is no surprise that the more advanced countries would be at the top of the list among the exporters of FDI. After all, economic globalization is about the extension of industrial and economic relations to previously underdeveloped economies. What is more

interesting is the ability of the developed economies to attract progressively increasing shares of inward FDI as the table below shows.

Table 11 Percentage of FDI Flows by Economic Area

		<i>1980</i>	<i>1985</i>	<i>1990</i>	<i>1995</i>	<i>2000</i>	<i>2003</i>
Inward FDI	<i>Developed countries</i>	56.41	58.60	71.86	68.95	67.41	71.43
	<i>Developing economies</i>	43.59	41.40	28.14	31.05	32.59	28.57
Outward FDI	<i>Developed countries</i>	89.24	89.99	92.69	89.33	86.68	89.44
	<i>Developing economies</i>	10.76	10.01	7.31	10.67	13.32	10.56

Source: UNCTAD 2004b

It is, in the end, a process that favours capitalist development but that seems to rely on institutional and organizational structures for its functioning. Between 1980 and 2003 developed countries have increased by 15% their share of inward FDI flows when compared to developing economies. Their share of outward FDI has remained the same. A few non-triad¹⁸ countries (Australia, China, Brazil, Chile, Mexico, South Korea, Singapore, Hong Kong, and Thailand) attract the largest share of inward FDI. By comparison, all of Africa's flows of both inward and outward foreign direct investment are about equivalent to Canada's and are easily dwarfed by those of economies like Germany, the UK or the US (UNCTAD 2004b). This is an important element of economic globalization, one that appears to show the limits in which the full extension of economic integration is running into. In short, a rather small pool of countries is being completely incorporated in the world economy from the point of view of industrial and service production. The more conspicuous members of this pool are developed capitalist countries that can count on specific institutional and organizational structures supporting

¹⁸ The so called Triad comprises Japan (and East Asia) Western Europe, and North America.

this activity. In the next section I look at another important facet of economic globalization: financial flows.

Global Finance

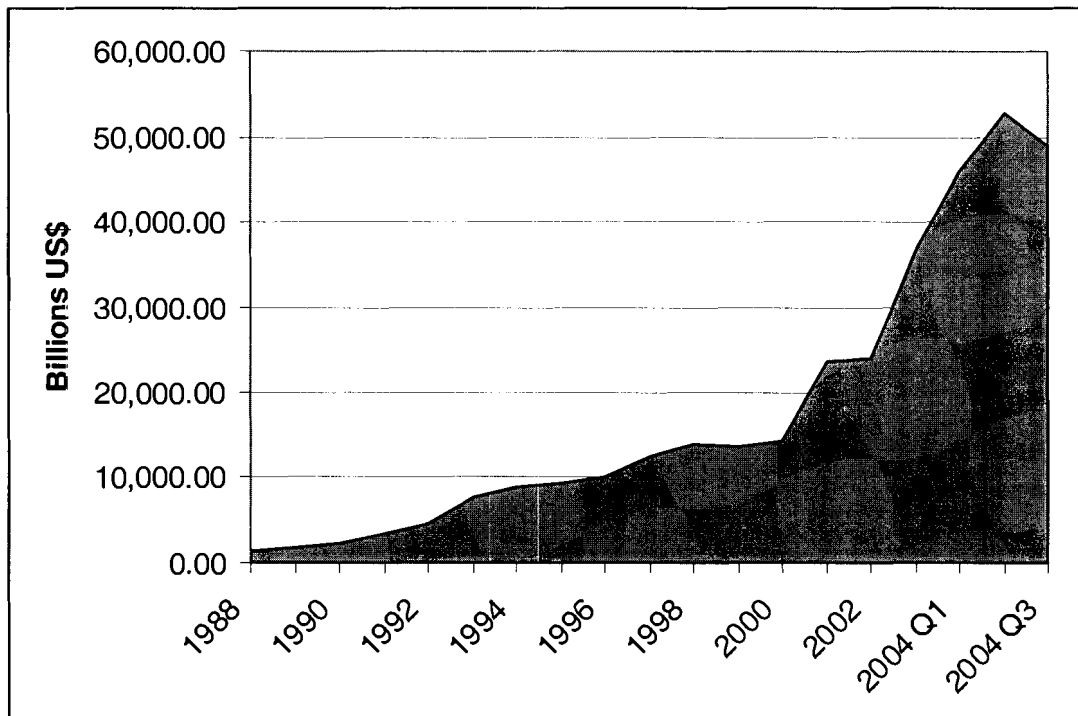
A Polanyian analysis of “politically constructed capitalism” and of the dislocations that it brought with it is easily applied to the processes of global finance. Eric Helleiner offered, a decade ago, a brief but poignant analysis of how

from a Polanyian perspective, the contemporary financial globalization trend has resulted not just from technological and market developments, but also from active choices and state decisions to liberate existing capital controls. These decisions, moreover, were prompted by some political developments similar to the ones that Polanyi identified as significant in the nineteenth century (Helleiner 1995b: 155).

This generated a series of Polanyian-type countermovements against the Neoliberal logic underlining these trends and financial flows both from the local level, from nationalist forces (Buchanan 1998), and even from organizations like the Bank for International Settlements (BIS) to some states that called for the introduction of a Tobin Tax (Helleiner 1995b).

The globalization of financial flows is an indisputable fact, adding up to a more integrated system than the trade system that emerged with great effort from the GATT and WTO rounds of the past 25 years (Fратиanni, Savona, and Kirton 2002; OECD 2005).

Figure 10 Exchange-Traded Derivative Financial Instruments: Notional Principal Amounts Outstanding



Source: OECD 2005: 186-187

Its “benevolent” effects, however, can be questioned. Economic globalization consists of financial, industrial, trade and human flows. These are interrelated, but their characteristics are separate. It is often the case, that what will work with financial flows will not be useful for trade in goods or services. Liberalization of the financial flows and capital account convertibility should be weighted against the very real possibility of financial crises. Often its proponents have had an overly optimistic view of financial globalization. Bhagwati (2000a: 6) quotes both Bradford De Long and Roger Altman to illustrate this extreme faith in a tendentially unstable process:

Now we have all the benefits of free flows of international capital. These benefits are mammoth: the ability to borrow abroad kept the Reagan deficits from crushing U.S. growth like an egg, and the ability to borrow

from abroad has enabled successful emerging market economies to double or triple the speed at which their productivity levels and living standards converge in the industrial core

.....

The worldwide elimination of barriers to trade and capital ... have created the global financial marketplace, which informed observers hailed for bringing private capital to the developing world, encouraging economic growth and democracy.

Economists and policy-makers in the United States and the United Kingdom have championed financial globalization, often making the argument that freeing flows of capital is akin to freeing flows of goods. This is not the case. While there may be important benefits for those who liberalize capital mobility, higher economic benefits may result from a FDI-friendly policy (Bhagwati, 2000). Most active, and interested, in the process has been what Bhagwati (2000c; 2004) described as the “Wall Street-Treasury complex.” The interest in freeing capital mobility showed by this network depends just as much on the comparative advantage that the American economy has in the area of financial speculation, as it does on the specific positional bias that its members share. As many of the US Treasury’s policy-makers have had close connections with Wall Street (and will most likely continue to after they retire from politics), are firm believers in the free-market approach, and tend to share the same macro-economic assumptions regarding financial flows, it is unsurprising that they would favour an approach aimed at the liberalization of these flows.

There is no doubt that financial flows have been very important in championing the cause of rules’ convergence and of greater cross-border contacts. From a strictly technical point of view, the process was very rapid. This depended on the nature of

financial markets: once the key financial centres like New York and London liberalized their regulations to attract speculative capital from abroad, they automatically set the bar not only for private investors to look forward to, but also for governments to be competitive in seeking potential investors. Making capital mobile was rather more than an economic process; it was coterminous with a decisive policy change that, once in place, drove the whole system in a common direction.

On both the right and the left, it is often argued that financial globalization has taken the international monetary system away from government control and led it towards a market-led arena (Aglietta 2000; Bryant 2003; Fratianni, Savona, and Kirton 2002). That the international financial architecture, the set of institutions and organizations managing the ever increasing and more important flows of capital across borders, has become increasingly market driven is plain to see. Yet, the past decade has shown signs of high volatility in the financial field: the 1994-1995 crisis in Mexico, the Asian financial crisis of 1997-1998, and the concurrent Russian one (1998), the problems which both Turkey (2000-2001) and Argentina (2001-2002) encountered, all attest to an apparent instability of the system. While in some cases it is possible to blame governments for the onset of the crisis, as was done for Mexico and Argentina, in other occasions, most notably with the Asian crisis, there is no such simple way out.

The need to reform the international financial architecture has been an increasingly common theme within (Bayne 2002; Eichengreen 1999) and without the scholarly debate on international finance. The discussion mostly hinges on the need to democratize (Aglietta 2000) or on the efforts to re-embed (Best 2003a) the financial

system. Jacqueline Best (2003a; 2003b) looks at the attempt made by the international financial institutions to create a new embedded liberalism, which

seeks to avoid the destabilizing force of a critical double movement by re-embedding liberalism from the top-down. ... Its advocates, like Horst Köhler, are pursuing an explicitly rhetorical strategy of persuading the world's economies of the values of Anglo-American financial institutions and norms. Also, unlike neoliberalism, this new financial architecture recognizes the limits of a disembedded global economy. Yet, rather than seeking to reign in the forces of liberalization by re-embedding international finance in the norms and practices of particular states, advocates of this new regime seek to embed a new universal set of financial norms and institutions. (Best 2003a: 378-379)

This is an important aspect of the new financial architecture and a clear reminder of the renewed relevance and impact that international organizations have on the world economy and on its institutional framing. The resilience and flexibility of these organizations and of the institutional underpinnings that support them are a novelty in a landscape of otherwise relatively static organizations like the Westphalian state. That groups like the G7 were heavily involved in setting the ground rules of the new financial regime after the bleak period between the Mexican peso debacle and the Argentinean meltdown is also a measure of how much rests on a healthy financial system (Fратиanni, Savona, and Kirton 2002). Here there is further evidence of the importance ascribed to the rules of transparency and to being forthcoming and truthful in the presentation of financial data on the part of states. The provision of new standards of accounting and banking is one of the key moments of this exercise (Fратиanni, Savona, and Kirton 2002), but not one that goes without challenge (Ocampo 2002; Vines and Gilbert 2004).

In the end, the institutional and organizational tenets of the international financial regime are being reformed: the IMF and the World Bank have made sensible and

important changes in their make up and in their activity. There should be no doubt that the changes are being brought forward for instrumental reasons: the survival of many of these structures depended on their ability to successfully meet the challenge of opposition. Recent developments appear to show that there is at least a coherent strategy in dealing with a novel “double movement” within the international financial system. It is difficult, as Best (2003a) notes, to predict what will happen to the financial regime but the current direction appears to be both more conciliatory and intent on gaining supporters by convincing them of the validity of the paradigm. This is unlikely to bring on side all of those who oppose what is, after all, still a neoliberal system, but it goes a long way in providing governments with some kind of bargaining currency with their internal opponents, increases the lustre of a pretty tarnished reputation the international financial institutions had gained in the previous two decades, and appeases at least some of their critics.

Technological Innovations

The technological advances linked to Information Technology (IT), the so called Digital Revolution, the appearance of new materials, and so forth, are responsible for the profound changes experienced in production and consumption patterns and in the financial sector. The relevance of these advances is such that we must consider them as qualitatively different from much of previous technological progress. New modes of production have been emerging, variably related to new technologies and information flows. The real contribution of the latter is at the centre of a complex debate (O’Hara

2003a; Cantwell and Santangelo 2000; Phillips 2000; Yates 2001) and they cannot be easily subsumed under some general category. Nor can they be explained away, as some have done, trying to demonstrate that globalization in the second part of the 20th century is no different from globalization in previous periods (Hirst and Thompson 1996).

New technology allows buyers in the developed world to design in real time the options of new cars they are about to purchase, to shop for out of season produce at any supermarket or to access (and pay for) goods and services from their home computers. It also has given industrial and financial operators amazing flexibility, just-in-time processes, real-time currency trading, and it has allowed large MNCs to cut costs by unloading them on captive contractors, and to expand the options of internationalization well beyond what was considered possible even a few years back. It has, in short, affected in important if differentiated ways capitalist and market activity. From a technological point of view, the Post-Fordist process of internationalization and flexibilization, and the progressive tertiarization of OECD economies is itself a result of the revolution in Information Technology, and of more flexible labour markets.

Technology is in constant flux and has a key role to play in the economic field. In the period between the 1880s and the 1910s economic globalization owed immensely to technological breakthroughs in transportation and communications (O'Rourke and Williamson 1999). Today, Information Technology is a key component of the new economy (Garrett 2000; Thusu 2000), supporting new goods and services and a whole new set of organizational rules for the consumer-capitalist system and fostering global markets (Schiller 1999) and financial networks (Cerny 1994). Technology enhances the trends set by previous inventions and discoveries, and revolutionizes consumption and

production patterns (Heffernan 2000; Howells and Wood 1993). New goods and services, like computer games and internet technology, have opened completely new markets and given people new opportunities to communicate, trade, and even structure their identities (Oh and Arditi 2000).

While these contributions are central to the process of globalization, we should not forget that it was the quantum leaps in technology that truly opened the way for sustained human contact, making individual interaction among people not only a possibility, but a common occurrence. There certainly is an imbalance in the distribution of technological advances, as with the number and quality of phone connections, or with the availability of computers and televisions, and while increasing progress in all fields of knowledge has been slow in transforming into concrete benefits for those most in need, who still lack proper access to clean water or basic medical care, the spread of technology has influenced human activity and interrelations in very deep ways.

The UNDP (2001: 27) report on technology and development argued that the current process of technological innovation was not simply crucial to human evolution, but was also creating a “network age” in which specific hubs emerged that brought together the business and the research side of the technological revolution. Technological progress is the gateway to the creation of wealth and to the achievement of human development goals alike. The importance of high tech for economic development is clearly indicated in the relevance of high tech products for all exports.

Table 12 High-tech Products Export Expansion

(average annual percentage growth in exports, 1985–98)

<i>Area</i>	High-tech Manufactures	Medium-tech Manufactures	Low-tech Manufactures	Resource-based Manufactures	Primary products
<i>World</i>	13.1	9.3	9.7	7.0	3.4
<i>Developing countries^a</i>	21.4	14.3	11.7	6.0	1.3
<i>High-income OECD^b</i>	11.3	8.5	8.5	7.0	4.4

Source: UNDP 2001: 31

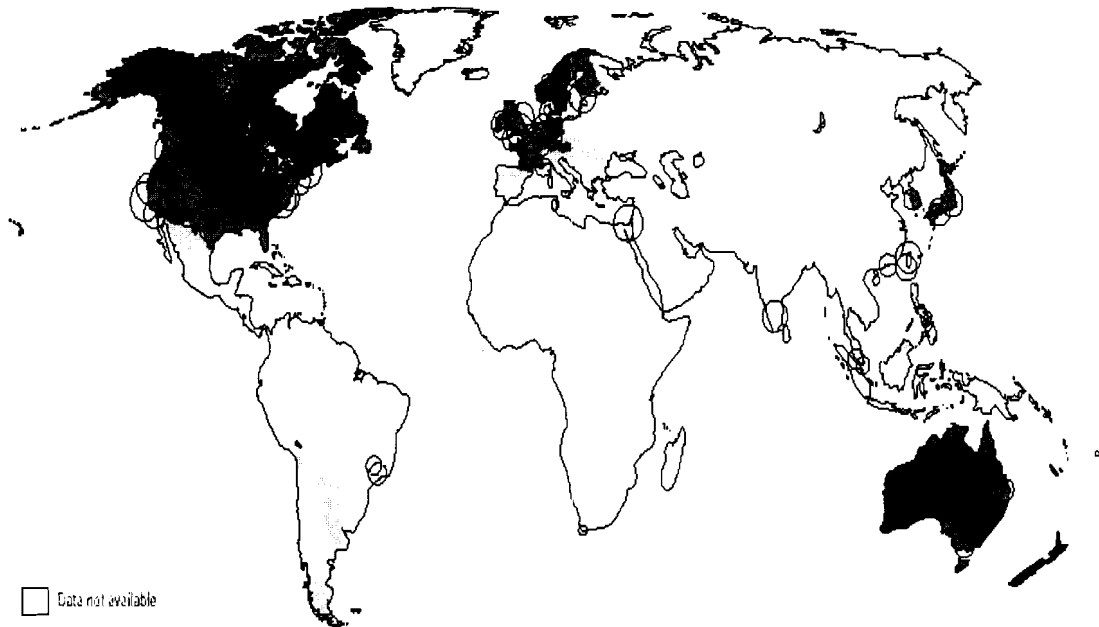
a. Includes Eastern Europe and the Commonwealth of Independent States.

b. Includes Cyprus, Israel and Malta.

The processes of technological progress and that of globalization are also noted in the report (UNDP 2001) as being quite closely interconnected and the networking of the world economy, research processes and even of societies is indicated as a major factor in the future development of the world.

Technological innovation and achievement are still concentrated mainly in the developed world as the map of their spread illustrates below. Darker shading indicates higher Technology Index scores, the circles are specific hubs of technological innovation with a larger circle indicating a more advanced hub. The distribution of technology is, once again, indicative of a dominance of the developed world, but there are encouraging signs from developing countries like India, China, Tunisia and Malaysia that show how the technological revolution of the last three decades has the potential to break down a variety of traditional economic and social barriers.

Figure 11 The Geography of Technological Innovation and Achievement



Source: UNDP 2001: 55.

The development of new technologies is not necessarily devoid of difficulties and of risks, and the UNDP (2001) report dedicates a sizable number of pages to the discussion of these subjects, focusing especially on the application of the precautionary principles, but also noting that the process is quite important and should be managed carefully but not so that it would grind to a halt.

Cultural-Ideological Factors

An important characteristic of the current wave of globalization is the ideological and practical hegemony of the market system. After the end of the cold war, Western Liberal democracies could claim not only an ideological victory over the Communist bloc but also an economic one, as planned economies quickly disappeared as alternatives to capitalism. Closely related to these premises, and deeply interwoven with them, are the

technological advances that have made much of current financial and industrial activity possible, and the organizations that have helped shape, and were crucial in enforcing, these models.

Culture also came into play. Ideas that were structured around the meta-narratives of the market system and of the democratic process are constitutive of ideological attitudes.¹⁹ This cultural-ideological substratum has played a key role during the second half of the 20th century as the fundamental tenet of Liberal democracies. Slowly, these factors have become hegemonic in the First World and have marginalized all other competing views of social organization. Today, alongside the right to free elections and human rights, a majority of the citizens of the OECD are deeply committed to the benefits of the free market, even when the corollary to this commitment is the acceptance of individualism and consumerism.

The diffusion of the cultural-ideological milieu of capitalist democracy was facilitated by states, Multinational Corporations (MNCs), some Non-Governmental Organization (NGOs) and the many International Economic Organizations (IEOs) that flourished since the 1940s. The result of their close interdependent relation has been the global spread, but not necessarily the global acceptance, of the political, economic and social models that emerged from the First World. Recently this has meant the global reach of production and consumption patterns alike, and increasing economic, societal and political pressures on polities to conform.

¹⁹ When I talk of ideology I refer to Sartori's (1969) definition of ideology as a mental state in which strongly held beliefs are extremely difficult to change because of a "closed attitude," resistant to change. This in opposition to a pragmatic state, which is characterized by loosely held beliefs and an "open attitude" towards modifying our position. Sartori often exemplified the two comparing them to different types of nets: ideology is much like a fine-mesh net, its holes are small and only small changes are allowed, pragmatism, just like a wide-mesh net, has much bigger holes and is therefore amenable to more substantial redefinitions.

These are the grounding pillars of the dominant meta-narratives of the capitalist system. These meta-narratives are structured around a set of founding myths of market theory and an ideological mentality (Sartori 1969) that is often closed to other interpretations of reality. In particular, the free market approach has been supported using a select number of notions and ideas that have become the founding myth of the market. The progressive spread of neoliberal practices and beliefs has been met by increasing concerns about the nature and depth of the sacrifices that they would require in terms of social protection. Liberal individualism, its focus on personal freedoms and spontaneous organization, especially in the realm of markets, often clashed with the notions of state intervention, group rights and solidarity that were the hallmark of the previous socio-economic paradigm. The inherent tension between the two models and their effects has been heightened by the markedly oppositional nature of the debate, which often pitted the “market” against the “social” artificially disconnecting them, one suspects, to more easily reduce their relative weight in the opponents’ argument.

At the core of the definition of the market as an objective scientific method of socio-economic organization, are notions like Adam Smith’s (1776) “invisible hand” (the prime mover of the market), the scientific nature of economics, the elevation of purportedly unbiased economists to the role of “philosopher kings” of the modern world, and their ability to present their advice in factual rather than evaluative terms. To reinforce this point, the role of the State was, often *a priori*, cast in a negative light by neoliberal economists like Friedman as the bungling of a political class that was emotive and irrational and that, therefore, could only produce economic inefficiencies.

Organizing the socio-economic system according to economic rationality as demanded by the theory of the free market also required that individual actors comply with a liberal individualistic outlook of life and society. Following a Polanyian outlook, many scholars argued that, as a result, economic activity became increasingly disassociated from its social setting and from the consequences it had on that setting, creating an artificial rift between the *Homo Oeconomicus* and its social and natural environment. There are obvious links between the tendency of the neoliberal state to reduce certain social expenditures, for example funding to women's groups (Van Til 1988), and the establishment of a market-oriented society. The transition, though, has been contested:

Reinventing the free market has effected profound ruptures in the countries in which it has been attempted. The social and political settlement which it has destroyed – the Beveridge settlement in Britain and the Roosevelt New Deal in the United States – cannot now be recreated. The social market economies of continental Europe cannot be renewed as recognizable variants of post-war social Christian democracy. Those who imagine that there can be a return to the 'normal politics' of post-war economic management are deluding themselves and others. Even so, the free market has not succeeded in establishing the hegemonic power that was envisaged for it (Gray 1998: 19).

The predominant position that this set of cultural and ideological parameters has achieved within consumer-capitalist societies and the quick inroads that it has gained in other areas is quite striking. These advances have been fundamental in building and supporting globalization. At the same time, the process has also created a vast and diverse opposition, which has crystallized around what Held and McGrew (2002a) call global sceptics. I have noted above the broad political spectrum that is comprised within this camp. From trade union, to neofascist parties, to aboriginal groups, many feel that they

will lose by being subjected to globalization. Just as many believe that their involvement in it will turn out to be beneficial.

I argue that much of the difference between the two fields can be explained by their material and power relation to globalization: generally those who oppose globalization experience and understand it as an imposition, while those who support it have some part in the shaping of the processes themselves or are otherwise included in the process of choice. The resistance that we are seeing against globalization and its socio-economic effects has “geographical” characteristics. In Europe, especially in France and Holland, the increase in transborder ties, epitomized by the recent referendum on the new European Union constitution and the processes of globalization have been strongly resisted.

The French political spectrum appeared fragmented by the choice, with left and right wing organizations often internally split on the issue and with a large number of the more radical anti-globalization groups adamantly against the project, as was shown by the fiery campaign led by Bernard Cassen, the honorary president of ATTAC. The sharp rejections from both countries’ electorates²⁰ led to dismissal of French Prime Minister Jean-Pierre Raffarin and bloodied not only the process of European integration, but also the global project by using alternatively the concern about the excessively liberal nature of the constitution and the fears of unchecked immigration as supports for the no vote. Much of the same fears and comments could be heard in Holland, a country that used to be a fierce supporter of European integration and that had a liberal immigration policy and certainly little history of racism. The wide differences in culture, religion and history

²⁰ In France 55% of voters rejected the new European constitution, while in Holland over 61% said no to it.

between France and Holland seem to argue against an “emotional” vote against the EU enlargement and appear to speak more of a limit that has been reached with regard perhaps to the excessive centralization and aloofness of the European Union, and perhaps of the mounting concerns that are seen in further globalizing these societies.

This may mean both an expansion of immigration policies and a further extension of liberal market principles. There is little doubt, though, that this is a crucial issue at this point. The fact that after these results both Britain and Poland decided to postpone their respective referenda on European integration, and that the Brussels meeting of mid-June 2005 failed to reach a compromise on the future of the European Union opens what certainly appears now as a deep political crisis regarding the direction of this project.

The political and ideological side of globalization is quite important and, at least in Europe, voters are increasingly opposing the current rules and practices of international integration. Their complaints are diverse and at times at odds with one another, but often reflect the lack of participation and the limited democratic flavour of global and supranational organizations.

Organizational Structures

Because chapter four is devoted to the analysis of organizations, here I limit myself to sketching their relevance to global processes, leaving for later a more detailed treatment. All aspects of globalization are closely connected to the organizational structures that have supported them (Went 2004). States, multinational corporations (MNCs) and the international organizations that regulate and shape the international

capitalist regimes are closely interrelated and are necessary to the current form of globalization. Without MNCs, the main transmission belt for global capitalism would not be in place, nor would the central pillars of economic globalization be as effective. Without the development of precise and effective regimes for the cooperative structuration of the capitalist economy and for the resolution of economic disputes, the system would not have been as successful or as integrated. Considerable amounts of resources would have to be expended by states to achieve the same results.

The increased weight of IOs in the process of globalization is certainly linked to the progressive role they have played in the realm of international relations both at a global level and, in particular, within OECD countries. Since World War II, international organizations have brought together countries and found solutions to complex issues regarding trade, security, the environment, agriculture, war crimes and so forth. Of course, not all results are balanced or positive: these organizations still reflect power differentials and specific agendas. The most powerful states are still going to be able to reap the largest rewards from the process but benefits are shared among most actors (Bhagwati 2000c; Brenner 1998; Stiglitz 2002; UNDP 1999). That this distribution may be uneven and skewed is not often disputed (UNCTAD 2004a). Various analytical efforts attempting to evaluate and explain the effects of these distributional patterns have been made (Kiely 2000; Sklair 1999; Wolf 2000) and there is little doubt that the more advanced and richer countries have been in the forefront of global trends. Still, significant spaces have been opening within international organizations for actors like India and Australia, which we would not necessarily call superpowers (Cohn 2002).

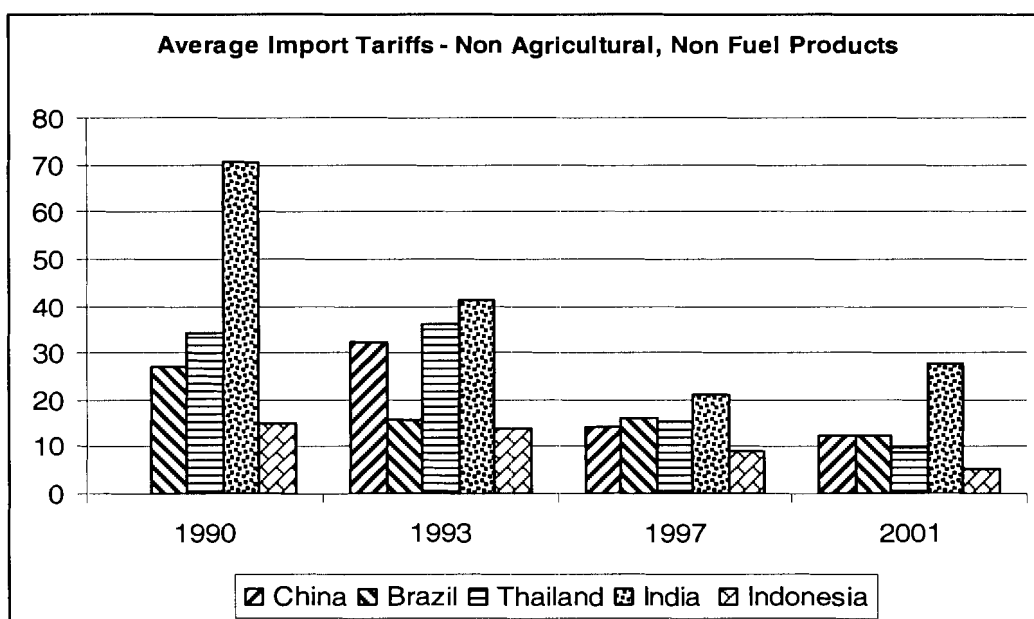
Without the willing participation and ideological support of First World states, the domestic implementation of the international rules we have mentioned above would be too costly for any international organization. A combination of the two is required and I argue here that one of the truly relevant novelties of the current wave of globalization has been the increased relevance of international organizations (Bordo, Eichengreen, and Irwin 1999) in supplying crucial resources and inputs for the creation of global regimes and in legitimizing them. I also argue that these inputs have had an uneven impact on the various economic realities they have been applied to, because they often have been designed in a relatively rigid manner as a Neoliberal “one-size-fits-all” project.

International organizations, since Bretton Woods, have provided a crucial backdrop for the creation of closer economic, ideological and political ties that advanced the cause and the reality of globalization. These organizations function as fora for epistemic elites to work out the rules their members ought to abide by. What favoured this development was a set of inter-related variables. On the one hand, these organizations dealt primarily with global economic and financial issues. Membership was, therefore, premised on the possession of a high degree of esoteric knowledge in the field, and power was usually allocated according to the relative economic or strategic weight of each state. While this arrangement meant less bargaining power for the smaller and for the less developed ones, it helped to establish a clear hierarchy and purpose for the Bretton Woods organizations along with ensuring that only a certain type of highly skilled professional could purposefully participate in their policy-making.

On the other hand, the continued interaction among personnel who shared a relatively homogenous set of basic knowledge and needed only minimal socialization

into the rules and processes of the organizations, helped to foster a climate in which decisions and directives to member states emerged from a pool of seemingly unanimous intent. Many of the rules that have supported increased economic and financial flows and interdependence have been devised and implemented through international organizations that have become more and more instrumental in brokering and enforcing agreements (Cohn 2000). The organizations that originated from the Bretton Woods accords have achieved staggering results in opening new markets for both goods and investments, in reducing tariffs and barriers to trade and in promoting the free circulation of capital. Since the 1990s tariffs decreased steadily for manufactures and services.

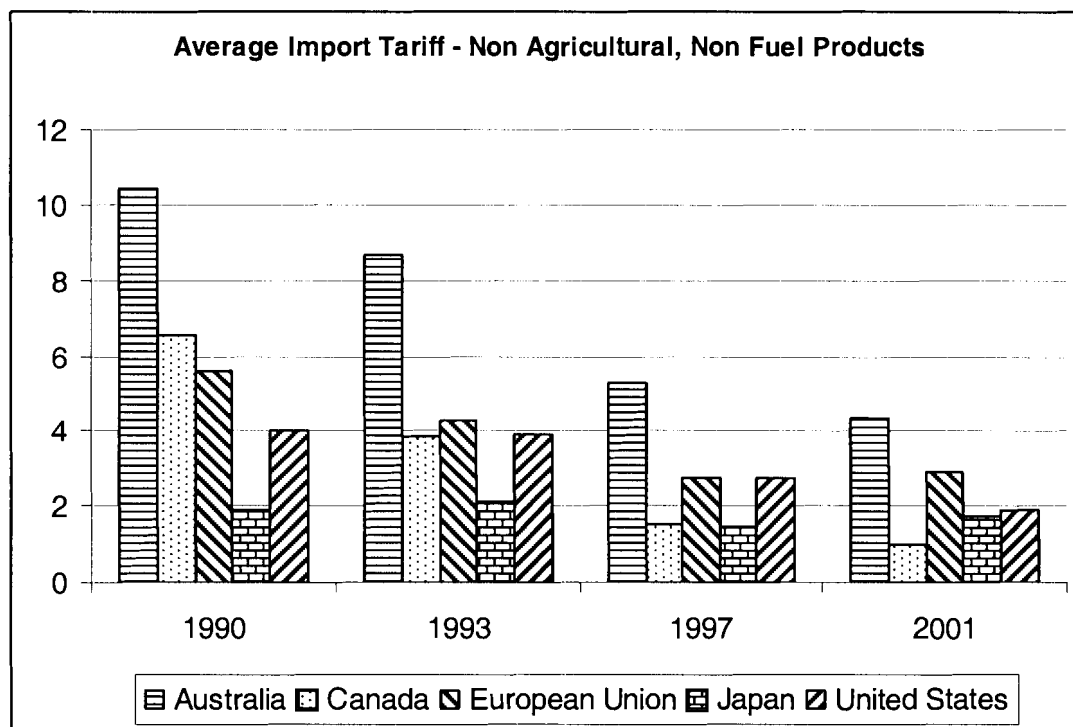
Figure 12 Average Import Tariffs 1990-2001 – Select Developing countries



Source UNCTAD Handbook of Statistics. Please Note: 1993 data for India refers to 1992. Data for Thailand in 1990, 1993 and 1997 refers, respectively to 1989, 1992, and 1995. Data for Indonesia in 1997 refers to 1996.

While developed states have achieved the lowest tariffs, the developing world has reduced the average import tariff by the largest amounts.

Figure 13 Average Import Tariffs 1990-2001 – Select Developed States



Source: UNCTAD Handbook of Statistics. Please Note: 1990 data for Australia refers to 1991 and the 1990 data for Canada refers to 1989.

There is a deeply integrated connection between the current process of globalization and the emergence and extension of the system of international organizations (both private like the MNC and Greenpeace, and public, like the IMF) that have connected, supported, channelled and shaped these interactions. Organizations operating at the international level have functioned as the transmission belt not only for goods and services, but especially for institutional parameters and ideological and philosophical positions, and as examples of functional and efficient arenas for cross-border coordination. They have enabled the continued existence and the viable evolution of international regimes around which so much of the praxis and the theory of globalization have been built.

Their growth has increased enormously since World War II, as Boli and Thomas (1999) show in their analysis, and they have expanded the number of areas included in their activity and the scope of their action.²¹

Table 13 Creation of New International Organizations

	Before World War I (1875-1913)	Interwar Period (1919-1938)	After World War II IGOs (1946-1964) INGOs (1946-1973)
<i>Number of IGOs</i>	Range 9-29 Average 23	Range 52-83 Average 74	Range 94-190 Average 142
<i>Number of INGOs</i>	Range 26-245 Average 88	Range 209-646 Average 476	Range 753-2968 Average 1778

Source: adapted from Boli and Thomas (Boli and Thomas 1997; 1999) and Barrett and Kurzman (2004: 501)

These organizations become, therefore, a key variable in the analysis of global trends because they embody the actual patterns of activity within the global arena and underscore the new dimension of human interaction: across rather than within borders.

State and Globalization

One of the areas of intense scholarly debate regarding globalization concerns its effects on the nature, scope, power, and reach of the nation-state (Axtmann 2004; Berger 2000; Boyer and Drache 1996; Broomhill 2001; Cable 1995; Conley 2002; Garrett 1998c; Helleiner 1995a; Jessop 2000b; 2001d; 2002a; 2002b; Robinson 2001). I argue that, while there have been some significant changes in the way the social, political, and

²¹ Boli and Thomas (1997: 175) terminate their analysis in 1973 because this is the last year in which the Union of International Associations data can be considered comprehensive. Numbers in the UIA yearbooks are now much higher.

economic realms are structured, and while these changes may be the harbinger of an even deeper transformation, the state has been able to adapt to these transformations and, to an extent, benefit from them. This is not to say that the Westphalian structure is going to be with us forever. There are indeed signs that the realignment of economic, industrial, cultural, technological, and social flows may, in the long-term, lead to a different form of political organization, perhaps towards an international source of power, and especially of authority.

These changes may affect the economic foundations, ideological orientations and external constraints that, in the pre-Westphalian order, allowed for the flourishing of different types of territorial, and non-territorial, political systems (Spruyt 2002; 1998) and may spur the emergence of non-territorial powers. This evolution, though, is not upon us yet and the nation-state is still a strong political and economic player, even if new international structures have entrenched themselves in both of these arenas. States have different weights and different capabilities in the global arena. This is not in dispute. At the same time, the new policy arenas that are being created by globalization, the new set of opportunities and constraints that have emerged in an increasingly interconnected and interdependent world are creating (along with some new constraints) new opportunities. Consider for example the emergence of the Cairns Group at the the WTO, and the ability of some developing nations to influence the direction of the Doha Round. Some states have managed to hang on to nationally specific standards in their labour markets (McBride and Williams 2001), and others have retained very strong welfare states, even when they were forced to modify at least some of their policies (Armingeon and Beyeler 2004; Esping-Andersen 1996; Nielsen and Kesting 2003; Södersten 2004).

The most recent transformations in the international political landscape seem to point towards a renewed relevance of international political structures like the European Union, NATO, and the United Nations but also of more eminently economic ones like NAFTA, Mercosur, APEC, IMF, and the WTO (Aglietta and Moatti 2000; Blyth and Spruyt 2003; Camdessus 2001b; Fratianni, Savona, and Kirton 2002; Howse and Nicolaidis 2003; Michelmann 2001; O'Brien et al. 2000; Stiglitz 2002; Woods and Narlikar 2001).

The relationship between the nation-state and these organizations has been of a dual nature. On the one hand, the nation-state has found in the international structures a handy target for shifting public anger and the blame for unpopular policies and at the same time has used them as meta-quests. Often, membership in international organizations and adherence to their rules are seen as superior goals to be aspired to in the process of restructuring the social and economic fabric of the “global economy.” Examples of these meta-goals can be seen in the regular attacks of the French farmers against WTO and EU regulations, the frequent references made by politicians in European countries to the need for sacrifices to be made in order to fit into the EU economic framework, or the Canadian government’s mantra that successful membership in NAFTA requires the downsizing of the welfare state (Rhodes 2002). Have the international organizations put forward a specific agenda? Have they fostered an economic and industrial climate in which the OECD countries, chiefly the USA have benefited from? Has access to the organizations been skewed towards the richest countries? Absolutely. This is so obvious that should not really have to be reiterated, but I believe that globalization has been able to generate spaces that can be used by less

powerful nations and individuals to interject in this power dynamic and to bring a new vision to the global processes. In my thesis I do not want to deny the power structures that exist both within international organizations and among states. Rather, I wish to stress the options that are open to those who are marginalized or limited in their participation to the process.

On the other hand, international structures have used their position to bypass and overtake the state. The European Union has made ample use of its industrial and economic grants to reach out directly to local governments; NAFTA regulations allow companies to sue the state in matters of investment (Chapter 11). That local governments, associations, and businesses cooperated more or less closely with the Westphalian political structures is not to say that they could not more profitably interact with non-territorial organizations. This is especially relevant where the technological, cultural and social evolution of the last twenty-five years has forced national legislation to catch up to, rather than set, guidelines for socio-economic systems. Individual states have had a predominantly reactive role in regulating, for example, the production, marketing and consumption of either traditional and new goods, or the movement of both skilled and unskilled labour and generally of production factors across borders. Just as important, the state has had a largely reactive role in dealing with flows of information, images, symbols, ideologies, roles, and aspirations that have contributed to the unbundling of individual identities (Elkins 1997). This has forced many a state to confront, and try to adapt to, a loss of control over a crucial part of state building: the shaping of identity through the control and labelling of these flows (Appadurai 1990; 1996).

In this context the debate around governance is directly relevant to globalization (Cerny 1999; Cooley 2003; Desai and Redfern 1995; Gilpin 2002; Hirst and Thompson 1999; Koenig-Archibugi 2002; Rosenau 1999; 2002; Scholte 2002b), in particular as it refers to international organizations (Emadi-Coffin 2002; Howse and Nicolaidis 2003; Hurrell 2001; O'Brien et al. 2000; Stiglitz 2003a; Woods 2002; Woods and Narlikar 2001). The concept is usefully approached by Scholte (Scholte 2002a), who explores the nexus between globalization and governance by looking at how civil society can participate in the process. It is, in a way, an analysis of the public sphere and of its relevance within the global realm, analyzing the sphere of effective democratic rule. Scholte (2002a) sees globality as the superseding of statism as the framework of social geography by supra-territoriality. This does not mean that national states have become irrelevant; some of the powerful ones are, in fact, still very active. What is obvious, Scholte argues, is the democratic deficit that has emerged within this area which he ascribes to two structural characteristics. The first is “the disjunction between supraterritorial spaces and territorial self-determination” (Scholte, 2002a: 290), meaning that nationally designed mechanisms of democratic accountability are not workable in the international field. The second is represented by “the changing contours of the demos under contemporary globalization” (Scholte, 2002a: 290), which often has abandoned nationalist claims and has, instead, forged multiple loyalties and solidarities across borders. This is an altogether logical position, as nationalism is incompatible with globalization because it cannot countenance those bonds or an integrated economic system without seeing a threat to its “purity.”

Civil society has the potential to make globalization more democratic along six lines: 1) “giving voice to stakeholders” 2) generating opportunities for public education on global issues, 3) fostering debate; 4) “increase the public transparency of global governance”; 5) “increasing public accountability of the regulatory agencies”; 6) increasing legitimacy through the implementation of the previous five steps (Scholte, 2002a: 293-294). Civil society itself has many hurdles to overcome before it is able to do so; it is not the panacea for the democratic deficit of globalization. It has to overcome its skewed background and the limits it faces in its relations with other actors. Even then, it should always be considered as a necessary, but not sufficient, adjunct to the development of a truly efficient body of supranational law and governance and an effective means to scrutinize supranational bodies (Scholte, 2002a).

As technological, cultural, and economic flows become ever more disjointed from the structures of the centralized state and from its public policies, a political vacuum is created. Thus, opportunities arise for new and old organizations: multinational corporations, international political and economic structures, local governments, international non-governmental organizations, like the Sierra Fund or Amnesty International, but also mercenaries, the new merchant princes, terrorists, organized crime, and religious integralists of all stripes, who may attempt to define some of the new identities of the globalized world (Minc 1993).

It is then crucial, that the control previously exercised by the state be replaced with true gains for all who embrace the process of globalization, and that this process be as inclusive, open to debate and humane as possible. New arrangements must be premised on the goal of enhancing and respecting the dignity of all human beings

notwithstanding their status, gender, creed, or actual contribution to the market. Some authors, while still highlighting the loss of policy control experienced by the state are less than ready to ring the death knoll for it. A variety of approaches remind us the nation-state is bound to see its role change within the context of globalization especially as economic policies become ever more dependent on global interests (Cable 1995; Castagnoli 2000; Miozzo 2000; Narula and Dunning 2000; Sklair 2002). Petit and Soete (1999) stress the relevance of information technologies in transforming the context of globalization, reducing the relative weight of trade and FDI as constituting parts of the process. Policies, even in the national context, cannot be implemented without regard for their international effects and these latter have become even more common in recent years. This holds true not only for industrial or trade policies, but also for social and fiscal policies, which traditionally belonged within the domestic sphere. States are caught within a fragmented landscape of uneven liberalization, disconnected international regimes (focusing on specific issues and embodying different levels of liberalization), and an ultimately hierarchical international structure that still relies predominantly on power. They need to retool their policies to deal with a situation in which national decisions must take into account local, regional, and international realities.

The first step is to analyze the relationship of the state to globalization. In the introduction, I presented a quick sketch of the process that is at the root of the current phase of globalization: the changing role and bases for legitimacy of the nation-state, the spread of free markets, and the increased ability of individuals, groups, and organizations to communicate and enter into close, continuous contact. While these processes are

undoubtedly interrelated and interconnected, here I focus on the first one, the nature of the state.

In its European inception, the nation-state functioned as a vehicle for the integration of the culture and identity of the populace within specific territorial boundaries. It replaced previous formal political structures (Spruyt 2002) and the “ruled” were transformed into citizens who shared a common, if at times mythical, metanarrative that dictated their ideological stance, socio-cultural activity, economic and organizational development, and political approaches. As it responded to changing needs and challenges, the nation-state incorporates democratic components in its structures and became the unique model for post-colonial political relations. Whether this is a mimetic process, the result of path-dependent policy, or the callous imposition of a colonial superstructure upon the then emerging international community, is too broad a topic to deal within this space.

The truth is probably that co-causality is a strong suspect here. For better or for worse, the international community confronted the second half of the 20th century presenting a remarkably homogeneous organizational front. States, whether embodying liberal-democratic or socialist principles, remained its core actors. At the international level, imperial structures that had been built on the impetus of European nationalist policies, collapsed under the pressure of national(ist) independence movements. The new panoply of independent states was much less organic and homogeneous than the European core had been because it inherited the bitter legacies and impossible borders of its colonial masters. As the institutional and organizational characteristics of the age of

empires were discarded, new ones emerged to regulate, coordinate and enforce the political, economic, and social relations among communities.

International organizations like the UN, IMF and World Bank began to frame matters of “high” governance, MNCs captured cross-border economic relations, the EEC/EU proposed the first true non-ecclesiastical supranational model since the Holy Roman Empire, and (of late) private associations and groups have begun to contest and negotiate their own political space in this new reality. I shall expand on this notion further below. At this point, it is important to notice that the significance of the state has shifted, rather than having disappeared, that it is challenged rather than being made redundant. States embody in their institutions and organizations the results of specific socio-historical processes. They control the deployment and nature of social relations, determining acceptable patterns of human interaction and they do so in a complex, dynamic setting. The degree of control that the state can exert over both international and domestic matters varies, of course. It depends on the relative power of the state with regard to a specific matter; it can retain control over policy either in a direct manner, or in an indirect one. In the latter case, it can use its power of agency within International Organizations or it can regulate and control the still crucial domestic setting in a manner that is in line with its interests.

Since the end of the Fordist compromise, and the establishment of neoliberal governments in most of the advanced capitalist economies, pro-market policy-makers at all levels (local, regional, national and international) have been trying to selectively reshape the patterns of action and the spheres of responsibility of the nation-state. This was not an ahistorical process: they were, in fact, reshaping the Fordist welfare-state and

its Keynesian policies. Just as they have given a freer hand to MNCs to organize production and consumption networks across the globe, thereby limiting the role and scope of the public sector in the same arena, they have kept for themselves, if not concentrated, the areas of security and control over individuals and groups.

Of course, policy choices generate path-dependency and not all options are open to the decision-maker: the Keynesian welfare state could not be supported by the declining Fordist economic model. Nor can internationalization of production in labour-intensive manufacture be easily abandoned, or financial intermediation reversed. From the point of view of the nation-state, globalization has been a period of heavy engagement, not of retreat (Weiss 1999; 2003). Since the 1970s, globalization has meant the careful and costly restructuring of both the domestic and international arenas in a neoliberal fashion. *Laissez-faire* regulation may be less bulky than the regulation that welfare-states had in place, but it is not necessarily easier or less painful to enforce. Globalization has been an eminently political process, because it has entailed a massive restructuring of the patterns of social relations at the global level. The number of MNCs operating in this environment, the scope of international financial regulations, the percentage of GDP spent on “social” services are all useful signifiers of a changing polity, where economic, cultural, technological and organizational changes have emerged forcing us to question and change our previous models. At the core of the analysis, though, must rest the state of social relations.

That social relations must be free is the message of both the Hayekian and the Polanyian perspectives. As I show in the next chapter, both anticipate Foucault’s (1971) idea that, when a paradigm or ideas are imposed, a coercive and arbitrary action has taken

place. Both argue, in different ways, that this coercion must be minimized. For Hayek, the context must be that of spontaneous ordering: injustice may emerge but, at least, it will not be determined by those who rule and if enough people perceive it as such, it is likely to be addressed. To Polanyi, the danger was also in unfettered elites and interest groups coercing the nature of social relations, but this time it is about capitalist elites “disembedding” economy from society.

Culture and Globalization

Another area in which some relevant, if contested, changes have taken place is culture. It is true that there are many who write about a global culture without bringing forth convincing arguments to sustain it (Hannerz 1996). It is also true that the concepts of creolization and hybridization are couched in a Euro-centric analysis that, following Geertz (1973), understands culture primarily as textual, often conflating “the experience of the observer and that of the observed” (Friedman, 2000:644). At the same time, culture has been an important part of global changes. This is true, not so much because a far-reaching, encompassing culture that effortlessly cuts across geographical borders and human differences has taken shape, but, rather, because groups and individuals have been exposed to novel processes, images, symbols, ideologies, products, and ideas at a rate and from a variety of sources that is unmatched in history. Cultures and identities are dynamic concepts. They can be created and influenced by a variety of variables and their maintenance depends on the creation of a dynamic equilibrium. Factors like status, religion, race, traditions, patterns of production and consumption, geographical location, class, and education just to quote a few, have an impact on culture and development.

They do not emerge from a vacuum, and are not as monolithic or homogeneous as some like to think. Even when the centralized nation-state was the dominant power in both the domestic and the international arenas, and its structures provided many of the facets that defined identities, suggested many of the interpretive pathways people used, and predetermined many of their loyalties, different classes and groups construed their identity and their cultural responses according to the differences in their material, emotional, political, and psychological experiences.

In many cases, a considerable overlap may exist in the cultures of parts of a nation; at times, though, important differences may emerge. After all, the nation-state is a political construct that emerged well after the formation of social groups. It certainly had a strong inter-relation with these groups but remains a temporally posterior and conceptually European notion to the groups themselves.

If, as it seems logical, different hues of culture and identity apply to different groups, then the relative weight of these norms in a certain society and, perhaps more poignantly in the case of globalization, their role in influencing the content of the dominant discourse should be investigated²². Especially when considering the role of communication and inter-relation in the formation of cultural patterns and identities, it is

²² It is, in fact, perfectly viable to think about the existence of different cultural and ideological explanations of the world, meta-narratives as Post-modernists would call them (Lyotard 1984), each vying for the opportunity to impress its value system on society's activities. It is in this environment that different meta-narratives interact and compete. The results are varied and depend just as much on the ability of these models of reality to convince a certain social stratum of their correctness, as they rely on real coercive elements. In an elite-driven society, where coercion and exclusion prevail over political inclusion and mass participation, elites are replaced with their meta-narratives, they "circulate" in Paretian terms (Pareto 1935) In more democratic settings ideas and positions compete for the support of the electorate within a set of specific advantages and constraints for the various groups that participate (Lindblom 1977; Lindblom 1982; Lindblom 2001) It may even be possible to frame the emergence of a dominant cultural framework using the concept of hegemony as detailed by Novell Smith and Hoare (Nowell-Smith and Hoare 1971).

evident that the number of sources for these inputs has grown quite dramatically since the last wave of globalization began. Nowadays the state is seldom the sole purveyor of information and opinions. Increased participation in the free trade capitalist economy, driven as it is by Western and Japanese MNCs, has meant increasing penetration of products, marketing techniques, symbols, images, and ultimately of the media and the ideas that were originally developed in (and often designed for) the core regions of the liberal democratic-capitalist system and for its body of citizens/consumers.

Particularly effective has been the diffusion of a cultural and symbolic milieu favourable to Neo-Liberal economic notions. The ideas of free trade, open markets, international competition, and of the global economy, the value of a balanced budget, of a certain path towards economic development, reliance on Foreign Direct Investment, abiding by the rules and procedures stipulated by the IMF or the World Bank, are all part of a cultural as well as of a practical definition of economic globalization. While some of the concepts faced an uphill battle to establish themselves, today their resurgence appears powerful and their staying power intense (Irwin 1996; Yergin and Stanislaw 1998).

Often enough, elites in countries that aspire to enter the global economic arena can reap handsome rewards by directing social and economic change towards free markets (Sklair 1997; 1998; 2001). At the same time, this necessarily involves opening their populations not only to new patterns of production and consumption, but to the flows of communication, ideas and images that represent both the vehicle for, and the content of, production and consumption. This means allowing a diverse, and potentially very difficult to control, set of external agencies of socialization and acculturation to have a connection with a certain population. The loss of control over these identity-generating

processes progressively modifies the role of the nation-state from one of creation to one of filtration of cultural flows (1996).

The creation of new arrangements that will allow for a balance between pre-existing socio-economic structures and economic globalization will then have to deal not only with the material conditions of those structures, but also with cultural and social characteristics that underpin them. It would not suffice to graft Western economic institutions (like competition and a strictly monetary exchange) onto other economic systems because they would often conflict with and/or be alien to the local reality. It is necessary that these institutions develop within a certain system, that they be supported by values, and cultural-ideological components that make them desirable, proper, and helpful. In the process, a degree of adaptation and compromise is likely to emerge on both sides. Thus, while it is very important for the acceptance of the economic system of globalization that its values be spread around the globe, this process is unlikely to go unchallenged by local and historical socio-economic structures. It is even less likely that the latter will simply adopt economic globalization as their model.

I believe that economic globalization has important effects on the cultural side of human activity. Global economic ties have had a major impact on the way in which human beings organize socially as well as economically. This is evident in the loss of traditional and local produce to “modern” cash crops and alien cultigens (Kearney 1996) bringing substantial changes in the way people eat, organize their local communities and their work. It is also apparent in the spread of western foods, drinks, clothing, and status symbols to non-western societies mainly through the pervasiveness of western media messages. It would be surprising if this had not happened. Economic activity is strictly

correlated with social activity and it could not be otherwise as the two are mutually dependent. This is recognized, albeit implicitly, even by neo-liberal economists when they speak of the “favourable business environment” that is so important to successful economies. What remains crucial for the analysis, anyhow, is to refute any one-dimensional interpretation of globalization, and to begin to approach it as a set of complex, interrelated phenomena that both enable and constrain the activity of individuals. This multidimensionality is the basis of the set of choices that individuals can make. The process of globalization has extended the realm of these choices enormously for most of us, especially in the developed world, and while there have been increasing signs that the economic, technological, political, and cultural flows that have punctuated our recent past are skewed in favour of specific interests and regions, the choice options are still increased, in both the economic and the personal spheres (Featherstone 1995). In the next chapter I present the elements of the Hayekian-Polanyian dialectic, which I use to explore the nature of socio-economic embeddedness, which is key to my analysis of globalization and of its impacts.

3. MARKETS AND SOCIETIES: BETWEEN HAYEKIAN AND POLANYIAN PERSPECTIVES

In this chapter, I clarify the theoretical connections between Max Weber, Georg Simmel, Friedrich Hayek, and Karl Polanyi in the light of the analytical work that they have inspired, which promises to shed light on the nature and impact of globalization. In the next section, I underline their common ground in the concept of embeddedness and lay down the terminology of my theoretical framework. In section two, I deal with the concept of the market as an embedded system, and draw the connections between Hayek and Polanyi's ideas and the work of Weber and Simmel. Next, I examine in detail the theoretical contributions of Polanyian analysis (the notion of embeddedness) and of the Hayekian one (the catallaxy) within the scope of the market system. The final section begins to relate these issues to the debate around globalization. Once again, I would like to note that this is not an attempt at a complete dissection of Polanyi and Hayek; rather it is an exercise in extracting from their work and from the body of secondary literature that they have inspired, a broad inspiration for a theory of market activity. I shall use both primary and secondary literature in this chapter; F.A. Hayek and Karl Polanyi's quotes and ideas appear often and are critical to the analysis, but they serve rather more as iconic figures for the two perspectives, that as unique representatives of ideological fields.

Markets and Freedom: Catallaxy or Design?

The complex processes of globalization that I have sketched out in the previous chapter, can be analyzed within the context of two competing but related perspectives: one centering on Friedrich Hayek and inspired by the notion of spontaneous order (Hayek 1948a; 1964a; 1973; 1976; 1979), and the other relying on Karl Polanyi's notion of economic embeddedness (Polanyi 1944; 1947). These notions have been used independently to analyze socio-economic activity (Ioannides 2003; Jessop 2001c; Kirshner 1999; Vanberg 1986; Witt 1997) but are only very seldom brought together as an analytical tool. I wish to argue that this is a mistake. The Hayekian and Polanyian approaches represent different strands of a long-standing intellectual tradition of social interaction that concerned itself with the effects of modernization and economic rationalization on society. There are three necessary steps in operationalizing this connection:

1. Individuals must be given a central place as actors, without denying the important role that institutions play in framing their behaviour. I do this by referring to Max Weber's notion of methodological individualism, which is closely connected to the concept of complex embeddedness (Boettke and Storr, 2002), and that can be extended to cover Hayek's approach to action and institutional emergence.
2. The notion of complex embeddedness, which I define more fully below, consists of understanding the relations of the social, political and economic spheres as interconnected rather than dependent on one another. An important corollary here is the idea that these do not exist in isolation one from the other, but are correlated in a dynamic fashion.
3. Capitalism is a dynamic system of socio-economic arrangements aiming at the institutionalization of a specific model of economic exchange, production and consumption, which tends to be exclusionary of alternatives and potentially hegemonic in its scope.

Both Max Weber and Georg Simmel were concerned with socio-institutional responses to the free market in its modern form. It could not have been otherwise. The modern capitalist market was seen by both writers as the archetypical rational institution, inextricably bound to the transition to modernity (Simmel 1903; 1978; 1991; Weber 1922; 1930; 1981). Both Hayekian and Polanyian traditions represent this current in German sociology. The Hayekian one is concerned with the limits that an excessive organizational load would put on individual freedom (Hayek 1948a; 1960; Fehl 1994; Gray 1998). Risk-averse politicians or administrators convinced of the rationality of their tools are most likely to enable organizations designed to direct and regulate, rather than facilitate, markets. These organizations lack the adaptive capacities of the catallaxy, of the spontaneous ordering that emerges from the unhindered interaction of individuals seeking to fulfill their specific goals (Hayek 1964b; Hayek 1978a), and tend to limit the scope of the market and of individual freedoms. Within the context of both the Austrian and the Weberian (Weber 1978 [1922]: Ch I) notions of institutional evolution, where individual action is both framed by institutional constraints and functions as a catalyst for change, the suppression of spontaneous ordering is equivalent to the suppression of freedom. Any limitation of the ability of individual actors to behave so as to satisfy individual preferences, most notably through the imposition of organizational goals and logic, results in both a deviation from the “spontaneous” institutional development (as the information now circulating is not the result of diffused individual preferences), and in a loss in pure efficiency, the latter being most noticeable in the economic realm.

Polanyi (1944) highlights a different facet of this process: he asks how societies react to the new requirements of modernity. In particular, he focuses on how they cope

with the incipient economic rationalization that takes centre stage in modern market economies, disembedding economic relations from their social *milieu* (Polanyi 1944; 1947). This tradition has been carried on by Fred Block (2001), for example. These issues also recur in both Simmel (1900; 1903), and Weber (1922; 1930; 1981). The Hungarian scholar is also a critic of the de-humanizing effects of modernity. Modernity is de-humanizing not because they are always inhumane and tragic (which is a possibility, given the appropriate conditions, as with child labour during the industrial revolution), but because they extrapolate humanity from the social by enfeebling non-economic systems of relations. Much the same is noted by Simmel (1900; 1903) with regard to human beings who, plunged in their modern, urbanized, and capitalist context, lose contact with their spirituality and construct their references around consumption and monetary exchange. If Hayek was concerned with the danger posed by organizational reform that hindered the market, Polanyi criticized the emergence of socio-economic rules that led to the elimination of the structures that mitigated the harshness of market forces; the subservience of all other policy aims to the economic ones, the crass neglect for their social effects (Polanyi 1944).

As Polanyi argued, when institutional rules emerge which eliminate organizational and institutional buffers between the economic and the social spheres, the very bounds of human life, like family, safety, and existing within a familiar culture and environment, are eradicated and scattered.

All types of societies are limited by economic factors. Nineteenth century civilization alone was economic in a different and distinctive sense, for it chose to base itself on a motive only rarely acknowledged as valid in the history of human society, and certainly never before raised to the level of a justification of action and behavior in everyday life, namely, gain. The

self-regulating market was uniquely derived from this principle (Polanyi 1957b: 30).

Polanyi intended his analysis as a caveat towards the very “soul” of this process and the negative effects that it had on the social fabric, on the disintegration of traditional and institutional processes that secured a viable balance between economic development and social structure. Polanyi (1944) wondered how far efficient and rational behaviour could go, before it began to erode the very humanity of individuals. When does an efficient, rational society stop being a society, becoming an aggregate of individualistic pulsions? To him the tragic answer was in front of everybody’s eyes. It was in the blood-soaked battlefields of France, Poland and Russia; in the excesses of brutal dictators, who climbed to absolute power by waving the banners of corporatism, state and social cohesion in front of masses who had suffered so much from the backlash of unfettered capitalism, that they would forego freedom for a sense of belonging (Goldfrank 1990).

In other words, the Polanyian and Hayekian traditions represent the two poles of the tension inherent in the modern capitalist market: the need to reconcile individual freedom with social stability, to assure capital accumulation and the reproduction of the working class, all within the demanding constraints of liberal democracy and market economies. At the juncture between different economic regimes both Hayek and Polanyi’s concerns emerge. Economic change, more often than not, affects and is steeped in social relations. How society rates, and provides for, the poor, what kind of protection companies are given from unions’ demands or from foreign competition, and what inducements a government is prepared to offer to boost the economy, are inescapably socio-economic questions falling within the scope of late 20th century politics. The creation of a viable system of capital accumulation, though, requires a series of trade-

offs, of institutional and organizational realignments regarding the distribution of economic wealth.

The structures that emerge from this process are mediated through the political and social systems in which they develop. They are, then, power relations, embodying a struggle among groups with different access to resources and with different goals. These groups are highly diverse and segmented, not only in the classic Marxist sense of a split between capitalist class and proletariat, but also in the sense that both classes are highly fragmented and diversified (Jessop 2002a). This may or may not lead to all out conflict among different interests regarding the allocation of socio-economic benefits; what remains always unsolved are the internal contradictions of capitalist socio-economic arrangements. Conflict is more likely to erupt while a new economic regime is being tailored to the social needs of the individual countries through the reform of local institutional and organizational structures. This is not, though, a necessary event as classic Marxist theory purported; in fact, capitalism has been eminently apt at masking these contradictions for long periods of time.

It is necessary to keep the dual perspective of economic goals and socio-political tenets in mind when analyzing the institutional constructs that appear in response to economic and social adjustments. Both Hayek and Polanyi describe imbalances in institutional design as emerging at the time when important economic changes take place and, therefore speak of unbalances in the power relations that these institutions reflect. In a way, these concerns represent the extremes of a continuum of socio-economic design.²³

²³ It should be noted again that Hayek (1973) does not preach de-institutionalization of the market; rather he argues for the technical superiority of the catallaxy in allocating economic inputs and does not deny the hardships that free markets may impose.

The institutionalization of a viable socio-economic arrangement is implicitly a compromise between viable capital accumulation and viable social reproduction. This was so even in the period of embedded liberalism (Ruggie 1982), and the fact that the models that emerged in that period were largely national in nature helps to account for their variety. Japanese, Italian and Canadian approaches to liberal capitalism were all possible at the time. Such socio-economic compromises, as noted above, have a dual nature. On the one hand, they must be able to sustain economic growth ensuring societal reproduction (be it physical, social, cultural or political); no society can survive without the means to sustain itself. At the same time, they are structured around specific interests and seldom, if ever, are devoid of bias in protecting specific classes or groups within society. The rather complex goal here is to strike a balance between the representation of all of these different interests within the social, political and economic spheres that will, at the same time, protect the privileged position of the elites and satisfy the demands of the ruled.

This is why the notion of embeddedness is so relevant to the analysis of these issues: social bounds, mores, historical patterns, and traditions are all crucial in designing viable structures, institutions that will “fit” with the history and nature of a people. The market and its self-adjusting process are also fundamental because they have offered the most flexible and, arguably, the most open economic arrangement with which to provide for social needs.

In the next section, I introduce the notion of markets as embedded systems and then move on to consider in more detail the dialectical relationship between embeddedness and spontaneous order.

Markets between Embeddedness and Rationality: Max Weber and Georg Simmel

The work of Max Weber and Georg Simmel on the sociology of markets is important in framing the notions of embeddedness and rationality with which I deal in the rest of the thesis. The analysis of markets has traditionally been a complex task drawing from a host of different perspectives and theoretical fields both in the past (Marx 1928 [1867]; 1973 [1857]; Simmel 1900; Smith 1776; Weber 1930) and in more recent times (Arrighi 1994; Fligstein 2001; Friedman 2002; Jessop 2002a; Orléan 1999; Williamson 1985). This literature sheds light on the interplay between the concepts of embeddedness and rationalization as necessarily connected facets of the development of market economies in the modern era. As modernization advances in all spheres of human life, the economy is consistently exposed to pressures towards rationalization (Simmel 1900; 1903; Weber 1981). Both Weber and Simmel aimed at studying the economy through “analytical models of historical phenomena such as capitalism” (Trigilia 2002: 36) rather than by devising positivist general laws. They were interested in studying the relationship between the rationalization that was demanded of the market actor in modern capitalist economies, and the effects that this “frame of mind” had on the web of social interactions (many of which still had a pre-capitalist or non-capitalist nature) that formed the other facet of socio-economic interaction. One of the offshoots of this approach was the need to “embed” individuals’ economic activity within social structures.

The notion of embeddedness, the idea that economic activity depends on, influences, and is interrelated with specific social structures, has wide purchase (Altvater and Mahnkopf 1997; Barber 1995b; Birchfield 1999; Granovetter 1985; 1992; Gray

1998; Helleiner 1995b; 2003a; Kelsey 2000; Mendell and Salee 1991; Plociniczak 2002). The notion that a social side always exists to economic activity is not a unique prerogative of the Austrian-Weberian approach. In fact, French sociologist Alfred Fouillée (1930) also believed that there could be no separation between society and economy.

Il y a une interprétation plausible du << laissez faire, laissez passer >>; et c'est celle des anciens économistes classiques. Ils ne voulaient nullement dire: - Laissez faire des injustices, laissez passer des fraudes. Ils voulaient dire: - Que l'Etat n'intervienne pas dans le travail, dans la production libre, et qu'il la laisse 'faire'; qu'il laisse ensuite passer les produits du travail sans les charger d'impôts, de droit de toutes sortes, de prohibitions et d'entraves légales. C'est par un évident abus des termes qu'on a parfois soutenu que l'Etat devait tout laisser faire et tout laisser passer. (Fouillée 1930: 34)

The Anglo-American tradition also has a vein to which social embeddedness of economic activity is very familiar (Granovetter 1985; Granovetter and Swedberg 1992; Kloppenborg 1986). I have chosen to focus on an Austrian-Weberian approach for various reasons. First of all; it is more organically related to complex methodological individualism (Boettke and Storr 2002) and to a tradition of thought that links individuals and organizations in an interconnected process of mutual influence and interaction. At a different level, the connection between the Hayekian tradition and the Weberian one is more easily drawn out than the one with the Anglo-American tradition, although there are areas of overlap between the two. Finally, from a purely “aesthetic” point of view, it was appealing to concentrate on a group of scholars drawn from a Mitteleuropean milieu.

Much of the recent literature, like Granovetter's work (1985; 1992) though, has taken a rather narrow view of embeddedness (Plociniczak 2002) and reduced the complex nature of social-economic interactions and their place within the polity to the notion of single embeddedness (Boettke and Storr 2002: 168), a model where society always

shapes the economic field. I follow Boettke and Storr (2002) in arguing that the Weberian notion of embeddedness in which “society, the polity, and the economy” are not nested one inside the other, but rather are “elevated ... to the same level of prominence” (Boettke and Storr 2002: 177), provide a more fruitful perspective.

This notion of complex embeddedness highlights an understanding of the mechanisms underlining social activity that rests on both the notion of methodological individualism, as it emerges from Max Weber’s idea of interpretive sociology (Bourgeois 1976; Hitzler and Keller 1989; John 1984; Outhwaite 1975; Pressler and Dasilva 1996; Segre 1987), and the role of institutions as the spontaneously ordered framework of social action. This approach, as I explain below, posits that institutions exist and evolve in close interrelation with individuals. Institutions, on the one hand, function as frameworks for individual behaviour while, on the other, emerge and change as a result of evolutionary processes driven by individual choice. Institutional development reflects the power struggle, the traditional values, the priorities, and in general the preferences of a society and does so in a dynamic, if not necessarily fluid manner. Institutions do not change quickly but they change under the pressure of the sum of individual choices.

Here I explore the links between these authors and underscore both commonalities and differences in their visions. At the same time, I look at the development of the notions of market and embeddedness that are to frame the rest of this discussion. I also explore the connections between the Hayekian and the Polanyian perspectives in the debate around economic sociology and individual freedom. The ultimate goal is to propose an Austrian-Weberian foundation of the concept of the market, tempered with the idea that embeddedness is to be understood as complex

interaction among social, political, and economic issues and by the awareness that capitalism remains an open, but by no means egalitarian system.

Max Weber: Individuals, Society and Markets

In this section, I explore Max Weber's approach to the economy and economic activity. In particular, I focus on his understanding of economic activity as social action and on the specific type of complex methodological individualism upon which his analysis is premised. Regarding the latter, I reference works that have convincingly tied Weber and the Austrian School of Economics on methodological grounds (Boettke and Storr, 2002; Zafirovski 2002). I also offer a sketch of the Weberian concept of capitalism; a more complex and nuanced affair than the depiction usually given through the analysis of the *Protestant Ethic* (Weber 1930). My goal is to provide a model of the market and of economic activity as complex, socially constituted processes taking place within socio-institutional frameworks premised on the activity of rational individuals.

Economic activity is central to Max Weber's work (Swedberg 2003); his concept of analysis was multidimensional, postulating that it should "cover ... economic theory, economic history, and economic sociology" (Swedberg 1998a: 146). The latter was the domain within which most of *Wirtschaft und Gesellschaft* (Weber 1922) was accomplished. Weber grounded his economic sociology (*Wirtschaftssoziologie*) in the relationship economic activity had with the law, politics and religion; he "defined economic sociology as a discipline studying 'sociological categories of economic action' or 'sociological relationships in the economic sphere'" (Zafirovski 2002). Social

economics (*Sozialökonomik*) was the core of the *Grundriss*²⁴ project in which a multi-theoretical approach to economic analysis was undertaken to isolate “capitalism as a distinct economic and social system” (Swedberg 1998:158). Later, Weber (1981) tackled the issue of presenting the historical evolution of the market economy. If *Economy and Society* centres on the analysis of sociological typologies, the *General Economic History* is an analysis of economics. It is with Max Weber that, for the first time in the social sciences, we encounter a consistently sociological perspective to the study of economics. He based his work on five main principles:

- The unit of analysis is economic social action, defined as interest-driven action that is oriented to utility and also to the behaviour of others.
- Economic action is presumed to be rational until otherwise proven.
- Struggle and domination are endemic to economic life.
- Economic sociology should analyze economic behaviour as well as behaviour that is economically relevant and economically conditioned.
- Economic sociology should cooperate with economic theory, economic history, and other approaches within the framework of a broad type of economics (social economics)

(Swedberg 1998:163)

In *Economy And Society* Weber (1978 [1922]: 4) highlights the two key characteristics of his approach to social analysis: the nature of sociological analysis and of social action.²⁵

²⁴ Max Weber was the managing editor of the *Grundriss zu den Vorlesung über Allgemeine (“theoretische”) Nationalökonomie (1898)*; a monumental project that was supposed to regroup German economic thought and provide a new basis for the discipline. While not exceptionally well received at the time of its publication, it is the necessary premise for modern economic sociology.

²⁵ Max Weber’s methodology relies on much more than just the nature of sociological analysis and of social action. His work is based on comparative historical methods, sociological research methods, ideal typing, and the use of the elective affinity. Here I am simply highlighting two of the elements that are related directly to social action. Elective affinities are also an important part of social action in that they allow like-minded and like-interested parties to come together in an organized fashion.

Sociology is ... a science concerning itself with the interpretive understanding of social action and thereby with a causal explanation of its course and consequences. We shall speak of 'action' insofar as the acting individual attaches a subjective meaning to his behavior--be it overt or covert, omission or acquiescence. Action is 'social' insofar as its subjective meaning takes account of the behavior of others and is thereby oriented in its course.

In Weber's work there are four ideal-types of social action, which evolve historically one after the other. Initially we have *emotional* (or affectual) social action, which is rooted in human emotions and that Weber argues is spontaneous. The second form of social action is the *traditional* one. This is social action structured by habit, by the weight of the past on our social activity. *Value-rational* activity is motivated by abstract ideals (such as the ideal of God or of Democracy). These ideals shape the activity of human beings. *Instrumental-rational* social action, instead, is typical of modern societies and is motivated by the instrumental need to achieve a certain result. In this sense, one could argue that Weber deals with embedded action, but the comparison should not be taken too far. The German sociologist's work is much more phenomenological than English-language scholarship tends to represent. The institutions and organizations that emerge from social action exist as far as the actors are oriented in a certain way, groups and individuals are not "embedded" them (Mommensen 2000).

Max Weber never attempted to predict the future or to divine the possible ends of human activity; at the core of his work is *Verstehen*: the *understanding* of human action. This is necessarily done by dealing with sociological knowledge, which he defines as the "subjective knowledge of the action of component individuals" (Weber 1978 [1922]: 15). He contextualized human action: people tend to act as a collective because of shared ideas and shared material situations, the motives ascribed to action (tradition, value

orientation and interest orientation) all played a part in its unfolding. Human beings are influenced by their respective cultures, unique wholes (Wilk 1996: 108) “gifted” with an internal logic, which may appear irrational to outsiders but that is perfectly coherent to its members.

To Weber economic activity was an inherently social activity. While he noted that economic action could, on occasion, be independent of consideration for other parties (Weber 1978 [1922]: 24), he believed that “a sociological approach to the economic [would] show that [the economic] idea is pursued in and through social action, that is action orientated to other people” (Albrow 1990: 265). Such activity was influenced by socio-cultural and material realities, and possessed an internal logic that in time developed into economic and institutional structures. Market mechanisms, for example, developed first within the realm of a dual ethic, which allowed actors to deal differently with members of one’s group than they did with outsiders (Weber 1964a; 1981: 312). For modern capitalist exchange to flourish, this dual ethic needed to be replaced by an approach that allowed for trust to be extended outside of one’s immediate group, by extending the rules of fairness that insiders enjoy to others.²⁶

Weber put individuals at the centre of social action, he made them the primary social actors, but he did not conceive of these individuals in an atomistic, fragmented manner. Rather they are socially situated, influenced by culture, tradition, history and

²⁶ Max Weber in *Politik als Beruf* details two separate ethical premises the ethics of conviction (*Gesinnungsethik*) and the ethics of responsibility (*Verantwortungsethik*). Weber operates in a philosophical of values that distinguishes between being (*Sein*) and having to be (*Sollen*), an echo of Kantian morality. The ethics of conviction reflects absolute principles that are to be followed independently of the results that they may cause. The ethics of responsibility, instead, reflects the attention that the actors give to the relation between means and ends and to the consequences that the action will have. They are often considered as non-reconcilable ethical visions (Starr 1999), but other scholars have argued that, according to Weber himself, they must be combined by the true politician (Verstraeten 1995).

institutions, but not determined by them, and are dynamically engaged in defining and transforming their social setting on a continuous basis. This means that the economy, intended as the specific mode of socio-economic organization of a society, is embedded in, and therefore specific to, that society. The Melanesian gift economy, for example, functions to allow delayed exchanges of goods in an environment where it would be very complicated to arrange for these exchanges at the same time because these products are harvested at different times and cannot easily be stored, or are harvested in very different areas. Zafirovski (2001) argues that this outlook is present even in more classically economic writings (Weber 1975 [1908]). Modern capitalism is therefore interpreted as the economic expression of the process of rationalization societies experienced in the 1800s. Economic realities, like diffused competition and mass markets, mattered to Weber, but the development of modern capitalism was tied to antecedent factors that are of a socio-political and institutional nature, rather than purely economic. The process of legal and socio-economic rationalization that spans the period between the 17th and 19th centuries is not sufficient to explain the emergence of capitalism, which requires the rational, disciplined organization of labour and the Calvinist ethic; in sum the emergence of a multifaceted and complex spirit of capitalism (Segre 1989: 14-16).

The key characteristic of modern states and their economies was their rationalization: the impartial bureaucracy and the rational market tend to assume a machine-like nature (Weber 2000 [1920]). They cannot have a “soul” if this means individually tailored treatment for each of us, because this would irremediably undermine one of their key goals: assuring the predictability of their processes. Modern society functions because these two institutional settings are regulated by legal and rational

elements rather than by traditional ones: general rules apply equally to all; responses are dictated by impersonal motives. Modern markets and rational bureaucracies are closely connected

On the one hand, capitalism in its modern stages of development requires the bureaucracy, though both have arisen from different historical sources. Conversely capitalism is the most rational economic basis for bureaucratic administration and enables it to develop in the most rational form, especially because, from a fiscal point of view, it supplies the necessary monetary resources (Weber 1978 [1922]: 224).

Other organizational parameters (like clientelism, nepotism and the gift exchange economy) are possible, but they are not competitive when measured against the rational structures of the free market and the bureaucratic state. Free markets provide more efficient means of allocating scarce resources than bureaucratic fiat by tapping into diffused knowledge. Alternative approaches under-perform when compared to them and are, therefore, marginalized. In particular, planned economies were unlikely to succeed because they did not really eliminate economic action (intended as self-interested action). They simply shifted the process from the market to the bureaucratic field, to the quest for privileges rather than for monetary inducements (Albrow 1990; Weber 1978 [1922]: 203). Furthermore, Weber (1978 [1922]: 111) noted that

[w]here a planned economy is radically carried out, it must ... accept the inevitable reduction in formal, calculatory rationality which would result from the elimination of money and capital accounting ... This fundamental and, in the last analysis, unavoidable element of irrationality ... is one of the important sources ... of the problems of socialism.

On the other hand, the market system bound human beings by embodying power differentials and by providing a hegemonic model of economic exchange. Weber recognized its inherently skewed balance: while peaceful exchanges are central to viable

markets (Weber 1978 [1922]: 637), those same exchanges reflect deep differences in bargaining power. Markets “permitted precise calculation but could not guarantee the achievement of all the material needs of participants, let alone spiritual values” (Albrow 1990: 265). At the same time, the nature of market relations made it very difficult for actors to choose any other alternative:

Today’s capitalist economic order is a monstrous cosmos, into which the individual is born and which in practice is for him, at least as an individual, simply a given, an immutable shell [Gehäuse], in which he is obliged to live. It forces on the individual, to the extent that he is caught up in the relationship of the “market,” the norms of its economic activity (Weber 2002 [1930]: 13).

Weber, using his complex methodological individualism (Boettke and Storr 2002), developed a notion of economic action that had a subjective orientation and was “concerned with the satisfaction of a desire for utilities” (Weber 1947: 158). He divided this action into three categories: “economic phenomena”, “economically relevant phenomena”, and “economically conditioned phenomena.” The first type covers those issues that are understood as primarily economic by the individual. “Economically relevant phenomena” do not have a strictly economic nature but their impacts are of an economic nature, as with Protestantism and its effects on capitalism. Finally, “economically conditioned phenomena” are those non-economic activities that are influenced by “economic phenomena” (Boettke and Storr 2002: 167). All three categories are necessarily linked in the study of individuals’ economic actions.

This leads Boettke and Storr (2002: 169) to note: “Weber’s insistence that we consider both ‘economically relevant phenomena’ and ‘economically conditioned phenomena’ suggests that we view the economy, the society and the polity as three

overlapping circles.” They argue that the three are interlocked rather than being shaped in a hierarchical format as with, for example, Granovetter’s work (1985; 1992). The importance of this argument cannot be underestimated because it demands an important shift in perspective as to the nature of socio-economic relations, and requires that we depend, for social analysis on the complex methodological individualism that is the hallmark of Weber and of the Austrian School of Economics (Udehn 2002), and shapes the embeddedness of the individual as sophisticated embeddedness.

This typology of methodological individualism allows for the use of an individual approach to social analysis without abandoning the notions that individuals are socially constituted and that institutions both reflect and shape the actions of the actors. Weber and Hayek do not embrace the atomistic individualism that is sometimes seen in neoclassic economic theory (Swedberg 1998). In their view, social institutions mattered, forming an indispensable part of human rational action (Boettke 1989; Langlois 1986). By creating sets of institutional responses to the needs of human interaction, societies generate acceptable contexts of action that enable the resolution of problems.²⁷ Some scholars define this position as ontological individualism, which “explain[s] empirical social phenomena, including institutions, as resultants of individual actions” (Zafirovski 2002: 42), and embeds the individual in a brand of Liberal-Conservative institutionalism (McCann, 2000: 25-26).

According to Weber, von Mises, and von Hayek, economics and sociology are cultural sciences. This does not imply any break with methodological individualism, however. Society and culture are subjective phenomena

²⁷ These need not be fair or completely positive for all involved: in general the institution of marriage in traditional societies solves the problems of physical reproduction, of competition among males for partners and speaks to the redistribution of wealth linked to the transfer of the bride to a different economic unit. At the same time, it locks women in a subordinate position and reproduces a male dominated environment.

existing only in the minds of individuals, or epiphenomena. Therefore, to explain human action in terms of social institutions is to explain in terms of the beliefs, or attitudes of individuals. I call this the “ontological twist,” because it saves methodological individualism by transforming it into an ontological thesis about the ultimate nature of society (Udehn 2002: 487).

Therefore, “individuals, in the Weber-Austrian approach, are not assumed to seek economic maximization within an institutionless vacuum, nor are they assumed to be merely puppets of structural forces beyond their control. Reasonableness substitutes for hyper-rationality, and spontaneous ordering process substitutes for equilibrium end-states” (Boettke and Storr 2002: 176). This is crucial because it gives us a bridge between the Polanyian notion of embeddedness, and the Weber/Austrian tradition: between the groups and the individuals as active creators of those groups.

The individual in the Weberian approach is both “influenced and affected by the *context of meaning* in which he or she is located” and “conceived of as the producer of, the creator of, that *context*” (Boettke and Storr 2002: 171). Action is situated in a complex web of human activity and “social institutions would be, within the Weberian-Austrian connection, latent rather than manifest functions of individual action” (Zafirovski 2002: 39) functioning as “interpersonal orientation tables” (Lachmann 1977). Institutions are not determinants of human activity, but instead offer coordination options to individuals and remain in constant flux because they depend in part on individual subjectively oriented action. Weber’s model of the market shares the need for a socio-institutional structure to ground it; an approach the German sociologist shares, in broad terms, “with Marx, ... Durkheim and Polanyi: free markets require both formal state structures and informal understandings that structure and enforce market transactions” (Slater and Tonkiss 2001: 75).

The Concept of the Market in Max Weber

The market was central to Weber's analysis and yet, often enough, the image that is given of Weber's description of capitalism is very partial, leaving aside the more interesting institutional work of the *General Economic History* and often glossing over the fact that Weber believed that more than one type of capitalism existed (Weber 1981: 334 ff). Here I briefly refocus this analysis to better frame the Weberian notion of market capitalism. One of the most famous assessments of capitalist development is contained in Max Weber's *Protestant Ethic*. There he argues that pre-capitalist attitudes and cultural traits must be replaced by a "spirit of capitalism" before any true inroad in modern capitalist relations can be achieved (Weber 1930). Because economic activity is embedded in the socio-cultural milieu of the actors, modern capitalism required not only a combination of material conditions (increase in urban population, advances in mercantile culture and techniques, and rapid population growth), but also a theological basis that justified, and allowed for, the replication of the value system that put the rational search for profits before most other goals. Calvinist theology, seamlessly bringing together ascetic morality, the work ethic and the pursuit of profits was the perfect background for capitalist development. The "spirit of capitalism" could become the dominant organizational form of economic exchange and production once these cultural structures were superimposed upon favourable material conditions in Protestant Northern Europe.

Most research and scholarly attention regarding Weber's analysis of capitalism, has been devoted to this early work. The so-called "Weber Thesis" has attracted enormous attention and a comparable amount of critiques (Barclay 1969; Bergler 1987; Besnard 1970; Cooper 1987; Delacroix and Nielsen 2001; Dickson and McLachlan 1983; Fanfani 1935; Fischhoff 1944; Forcese 1968; Ford 1981; Green 1973; Henretta 1991; Lehmann 1993; Lehmann and Roth 1993; Lessnoff 1994; Mitchell 1972; Münch 1993; Panther 2000; Poggi 1983; Turksma 1962; Zaret 1992). From early on, Weber himself tried to respond to the issues that his work had raised (Chalcraft and Harrington 2001; Gellner 1982; Weber 1910a; 1910b). The focus on the *Protestant Ethic* appears overly narrow, especially considering that Weber's work moved beyond the analysis of religious ethic in *Wirtschaft und Gesellschaft* (Weber 1922) and in the *Gesammelte Aufsätze zur Sozial- und Wirtschaftsgeschichte* (Weber 1924) to encompass a specifically multidisciplinary approach to the practice of economic sociology, a sophisticated notion of embeddedness (Boettke and Storr 2002) and was concerned with the role of bureaucracy and charisma, especially in organization building as it related to capitalism (Beyer 1999; Turner 2003).

The *Protestant Ethic* is only a part of Weber's theory of capitalist development, a constituting part, but not the whole of the "spirit of capitalism" (Segre 1989: 68), and its depth and reach are certainly inferior to the analysis put forward in the *General Economic History* (Weber 1981). The latter is a more mature treatment of the subject, but it has received only sporadic attention from scholars if compared to ascetic Protestantism (Collins 1980; Segre 1997; Swedberg 1998b). The Weberian theory of capitalism has a dual value: at one level it is a meta-historical theory of capitalism intended as an ideal

type, at another level it is a theory of modern capitalism intended as a specific ideal type (Segre 1989: 9).

In *General Economic History* (Weber 1981 [1924]: 275), modern capitalism is linked with the emergence of a system of enterprise aimed at satisfying human needs through an industrial organization of production. This is true of many past, and present, situations but

While capitalism of various forms is met with in all periods of history, the provision of the everyday wants by capitalist methods is characteristic of the occident alone and even here has been the inevitable method only since the middle of the 19th century. ... The most general presupposition for the existence of this present-day capitalism is that of rational capital accounting as the norm for all large industrial undertakings which are concerned with provision for everyday life (Weber 1981 [1924]: 276).

Associated with this structure are modern accounting methods (Poovey 1998) aiming at rationalizing the operation of the enterprise and achieving a balance of the firm's economic activity. From an ideal-typical point of view, modern capitalism requires the following conditions:

- Rational capital accounting; in synthesis private property and clear ownership.
- A free market, unencumbered by irrational limits.
- Rational technology, implying mechanization.
- A dependable and predictable system of law.
- Free workers having the economic incentive and the legal ability to sell their labor on the market without hindrance.
- Commercialization of economic life: commercial instruments become generalized in representing share rights in business and in property.

When this happened, society changed along with its manner of organizing economic exchange. Capitalism alone among all economic systems delivered a rational organization of labour, radically reshaping its primitive organization, and led to the incorporation of the commercial principle into the internal economy, thereby shattering

the pre-capitalist division between internal and external economics, and internal and external ethics. The continued existence of market capitalism required a rationalization of relations among individuals, the disappearance of pre-capitalist kinship structures that set up dual ethics: one aimed at the members of the group and one for all others. In a word, rational motives had to underpin modern capitalist exchange and pre-capitalist motives had to be relegated to the margin (Weber 1981 [1924]: Ch. 22, 27-30). Ascetism was just one of the conditions of economic modernization. Capitalism was in Weber's days, and is today, free from of the ascetic traits that fostered its initial success and it is completely devoid of any metaphysical significance (Weber 2002 [1930]: 120-121). At the same time, while rational and impartial methods of calculation and means-end orientation work well in organizing the needs of modern societies, they also had important drawbacks if pushed too far. On the one hand, the means (rationality and efficiency) can be confused with the ends, becoming the inherent goal of societal action rather than a tool (Slater and Tonkiss, 2001: 77) and, on the other hand, the growth of the technocratic mentality leads to individuals unquestioningly falling in line. The *Protestant Ethic* itself has been exposed to three main interpretative fallacies:

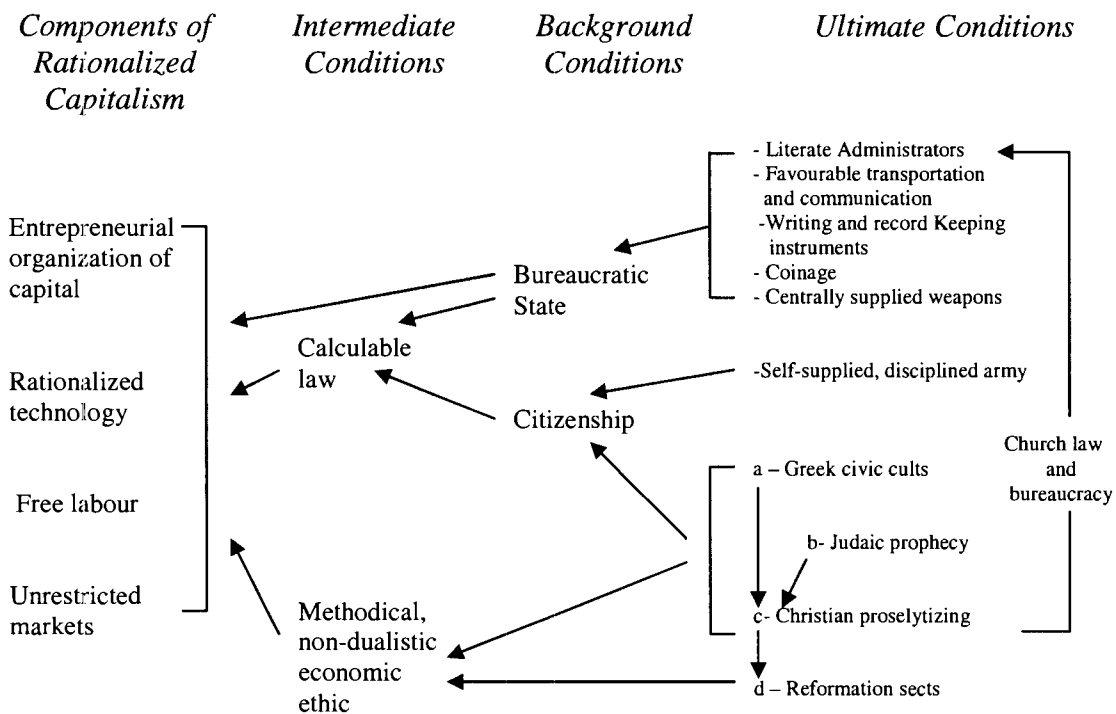
That economic behaviour was directly determined by religious beliefs, that the problem of capitalist development was the same no matter the historical and geographical framework, and that Weber held a strict Humean view of causality. (Gellner 1982: 527)

Given this array of mistakes, it is not surprising that Max Weber's notion of capitalism was only seldom properly captured. His capitalist model is premised on the existence of institutional frameworks, which prepare and foster its emergence and that go well beyond the relatively simplistic notion of a spirit of capitalism as the necessary and

sufficient cause of modern market systems. The main source of this model is, as noted above, the *General Economic History* (Weber 1981 [1924]).

Collins (1981) summarizes the various conditions as they appear in this work and describes the manner in which institutional development impacts on the creation of the capitalist system. His description does justice to Weber's complex causal chains and details the various processes that the German sociologist described while working on his theory of capitalist development.

Figure 14 Causal Chain in the Development of Capitalism



Source: (Collins 1980: 931)

The model relies on institutional framing but, at the same time, individuals, who are deeply steeped in these institutions and feel their impact on many different levels, are the principal actors in socio-economic relations. The Weberian approach to social and

economic action is one of “treble embeddedness” (Boettke and Storr 2002: 177) in which polity, society and the economy are theorized as deeply interconnected and interrelated spheres, rather than as subsets of one another. The individual is the primary actor here, but not in the atomized version preferred by Libertarians. Rather, orientation towards others, the complex relations between individuals and institutions, and the latter’s orientating rather than determining role, result in the ability to reconcile methodological individualism with institutional frameworks and spontaneous ordering. In this perspective, individuals are operating in the market, freely interacting with one another; their interaction is, at the same time, regulated by institutional and organizational frameworks (like a competition bureau for example) and can provide inputs for changes in market processes (like with the emergence of the ISO standards for example). The capitalist economy is the function of complex institutional framing and individual interaction and not the offspring of simple causal chains. The concerns that emerge from this manner of analyzing and understanding reality are directed to the loss of freedom that may emerge from excessive economic rationalization or bureaucratic structuration and are necessarily linked back to the pattern of individual action within the context of modernity.

Methodological individualism in Weber (1978 [1922]: 4) and Hayek (1948a: 10) is a common ground (Boettke and Storr 2002; Udehn 2002). We can link both authors through the Austrian tradition, and through the attention they pay to the relevance of institutional frameworks for market viability (Boettke 1998; Boettke and Storr 2002; Lachmann 1970; 1992; Zafirovski 2002). This relation went in both directions as Weber was influenced by the early Austrians’ formulation of marginal utility theory (Swedberg

1998; Zafirovski 2002). From a methodological point of view, both traditions rely on a complex understanding of embeddedness. The Hayekian one, even if it did not directly rely on the notion of *Verstehen*, was certainly very close to it (Boettke and Storr 2002; Kuninski 1992; Lavoie 1994). They also use spontaneous ordering (Boettke and Storr 2002; Zafirovski 2002), which Hayek himself traced as proceeding from Adam Smith, to Carl Menger, to Max Weber (Hayek 1955: 83-84). He may have been thinking of Weber's description of social action oriented towards self-interest, a passage that is worth quoting in some detail:

Many of the especially notable uniformities in the course of social action are not determined by orientation to any sort of norm which is held to be valid, nor do they rest on custom, but entirely on the fact that the corresponding type of social action is in the nature of the case best adapted to the normal interests of the actors as they themselves are aware of them. This is above all true of economic action, for example, the uniformities in price determination in a "free" market, but it is by no means confined to such cases. The dealers in a market thus treat their own actions as means for obtaining the satisfaction of the ends defined by what they realize to be their own typical economic interests, and similarly treat as conditions the corresponding typical economic expectations as to the prospective behavior of others. The more strictly rational (zweckrational) their action is, the more will they tend to react similarly to the same situation. In this way there arise similarities, uniformities, and continuities in their attitudes and actions which are often far more stable than they would be if action were oriented to a system of norms and duties which were considered binding on the members of a group. This phenomenon – the fact that orientation to the situation in terms of the pure self-interest of the individual and of the others to whom he is related can bring about results comparable to those which imposed norms prescribe, very often in vain – has aroused a lively interest, especially in economic affairs. Observation of this has, in fact, been one of the important sources of economics as a science (Weber 1978 [1922]: 30).

This is a critical link in the analysis in that it sheds light on some of Hayek's analytical issues, like the role of institutions and institutional design within the scope of tradition, which has been often criticized without fully bringing Weber into the equation

(Rowland 1987; Shearmur, 1996). It is also an important tool in framing the question of how to deal with economic modernity; with the notion of modern capitalism and with the sociological shift it carries with it when it is implemented. Austrian economic theory was certainly deeply influenced by Weber's work on the *Grundriss*: both the young Schumpeter's *Economic Doctrine* (1954) and Wiser's (1967 [1914]) *Social Economics* embraced the concept and methods of economic sociology. While there were differences, especially with the older members of the Austrians like Böhm-Bawerk, the points of contact remain of great importance from both a methodological and a substantive point of view. Weber, for example, had a good opinion of Mises' work on socialist calculation (1920; von Mises 1981 [1912]) while the Austrian economist relied on Weber's economic sociology to ground his analysis of economics (von Mises 1933; 1949).

In the next section I explore Georg Simmel's view of modern capitalism and his concerns with social dislocation (something I shall try to show is similar to disembodiedness) and to the Hayekian and Polanyian perspectives.

Georg Simmel: Individuality, Rationality And Embeddedness

It is more complicated to place Simmel in the field of sociology than Weber. His research was as multi-faceted and wide ranging as Weber's but his career suffered enormously because of the anti-Semitic feelings that pervaded much of German academia at the time²⁸ and because of his unorthodox approach to the discipline (Baumgarten 1964; Poggi 1993). His work is also based, at least initially, on methodological individualism

²⁸ Weber himself tried a few times to secure a university position for Simmel, but was unable to do so.

(Udehn, 2002) and his concerns are largely drawn from the analysis of the effects of rational capitalism on individuals and society (Simmel 1900; 1903; 1908; 1991 [1908]). Despite these difficulties, his sociology was quite influential at the time (Poggi 1993; Turner 1986) and remains a sophisticated assessment of capitalist modernity. Simmel was acutely aware of the crucial importance of market exchange relations in modern society and much of his work was centred on the premise that these relations influenced and spurred human cultural formation and action. Three elements frame Simmel's analysis: "relationalism, sociation and social forms" (Turner 1986: 95).

Simmel believed that no part of social activity was truly independent: all social institutions and rules are part of a common framework, and we can study this common framework beginning from any of these social institutions. From this perspective, fashion was just as interesting to Simmel as the money economy. Sociation (*Vergesellschaftung*) was Simmel's happy medium between a pure methodological individualism and sociological holism (Turner 1986). He focused on types of interactions among human beings (Simmel 1908), understanding society as the complex of relations that human beings create when interacting with one another. Among these interactions, he was especially interested in the cultural patterns that emerged from the modern capitalist economy and in particular the process of economic exchange, which he considered more than the sum of interrelations.

For Simmel exchange processes, like all forms of sociation, are not mere artefacts of individual interactions, but are objectified in social structures and material cultures that take on a logic of their own, separate from particular interactions (Slater and Tonkiss, 2001: 80).

Exchange is a pivotal constituting characteristic of society, because it “is one of the functions that create an inner bond between men – a society, in place of a mere collection of individuals ... a form of socialization” (Simmel 1978: 175). Individuals were the building blocks of sociation and, therefore of social life, but Simmel did not discount institutions. In a very real sense, “[f]or Simmel society ... was a set of institutions that came about through interactions between human beings and, in turn, conditioned their behaviour once institutions had been consolidated” (Triglia, 2002: 37). Social forms, the groups that emerge from the process of sociation of individuals, create their own cultural rules that, over time, become reified and separated from the actual human interaction. Money is once again seen as a key part of this process because it helps individuals go beyond the simple means of exchange based on individual interest, like bartering salt for grain. Money, when guaranteed by the state, becomes the “absolute intermediary between all commodities” (Simmel 1978: 177) and dissolves the direct relationship of the above-noted exchange supplanting it with “the relationship which each of [the parties involved in the transaction], through his interest in money, has with the economic community that accepts that money” (Simmel 1978: 177).

Money is ... the reification of the pure relationship between things as expressed in their economic motion. ... The activity of exchange among individuals is represented by money in a concrete, independent, and, as it were, congealed form, in the same sense as government represents the reciprocal self-regulation of the members of a community, as the palladium or the ark of the covenant represents the cohesion of the group, or the military order represents its self-defence. ... the dual nature of money, as a concrete and valued substance and, at the same time, as something that owes its significance to the complete dissolution of substance into motion and function, derives from the fact that money is the reification of exchange among people, the embodiment of a pure function (Simmel 1978: 176).

A fundamental institutional component of modernity is money. Money is what shapes the relations of a capitalist society. Unlike Weber

One could say ... that capitalism, for Simmel, was a specific economic system for the production and distribution of goods that was consequent on the monetary economy, so that he took it for granted and paid attention to the institutional prerequisites of capitalism. Even so, the investigation of non-economic causes of the money economy and its social consequences has much in common with the sociology of capitalism developed by Sombart and Weber (Triglia, 2002: 37).

If money completely underpinned the capitalist system, creating powerful incentives for economic activity, though, it could not do so in isolation. It required connections with non-economic institutional factors. Along with the conditions that enable the economic side of the system, must exist a set of institutions that have “an affinity with a developed money economy: chiefly a democratic public order culminating in a centralized state with a liberal constitution, a sophisticated legal system, and arrangements reflecting and protecting the values of freedom and of individualism” (Poggi 1993: 156). Out of these institutional traits, the money economy created a sense of trust among individuals, which in turn fostered the modern economic system (Simmel 1978). Only in a stable society could the cultural relationships dictated by capitalist modernity evolve:

the general stability and reliability of cultural interaction influences all the external aspects of money. Only in a stable and closely organized society that assures mutual protection and provides safeguards against a variety of elemental dangers, both external and psychological, is it possible for such a delicate and easily destroyed material as paper to become the representative of the highest money value (Simmel 1978: 172).

So powerful is the pressure of the money economy in Simmel’s work, that “[t]he individual has become a mere cog in an enormous organization of things and powers

which tear from his hands all progress, spirituality and value” (Simmel 1950 [1903]: 644). Poggi (1993: 179) summarizes Simmel’s analysis of the issue thus:

A developed money economy allows (or perhaps compels?) individuals to enter into more numerous, wider, more diverse networks of relations with one another. But the relations in question are more and more anonymous, and thus only to a lesser extent commit, nurture, and display the individual’s personal qualities. Their scope is generally narrow; their terms are dictated by objective considerations; the resulting associations are “soulless.”

Simmel describes the money economy as deeply pervasive, extending to all aspects of human relations (Simmel 1978: 236). This is because money has a crucial role in modern capitalist society: it allows individuals to compare, measure and exchange. In doing so, it acquires an exalted position (Simmel 1978: 236-237). Yet, along with its pervasiveness and its fundamental role in modern capitalism, money highlights the alienating side of capitalism and modern, rational economic exchange exists, in Simmel, in consistent tension between individualization and impersonality, between the loss of social bonds and life in the city.

Modern man’s relationship to his environment usually develops in such a way that he becomes more removed from the groups closest to him in order to come closer to those more remote from him. The growing dissolution of family ties; the feeling of unbearable closeness when confined to the most intimate group, in which loyalty is often just as tragic as liberation; the increasing emphasis upon individuality which cuts itself off most sharply from the immediate environment – this whole process of distancing goes hand in hand with the formation of relationships with what is most remote, with being interested in what lies far away, with intellectual affinity with groups whose relationships replace all spatial proximity (Simmel 1978: 476).

Capitalist modernity erodes the traditional structures and has the dual effect of producing alienation and of giving the option for individual differentiation and development (Simmel 1903). The result is a tension between a condition of sensory

overloading typical of the modern world (neurasthenia) and the reaction to it: the blasé attitude, with which individuals defend themselves from the overstimulation. Faced with an enormous array of choice individuals seek refuge in an attitude that ranks everything as of little relevance (Sassatelli 2000). Here, like in Polanyi, the intensification of individualism in market society appears destructive of the individual as an integral, ethical subject (Accarino 1982; Slater and Tonkiss 2001). At the level of social interaction, the money economy provided workers with increased independence in the spheres of exchange and production. The closely-knit relationship of the medieval guild or the lord-vassal bond was replaced in the sphere of production by labour contracts specifying remunerations and prestations. The personal relation between buyer and seller, that was typical of the pre-capitalistic situation, fades as the city becomes the centre of the money economy and a depersonalized system of exchange emerges. Used as the linchpin of economic exchange, money quickly began to shed the instrumental value that was typical of pre-capitalist times, to assume the role of a goal in itself. The process of calculation associated with economic exchange became the foundation of most social relations, eroding the traditional structures of society and replacing them with a multitude of highly individualized persons who lived in cities. Cities, during the 18th and 19th centuries, became the epitome of the money economy and of its requirements of impersonality, interchangeability, calculability, and individuality.

Hayek's mention of the anonymity of industrial cities (Hayek 1954), of the "increase in independence" but concurrent loss of "personal ties" and "friendly interest," which were typical of the smaller community, echoes Simmel. To this he adds a note on the need individuals feel to protect themselves from the power of the state.

The increased demand for protection and security from the impersonal power of the state is no doubt largely the result of the disappearance of those smaller communities of interest and of the feeling of isolation of the individual who can no longer count on the personal interest and assistance of the other members of the local group (Hayek 1960: 84).

Money functions as the connective tissue of modernity: individuals experience social atomization in the large cities that are the effective locality for modern capitalism. At the same time, money becomes the unifying principle of this society (Simmel 1978: 431). The process of acquisition becomes one of the central motives of modern capitalist society. It functions as a tool of individualization of the person, as consumption of different goods allows for multiple individual combinations and expressions of the self (Sassatelli 2000). Simmel's world becomes dystopic: money may serve to measure the relative value of objects, but its effects may end up relegating human activity to an alienated margin:

Cultural objects increasingly evolve into an interconnected enclosed world that has increasingly fewer points at which the subjective soul can interpose its will and feelings. And this trend is supported by a certain autonomous mobility on the part of the objects. ... Both material and intellectual objects today move independently, without personal representatives or transport. Objects and people have become separated from one another (Simmel 1978: 460).

Alienation, in the last instance, "represents a fateful vicissitude in the relationship between subjects and objects: it expresses on the one hand their mutual dependency and their similarity of nature ... and on the other hand their tendency to diverge" (Poggi 1993: 193).

Both Weber and Simmel perceived capitalism as a powerful force in the reality of modern societies. Modern economic exchange, and the specific requirements that it has embedded in social relations, have powerful repercussions on the way in which human

beings relate to each other and on the institutional structures of our societies. For Weber, the calling of the original capitalist has been transformed into a necessary approach: “Der Puritaner wollte Berufsmensch sein, -- wir müssen es sein”²⁹ (Weber 2000: 153). Simmel saw the monetarized economy as pervading modern cultural patterns; at the same time creating fragmentation and alienation and offering freedom of choice. Individuals now living in cities, the physical seat of modern activity, lost the personal contact that was inherent in the economic transactions they conducted with the village shopkeeper, but gained more options with which to exercise their consumption. A trip to any of the large department stores is both dazzling because of the choices it presents, and alienating because the individual now consumes “alone”, outside of the “personal” relation that existed before modern capitalism, and outside of the webs of meaning that those societies created for groups and individuals alike. For both authors there is an inescapable truth about modernity: that it is bound with the emergence of modern forms of capitalism. Because economic exchange is such a central part of social exchange, because the ultimate shape of organizations like the state and the firm depends, in a large part, on the way in which the economy is organized, and because individuals have come to depend on the market for their day-to-day survival, the system of social relations that emerges from this reality is central to the study of human societies.

²⁹ The Puritans *wanted* to be men of the calling – we, on the other hand, *must* be (Weber, 2002 [1930]: 120).

Polanyian Analysis and the Notions of Embeddedness

Those who see the market as embedded argue that, because of the deep interrelation between social and organizational realities within modern capitalist economies, many of which are necessary to the viable existence of the market itself, “economic action is irreducibly social action, and economic institutions are social forms” (Slater and Tonkiss, 2001: 93). This vision runs against the idea that economic action is independent and uncorrelated to social action, and that it, in fact, requires a sharp separation between the two: that the economy must be disembedded from the social. The analysis rooted in the Polanyian tradition is fundamental in commenting on the disembedded notion of the market, his conception of the economy being both embedded and instituted. During his life, Karl Polanyi witnessed the collapse of global economic relations, the emergence of the Fascist regimes in Europe, and two world wars. This dramatic set of events, he argued, could be explained by the friction that had been generated by the conflicting demands made upon humanity by its social nature, on the one hand, and by the spread of unfettered self-regulating markets on the other. Capitalist economic arrangements with their separation of the economic from the social, he noted, are a historical anomaly in the structure of human relations. All previous economic interactions had been embedded in social relations while the self-regulating market system reversed this relationship by having economic relations define social ones. Instead, Polanyi asserts his belief in the fundamental unity of economic and social structures.

The human economy ... is embedded and enmeshed in institutions, economic and noneconomic. The inclusion of the noneconomic is vital. For religion or government may be as important for the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labor (Polanyi 1982: 33).

Historically, some cultures crafted economic interaction not around the market but rather relied on some other structure like kinship relations or a religious order. Pre-capitalist societies used three different tools to integrate the economy into their fabric: reciprocity, redistribution and exchange (Polanyi 1957b: Ch. 4).³⁰ Capitalism in Polanyi's work is always a political project and never a purely evolutionary process.

There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course (Polanyi 1957b: 139).

The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's "simple and natural liberty" compatible with the needs of a human society was a most complicated affair (Polanyi 1957b: 140).

This paradox was topped by another. While laissez-faire economy was the product of deliberate state action, subsequent restrictions on laissez-faire started in a spontaneous way. Laissez-faire was planned; planning was not (Polanyi 1957b: 141).

Underlining the perils involved in attempting to completely disconnect the economy from its social milieu, and the negative outcomes that this generated, was a key part of Polanyi's analysis and one that is carried on by others who operated in a like tradition (Gray 1998; Scott 1996). Modern capitalism, Polanyi (1944) noted, did not simply ignore the importance of historically relevant social relations, like communal

³⁰ By reciprocity, Polanyi meant that people share their resources out of a sense of obligation and because of a specific identity they have, redistribution, instead, functions by having a central authority first collecting and then apportioning resources. Exchange is calculated trade and is diverse in its embodiments, market exchange being only one of them.

obligations or reciprocity, but tended to obliterate them as it established itself as the dominant mode of economic exchange and took over social spheres of interaction. This was the core of the great transformation initiated by the industrial revolution: purely economic modes of interaction were replacing all socially embedded ones.³¹

The market pattern, on the other hand, being related to a peculiar motive of its own, the motive of truck and barter, is capable of creating a specific institution, namely, the market. Ultimately that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embodied in social relations, social relations are embodied in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society (Polanyi 1957b: 57).

As Slater and Tonkiss (2001: 95) note, it was Polanyi's argument that "in modern context, the market comes to represent 'the economic institution' ... rather than one form of substantive provisioning among others." A similar analysis is found in Neo-Polanyian works like Gray's (1998) account of American and British capitalism under neoconservative policies, and Scott's (1996) analysis of the reorganization of British society along free market premises under neoliberal governments. The market system's reach, its comprehensive grasp on all inputs of the production process and its attempt at limiting value to exchange values for these inputs, concerned Polanyi. He believed that this homogenization of society premised on the substitution of one set of values for the other was a utopian goal.

³¹ For an interesting analysis of both the sparse use of the term 'embeddedness' in Polanyi's own work and of the (mis)appropriation of the same by other authors see Barber (1995).

[T]he fount and matrix of the system was the self-regulating market...the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and turned his surroundings into a wilderness (Polanyi 1957b: 3).

Human beings, he noted, are necessarily social beings, hence the inconsistency of the “disembedding” character of capitalism with these social tendencies; an inconsistency that would ultimately lead to the demise of the self-regulating market. By transforming all and every facet of life so that they would fit into the logic of market exchange through commodification (Holmwood 2000: 32), capitalism would increasingly be confronted with resistance from those groups that found the sacrifices it required unacceptable. This resistance would eventually impair market functions.

There are points of contact between the Weberian and the Polanyian analyses of capitalist development: in the *General Economic History* Weber (1981: 307) tackles, among other historical cases, the establishment of modern capitalism in England, Polanyi does the same in *The Great Transformation* (Polanyi 1957b: 82). Both authors highlight the power relations that were involved in developing modern capitalist forms and the impact that they had on the British working class during the Industrial Revolution. Indeed, Polanyi devotes much more attention to the development of labour legislation than Weber, as the central part of *The Great Transformation* reads as an analysis of its evolution since the 16th century. Polanyi's conclusion was that the Western man, as Owen (1818) had described him, faced a bleak future:

In spite of exploitation, he might have been financially better off than before. But a principle quite unfavourable to individual and general happiness was working havoc with his social environment, his neighborhood, his standing in the community, his craft; in a word, with those relationships to nature and man in which his economic existence

was formerly embedded. The Industrial Revolution was causing a social dislocation of stupendous proportions, and the problem of poverty was merely the economic aspect of this event (Polanyi 1957b: 129).

Weber and Polanyi present similar notions of the market, at least in broad strokes, and yet there is a perceptible difference between the two in that for Polanyi the process of capitalist evolution can sometimes be perceived, ironically, as partially disconnected from the interests that support or attack it. In a way, capitalism has, as with Marx, a power of its own that leads it to redesign social structures. In his vision, for example, the proletariat is generally composed of industrial workers extricated from their previous occupations, forced to conurbate and ushered into a completely novel relationship with the means of production and their role in the function of social production. This creates new needs, new interactions and new responses, which organizationally congeal, for example, in the creation of trade unions or associations of industrialists. To Weber power relations are always at the forefront of institutional change: markets do not create society, but vice versa. That said, the power of the capitalist quest for profit, which Polanyi had highlighted as the driving force behind 19th century civilization (Polanyi 1957b: 30), was also recognized by Weber in his metaphor of the *stalhartes Gehäuse*, the “shell as hard as steel” as Baehr (2001) appropriately retranslates the “iron cage.” The spirit of capitalism abandoned the religious precepts of frugality and poverty:

In Baxter's view, concern for outward possessions should sit lightly on the shoulders of his saints “like a thin cloak which can be thrown off at any time.” But fate decreed that the cloak should become a shell as hard as steel. As asceticism began to change the world and endeavoured to exercise its influence over it, the outward goods of this world gained increasing and finally inescapable power over men, as never before in history. Today its spirit has fled from this shell ... Even the optimistic mood of its laughing heir, the Enlightenment, seems destined to fade away, and the idea of the “duty in calling” haunts our lives like the ghost of once-held religious beliefs (Weber 2002 [1930] 121).

To Polanyi the watershed in economic organization came with the period that straddled the end of the Eighteenth and the beginning of the Nineteenth Centuries, that is, the core of the Liberal Century. The emergence of the factory as the key locus of production, and the development of economic liberalism as a long-standing political project generated a synergic relationship that drastically modified the nature of socio-economic relations.

Economic liberalism was the organizing principle of a society engaged in creating a market system. Born as a mere penchant for non-bureaucratic methods, it evolved into a veritable faith in man's secular salvation through a self-regulating market. ...[it developed over time and] ... [o]nly by the 1820s did it stand for the three classical tenets: that labor should find its price on the market; that the creation of money should be subject to an automatic mechanism; that goods should be free to flow from country to country without hindrance or preference; in short, for a labor market, the gold standard, and free trade (Polanyi 1957b: 135).

The new system of production was premised on industrialization and relied on heavy investment; therefore it tended to be suspicious of, if not outright hostile towards, government regulation and the heavily controlled economic systems that had dominated the previous centuries. Liberalism offered the perfect tools to legitimize the structural changes that the new production system required by offering the image of a self-regulating, almost supernatural, mechanism that would optimize economic activity.

A market economy is an economic system controlled, regulated and directed by markets alone; order in the production and distribution of goods is entrusted to this self-regulating mechanism. An economy of this kind derives from the expectation that human beings behave in a way as to achieve maximum money gain (Polanyi 1957b: 68).

The market is expected to be completely left alone by policy, leaving room only for those decisions that would “help ensure the self-regulation of the market by creating conditions which make the market the only organizing power in the economic sphere”

(Polanyi 1957b: 69). This new model, Polanyi explained, required a drastic realignment of social values and historical practices; too drastic in fact to ever be accomplished because “[a] self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere” (Polanyi 1957b: 71). Polanyi insisted that the ideological notions that economists advanced to justify the development and reproduction of this specific system of economic organization contained a dramatic internal contradiction. The free market model, which was the expression of a specific period of the English Industrial Revolution, was erroneously being transformed into an a-historical model (Polanyi 1957b: 33). The multi-varied structure at the basis of all economic interaction was artificially reduced to the overarching rationale of profit accumulation. This process had elevated an ideal-type to the status of common reality; a recipe for disaster, Polanyi argued.

Markets in his view are eminently political creations, the fruit of struggles and political contestation (Krippner 2001). Because the idealized version that economists propose is not really achievable, they tend to develop and exist within the logic of the “double movement” described above: caught between expansion and resistance but ultimately unable to do without some kind of social agreement protecting people from the most extreme costs of unfettered capitalism. The free market was unable, in other words, to reduce all decisions to economic decisions because

to expect that a community would remain indifferent to the scourge of unemployment, the shifting of industries and occupations and to the moral and psychological torture accompanying them, merely because economic effects, in the long run, might be negligible, was to assume an absurdity (Polanyi 1957b: 215).

Part of Polanyi's work is still very contemporary. Not only is the metaphor of the "double movement" still relevant as a description of the ongoing debate about the nature and ultimate aims of globalization, but his analysis of international rules and their consequences for individual states' choices is as intriguing today as it was in the 1940s (Block 2001). Polanyi's warning is that international arrangements that embody the utopian message of unfettered markets are bound to clash with domestic realities and, if taken too far, generate nationalist and/or isolationist drives rather than open and global markets. This was the ultimate result of the policies associated with the Gold Standard when its costs became too steep for some countries to bear (O'Rourke and Williamson 1999; Polanyi 1944).

Today economic globalization seems to be premised on many of the same normative principles the Liberal Century was built upon: increasing tendency towards disembeddedness, strong pressure on states to conform to stringent guidelines, and primacy of the small, non-interventionist state to name just a few. This generates the same questions and problems that Polanyi was dealing with in the *Great Transformation*. The very important difference between then and now is that the current system relies on a much more flexible institutional structure and this structure may be able to generate a workable set of social rules to mitigate its more evident costs. It is also the case that a deeper notion of cooperation is now in place with regard to globalization, even as contemporary society appears less organic and more individualistic than in the 19th and early 20th centuries.

Polanyi's model, especially with respect to the economic categories and the historical timelines he used, was attacked during the 1960s in the Formalist-Substantivist

debate in economic anthropology (Ferguson 2004; Firth 1967; LeClair and Schneider 1968; Robbins 1932; Schneider 1974).³² Recounting this debate is not the purpose of this analysis; it flared in the 1960s and extinguished itself in the early 1970s with the two sides never tackling the fundamental issues at stake but, rather, debating past each other (Cook 1966; Cook 1969; Godelier 1988; Godelier [1965] 1972; Isaac 1993; Prattis 1973; Salisbury 1973). I contend that the process of rationalization is, at least in part, dictated by a set of socio-institutional frameworks in which the more technical economic issues are embedded, and that these frameworks tend to be different for different societies. Melanesian societies relied on the gift economy to overcome logistical problems related to the physical exchange of goods; the system of the double ethic (members of a group are entitled to better, fairer treatment than those who do not belong to it), which Max Weber (1922) describes, fits the highly competitive and often inimical atmosphere within which some groups lived, along with the material conditions in which exchange took place.

By using Polanyi as his model Granovetter tried “to steer an intermediate course between what he referred to as “oversocialized” and “undersocialized” views of social action” (Krippner 2001:776) so to move away from overly atomistic visions of human activity as were to be found in both Neoclassical economic theory (Block and Sommers

³² The earlier, Formalist approach in economic anthropology was premised on neoclassical economic theory. Accordingly, individuals motivated by economic reasons were seen as the methodological unit of analysis for monetary and non-monetary societies alike. Substantivists claimed that social motivations are always at the root of economic behavior and that the human economy is “embedded” in relationships and institutions of a non-economic nature. Substantivists charged that the Formalists were using an ethnocentric model that was inappropriate to the diversity of human societies; the latter accused the Substantivists of romanticizing the primitive and to ground their rejection of the market model in ideological biases rather than in reality.

1984) and in Parsonian sociology.³³ The problem with Granovetter's (1985) use of the notion of embeddedness is that it moved radically away from Polanyi's rendition. There he argues that economic sociology has been caught between an undersocialized approach, championed by economists, and an oversocialized one, put forward by sociologists. The concept of embeddedness he supports relies on placing economic behaviour within the context of "networks of interpersonal relations" (Granovetter 1985:504), within which actors are partially autonomous, but are still bound by social structures. In a recent article, Greta Krippner (2001) examines the concept of embeddedness as it emerged from Granovetter's work. She argues that he and many of the authors that followed him have been just as reductionist as those they criticized. They almost invariably portrayed the market as a disembedded structure because they used it as some kind of counterpoint intended to highlight the degree of (dis)embeddedness of economic transactions, rather than defining and using it as a truly social mechanism. It ceased to be a way to understand the fluid patterns of social interactions that took place within an institutional setting and was reduced to the "analysis of institutions in terms of a single aspect, the configuration of network ties" (Krippner 2001: 777). In Krippner's (2001) analysis the reliance on Parsons' premises in sociology has much to do with the fact that in the discipline the market has not really been expressed as a "social" factor, as Polanyi would have, but rather as a disembedded background to "social" activity.

³³ Parsons' is an attempt at making sociology an "independent discipline." He used the same tools economists had successfully employed: Parsons argued that sociology's subject matter was to be the underlying principles of human behaviour rather than the "empirical" accounts of that behaviour. He did not deny the notion that social objects (institutions for example) would contain a mix of social and economic aspects, but still insisted that the concrete forms of this reality were not the goal of sociological analysis.

Bernard Barber (1977; Barber 1995b) also argues that the idea of embeddedness should be at least partially recast to provide a more useful definition of its meaning. Embeddedness has long been used to counter what he called the “absolutization of the market” (Barber 1977) carried on at the ideological and scientific levels (Barber 1995b: 387) by economists. Nevertheless, economic sociology has tended to oversimplify the role of the social system, of the rich social, cultural and institutional texture that Polanyi had originally described. This has stopped the discipline from understanding markets as part of a larger social system comprehensive of social-structural, cultural-structural and personality components (Barber 1995b). Often lacking in modern economic sociology is a broad understanding of “social networks” as themselves reliant on cultural and social structures upon which these networks are premised, while there is a reification of the market system, which has become an undisputedly rational tool, rather than a method of economic exchange.

As I noted above, I shall use an Austrian-Weberian approach that allows us to transcend the “single embeddedness” (Boettke and Storr 2002) portrayed in much of economic sociology. I believe this approach holds better promise than the ones critiqued above by Barber (1977; 1995b) and Krippner (2001) because it captures the variety and complexity of socio-economic organization and allows for a rich version of methodological individualism, enabling us to bridge, if partially, the visions of Hayek and Polanyi. I shall now deal with the concept of Embedded Liberalism, a notion with a decidedly Polanyian flavour and heritage, which had a remarkable impact on the approaches dealing with international economic organizations and their postwar

development, but that is still not as useful an analytical tool as the “complex embeddedness” endorsed by Boettke and Storr (2002).

Embedded Liberalism

The notion of embedded liberalism was brought to the fore by John Ruggie with his 1982 article in *International Organization* (Ruggie 1982), which was later reprinted in Krasner’s work on international regimes (Ruggie 1983). In his analysis of the factors that had accompanied the development of the postwar international economic structure, Ruggie noted that the most relevant one had been the attempt at generating a system within which states could maintain a balance between domestic political choices and international economy. Ruggie (1982:393) argued that:

The task of postwar institutional reconstruction ... was ... to devise a framework which would safeguard and even aid the quest for domestic stability without, at the same time, triggering mutually destructive external consequences that had plagued the interwar period. This was the essence of the embedded liberalism compromise: unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism. If this was the shared objective of postwar institutional reconstruction for the international economy, there remained enormous differences between countries over precisely what it meant and what sorts of policies and institutional arrangements, domestic and institutional, the objective necessitated and was compatible with. This was the stuff of the negotiations on the postwar international economic order.

According to Ruggie, the process had its theoretical roots in Polanyi’s *Great Transformation* (Polanyi 1944) and ultimately he argued that the international economic institutions that emerged from the Bretton Woods talks had been an at least partial vindication of the concerns the Hungarian economist had expressed with regard to the

risks associated with unregulated markets. Others followed the same logic in analyzing the institutions and the events of the two decades following the end of World War II and found that the market had indeed been constrained and regulated as Polanyi would have expected it to be after the jolts and shocks of the interwar period (Bienefeld 1991; Helleiner 1995b). While the notion of embedded liberalism has been used extensively in the past to describe the workings of the international economic system, it was always questionable that it could explain them all. Ruggie himself noted that the internationalization of finance that is the hallmark of the current international economic system was not easily reconcilable with Polanyi's predictions that the embedding of market rules would negate the premises of the "Liberal Century" (Ruggie 1982: 388). This is because financial capital, what Polanyi (1957) calls *haute finance*, was one of the central tenets upon which the Liberal Century constructed its regime, a negative characteristic of the system that led to the reaction against free markets. According to the Hungarian writer, a double task was delegated to international financial powers. On the one hand they needed to expand, by any means necessary, the reach of the capitalist economy, and on the other, they were able to maintain a period of extended peace among advanced states, because upon this lack of conflict rested the continuous enjoyment of financial gain.

Business success involved ruthless use of force against weaker countries, wholesale bribing of backward administrations, and the use of all the underhand means of gaining ends familiar to the colonial and semicolonial jungle. And yet by functional determination it fell to the haute finance to avert general wars. The vast majority of the holders of government securities, as well as other investors and traders, were bound to be the first losers in such wars, especially if the currencies were affected (Polanyi 1957b: 13).

The “good behaviour” of smaller states was secured through the use of financial instruments: access to international credit was premised on specific fiscal and monetary policies, possibly destabilizing financial crises, like the one that hit the Ottoman Empire in the 1870s, were handled and defused by the new regime (Polanyi 1957b: 14-15).

Recently some questions have been raised regarding the validity of the embedded liberalism framework. These have two separate thrusts: the first notes that the system of international institutions that emerged after the end of the second world conflict owed more to the Keynesian vision of the “middle way” than to Polanyi’s critique of the disembedding trend inherent in the industrial/capitalist system (Kirshner 1999). The second critique (Lacher 1999a; Lacher 1999b) is even more substantial, and hinges on the idea that the organizational constructs and capitalist reproduction tools that shaped postwar economies were not a process of re-embedding of the economy but rather an example of the “further universalization of capitalism” (Lacher 1999a: 344).

This universalization passed through an increasing commodification of labour and money, a process that is at the basis of the modern capitalist system (Lukács 1971). If we accept Lacher’s notion, then, the welfare state was simply another phase in the “dialectic of laissez-faire and protectionism, which had characterized capitalism from the start” (Lacher 1999a: 344). In this sense the reading of Polanyi as consistent with embedded liberalism is premised on a simplistic and partial understanding of his work (Lacher 1999b) and can only be supported if we discount Polanyi’s notion that to truly deal with disembeddedness, human beings must be able to impose a novel rationale on the functioning of markets. Only by replacing the profit motive with a more society-oriented, democratic rationale can re-embedding take place. Polanyi (1945) himself noted that the

American model, which was premised on the identification of the private way of life with the laissez-faire system, was liable to generate not a re-embedding process but a new historical model of liberal capitalism in which state intervention became a relevant but by no means central tenet of the social pact. So while it is possible to characterize the Bretton Woods system as generating an at least partially embedded system, it is also possible to describe the same system as far removed from Polanyi's vision in so far as it accepted in full the liberal logic of the market (Bernard 1997).

Overall, the recent debate regarding economic embeddedness highlights the varied nature that scholars attach to the concept. It also suggests that Polanyi's idea of embeddedness was more complex than the renditions to which we have been accustomed in the recent past. Both Lacher's (1999a) and Kirshner's (1999) critiques contribute to the recent literature that is trying to understand embeddedness as more than a simple, relatively unproblematic relation between society and the market. They provide an image of the failures of "single embeddedness" and they should be read within the context of recent contribution made by economists from the Austrian School (Boettke 2002; Boettke and Storr 2002). They also should be read keeping in mind their focus on retrieving the complexities of socio-economic interaction and on recapturing the breadth of economic sociology's analytical power, of which both Hayek and Polanyi are major representatives.

Hayek and Spontaneous Order

I argue that, although it is rarely presented in that light, Hayek's analysis develops an Austrian notion of free markets as socially embedded. Hayek begins with the ontological assumptions that reality is complex and that it is generated by the interplay of individual activities, deriving from these assumptions much of his normative construct. Hayek's production rests on three major themes: the nature of knowledge, the role of institutions in framing and embodying human action, and the application of these precepts to the economic sphere.

The Hayekian world is extremely complex, too complex, in fact, for anyone to map precisely. This is true, not simply because, as Incrementalism suggests (Lindblom and Woodhouse 1993; Weiss and Woodhouse 1992), there are too many variables to keep track of, or because the relation among these variables is far from linear (Brown 1995; Lewin 1992), but because much of the knowledge on which we rely when deciding has a contextualized nature. Individuals are in both a privileged and limited relation with knowledge: because it is heavily contextual, they have the best understanding of their own situation, opportunities, constraints and preferences. At the same time, because it is tacit, contextual and in evolution, knowledge is rapidly reduced outside of the individual's context.³⁴ In the Hayekian epistemology knowledge is limited and bounded to the individual; imagine a person with a candle walking through a large dark hall: she

³⁴ Knowledge in Hayek is not equivalent to notions, rather to the ability to analyze correctly options, balancing notions, preferences, opportunities, and to come up with an appropriate response. In this sense, all choices are "constrained optimization" dependent on individual contextual knowledge.

has a clear idea of her immediate surroundings, but as the light progressively dims, details grow less and less sharp and finally disappear.

Human beings do not move alone in these halls; they are in continuous interaction with one another and from these interactions, social structures emerge. Institutional and organizational structures exist in continuous interrelation with individuals in a non-deterministic process of mutual interconnectedness. Our histories and traditions, the modes of our interaction that are transmitted from one generation to the next, become the framing reference for individual choices.³⁵ Institutions shape activity, and organizations tend to crystallize institutional patterns, so it is crucial that they be allowed to develop in a spontaneous manner. By freeing human interaction as much as possible, the process of knowledge diffusion becomes a truer reflection of individual preferences. While this does not ensure the emergence of efficient or just institutions, it does ground institutional development in free social interaction.³⁶

The most famous Hayekian application of these principles is the determined defence of the socio-economic structure of the free market. Because market exchange epitomizes complexity, diversity of preferences and contextual and tacit knowledge it is eminently suitable for spontaneous ordering processes. However, Hayek's interest goes well beyond simple efficiency: economic exchange is the keystone of liberal freedoms, the realm in which more than anywhere else, external intervention is likely to have negative impacts on liberty. A free market is, in the Hayekian tradition, the clearest

³⁵ Note that this framing context is not necessarily an accepted or acceptable one to all individuals. The power relations that will exist within it are open to contestation and revision.

³⁶ I would submit that Hayek's vision here is ideal-typic in the Weberian sense. Hayek is well aware, even as a Liberal, of the power differential among individuals; he just does not believe that planning can fairly and efficiently deal with this state of affairs.

signifier of a polity that respects individual freedoms, in turn the indicator of a free society.

Hayek remains a key figure in the debate on activity coordination, because of his work on spontaneous order. Yet, I argue that we should not disassociate this contribution from the larger canvas of Austrian Economics against which it emerged. I place Hayek's concerns with the non-rationalist requirements imposed by the limits of the human mind, the role of knowledge in the market process, and the requirements of individual freedom (Hayek 1960: Ch. 2), as the counterpoint to the Polanyian analysis. In the rest of this section, I deal with Hayek's ontological premises, present his theory of knowledge and analyze his work on catallactic processes in the light of this multifaceted approach to draw out his complex vision of socio-economic activity.

Hayek was deeply influenced by Austrian economic theory during his years in Vienna, especially by Carl Menger's theories on the role of knowledge and learning, which the latter argued were a central part of economic activity (Menger 1950 [1871]; 1985 [1883]). Too often dismissed as a Neoclassical, if somewhat unorthodox, economist (Jaffe 1976; Peat 1998) Menger played an important role in the Austrian School of Economics. His theory of value (dependent of the accumulation of knowledge) and his methodological individualism were important stepping stones in Hayek's thought (Streissler and Weber 1973). Menger's "atomistic method" was a way of applying methodological individualism aimed at focussing social analysis on individual activity. This is clear both in the research laid out in *The Principles of Economics* and from the methodological call he makes in *Problems of Economics and Sociology* to discover "the laws by which [economic phenomena] are built up from the [individual]" (Menger 1963

[1885]: 93). Also traceable to Menger (1963 [1885]) is the notion of a spontaneous evolution of social institutions like money, the family, or the state.

Menger's atomistic method links subjective valuation with the individual mind in its process of choice, but that risks circumscribing the ontologically knowable to the individual alone, forcing economic analysis to deal with atomized actors (Lavoie 1994). If preferences are the result of subjective valuation, the only direct knowledge that can be had is that of personal preferences, potentially leading to an atomized subjectivism. Lavoie (1990; 1994) suggests that a solution to this problem can be found by expanding the boundaries of subjectivism: "The hermeneutical critique of atomistic Austrianism argues that what is valid in the principle of methodological individualism is already implicit in a properly interpreted subjectivism. Methodological individualism ... does not need to be accompanied by the privileging of Crusoe conceptual experiments" (Lavoie 1994: 58).

Menger's work influenced Hayek's subjectivist orientation, which also relied on the use of spontaneously ordered systems as its central tenet (Udehn 2002: 486). Methodological individualism was the grounding of Hayek's work on self-organizing systems: "true individualism is the only theory which can claim to make the formation of spontaneous social products intelligible" (Hayek 1948a: 10). Boettke and Storr (2002), and Zafirovski (2002) point to the connections between the Austrians and Max Weber. With regard to Hayek's methodological individualism, his position is very close but not identical to that of the German sociologist. Hayek argues "there is no other way towards an understanding of social phenomena but through our understanding of individual actions directed toward other people and guided by their expected behavior" (Hayek

1948b: 6) although he, following Von Mises preferred to speak “of *intelligibility* and of *comprehending the meaning* of human action rather than of understanding” (Hayek 1967 [1962]: 59). In the main, though, these differences do not particularly affect the closeness of their position. Hayek believed that the nature of individual knowledge and the complexity of the real world hopelessly hindered efforts towards planning, limiting its application to rather minor matters.

For Hayek, spontaneous ordering extends beyond economic interaction to the ordering of social and legal matters. He also believed that modern language lacked the specificity that was necessary to identify the important differences between spontaneous ordering and planned ordering (Hayek 1978a), and resorted to the use of classic Greek terms to highlight their differences and the system of rules that underpinned them. To the spontaneous order of the *Cosmos* corresponded the system of rules identified in the *Nomos*, while the constructed order of the *Taxis* was linked to the rules of the *Thesis*.³⁷

³⁷ It should be noted that the classification of social orders in Hayek is not the same thing as the ideal-typology that is present in Max Weber. In the latter, there is a more analytical approach whereas Hayek has a more empirical approach to their nature.

Table 14 The Classification of Social Orders in Hayek

Type of Order And Corresponding Rules	Characteristics of the order and of the rules
<i>Cosmos</i>	A spontaneous order. Its complexity is not limited by design, it does not serve a particular purpose and its existence may be purely abstract (Hayek 1973: Ch. 2; 1978c).
<i>Nomos</i>	“a universal rule of just conduct applying to an unknown number of future instances and equally to all persons in the objective circumstances described by the rule, irrespective of the effects which observance of the rule will produce in the particular situation” (Hayek 1978c: 77). Creates a spontaneous order.
<i>Taxis</i>	A “directed social order” (Hayek 1973: 37) Relatively simple in nature, invariably oriented to serve the goals of those who designed it; its existence is easily perceived as concrete (Hayek 1973).
<i>Thesis</i>	“any rule which is applicable only to particular people or in the service of the ends of rulers” (Hayek 1978b: 77) Necessary in the running of organizations.

Hayek contrasts spontaneous orders and directed social orders. While society requires that both organizational principles be employed, the spheres in which they yield the best results always remains sharply differentiated.

That the two kinds of order will regularly coexist in every society of any degree of complexity does not mean, however, that we can combine them in any manner we like. What in fact we find in all free societies is that, although groups of men will join in organizations for the achievement of some particular ends, the co-ordination of the activities of all these separate organizations, as well as of the separate individuals, is brought about by the forces making a spontaneous order (Hayek 1973: 46).

The optimal approach towards the large-scale, knowledge-limited operations of the market is the catallaxy rather than the economy. Hayek was a staunch supporter of the market, understood as an arena where the application of the *Nomos* was most desirable, and incessantly pointed out the benefits and opportunities this institution afforded to society in terms of individual freedom and material development. Like all members of the Austrian School of Economics, he opposed Marxist solutions while, at the same time,

disapproving of both the simplistic notions proposed by Neoclassic economics, and the state-driven, supply side intervention heralded by Keynesianism (Hoover 2003).

The attack on planned economies (the Socialist Calculation debate, as it came to be known) led by the Austrians served as backdrop to many of Hayek's ideas about market efficiency and market process. Both von Mises (1920; 1936) and Hayek (1940; 1935) were deeply sceptical of the possibility that planned economies could foster the necessary degree of rational economic calculation needed for markets to function, and both argued that only subjective valuation was meaningful in economics. By resorting to a model that propounded the use of an objective use-value, socialist planners, in fact, were hindering the functioning of the price system. Outside of pre-modern societies, where the division of labour is very simple, it is only by measuring the accumulated stock of expressed individual preferences that the market can function in any efficient manner. This measurement is available through the price mechanism but, while prices had an enabling function on individual market actors (Gray 1986), this is only possible against the backdrop of other forms of diffused knowledge (Böhm 1994).

The collectivist administration of the economy upon which Socialism is premised would inevitably create monopolies, which in turn distort the all important price system. It was on the backdrop of the debate between the Austrians and the proponents of market socialism like Oscar Lange (Lange 1938 [1936]) and Abba Lerner (Lerner 1936; Lerner 1938) that Hayek developed his theory of knowledge (Gamble 1996: 67-69). At the same time, the analysis of market equilibrium was also being developed through the lens of the two main assumptions of Austrian economics: subjectivity and the imperfection of

knowledge. Hayek's contribution to the Socialist Calculation debate was centred on three claims he made about planned economies (Streissler 1994: 65-67):

- 1- The problem of heterogeneous commodities (Hayek 1935), according to which goods are only seldom fully homogenous as implied by socialist planners; if they are not, they cannot be properly accounted for in the planning process;
- 2- Costs are subjective estimates rather than objective realities, which implies guessing at future markets (Hayek 1935; 1940);
- 3- Knowledge is fundamentally dispersed and cannot be centralized (Hayek 1945).

The last point is of special interest to us, but the whole analysis centres on the need to account for the complexities of real exchange and of free choice, two elements that ultimately relegate planned economies to a second tier. "Hayek's arguments on the impracticability of socialism thus do not aver that a socialist economy would lack any measuring rod of efficiency. But he points out that such a system will only achieve a much lower degree of efficiency at much higher cost than a free enterprise system" (Streissler 1994: 68).

The members of the Austrian School of Economics contributed a novel idea of knowledge to economic theory; their claim to innovation "is to be found in their discussion of knowledge and the distinction between knowledge and information that follows from their work" (Boettke 2002: 271). They differentiate between a static stock of data, which Boettke identifies as information, and knowledge "as the flow of new and ever expanding areas of the known" (Boettke 2002: 266). Information, at least in principle, is available to market actors, while knowledge evolves as part of their attempts at devising strategies of action within the logic of the catallaxy. The latter is an important tool for the creation of knowledge (Butos 2003) because its institutional constraints force activity towards rational conclusions. This was one of Hayek's central contentions when

defending the superior efficiency of the catallaxy because “what we call economic rationality emerges because of a certain institutional setting and is not a behavioral postulate of economic analysis” (Boettke 2002: 268).

As Stephan Böhm (1994) notes, the relevance of knowledge in Hayek’s work is central; he argues that Hayek’s approach to the notion of knowledge changes from “Economics And Knowledge” (Hayek, 1937), to “The Use Of Knowledge In Society” (Hayek, 1945) and beyond to the works written after 1950 (Hayek 1956; 1967 [1962]; 1973). This evolution reflects a methodological transition from “an economic theory of knowledge as a theory of how people come to know what to do” (Böhm 1994: 170), to an epistemic analysis “of the use of fragmented, or dispersed, knowledge under different institutional arrangements” (Böhm 1994: 171), to finally (after the 1950s) dealing with practical, inarticulate knowledge, which is so crucial to economic activity (Böhm 1994: 171). Hayek elaborated the theme of knowledge over the better part of a quarter of a century and it indeed underwent a series of important reformulations. What remained constant were the socio-institutional framework, in which a sophisticated methodological individualism was embedded, and the support for free markets. The worst of the misunderstandings regarding individualism according to Hayek is

the belief that individualism postulates (or bases its arguments on the assumption of) the existence of isolated or self-contained individuals, instead of starting from men whose whole nature and character is determined by their existence in society (Hayek 1948a: 6).

In “Economics and Knowledge”, Hayek (1937) tackled the problem of market equilibrium. Refusing the idea that a set of stable consumption functions might be able to correctly describe the notion of equilibrium, he linked the latter to the field of the pure

logic of choice rather than to the area of empirically testable propositions, which is based on “propositions about the acquisition of knowledge” (Hayek 1937: 33). This is a crucial qualification for the whole theory of economics because it shifts the direction of economic analysis from a static to a dynamic idea of markets. Market coordination is a case in point. It is not the fact that markets clear that is relevant; it is the interactive activity of a myriad of actors, individually possessing only a tiny fraction of the total stock of knowledge available to society, which generates an aggregate level of knowledge superior to that emerging from any centrally devised planning mechanism. The fact that all of this fragmented and dispersed knowledge can be aggregated spontaneously is the true miracle of economics (Lavoie 1995). Thus, equilibrium cannot any longer relate to the description of static consumption functions, but it must be understood as a set of knowledge propositions, which are challenged by new facts. In this sense, it now relates to the manner in which individual actors operating within the market system interact with each other, becoming, *per force*, dependent on the idea of time.

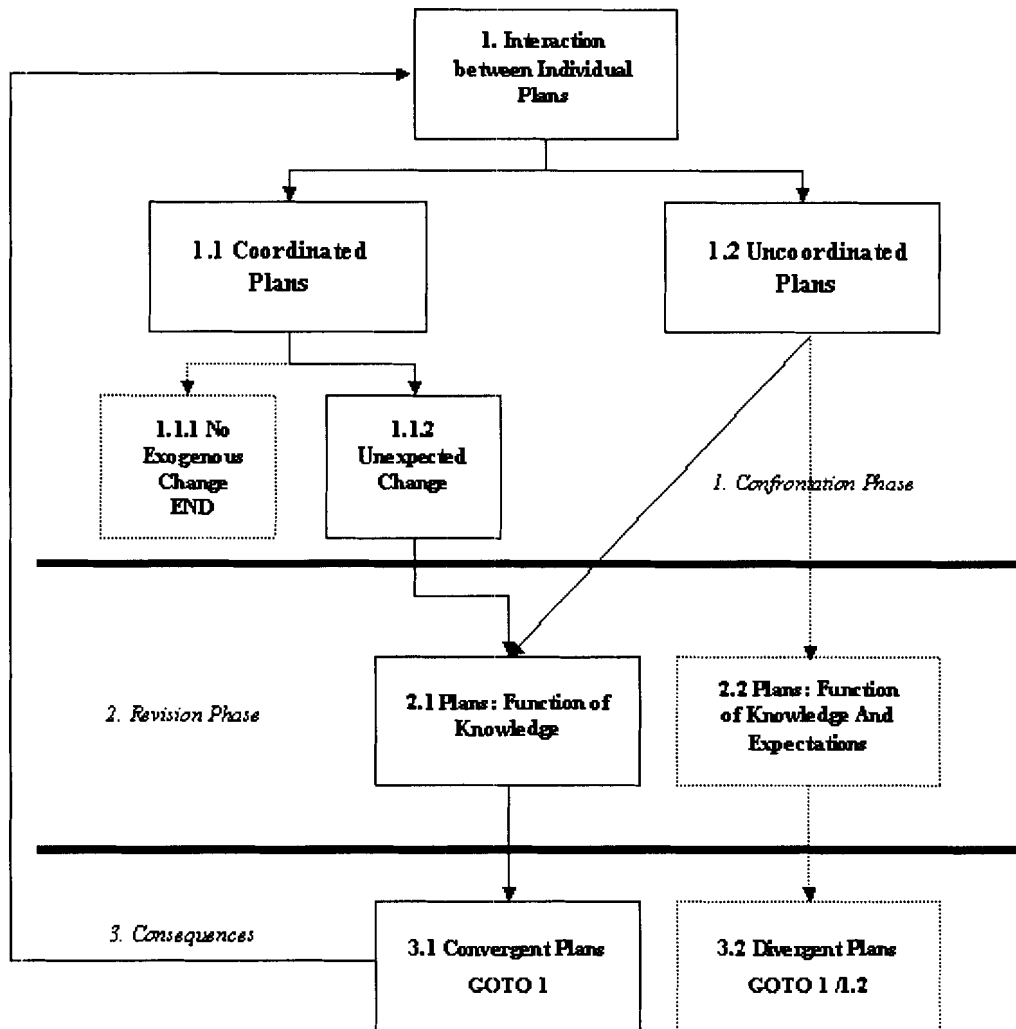
At the aggregate level, equilibrium comes to signify the consistency of individual plans with one another: a certain degree of harmony among the actors with regard to the expected behaviour of all participants. Hayek did not postulate that such plans are necessarily consistent with one another. In fact, his construction is a competitive system in which the basic (and one is tempted to say necessary) requirement is that any disruption in the plans be caused solely by fallacies in expectations with regard to external factors and not by a mistaken expectation involving the behaviour of other actors. Under this minimal rule, knowledge of the subjective rules of the game (what is expected from every class of actors) is evenly distributed among all those who participate

in the market economy. Coordination is then possible solely with the help of the market mechanism (Gloria-Palermo 1999b) aided by prices and competition. Prices have a particular role in this model: “Hayek’s point is not simply that prices as such convey knowledge, let alone infallible knowledge, but rather that they *enable* us to make use of knowledge that is ‘ignorant of itself’” (Böhm, 1994: 169).

We have come to understand that the market and the price mechanism provide in this sense a sort of discovery procedure which both makes the utilization of more facts possible than any other known system, and which improve adaptation to the ever-changing circumstances of the world in which we live. Of course this adaptation is never as perfect as the mathematical models of market equilibrium suggest; but it is certainly better than any which we know how to bring about by any other means (Hayek 1978c: 236).

Competition is assumed to be an efficient process yielding convergence of plans. Through the consistent emergence of unexpected circumstances, though, we are prevented from ever reaching a long-term equilibrium. What happens, then, is that our knowledge (much like Menger stated) continuously adjusts to new situations and evolves along with society.

Figure 15 Hayek's Vision of the Market



[Solid lines represent the actual interactions while dotted lines represent interactions that do not take place. Thick horizontal lines divide the three phases of the market process]
 Source: Gloria-Palermo, 1999: ch.9

Hayek returned to the nature of the market process in the third volume of *Law, Legislation And Liberty*. In this short work subtitled *Political Order Of The Free People* (Hayek 1979), he described competition as a deeply subjective discovery process. It is both complicated and unfair to believe that firms should behave as if perfect competition existed. It is complicated because selling at marginal costs would require that future costs of production be known, unfair because the right to choose a certain price is inextricably

linked to the right to private property. Furthermore, competition is not synonymous optimization. It only assures that economic actors exert themselves to the point where they shall do better than others. Only three results are certain to emerge from the presence of competition:

1. Everything will be produced which someone knows how to produce and can sell profitably at a competitive price;
2. Every item will be produced at least as cheaply as it could be produced by those who do not undertake such production;
3. Everything will sell at prices lower than or as low as those it could be sold by anybody who is not, in fact, doing so.

Is Hayek's economy completely indeterminable then? Caldwell (1988: 524) noted that "Hayek believes that any legitimate economic explanation must employ *some* notion of equilibrium." This approach is based on the circulation of tacit knowledge that takes place in the catallactic process³⁸

While such a position represents in one sense a position of equilibrium, it is however clear that it is not an equilibrium in the special sense in which equilibrium is regarded as a sort of optimum position (Hayek 1937: 51).

From Hayek's point of view, this new approach to market processes had the enormous advantage of allowing for a more "elastic" background. In particular, markets need not clear every time, bringing the study of equilibrium within the realm of empirical

³⁸ *The conclusion then which we must draw is that the relevant knowledge which [a person] must possess in order that equilibrium may prevail is the knowledge which he is bound to acquire in view of the position in which he originally is, and the plans which he then makes. It is certainly not all the knowledge which, if he acquired it by accident, would be useful to him, and lead to a change in his plan. And we may therefore very well have a position of equilibrium only because some people have no chance of learning about facts which, if they knew them, would induce them to alter their plans. Or, in other words, it is only relative to the knowledge which a person is bound to acquire in the course of the carrying out of his original plan and its successive alterations that an equilibrium is likely to be reached (Hayek 1937: 51)(Hayek 1937: 51).*

research. Central in the debate on knowledge was the critique of planning. In “Economics and Knowledge” Hayek (1937) asked how planning could generate the same aggregate results obtained by the market, without the use of market processes of free exchange and private property. How could economic efficiency be achieved?³⁹ Here Hayek (1937) does not engage in an in-depth empirical analysis of equilibrium, nor does he put forward a specifically drafted set of provisions. He undertook the empirical analysis of the market system in “The Use Of Knowledge In Society” (Hayek, 1945), where he restated the goal of his economic analysis as the understanding of “how to secure the best use of resources known to any of the members of society, for ends whose relative importance only those individuals know. ... a problem for the utilization of knowledge which is not given to anyone in its totality” (Hayek, 1945: 519). Individual actors know rather well what is relevant to them, but each person only possesses a fraction of the pool of dispersed knowledge. The situation is quite particular:

³⁹ Note that Vaughn (1994: 57) points out that, without a notion of pattern interaction between individuals, it is not at all obvious that the market would actually reach better results than the planner. I believe she underestimated the Mengerian roots of Hayek thought. A “cultural evolutionary function” was clearly present in Menger: as knowledge of the wants-needs links progressed, the behaviour of economic actors adapted. This is “cultural evolution” in the sense that the results of the economizing process need not (and are not) solely related to a notion of narrow economic rationality. There is no reason to believe that this point was not passed down to Hayek, and there is no reason to believe that Hayek, all of the sudden, began to feel for a neoclassical method of calculating efficiency. While it is certain that Hayek had a strong ideological bias against any socialist regime, and that he believed that socialist economic institutions could not match the production rates of capitalist firms, it is more than likely that his main concern here would have been with the oppressive nature of socialist institutions over the evolution of knowledge within society. Economic interaction is a crucial element of that evolution precisely because it is rooted in the knowledge of individuals and in the subjective cultural (along with material) needs of these actors. By not being constrained within the mould of Socialist thought, individuals are best able to change the combination of their needs-wants links, and to advance the status of their knowledge with respect to their deeply different desires and situations. Note that the argument of ideological constraints cuts both ways: any ideological imposition forcing society in any direction but that of free choice is liable to disrupt the system and hinder the achievement of what I believe is, ultimately, the “Austrian optimum:” the vector of all various individual, dynamic, and culturally-based plans of action. This is so because, in the end, to Austrian economists, there is no generally acceptable definition of efficient markets that will not encompass the cultural background of the economic actors themselves.

when we reflect how much knowledge possessed by other people is an essential condition for the successful pursuit of our individual aims, the magnitude of our ignorance of the circumstances on which the results of our action depend appears simply staggering. Knowledge exists only as the knowledge of individuals. It is not much better than a metaphor to speak of the knowledge of society as a whole. The sum of the knowledge of all the individuals exists nowhere as an integrated whole. The great problem is how we can all profit from this knowledge, which exists only dispersed as the separate, partial, and sometimes conflicting beliefs of all men (Hayek 1960: 25).

By trying to profit from the comparative advantage resulting from individually having a better “situated” knowledge than anyone else, actors actually diffuse their knowledge and, thereby, benefit society at large. While everyone involved in this process holds but a fraction of the knowledge that would be needed by the socialist central planner market interaction manages to generate results far superior to the latter. An important point must be made with regard to the nature of knowledge in Hayek’s work. The economic knowledge he is interested in is very far from the easy to come by, tradable commodity that Neoclassical economic theory or information theory make it out to be (Böhm 1994; Dolfsma 2001). It is a very disjointed and fragmented affair, which includes a high degree of tacit knowledge (Lavoie 1995; Vaughn 1994). This does not mean, though, that economic knowledge is atomized and alienated from the environment in which it was created. In fact, individuals participating in the process of market exchange use “*systemic or holistic knowledge*, knowledge unknown and unknowable to any of the elements of the market system, but given to them by all the operation of the system itself” (Gray 1986: 38). As with Weber (1981) and Boettke and Storr (2002) individuals and their activity cannot be seen in Hayek as separated spheres; their correlation and intersection are fundamental in understanding the social process that is behind economic activity and, as a corollary, the needs of those processes.

In “The Meaning of Competition” Hayek (1948c) refocused his readers’ attention on the dynamic structure of markets by criticizing the crucial shortcomings of the perfect competition model and its static perception of the economy that expunged complexity from real life for the sake of making calculations easier. Perfect competition is a sanitized model, Hayek (1948) argues; it is static, goods are assumed to be homogeneous, actors are endowed with perfect and complete knowledge, personal relationships are discounted as non-relevant, as are advertising and brand differentiation. In a word, true competition is eliminated (Hayek, 1948: 96). Real markets work on the basis of proxies and largely imperfect mechanisms and practices, which are as far from the perfect competition model as imaginable, yet they deliver a result which is unparalleled by any other means which humanity has devised.

In “Competition as a Discovery Process,” Hayek (Hayek 1978a) added a final, strongly Mengerian element to his theoretical construct about the market process: the notion that all economic activity is oriented towards the future. Market decisions are based on a very specific type of knowledge, which is “specialized, detailed, particularized according to time and place. It is also sometimes tacit and unreportable” (Vaughn 1994: 60). The calculation of value is a complex, ongoing, dynamic process carried out by only partially informed agents and it cannot be explained away (or forgotten) by assuming, as neoclassical and socialist writers did, that future knowledge already existed. Future knowledge is an open process of discovery and it is continuous in nature. The market is central in the Hayekian tradition because it

is an epistemic institution which serves to economize on the scarcest of all resources – knowledge. ... The epistemic role of markets may be construed as making available the widely scattered fund of traditional and local

knowledge. It is prices that enable market participants to draw on this knowledge pool (Böhm 1994: 172).

It enforces rationality on the actors: “competition will make it necessary for people to act rationally to maintain themselves” (Hayek, 1979:75). If a few actors are rewarded by the market their example could then be imitated by others.

Here is another link to the Mengerian theme of self-organizing, evolutionary structures. This theme emerges, in Hayek (1973; 1979), within the discourse about institutions. In the Austrian tradition the analysis of the evolution of the institutional setting is given precedence over the study of the impact those same institutions have on the plans of individual actors. Austrian economic theory has two similar yet distinct approaches to institutional evolution: Hayek analyses organic institutions, which he calls *kosmos* (1973: 42), in a functional manner, while Menger had adopted a genetic approach (Menger 1985 [1883]).⁴⁰

Both authors saw the market as institutionally embedded. In fact, Hayek was inclined, in his early work, to follow Menger’s (1985 [1883]) notion that Liberal economic policy does not necessarily mean that all institutions should be accepted in their emergent form. “Organic” social structures they may be, but they should always undergo scrutiny and examination and “we must, when careful investigation so requires,

⁴⁰ Genetic causation is a long-standing feature of Austrian economic analysis and stands in opposition to the equilibrium perspective that developed *pari passu* with the Marginalist revolution in mainstream economics. Austrian economists who subscribe to this principle, like Menger (1985 [1885]), rely on three interconnected propositions: 1- economic agents act upon their preferences, 2- there is causal relation between the actions of economic agents and the behaviour of the market, and 3- causes are not simply antecedents of the effect, they initiate a process the result of which is the effect (Cowan 1994). The subjectivity and interpretive nature of this causal analysis fits with the general link between the Austrian School of Economics and the German sociological tradition of the turn of the 20th century and evolved through the work of writers like Hans Mayer (Mayer 1932) and F.A. Hayek (1948) to involve the analyses of processes of dynamic equilibrium premised on the diffusion of knowledge among economic actors.

change and better them according to the measure of scientific insight and the practical experience at hand” (Menger 1985 [1883]: 234). Hayek (1946) too distanced himself from utilitarianism and “clearly [claimed] that inherited ‘organic’ institutions, such as our fundamental legal categories, stand in need of scrutiny and improvement in the light of theoretical ideas about the functional role that they can play in a market economy” (Shearmur 1996: 57).⁴¹

If Mengerian genetic explanations are aimed at the analysis of the emergence of institutions, functionalists, like Hayek, try to explain why these institutions continue to exist. To Hayek (1979) institutions are justified by the efficiency with which they fulfill their goal with respect to the survival of society. Societies developed as they did because of a selection process through which the “fittest” institutions survived.

Our habits and skills, our emotional attitudes, our tools, and our institutions – all are ... adaptations to past experience which have grown up by selective elimination of less suitable conduct. They are as much an indispensable foundation of successful action as is our conscious knowledge. (Hayek 1960: 26).

These structures tend to reach increased levels of complexity; a reflection on this subject is found in Hayek’s lecture on the work of Bernard Mandeville (Hayek 1967a). Here it is noted that evolution and spontaneous order enable complex structures to persist, not on the basis of one-directional cause-effect laws but on complex interactions among multiple actors. Therefore, the whole panoply of human achievements, including freedom, and the market system, was not invented or somehow devised, rather, it was

⁴¹ From a philosophical point of view, the foundations of invisible-hand explanations of organic social phenomena, including institutional emergence, rely on the notions of spontaneous organization and unintended consequences that characterize systems like the free market, which appear to have been designed but are not (Köppel 1992; 1994; Ullmann-Margalit 1978). It is also necessary that the process be ordinary: “[the explanation] cannot hinge on the extraordinary and the freaky, or on strokes of luck or genius” (Ullmann-Margalit 1978: 271).

discovered by human beings who submitted to, and later repeated, a certain rule because they found it favourable.

Law, Legislation And Liberty, in which Hayek brings together many of the strands of his previous work, is based on two basic ideas which are derived from the socialist calculation debate: on the one hand knowledge is dispersed, heterogeneous and it is not available outside of the process of discovery embedded in the market, on the other hand the economy is better understood as a catallaxy. To these two ideas Hayek also added the notion of tacit knowledge: people know how to do something without the precise knowledge of the mechanics of it. This undercuts the engineering capacity of the central planner, introduces the question of how we can learn from our experience and brings us towards an image of the market as a trial-and-error process where replication of behaviours is always imperfect. Furthermore, Hayek (1979) invites us to reflect on the division that exists within society between organization and order. Organizations (firms, households, etc.) have a specific objective to maximize and their members are pressured to accept and strive for the goals of the organization. An order, instead, is a system of rules, which enables individuals to achieve their own goals, where there are no criteria to judge between failure and success, except for the aims of the individual.

While all societies comprise both order and organization, a liberal polity is construed around rules, which generate a climate of peaceful, cooperative interaction among actors. The planning, or the imposing, of a national priority is not reconcilable with individual freedom. It is but a “synoptic delusion,” “the fiction that all the relevant facts are known to some one mind” (Hayek 1973: 14).

In a catallaxy (system of exchange), there is no benevolent dictator nor is there any neatly ranked scale of values, ergo, there is no possibility to devise a social welfare function. Spontaneous orders emerge instead, which individuals can consider either as a more or less static system of rules in which they pursue the goals that are suggested to them by their preferences and perceptions of opportunities, within legal and informal frameworks that dictate their behaviour.⁴² This more closely mirrors Hayek's description of the marketplace, rather than of the spontaneous order. Alternatively, individuals can represent this process as "the unplanned and often unconscious changes in rules and institutions that occur as a by-products of purposive actions" (Vaughn 1994: 125), which is the way in which the Hayekian perspective thinks of the catallaxy. In this realm, though, Hayek noticed a burgeoning trend towards imposing the rule of the *taxis* over the *cosmos*:

Few insights more clearly reveal the governing tendencies of our time than understanding that the progressive permeation and displacement of private law by public law is part of the transformation of a free, spontaneous order of society into an organisation or taxis (Hayek 1978c: 80).

⁴² Here Hayek was looking back beyond Menger and as far as Adam Ferguson and Adam Smith and the tradition of the Scottish Enlightenment. Ferguson himself had noted in *An Essay On The History Of Civil Society* that

*Mankind, in following the present sense of their minds, in striving to remove inconveniences, or to gain apparent and contiguous advantages, arrive at ends which even their imagination could not anticipate, and pass on, like other animals, in the track of their nature, without perceiving its end ...
Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design (Ferguson 1767: Part 3 Sec II 122).*

This was not unusual; Ferguson had been well known to German neoliberal writers like Franz Böhm, Wilhelm Röpke, Alfred Müller-Armak and Walter Eucken. Whose "ethical concern for individual freedom secured by a framework of legal rules, as well as its advocacy of a significant but circumscribed agenda of public policy, led straight back to Adam Smith's *Wealth of Nations* and forward to Hayek's *Constitution of Liberty*" (Raleen 1998: 2).

By talking about the theme of social institutions Hayek had two very important effects on the field of economics: first of all he stimulated Austrian economists to examine with more attention the links which, here and there, had already emerged between their school and the area of New Institutionalism (Boettke, 1989; Langlois, 1986a, 1986b). Secondly, his focus on the emergence, survival and function of these institutions sparked interest in evolutionary approaches to economic institutions.

In Hayek's (1976: 109-110) words, it is the invisible hand that organizes and coordinates economic activities: "the order of the market rests not on common purposes but on reciprocity; that is, on the reconciliation of different purposes for the mutual benefit of the participants". This is not to say that the market is an institutionless realm; the opposite is true, in fact. "The market process is embedded in a framework of *legal* and *moral* institutions," a necessary "prerequisite of spontaneous order," these rules "enable the individuals to make plans involving the interaction with other individuals" (Fehl 1994: 200). Hayek himself, like Simmel and Weber, is aware of the complex nature of social institutions and never intended the free market to be operating in a socio-institutional vacuum:

there are two basic and alternative methods of relying upon competition, which, if it is to be made effective, requires a good deal of government activity directed toward making it effective and toward supplementing it where it cannot be made effective (Hayek 1994: 111).

On the other hand, this does not mean that the market process can be twisted around and manipulated through a process of *Taxis*, without suffering and ultimately losing its capacity to collect and coordinate diffused and fragmented knowledge.

What I mean by “competitive order” is almost the opposite of what is often called “ordered competition.” The purpose of a competitive order is to make competition work; that of so-called “ordered competition,” almost always to restrict the effectiveness of competition (Hayek 1948: 111).

The true strength of the free market is the manner in which billions of independent interactions conjure a dynamic, evolving state of quasi-equilibrium: a selection order. Three key elements allow for this function: innovation, arbitrage and production-accumulation. Analytically the market is a way to diffuse knowledge and signals about economic interaction. Within it market entrepreneurs engage in activities that will give them an edge over their competitors. Below is a schematic representation of how this works.

Table 15 The Functions of Market Activity

Market Forces	Function
<i>Innovation</i>	Perception of new opportunities
<i>Arbitration</i>	Implementation of new opportunities
<i>Production – Accumulation</i>	Allows for the spread of new opportunities

In the Austrian sense, the system is ordered not because it reaches a final, static equilibrium, but because it is “oriented to the process of coordinating” (Fehl 1994: 203). The process of articulation of dispersed, tacit knowledge that goes on within the market is then “necessarily an individual activity, but knowledge as a whole, including its tacit foundations, is, according to the evolutionist approach, necessarily a social product. Through the interaction of intelligent beings in a social context, society as a whole attains a kind of ‘intelligence’ that is far greater than the sum of its parts” (Lavoie 1995: 125). Thus, from the standpoint of Austrian Economics, the market is necessarily embedded within social action: the result of spontaneous selection orders.

From some quarters, it has been suggested that Hayek has a Libertarian outlook (Sandel 1998), but this really depends on whether the definition of Libertarianism is used in a strict sense or if a looser definition is adopted. Hayek was far from the positions of those who would describe society as an atomized series of individuals interacting with one another in a more or less regular manner (McCann 2002). He turns to individualism as “a *theory* of society, an attempt to understand the forces which determine the social life of man” (Hayek 1948: 6). Neither should he be included among those who had blind faith in the capacity of the market to always optimize results (Hayek 1976: 113). Whitman (1998) shows convincingly that Hayek did believe that markets would on occasion deliver less than perfect results and that this is inherent in evolutionary theory.

The Hayekian perspective is a useful contrast to the models of market embeddedness that we saw above; within the free-market tradition, it provides a Liberal notion of embeddedness. The Hayekian world is not one of separated social and economic realities; one in which rationality is easily established or in which the market only supports economic ends or always delivers perfect results:

It is however, a misunderstanding to represent [the catallactic process] as an effort to make ‘economic ends’ prevail over others. There are, in the last resort, no economic ends. The economic efforts of the individuals as well as the services which the market order renders to them, consist in an allocation of means for the competing ultimate purposes which are always non-economic. (Hayek 1976: 113).

Institutional and social structures matter; knowledge and learning are central in the economic process and the market itself is a socio-economic institution in that it promotes individual freedom, progress and wealth within the boundaries of socio-institutional reality.

This, of course, is not to say that there are no differences between the Polanyian and Hayekian traditions. These exist and are often very deep because the respective outlooks are steeped in different epistemological currents, as Polanyi is more likely to look at groups rather than individuals, contrary to Hayek. Freedom means something different for the Hayekian perspective sees it as negative freedom, stemming from not being bound by undue government activity; the Polanyian one finds it in the possibility for human beings to be part of a caring society within which, without the fear of economic or political hardship, they can pursue their goals.

If we use as a premise the work of Boettke (2002), Butos (2003), and Dolfsma (2001) with regard to socio-institutional embeddedness of economic knowledge and individual activity, we can argue that knowledge is situated in two senses. It is valuable and useful especially within the specific market to which it applies, and it is situated in the sense that it is rational with respect to the specific rules of the catallaxy, which is a tool allowing for economic efficiency. In the Hayekian vision markets would be framed within institutional references emerging out of social and historical patterns that make sense to the specific social setting. The sole requirement put forward by Austrian economists is that coercion, both in the market and in the polity, be minimized. Individuals are socially constructed and situated in Hayek's scheme (McCann 2002) and are, therefore, more sophisticated than the atomized individual that is generally depicted by classic Libertarian theory.

In the process of exercising their choices, individuals will use fragmented and tacit knowledge and will contribute to the creation of these frameworks for both the polity and the market. I would submit that such structures would reflect the needs and

requirements and the attendant preferences and power relations emerging from the specific material realities in which socio-economic interactions take place.

Therefore, it would be perfectly viable to explain differences among various models of capitalism as emerging from different institutional frameworks and, as such, reflecting the comparatively independent evolution of spontaneous orders. In this sense, any institutional imposition that goes beyond the catallaxy and the *Nomos*, would amount to coercion. Hayek's argument, drawn to its conclusion, cannot support the disembedding of socio-economic processes by legislative and regulative *fiat* in the attempt to install some kind of "correct" model of capitalism. The latter will emerge spontaneously if catallactic exchanges are allowed.⁴³

The questions with regard to the issue of globalization is whether this process of spontaneous ordering is taking place and whether the current "balance of power" among various interests is imposing too high of a cost for the type of benefits that globalization is providing. Is there a limit, similar to the one that 19th century economic arrangements came up against, after which concentrated discomfort is rejected by socio-political responses as with the wave of protectionism and autarky of the early 20th century? Is the current phase of globalization having disembedding effects on societies across the world or is it forcing quick adjustments through the spontaneous emergence of novel institutions?

⁴³ Of course, but this was abundantly noted above, it will not support heavy state involvement either.

Institutions and Organizations

In the Austrian-Weberian tradition, institutions and organizations are not the same thing. They are interdependently linked to both ideational and material elements. Emerging from human activity and interaction, they generate a structure that fosters and organizes the modes of that same interaction. Institutional rules, be they the result of pure spontaneous ordering or of organizational *fiat*, serve as frameworks of reference for human interaction. In complex societies, this interaction translates most often in cooperative action; most forms of spontaneous ordering requiring, in fact, a degree of cooperation, acceptance of common rules, and a system that ensures the continued existence of predictable rules of conduct. For the market this translates into a set of more or less coercive rules that contracts are respected, a currency is accepted as legal tender, and so forth.

Cooperation is required for spontaneous orders to yield optimal results; at the same time, even the rules of minimal freedom envisaged by Hayek need to be enforced, and this task is generally delegated to organizations. Spontaneous orderings are complex systems that must be “defended” from undue external influence; the system of rules that would insulate it from interference translates into a system of coercive rules. Human action falls, broadly speaking, under the categories of either positive or negative action (being able to and being able not to); this is the realm of individual choice. Such choice can be problematic within the context of social action, where the activity of the individual actor affects other individuals and groups (Weber 1964b). The notion of rules of coercion and rules of freedom becomes truly meaningful only within the context of social action,

where cooperation is sought and fostered. The peculiar shape of the rules of conduct and rules of coercion that every society develops, amount to the available means of social interaction individuals have at their disposal. These will establish the known modes of social interaction and therefore a set of known yardsticks to create cooperation. When rules of conduct fail, interaction among individuals shifts from cooperation to confrontation.⁴⁴

Table 16 Rules of Conduct

Normative Trait of the Rule	Type of Rule
<i>Positive</i>	Rules of Coercion
<i>Negative</i>	Rules of Freedom

Institutions, seen as systems of rules and behaviours, evolve from individual social activity and interaction. *Organizations*, understood as frameworks for specific goals (Hayek 1978c), are deliberately constituted and can be used to crystallize institutions taken at a specific time of their evolution, by consciously limiting the set of alternatives available to individuals (See also: Khalil 1999).⁴⁵ Political parties, for example, tend to enforce specific goals, thereby directing institutional evolution along a specific path.

Norms are established praxes supporting a specific organizational or institutional role. They are taken as models or compulsory practices within a specific organizational setting. Organizational structures can be created to help retain or consolidate certain

⁴⁴ It is indeed rare in complex society for social action to be absolutely confrontational. Even war, arguably the most confrontational of human activities, is often based on specific rules of cooperation like the Geneva Convention.

⁴⁵ Elias Khalil (1999: 62) proposes a similar distinction between organizations and institutions suggesting that “the term ‘institution’ basically denotes some of the means employed in the pursuit of ends, while the term ‘organization’ signifies the agent who makes decisions about the end which is worth pursuing.” My definition of organizations and especially of institutions is different; still, the differentiation between the two is noteworthy.

institutional features; they may also emerge around spontaneously ordered institutions but the relation between the two is always very close and interdependent.

Institutions may (and do) emerge outside of specific organizational contexts, but in the modern world it is very difficult to imagine them as being unaffected by them. Polanyi also believed that institutions were crucial for the development of market institutions (Polanyi 1957a). Polanyi, like Weber, Simmel and the Austrian economists, did not believe in simple methodological individualism and this is noted in the Polanyian tradition:

Polanyi's institutional analysis does not, then, start from the individuals as basic units, to study how their inborn economic rationality responds to opportunities and constraints in the institutional context. Polanyi's method, on the contrary, is based on the principle that economic systems as such are the object of the analysis and are to be considered as historical, socially instituted processes, which 'integrate' consistently and durably the individual activities. The economic behaviour of the individuals is in general adapted, and therefore peculiar to each system (Cangiani 2003: 327).

This insight suggests a parallel, at least at the epistemological level, between the Austrian-Weberian tradition and the Polanyian one, and allows for a comparison of their analyses of socio-economic processes of modern capitalism.

The current wave of globalization has been linked to unprecedented organizational development, especially at the international level. The Bretton Woods institutions (IMF, GATT/WTO, and the World Bank) and the OECD have been crucial in supporting the growth of free trade, financial openness, new economic and industrial models and increased FDI (Rasiah 2000; Russett and Oneal 2001). Specific institutional rules (preference for free trade and market approaches, the principle of the limited state, etc.) have been embedded in these organizations. The most important critique levelled

against this system is that it led to a loss of sovereignty for states while remaining largely unaccountable to democratic control or overview and largely removed from democratic participation.

This, I argue, depends on the specific nature of organizational development. Organizations can be defined by both a *functional* and a *locational/geographical* sphere. The former encompasses the organizational goals and the institutional rules the group has chosen. These, in turn, depend on the scope of the organization; as noted above organizations emerge to trace specific paths for the management of an issue. Political rules, for example, define the manner in which the peaceful competition for political power and the methods of creating binding policies are to be handled. The *locational/geographical* sphere limits the effectiveness of the organizational rules to a specific community of actors. The Organization of African States is, for example, bound to work within its continent; much like the Whaling Commission is functionally bound to that specific area of interest.

As organizational emergence depends on the existence of an issue, the impacts and “location” of that same issue are likely to determine the constituency that will attempt to crystallize specific institutions and (sectoral) goals in an organization. In the case of economic globalization, it is unsurprising that the most powerful actors have been states and multinational corporations (MNCs). Both from a functional (management of economic and policy issues, development of investment strategies, etc.) and a geographical point of view (the international arena) these actors share interests in the development of a specific international economic regime and hold a comparative advantage vis-à-vis other potential participants like individuals and NGOs.

This is true not only in regard to resources, but also at the epistemic level, where states and MNCs often share common assumptions regarding the functioning of the economic system and the goals that must be chosen. The nature of organizational development is linked to the goals and the power of the actors who engage in the process, but power is linked to specific resources and to specific functional spheres. The United States can exert a very large degree of influence on the decision of, say, ANZUS agenda, but its weight is limited within the Organisation Internationale de la Francophonie.

It should be noted that these organizations should be perceived as legitimate both by those in power and by those obeying (Weber 1978 [1922]), because legitimate authority establishes the bases for the command-obedience relations that are embodied in them. All organizations, whether they are voluntary or compulsory, rest on the use of specific “orders” (Weber 1978 [1922]: 52-53), specific sets of institutional arrangements that reflect the common interests of the groups or individuals that have created the organization. These “orders” are, in most cases, imposed on both members and often on non-members (Weber 1978 [1922]: 50-51), even when the organization has a formally voluntary character. This depends on the fact that the organization serves the goal of structuring group activity premised on agreed upon values, and channels actors’ behavior according to specific rules. Institutions are crystallized in the organization and rules are devised so that the members of the organization itself are limited in the options they have at their disposal.

The ability of an organization to integrate different “voices” in its structure, to allow for the incorporation of various institutional visions in an equitable manner determines the level of legitimacy that it can achieve and its ability to exercise legitimate

power. This openness to “embed” other visions into the fabric of the organization is what many critics of current international economic organizations like the IMF or the World Bank have complained about (Howse and Nicolaidis 2003; Stiglitz 2002; Woods and Narlikar 2001).

Hayek and Austrian Economics on Organizations

Austrian Economics has a varied and, at times, difficult relation with the theory of institutions, tending to be eclectic in their analysis. Gloria-Palermo (1999: 31) individuates four major tenets in this production: the “Austrian approach (tenet 1) focuses on the *process* rather than the result of individual interaction, (tenet 2) is built upon *strict methodological individualism*, (tenet 3) develops a *dynamic subjectivism* approach, and (tenet 4) deals with the consequences of *ignorance and uncertainty*.” In an Hayekian sense organizations differ from spontaneous orders because the former were originally generated so that specific goals could be achieved, whereas the spontaneous order responds to environmental conditions without seeking to develop in a specific direction (Hayek 1973; 1978b).

The concept of order, which I prefer to that of equilibrium, at least in discussions of economic policy, has the advantage of allowing us to speak meaningfully about the fact that order can be realized to a greater or lesser degree, and that order can also be preserved as things change. Whereas an equilibrium never really exists, one can nonetheless justifiably claim that the kind of order of which the “equilibrium” of theory represents a sort of ideal type is realized to a great extent. (Hayek 1968 [2002]: 15).

Further differentiated by their ability to handle complex situations, orders and organizations are at the core of much of Hayek’s work on human action (Ioannides

2003). While it would be easy to reduce Hayekian analysis to ideal types⁴⁶ of spontaneous order (abstract, open-ended *Nomos*, premised on negative rules of conduct) and organization (concrete, purposive *Thesis*, premised on positive, authoritative orders), this would elide some important hues in the theory. First, just like Max Weber, Hayek espoused a dynamic concept of society. Organizations and spontaneous orders emerge from different processes, a purposive one for the former (man-made) and a spontaneous (grown) one for the latter, but their evolution does not need to be irremediably bound by their origins:

Although undoubtedly an order originally formed itself spontaneously because the individuals followed rules which had not been deliberately made but had arisen spontaneously, people gradually learned to improve those rules; and it is at least conceivable that the formation of a spontaneous order relies entirely on rules that were deliberately made. The spontaneous character of the resulting order must therefore be distinguished from the spontaneous origin of the rules on which it rests, and it is possible that an order which would still have to be described as spontaneous rests on rules which are entirely the result of deliberate design. (Hayek 1973: 45–46)

The role of knowledge is also important in the description of the two. If actors are permanently in a state of relative ignorance about the larger scheme of things (Hayek 1945), but are still seeking to devise ways to improve their lot, then this can be done through coordination (Fleetwood 1995). Two options are open to these actors: the coordination that emerges out of the rules of the spontaneous order and the coordination that is provided by commands from organizations (Gloria-Palermo 1999a; Ioannides 2003). The former is a much more powerful coordination method because it makes it possible to tap into the tacit knowledge of individuals and the stock of historical

⁴⁶ It should be noted that there is a fundamental difference between Hayekian and Weberian ideal-typing: the latter are analytical tools; Hayek's have an empirical structure.

knowledge that they have developed regarding the issue. On the other hand, the ultimate results of the spontaneous order are less controllable than those emerging from an organization. The price to be paid for this increased controllability is, alas, a lower capacity to use tacit knowledge and a lower overall complexity. Hayek is again careful not to state that organizations use only commands:

Every organisation in which the members are not mere tools of the organizer will determine by commands only the function to be performed by each member, the purpose to be achieved, and certain general aspects of the methods to be employed, and will leave the detail to be decided by the individuals on the basis of their respective knowledge and skills. (Hayek 1973: 49)

If an organization desires to achieve a high level of complexity, it will be necessary to introduce in its structure an increasing amount of rules:

The more complex the order aimed at, the greater will be the part of the separate actions which will have to be determined by circumstances not known to those who direct the whole, and the more dependent control will be on rules rather than on specific commands. (Hayek 1973: 50)

The Hayekian perspective argues that rules within organizations are different from those that we find in spontaneous orders on three levels: “(1) they are not as abstract, since they must still guide the actions of agents in specific directions; (2) they are not tacit but explicit, since the commanding authority needs to ensure that all agents will obey them; and (3) they are specific to the particular position in the organization that an agent occupies.” (Ioannides 2003: 544) In this sense, Hayekian theory supports a dynamic notion of orders and organizations as coordinating methods. Neither model is therefore fully exclusive of the other: even if either rules or commands will likely be dominant, order and organization can be combined to cope with increasingly complex situations and to modify existing results in specific ways.

Globalization: Spontaneous Order or Embeddedness?

If globalization is about increased interaction among both public and private actors within an environment in which national borders and national identity are becoming less salient (Spruyt 1998; 2002), how can we incorporate in our analysis the theoretical approaches put forward by the Hayekian and Polanyian perspectives? We have seen above how these two visions of market structure can be framed within specific traditions that include Max Weber, Georg Simmel and the Austrian School of Economics. The latter proposes a sophisticated notion of individual embeddedness in society, economy and polity (Boettke and Storr 2002) and looks critically at the issue of how human beings react to the pressures imposed by a rationalizing market system on their socio-economic behaviour.

Polanyi's work, used as its critique, has enjoyed an impressive revival (Hejeebu and McCloskey 1999; Mendell 2001), at times in relation with Antonio Gramsci's work on hegemony (Birchfield 1999; Burawoy 2003). Polanyi has been referenced by authors who wished to critique the apparent attempt at creating a utopian, disembedded world market (Gray 1998; Kelsey 2000; Lacher 1999b; Latham 1997; Zincone and Agnew 2000), to financial trends (Helleiner 1995b) and currency crises (Harmes 2001), and to the development of the Washington Consensus (Silver and Arrighi 2003). Of course, neoliberal pressures and any resistance that emerges against them can be easily cast in the mould of the double movement (Block 2001; Block and Somers 2003; Burawoy 2003; Gill 1995; Silver 2003), just as Polanyi's analysis of transitions in the structures of

capitalist organization are now relevant again (Roth 2003) as the economy moves away from the Fordist model and towards a still emerging future (Jessop 2000a; 2001b).

Many consider Polanyi's (1944) concern with societal responses to unbridled capitalist expansion a natural fit for the analysis of economic globalization and its attendant effects on social and political structures. Polanyi (1944) convincingly argued that a certain degree of complex embeddedness must be retained when planning a way to organize socio-economic relations so that socio-cultural patterns in the polity and society may coexist with economic accumulation.

He argued that the Liberal century had failed badly in this; its vision of wealth and progress had been one that few were called to share, pain and social dislocation being much more common and prevalent than the benefits free-marketers had promised. The response of societies to that situation was to back away from the most radical demands of the free-market, and to return to policies that ensured social integration, back towards what he had called organic society:

Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the face of the globe and the amount of goods involved grew to unbelievable proportions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labor, land, and money. While the organization of world commodity markets, world capital markets, and world currency markets under the aegis of the gold standard gave an unparalleled momentum to the mechanism of the markets, a deep-seated movement sprang into being to resist the pernicious effects of a market-controlled economy. Society protected itself against the perils inherent in a self-regulating market system – this as one comprehensive feature in the history of the age (Polanyi 1957b: 76).

Self-organization was not, as we saw above, the key feature of the market in Polanyi's account (Polanyi 1957b: 139-140). Rather, he stressed the constructed nature of the capitalist system and the specific distribution of its attendant benefits and disadvantages: as capitalists relied on *haute finance* to construct webs of international business and trade, workers in all countries suffered from the high levels of competition, saw their wages drop and their lifestyles crumble.

The Polanyian tradition asks how the economic sphere could be reconciled with the social framework so that economic change would not destroy the social fabric. Polanyi did not negate the economic rationale of human society, rather he argued that a process of extreme economic rationalization of social relations, that made strict economic logic the paramount organizing principle and preached economic and social individualism, was responsible for the tragedies of the late 19th and early 20th Centuries.

The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals and that could not, therefore, be removed again by their volition. Vision was limited by the market which "fragmentated" life into the producers' sector and that ended when his product reached the market, and the sector of the consumer for whom all goods sprang from the market. The one derived his income "freely" from the market, the other spent it "freely" there. Society as a whole remained invisible. The power of the State was of no account, since the less its power, the smoother the market mechanisms would function (Polanyi 1957b: 258).

In *The Great Transformation* (1944) the Liberal market economy thrives solely within the frame of market society, and only by eroding and replacing the links and bounds of society with economic ones. Capitalism premises itself upon the institutional separation of economy and polity and on the subordination of the non-economic to the economic. To the Hungarian scholar, the Liberal incarnation of the market is an

overriding goal sought after by single-minded élites trying to impose a particular organizational order on human activity wherever this activity, happens to be located.

The Polanyian critique, then, is very easily correlated to the current discourse on globalization. As its counterpoint, the Hayekian analysis of the free market can be used to explain some of the features of globalization that are not easily captured by the Polanyian approach. Among these are the increased standards of living in the LDCs, the beneficial effects of falling commodity prices, the diffusion of wider ranges of choice, and so forth. Taken together, these two models, also offer a powerful alternative to those voices that see globalization as an institution-less, purely economic process. For Hayek, instead, the market should always be understood as a tool at the service of non-economic goals, reconciling the latter with economic reality (Hayek 1976: 113). Framed within specific institutional boundaries, the catallaxy is neither sensitive nor particularly humane; it amounts to efficient allocative procedures oriented towards future economic activity. The notions of fairness should be embedded in the socio-institutional frameworks that are constituted within society. The catallactic process is fair in the very strict sense that all actors are subject to the same rules and that every discrete action is rewarded on the basis of individual ability and luck. Of course this says nothing of redistributive needs and does not deal with differential access to resources and power which result from the accumulation of discrete economic actions. Hayek (1944) did leave in *The Road To Serfdom* a series of openings for state intervention, including the regulation of the workday, some minimal level of social policy, dealing with acts of God, and so forth.

There is no reason why in a society which has reached the general level of wealth which ours has attained . . . security against severe physical privation the certainty of a given minimum of sustenance . . . should not be

guaranteed to all without endangering general freedom. . . . There can be no doubt that some minimum of food, shelter and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody (Hayek 1944: 120).

In sum, “Hayek argues that he is not opposed to services being rendered by government; what he is opposed to is government intervention into the economy that distorts, or makes inoperable, the market mechanism” (Hoy 1984: 123). Public goods can be provided in Hayek’s view if the government acts just like another business without impeding market process, and if the goods to be provided are true public goods (i.e., the only way to fund them is through taxation). The fact that Hayek did not advocate an institutionless framework for economic activity but was well aware of the limitations and scope of the market, is surprising only to those who, like Walter Block (1996), have misread the Austrian tradition in terms of a Chicago School mechanic approach to economic exchange. A position, the latter, that Hayek himself defined as limited and erroneous in a variety of occasions (Hayek 1937; 1948; 1978c).

In the *Road to Serfdom* chapter entitled “The Prospects of International Order,” Hayek (1944: 219) makes a point specular to the one Polanyi (1944) puts forward in *The Great Transformation*: “In no other field has the world yet paid so dearly for the abandonment of nineteenth-century liberalism as in the field where the retreat began: in international relations.” The retreat from the demands of Liberalism evoked by Polanyi becomes a fragmented international landscape where countries compete against each other for narrow goals:

... there is little hope of international order or lasting peace so long as every country is free to employ whatever measures it thinks desirable in its own immediate interest, however damaging they may be to others (Hayek, 1944: 219).

If we are to choose a rejoinder to *The Road to Serfdom* then it should be Peter Boettke's (1990; 1995) writing rather than Walter Block. Boettke (1995: 9) clearly summarizes the scope of Hayek's work as being directed towards the analysis of what emerges from the failure of socialist planning. It yields two important results: "(1) a refined statement of the Misesian argument regarding the impossibility of economic calculation in the absence of private property, and (2) an examination of the organizational logic of institutions designed to replace the private property system in allocating scarce resources." Both democratic and authoritarian societies could, under the impetus of misguided government intervention, drift towards totalitarianism (Boettke 1995: 21).

Internationalization was not lost on Hayek, who stressed the role of markets in fostering interconnectedness. This is particularly clear in a quote from *The Mirage of Social Justice*:

[t]hat interdependence of all men, which is now in everybody's mouth and which tends to make all mankind One World, not only is the effect of the market order but could not have been brought about by any other means. What today connects the life of any European or American with what happens in Australia, Japan or Zaire are repercussions transmitted by the network of market relations (Hayek 1976: 112-113).

For the Austrian economist, this is just an extension of both the problems and the benefits of the market system. As noted above, Hayek has no illusion about the type of justice or equality the market embodies; it is but the chance to play on a level field and to match wits and luck with others. The catallaxy is about competition, its gains are always diffused, its losses often concentrated. It is a hard sell from a political point of view at the

national level and there is no reason to believe that it would be any different at the global level.

Hayek was not particularly optimistic that a degree of common direction could be brought to the international economic arena by democratic means. He believed that planning any kind of economic policy for a diverse region, like the current European Union, would have been impossible and would have resulted in a “naked rule of force, an imposition by a small group” (Hayek 1944: 223). This position has, of course, been abandoned by current Hayekian scholars. Planning at an international level is only likely to stir the envy and the malcontent of the poorer actors, who are likely to be pushing to break ranks (Hayek 1944: 225). Planning, even at the international level, is not a solution, rather:

the international authority can be very just and contribute enormously to economic prosperity if it merely keeps order and creates conditions in which the people can develop their own life (Hayek 1944: 228).

Hayek was especially critical of those who would support, without much thought for the consequences, the creation of international institutions tasked with the sole administration of a service or process. If it is created,

a system of comprehensive monopolies recognized by all the national governments, but subject to none, would inevitably become the worst of all rackets (Hayek 1944: 229).

The Austrian economist is concerned with the possibility of steering clear of the Scylla of narrow nationalist policies, which were certainly on his mind at the time, while surviving the Charybdis of a “new superstate” (Hayek, 1944: 231). Neither solution appealed to him, both imposing a high toll in terms of lost freedom. His answer is that:

The need is for an international political authority which, without power to direct the different people in what they must do, must be able to restrain them from action which will damage others (Hayek 1944: 232).

The powers to be enshrined in such an organization are minimal, essentially those of a liberal “laissez-faire” state within a federal-like structure, “the only form of association of different peoples which will create an international order without putting an undue strain on their legitimate desire for independence” (Hayek, 1944: 233).

Reading Hayek, we find neither a clamouring paean to the market, nor any boundless faith in its ability to answer all of the needs of the polity. Rather, there is the awareness that catallactic processes provide the basis for efficient economic exchange and individual freedom but little else. Nonetheless, Hayek is not a proponent of a “market society.” He reserves the fields of social policy to the state (Hayek 1960) and his vision of the market requires a society in which the economy will function, not an economy to which society is subordinated. Still, it is only thanks to the global free market that today’s population can be sustained: the complexity and scale of humanity, its growing numbers and the material demands that it imposes on nature can only find satisfaction, according to Hayek, through a catallaxy. This approach has been carried on in contributions of the Austrian School of Economics like Boettke (2002) and Boettke and Storr (2002)

The spontaneous ordering arising out of free market interactions provides the sole efficient method of allocating scarce resources; its dynamic nature ensuring the continuous reconciliation of demands and needs through price signals. In a very concrete sense, the focus of liberal philosophy is on the present: if individual discrete actions can be shown to be fair in the present, then, by definition, their accumulated results are also fair. The privileges that they confer are the result of better luck and better skills. It is at

this level that the Hayekian and Polanyian visions clash; they differ not so much with respect to the need to provide fairness in the socio-economic realm, but in the ways in which they conceive of the means to provide redistributive and corrective inputs. They show different understanding of the very nature of liberalism.

All societies need a degree of integration to survive and reproduce. Human beings are the product of the social institutions that shape them (McCann 2002) and even Hayek is more inclined to think of human beings as socially constituted rather than socially disembodied. The roots of this vision return, at least partially, to the work of Durkheim and Weber as McCann eloquently points out:

Hayek's individualism thus stands in stark contrast to atomistic approaches which isolate man from society, approaches which provide "no cohesion other than the coercive rules imposed by the state," such that "all social ties [are merely] prescriptive" (Hayek 1948:23). It is in a sense more in line with Max Weber's (1947) concept of "social action," and 'Emile Durkheim's understanding of man as "a sociable animal," his consciousness deriving from "the nature of the group" of which he is part (Durkheim 1893:285, 287). Indeed, consistent with Weber's "social relationship"—whereby individuals subjectively account for the actions of others in orienting their own actions—and Durkheim's "social solidarity"—an amorphous moral phenomenon manifested (in this case, objectified) in the law and custom—we have Hayek's conception of the necessity of the individual voluntarily submitting himself to social rules, "noncompulsory conventions of social intercourse. . . essential. . . in preserving the orderly working of human society" (Hayek 1948: 22) (McCann 2002: 14).

In fact, Hayek defends the notion of “real individualism” as widely divergent from that of society as a collection of atomized actors:

There can be no greater contrast to this [real individualism] than the false individualism which wants to dissolve all these smaller groups into atoms which have no cohesion other than the coercive rules imposed by the state, and which tries to make all social ties prescriptive, instead of using the

state mainly as a protection of the individual against the arrogation of coercive powers by the smaller groups (Hayek 1948a: 23).

Organizations are a central part of human societies and pivotal for true progress:

The argument for liberty is not an argument against organization, which is one of the most powerful means that human reason can employ, but an argument against all exclusive, privileged, monopolistic organization, against the use of coercion to prevent others from trying to do better. Every organization is based on given knowledge; organization means commitment to particular aim and to particular methods, but even organization designed to increase knowledge will be effective only insofar as the knowledge and beliefs on which its design rests are true. And if any facts contradict the beliefs on which the structure of the organization is based, this will become evident only in its failure and supersession by a different type of organization. Organization is therefore likely to be beneficial and effective so long as it is voluntary and is embedded in a free sphere and will either have to adjust itself to circumstances not taken into account in its conception or fail. To turn the whole of society into a single organization built and directed according to a single plan would be to extinguish the very forces that shaped the individual human minds that planned it (Hayek 1960: 37).

Hayek's work can definitely be reconciled with the notion of complex embeddedness proposed by Boettke and Storr (2002), but there are differences between the Austrian economist and Polanyi. The former embraces a degree of social policy as noted above, but remains a staunch opponent, *pace* Block (1996), of any attempt at imposing "social" goals on the individual. It is one thing to introduce measures that will implement a certain modicum of distributive justice but it is a completely different project to force individual visions to bend to a unique, centrally imposed idea of what the "good" should look like and what sacrifices and efforts are required of various classes. It is the anti-rationalist strand of morality, emerging from the traditions and history of society rather than from the constructed *fiat* of the legislator, that is the main guardian of social cohesion for Hayek (1960).

[Social rules and institutions] are the results of the experience of successive generations which are handed down. And, once a more efficient tool is available, it will be used without our knowing why it is better, or even what the alternatives are. These « tools » which man has evolved and which constitute such an important part of his adaptation to his environment include much more than material implements. They consist in a large measure of forms of conduct which he habitually follows without knowing why; they consist of what we call « traditions » and « institutions », which he uses because they are available to him as a product of cumulative growth without ever having been designed by any one mind (Hayek 1960: 27).

The enemy is very clear: “[i]t is the demand for a *constructed* morality, the product of a known intelligence that seeks to direct individual action and to define individual initiative, that Hayek sees as a surrender of individualism and freedom” (McCann 2002: 15).

Individual choice bound within the notion of a socially constituted but not socially or politically determined individual is the path to freedom and the only consistent manner of using the catallaxy without either destroying society or eradicating individual freedoms. His was a carefully threaded liberal path, which refused conservatism and the simplistic strand of neoclassical economics as well as socialism, favoring a small degree of intervention in both the economy and the polity (Hayek 1960; 1988).

Polanyi is interested in defending society from the onslaught of capitalist demands. His focus is more on groups than on individuals, he denies that a healthy society and liberal free markets may coexist because the latter necessitates the corrosion of the former. For example, to obtain the flexibility and the “willing worker” upon which the liberal market was premised “it was necessary to liquidate organic society, which refused to permit the individual to starve” (Polanyi 1957b: 165). Echoes of the same processes can be found in Gray’s (1998) analysis of the “American market utopia” with

its brutal rates of incarceration and 7-year marriage averages. According to Polanyi, the Liberal Century tears apart the fabric of society, dislodging the characteristics that made the latter more than just a patchwork of individual interactions, and removing groups from the core of social structuration to replace them with individual choices oriented towards economic activity. Much of this transition, he argues, was imposed from the top by élites rather than the fruit of a spontaneous process of evolution. What replaced the old model of society is nothing more than the assurance, often merely cosmetic, that everyone is equal in front of market forces. The latter statement conveniently forgets that present market choices are dictated both by previous interactions and inherited privilege.

Was Polanyi right in suggesting that liberal capitalism requires the end of organic fairness and its replacement with a mechanical fairness? The historical record of the 19th and early 20th centuries appears to validate his claims. It might even be argued that much of the wealth generated by the market to which Hayek referred in term of economic interconnectedness, had its premises in Keynesian policies that integrated organic and mechanical fairness in post-war capitalist states. There is no doubt that Hayek exaggerated the danger posed by social democracy to the liberal idea of freedom and yet he cannot be easily dismissed. For one thing, much of the wealth that was used to sustain organic fairness in the developed countries was extracted from developing countries. Keynesian policies in the West often demanded that others pay for its gains.

In my thesis, I ask whether globalization is emerging as a spontaneous order, and what are its characteristics. I also explore the possibility that the current form of globalization may be closely inspired by the neoliberal notion of economic embeddedness and that this format may be grafted onto other economic realities with

little concern for their individual specificity and characteristics. If, and to the extent that the latter is true, is it part of the reason why so much resistance is emerging against it?

While industrial, financial and trade indicators are particularly relevant in establishing the degree of economic globalization, I ask what the role of the international economic institutions that emerged after World War II is. The IMF, the GATT/WTO, and the OECD are crucial traits of the post-war economic order: they have helped to facilitate, design, implement, and maintain it. Thus, I ultimately enquire about the state of socio-economic relations within OECD economies, and about the distribution of power that is correlated with these relations. What emerges from the analysis of the socio-economic trends that I have carried on here, is that both individuals and organizations are crucial parts of the process, they are linked at the institution's level in the sense that within that dimension lies the moment of interrelational activity between the two. Institutions function by both enabling and constraining individuals. Institutions and individuals stand, therefore, in a dialectical relationship: bound to one another in a process of constant relations and mutual need. In one sense this is certainly necessitating: there can be no institution without individuals; it is probably so in the other sense too. It is hard to imagine even small scale social activity without institutions. Given the importance and the centrality of this relationship, the next step will be to analyze the role that organizations, the "practical" embodiment of that interrelation, play in globalization. Organizations, as noted above, embody particular sets of institutional notions. Here, I take a Weberian stance and argue that it is the relative distribution of power in a certain polity that ultimately determines which institutional values become embedded in organizations.

In this chapter, I have presented a dialectic between the Hayekian and the Polanyian perspectives on socio-economic activity, which I have linked to the approaches that economic sociology, especially as represented by Max Weber and Georg Simmel, had previously put forward. This is, as I noted above, something that I felt was necessary once I tried to bring together the two strands of analysis (the individualist and the sociological) that have been left separate to the detriment of the field. Nonetheless, because the focus of the analysis leads now to the interplay between individuals and organizations as the key locale for the actors' activity, the more empirical outlook requires a shift, a return to the Weberian imprint of institutions and organizations, blended with an Austrian-Weberian take on methodological individualism as I have drawn from Boettke and Storr (2002).

4. THE ROLE OF INTERNATIONAL ORGANIZATIONS

In this chapter, I elaborate on the theoretical framework I have introduced above and look at the role of international structures in the current process of globalization, which I couch in an institutional model derived from the Austrian-Weberian tradition. I examine three different categories of organizations: International Economic Organizations (IEOs), Multinational Corporations (MNCs), and Non-Governmental Organizations (NGOs). Here I try to give a snapshot of these various organizations and of the institutions that they embody. Secondly I wish to show that exactly because they are the key structure in which dominant institutions are embedded the process of embeddedness (intended as the process of creation of the rules of a given socio-economic system) for globalization needs to take place here.

IEOs have been central in shaping the regimes of globalization; MNCs have represented not only the backbone of much of economic globalization, but have functioned as the transmission belt for images, symbols and norms. NGOs, finally, represent the burgeoning involvement of civil society in increasingly global issues. With the end of World War II and the implementation of closer ties among countries and within the Western capitalist democracies in particular, international organizational structures began to blossom in scope and number (Klabbers 2002; Woods 2002). The Bretton Woods accords and the UN were the initial stages of that development. They were closely followed by security agreements like NATO and the Warsaw Pact, and by

economic ones like the European Economic Community. As international cooperation and crossborder ties began to solidify along the lines of developing institutional and organizational parameters, MNCs, and a few select NGOs joined in. The increased relevance of international interaction fostered both by material conditions like the reduced viability of the Fordist accumulation paradigm that was premised on national markets, and by ideological shifts like the emergence of neoliberalism and of the Washington Consensus, buoyed the position of these organizations. Beginning in the 1980s, the consolidation of these institutional trends allowed a true explosion in the visibility and activity of international economic organizations, non-governmental groups and multinational corporations.

Organizational Development under Globalization

As noted above, the process of globalization is multi-causal, contested, and diverse in its ultimate results. As different elements interrelate to shape the phenomena (financial and industrial flows, cultural and political developments, and technological advances) that we shorthand for with the term globalization, it is difficult to argue that a unified global society or a common global culture are emerging. Instead, a degree of creolization and cultural diffusion is evident. These are buttressed and fostered by an increasingly interconnected economic system and interdependent socio-political arena. Institutions and organizations have emerged in response to the decline of nationalist means of legitimizing the nation-state, to the passing of the Fordist economic

arrangements and to the increasing personal, social, and cultural interrelations of individuals and groups.

I have highlighted above the broad trends that can be drawn from these processes: national economics have vastly overgrown their borders in terms of both financial and industrial flows; trade and Foreign Direct Investment have become, at the hands of the Multinational Corporation, the core of the new economic arrangements of the Post-Fordist world. The competitive state has challenged, in many cases in a successful way, the welfare state, replacing many of its institutional tenets starting in the 1980s. Since the end of World War II, the Bretton Woods Organizations have flourished and served as seed and example for a host of regional and global structures that have radically changed the venues of policy-making and bargaining and the subjects of these activities.

Today, political capital is more likely to be spent discussing and setting tariff and non-tariff barrier reductions at the World Trade Organization (Davis 2004), rather than on domestic policy. The political and economic arenas are becoming globalized. This means something more than the simple internationalization of these processes: organizations like the IMF and WTO, NGOs like Amnesty International and Greenpeace, and MNCs like Microsoft and DuPont have broken the mould of international, state-to-state, relations that tended to exclude all other actors. International relations still exist and are relevant, but supranational institutional and organizational factors are becoming more common. See, for example, the EU arrangements with regard to the adoption of European over national legislation and the trend towards increasingly supranational mechanisms in the WTO when compared to its GATT predecessor (Hockman and Kostecki 1995; WTO 1998). This does not mean that states, especially powerful ones like the US, Japan or

France, are willing to simply give up their sovereignty or their latitude in decision-making. Rather, it means that their policy choices and, increasingly, the economic and social choices of their citizens and businesses are couched in an increasingly international dimension.

The supranational process can be distinguished from the international one because it involves the effective delegation of powers to a third party organization, rather than just a process of negotiation resulting in an agreement. In this sense, it is a more evolved form of activity among states. The two can certainly coexist and overlap, the one certainly not eliding the other, and supranational elements are still rare (Klabbers 2002). The notion itself of sovereignty has changed (Krasner 1999), resulting in a differentiated approach to policy making, multi-level governance has become a very important part of our political systems (Held 2004). Not everywhere do we easily find processes of active delegation, but they are common enough: the European Union is certainly at the top of this category, other economic blocs, like NAFTA, certainly exhibit signs of having initiated such a process in the litigation areas, for example. This is above and beyond the obvious increase in cooperation that we have seen develop among various countries in the past three decades. Globalization is a complex process and both “simple” cooperation and delegation coexist in its framework.

Organizations have an important symbolic and practical role in this process: the creation of an organizational structure and the commitment to capturing agreed upon institutional traits, as the bases for continued future interaction, are powerful signifiers of cooperation and convergence. The global arena has become more pluralist in the Lindblomian sense (Lindblom and Woodhouse 1993) in that there are more voices

(MNCs, IOS, new and old States) defending and supporting their respective interests, not in the sense that all of these voices have equal weight or that they wield similar amounts of influence.

The end of the Second World War inaugurated a period of increasing international cooperation: the United Nations (UN) and its various agencies, like the IMF, were the first International Organizations of a decolonizing world. They carried with them a small seed of pure supranational *élan* that was captured in the calls for the respect and safeguard of human rights. Some supranational institutional parameters emerged in this second half of the 20th century, like the commitment to human rights, multilateral approaches to negotiations, principles of cooperation among states, and commitment to free markets. Still, these organizations retained a distinctive international flavour in the mechanisms they used and in the structures they fostered. Nonetheless, the progressive affirmation of a non-nationalist approach to international relations, the increased cooperation among economic and political units, and the weakening of the national Fordist economic model, slowly shifted social, economic and political flows towards increased integration and effective devolution of powers to supranational organizations.

While difficult to establish in practice as a causal link, there is a correlation between increasing efforts at economic integration and the weakening of the Fordist arrangements. As national markets in the advanced capitalist economies of the North of the world became saturated, higher wages and declining sales reduced the profit margin for industrial production, the new economic openness favoured the expansion of market activity beyond national borders. The Post-Fordist period recasts economic and political roles: the MNC becomes the economic organization best suited to take advantage of the

new landscape (Gilpin 2000). MNCs change their field of action by going beyond agricultural commodities, oil and minerals; areas that had been their traditional field of investment until the 1930s. They expand their interests in technology, manufacturing and services, they increase dramatically in numbers. The latter is an important development: much of this increase is represented by small and medium-size companies (Anon 1993), and the so-called Developing World makes increasingly important contributions to the international corporate arena (Lall 1983; Sklair and Robbins 2002). As integration proceeded apace (both fostered by states and organizations like the OECD and the EU, and propelled by economic changes), the national dimension became less and less adequate to deal with issues of coordination, prevention, regulation, and enforcement. In the 1980s and 1990s, a variety of organizational structures were set up to capture the new level of political activity. The actions of policy actors varied along a continuum between international and supranational poles, generating various policy regimes that brought together new interests and new attitudes towards the cooperation and interaction. Below is a small sample of these areas.

Table 17 Distribution of Select Issues on the International-Supranational Continuum

International		Supranational	
<i>War</i>		<i>Trade</i> [NAFTA, EU, Mercosur]	<i>International Finance</i>
<i>Penal Code</i>	<i>Human Rights</i> [UN]	<i>Industrial Standards</i> [ISO]	
	<i>International Sex Exploitation</i>	<i>MNC Regulation</i>	
	<i>Environment</i> <i>Immigration</i>		

International actors increasingly represent a crucial part of the economic and political activity that surrounds us. In the remainder of this chapter I look at three of these actors: Multinational Corporations, International Non-Governmental Organizations, and International Organizations. These are, I argue, the harbingers of globalization and only through their embracing of a more participatory and open approach to their activity can we hope to gather enough support and build enough legitimacy in the processes of globalization itself to discourage those that want the process reversed and would be ready to jettison its potential along with its ills. This shift, I shall argue later, cannot be achieved within the current, limited framework of neoliberal globalization, but requires a deontological approach to globalization.

The Multinational Corporation

Multinational Corporations (MNCs) have a long history. In its modern format the MNC began to emerge with the Dutch and British trading companies that sought out business opportunities in the West Indies and the Far East, the powerful oil and mineral conglomerates of the late 19th century, and the large concerns that, like United Fruits, dealt in agricultural commodities. In this early stage, MNCs were few in numbers, generally endowed with extremely large financial resources and very well connected with home governments of which they were often perceived as being tools of foreign economic policy.

A classic example of the early power of these companies is the British East India Company, which rose from a trading business to political power in India. Established on December 31, 1600 for the exploitation of the Eastern trade, the company had, by 1615, established a factory in Surat, India. In 1717, it was granted an exemption from paying customs duty by the Mughal court. Soon after the victory of one of his military officers, Robert Clive, over Siraj-ud-daulah, the Nawab of Bengal, at Plassey in 1757 it was granted by the Mughal Emperor the right to collect revenues on his behalf. Its importance on the policies of British India cannot be downplayed and the British Raj itself was, in fact, premised on the dissolution of the East India Company in 1858 and on the transfer of its territory to the British Crown, an occurrence to which John Stuart Mill strongly objected in his "East-India Company Petition to Parliament" (Robson, Moir, and Moir 1990). Similarly, in the early part of the 20th century United Fruit and Imperial Oil

became the representatives of US interests around the world, and Union Minière fostered Belgian colonial and economic interests in Africa.

Bound to imperial territories or to budding hegemonic aspirations, these MNCs owned key assets in the developing world (railways, power grids, ports, land, and factories) and exerted enormous direct and indirect influence on local economies and politics. These structural factors fit the general background of international relations at the time. In a world divided by nationalism, where industrialized countries had created far-flung empires to feed their economic growth, the MNC needed specific characteristics to be successful. Central was the willingness of its home government to back the company's claims against local forces and rival imperial powers or, which amounted to very much the same results, allow for the creation of private armies, like those of the British East India Company. The Monroe Doctrine effectively gave US Multinationals an enormous advantage in Latin America over their competitors, the Opium Wars and the Perry expedition to Japan, showed that Western economic interests would not be denied without a fight. Direct ownership of assets and infrastructure abroad was another important trait of the MNC of that period, which often built or helped to build communication, transportation and power infrastructure to access natural resources.

This often resulted in very specific development projects: most Least Developed Countries (LDCs) being dotted with railway and phone lines linking ports to mines, oil field or plantations, but not to nearby villages. These companies in practice fit functional requirements for an age dominated by industrialized core states acting on imperial and nationalist premises. For example very little advanced manufacturing took place outside of the metropolitan territories, resource extraction being the favoured economic activity

in the colonies. Even Japan and the United States, which were relative newcomers to the international stage, still retained core manufacturing within their borders. By the beginning of the 20th century, imperial systems were beginning to show signs of definite weakness: those that did not have a modern industrial base like Spain, Turkey, Russia and Portugal, were in full decline or had already disappeared and even those that had survived saw increasing dislocation as a result of budding independentist movement.

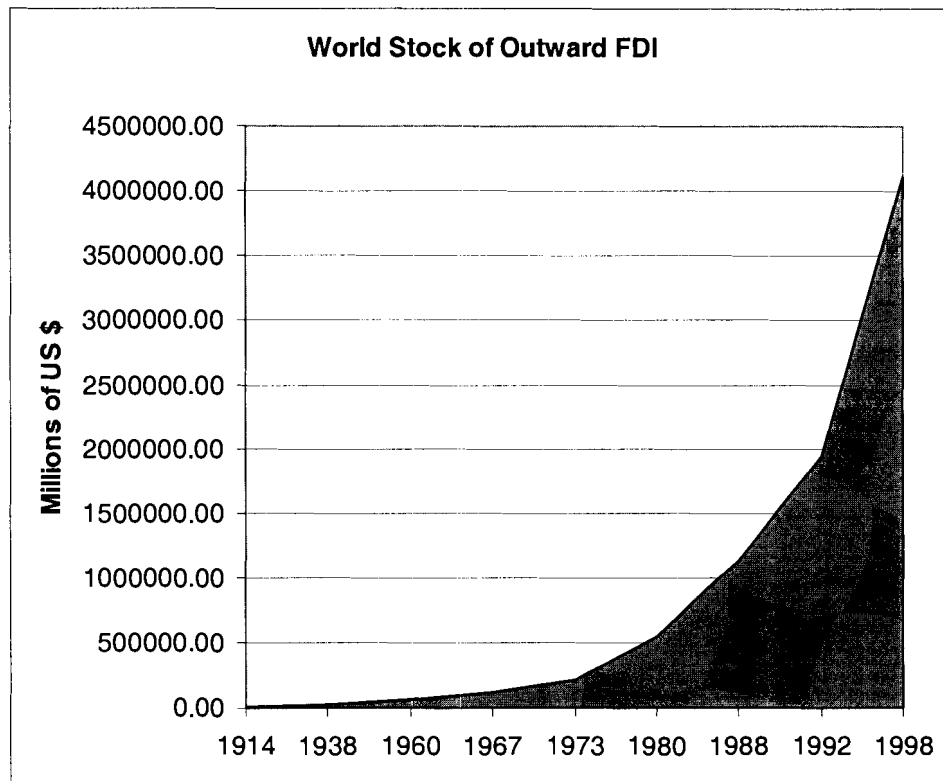
By the end of World War II, American industrial supremacy was established. The only economy whose base had remained untouched during the conflict; it also enjoyed technical advantages over the Soviet and what remained of the European ones. It was, furthermore, able to finance and direct the economic and industrial reconstruction in Western Europe and East Asia along the lines of an American model (Killick 1997; Kipping and Bjarnar 1998) and could witness, without much discomfort, the collapse of the British, Dutch and French colonial Empires in the following two decades. When nationalism was replaced with an urge to integrate human activity, the MNC found an ideal terrain for its growth. As barriers to trade and especially to investment began to be removed or reduced, the scope for economic internationalization increased, the pivotal role played by American capital and technology during the Marshall Plan period had established an important precedent upon which further expansion could be built.

The political climate, on balance, favoured selective expansion of the MNC's role. True, the communist bloc was often closed to FDI if not to trade, some newly independent states nationalized foreign assets or restricted the scope for MNCs, but this still was a period of growth for multinationals. Import Substitution Industrialization (ISI) favoured the creation of branch plants and the relative openness of Western economies

supported FDI. Resource extraction was still in the hands of large MNCs, but now financial and manufacturing companies joined the ranks of early MNCs.

As the process of liberalization deepened and expanded, levels of FDI grew exponentially as did the number of MNCs and the size of their workforce

Figure 16 World Stock of Outward FDI



Source: OECD, IMF various years and publications

At the same time as they increased in number, MNCs grew more differentiated. The image that would prevail in the 1930s of a massive company active mainly in resource extraction or manufacturing has been supplemented by smaller size companies taking advantage of internalization opportunities. Why do companies make the decision to expand beyond the borders of their home state? Today the literature offers three main explanations to the question. The first is that MNCs are just trying to maximize the costs and benefits involved in servicing foreign markets. From this point of view, the firm is

just a rational actor operating under the assumption of transaction costs economics, and bounded rationality (Buckley and Ghauri 1999; Casson 1997; Morgan, Kristensen, and Whitley 2001). The second approach assumes that “firms are goal directed, unified rational actors embedded in market contexts where competitiveness determines survival” (Morgan, Kristensen, and Whitley 2001: 5). This analytical approach looks at the manner in which MNCs establish themselves in various stages across borders. In some cases MNCs move as networked groups, as trailblazers pave the way for their suppliers, distribution partners and of course competitors, to extend beyond their national borders (Morgan, Kristensen, and Whitley 2001). The third approach assumes that the MNCs become such because globalization demands their transformation.

Independently of the approach that one chooses to follow, MNCs have become central to the world economy, accounting for increasing percentages of the world GDP and fuelling much of world trade (Held and McGrew 2002a).

A recovery in FDI will further boost international production, presently carried out by at least 61,000 TNCs with over 900,000 foreign affiliates, representing an FDI stock of about \$7 trillion. International production remains fairly concentrated: in 2002, the world's 100 largest TNCs, representing less than 0.2% of the global universe of TNCs, accounted for 14% of sales by foreign affiliates worldwide, 12% of their assets and 13% of their employment. Following a period of stagnation, these TNCs resumed growth in terms of their assets, sales and employment in 2002 (UNCTAD 2004b: 17).

There is little doubt that multinationals can have an effect on the power of the state (Schmidt 1995), and that they can produce environmental and economic damage. Nonetheless, they remain in play and citizens and governments will need to become better acquainted with and more apt at dealing with their idiosyncrasies and at finding a

way to incorporate them in the type of society that they desire. It would be unfair to expect the MNC to have the same goals that a charitable organization, or a private citizen may have. What we must do, though, is to establish a system in which enough transparency and enough choice is given to the individual, so that informed and responsible choice can be made that will affect the activity of the corporation. It is important to have full access to the information that does have an impact on my economic choices: how is something produced and what kind of environmental and labour standards are kept by the company, what is its local and global reach and impact. The idea that these notions do not belong in the open is remarkably antiquated: the key feature of the modern consumer is its flexibility and ability to shape consumption on its own terms (Pietrykowski 1994). The key to changing the behaviour of the MNC is not through obsessive regulation, but through the provision of the relevant information to an attentive public.

International Non-Governmental Organizations

A second, crucial factor of contemporary globalization has been the spectacular growth in both numbers and scope of Non-Governmental Organizations (NGOs) (Union of International Associations 2002), especially of International NGO (INGOs) that have become a common sight in the international arena (Friedman, Hochstetler, and Clark 2005; Van Rooy 2004). This development is becoming too vast and too relevant to simply explain away. According to the Union of International Associations' (2002) yearbook in 2002 there were 38,000 international NGO associations. Among them there were 529 with a "universal" membership; 1,050 with an intercontinental one; 4,100 had

regional capacity. Thousands more had crossborder capacity of one kind or another and this kind of accounting relies on the individual group to come forward and submit the information that is needed by the almanac. The numbers are certainly understated, but the growth that they have experienced is still quite amazing: over 60% of all NGOs operating in 1993 had been created after 1970 (Sikkink and Smith 2002; Smith 1997).

The growth of civil society theory is certainly well documented (Baker and Chandler 2005) and researched (Anheier 2004), and still there is the impression that it has been over theorized, having come to signify almost all activities. Van Rooy (2004: 6) notes that three criteria are used “to define civil society: location, organization, and inspiration.” These criteria redefine civil society “down” to the private, non-profit, positive arena. The criterion of location serves to separate civil society from state and market; still the former is dynamically correlated to these spheres, and not clearly defined and delimited. Organization is also a flexible, fluid notion. Civil society is often defined as requiring a degree of organization, but how much it is not necessarily clear; at the international level, it is also the case that civil society is identified with NGOs, which tend to be a subset of it. Finally, inspiration means that civil society is almost invariably seen as “good” and “ethical.”

Because they are trying to capture disparate interactions in an inclusive framework, definitions of civil society are, per force, broad; often defaulting to the “third sphere” and Van Rooy (2004) is no exception. Friedman, Hochstetler and Clark (2005: 4) lead in a similar direction when they argue that global civil society is the process of “non-state actors engaging in ... slower, more peaceful, and concerted negotiations” with

states. Central in this galaxy of groups is the agreement on the fact that the multiplicity of visions and organizations is an intrinsic part of the system itself.

The impact that global civil society has on the international arena has broadly fallen under three different analytical categories (Friedman, Hochstetler, and Clark 2005: 18-20):

- a) Civil society generates an additional sphere of governance, separate from the state, that is conflictual and unequal, but that does give a voice to other groups that goes beyond the classic structure of state governance, even when their provenance and membership is still skewed in favour of rich countries;
- b) NGOs have the ability of finding niches to influence state activity, changing the playing field and affecting the traditional spheres of governments. This creates an issue regarding the very definition of democracy, as the national framework in which it had traditionally been encased becomes less and less relevant (Held 1995). Scholars who subscribe to this view believe that NGOs have a crucial role to play in this field;
- c) Skeptics believe that NGOs have little to contribute to the democratization of the global policy making process, mainly because they themselves reflect inequalities and unequal access, by recasting the divide between the rich North and the poor South of the world beyond the realm of the state.

Various positions have therefore emerged regarding the orientation of various groups and actors towards globalization. The following table highlights both these positions and their supporters.

Table 18 Global Players' Positions on Globalization

	Types of actors	Position on globalization
Supporters	Transnational business and their allies	In favour of global capitalism and the rule of law
Rejectionists	Anti-capitalist social movements; authoritarian states; nationalist and fundamentalist movements	The left opposes global capitalism; both right and left want to preserve national sovereignty
Reformists	Most INGOs; many in international institutions; many social movements and networks	Aim to 'civilise' globalization
Alternatives	Grassroots groups, social movements and submerged networks	Want to opt out of globalization

Source: Van Rooy 2004: 29

Global civil society has a very disparate nature; still the groups that are active in the process of globalization can be described as sharing four broad characteristics (Van Rooy 2004: 15-27). From an organizational standpoint they operate in a horizontal manner, tendentially lacking permanent leaders and strategies, preferring "loose and shifting organizational structures" (Van Rooy 2004: 15). Their true strength has been the ability to develop large and autonomous structures in issue networks and world forums as Amnesty International and Greenpeace have done, and their capacity to rely on the internet to organize activities. A case in point has been the massive organizational effort that the anti-globalization protesters mounted for all G-8 meetings beginning with the Seattle one. These groups are also global in their focus. This implies, in Van Rooy's (2004: 18) account, the implementation of specific strategies:

(1) changing the 'frames' by which the public and decision-makers understand global issues, (2) trying to change the specific policies and practices of global institutions, and (3) advocating for the reform (or inversion or dissolution) of those global bodies themselves

During the 1990s, the United Nations has been an important example of this process. This was the primary arena where NGOs and global civil society were included in the decision-making process. However ineffectual and slow the process there may be, it has allowed these groups to become a legitimate party to these debates, raising the profile of the organizations. The third distinctive characteristic of these groups has been their approach to their goals: they have used tools, like mass demonstrations, technology, direct action and consultation that span the horizon of social and political activity. Finally, they have an ideological stance concerning the unequal division of the wealth created by the processes of globalization, the remoteness and low accountability exhibited by many of its organizational apparatuses, like the IMF and the WTO, and the pressure exerted by Western cultural models on the rest of the world.

NGOs respond in a varied way to globalization, by rejecting it, supporting it, asking for reforms, or seeking alternatives to it. This makes for a diverse set of movements that coexist in this arena, but it also makes for a very lively breeding ground for alternative visions and ideas and for a lively set of bottom-up challenges to the relatively standardized processes that the core organizations like the World Bank and the International Monetary Fund have been proposing. NGOs have enjoyed great growth and important successes since the 1990s in the environmental field, by advocating against bad corporate practices, supporting human rights and disarmament, and drawing attention to differences between the North and the South, targeting the activity of large IOs and the large debt load of developing countries.

Naturally these campaigns have had failures as well as successes and some of them have much longer timeframes than the past 15 years. Nonetheless, one of the keys in the evolution of non-governmental groups has been their claim to represent “civil society.” This has often been contested though, especially by those who oppose them. Van Rooy (2004: 63-70) highlights three characteristics for NGO membership as relevant in this area. Volume is a key concern regarding representativeness; if a group has only very few members, its ability to speak and act for large segments of society can be questioned. The breadth of these groups is also important: how far does an NGO go in being representative of diversity and of actual concerns? Finally, what is the depth of an NGO? How committed is it to the issues it presents? These are central questions that often arise when dealing with the burgeoning literature on NGOs (Angelovici 2002; Dichter 1999; Ebrahim 2003; Nelson 2002; Tvedt 2002), yet, especially today, it is sometimes difficult to answer these questions. Issues of internal democracy, like the selection of leaders, the control the group at large exercises over the leadership, and broad issues of accountability and transparency do emerge (Fowler 2000).

The issue of NGO legitimacy is certainly a complex one, with important repercussions on the ability of these groups to operate and present themselves as valid alternatives to traditional political and economic actors, like the state and the corporation. What the rules that attest to that legitimacy exactly are, though, remains difficult to establish even today. They “constitute powerful guidelines for the conferring of legitimacy on globalization activists: guidelines that vary from critic to critic and are often disputed, both inside and outside the movement” (Van Rooy 2004: 101). Increasingly, NGOs have been assessed on the basis of their effectiveness on the ground,

partially reversing the image that they had during the 1990s of an almost infallible tool. Arguably better suited than government agencies or private actors in cases when classic forms of efficiency measurement are involved, NGOs often fail to deliver. As their scope and reach has increased, these organizations have also increasingly lost their shoestring budget and fully voluntary nature (VanNijnatten and Boardman 2002). How viable would it be for Amnesty International or Greenpeace to run their operations without trained professional and managers or with no overhead? Still, these changes foster the concern that the very organizations that are supposed to combat the “organizational view” of globalization that is being put forward by the IMF or the WTO may be falling prey to the same malaise (Nelson 1997). This is a valid preoccupation and should be addressed by these groups, not by reverting to their original organizational structure, which would hopelessly discount the reality of expanding tasks and goals that these NGOs have today, but by being leaders in transparency and openness in both their financial and operational fields.

For example, there has been a growing preoccupation with the legitimacy and nature of NGOs that have emerged in the developing world thanks to funding received from European or North American donors. While the causal link between funding and the creation of NGOs in the developing world is not clear, there is no doubt that such monies have played a fundamental enabling role for these organizations. At the same time, external funding has been interpreted by some developing country governments as sapping the actual legitimacy and independence of domestic NGOs that are seen as too reliant on both the funding and the specific worldvision that is often attached to it. In developed countries too the pressure exerted by donors on NGOs to conform to specific

rules has generated concerns regarding the direction these organizations have taken (Van Rooy 2004: 117-119).

The issue of legitimacy is an important one not only for NGOs, but also for organizations in general and, while the international system itself suffers from well known problems like lack of control, consultation, global representation and central oversight (Scholte 2001), it has a very important role to play. This has been reflected in the increasing concern with the democratic deficit of international organizations (Bøås and McNeill 2004; Chen 2003; Fratianni, Savona, and Kirton 2002; Griffin 2003; Stiglitz 2003a). Even if it were true, as Keohane and Nye (2001) argue, that international organizations are just instrumental tools allowing states to operate in the international area, it is certainly the process rather than the organization that we subject to “democratic scrutiny.” When we say that an institution is democratic we are really judging the institutional process that that organization embodies. There is a broad consensus (Ake 1997; Dunn 1998; Gliss 2002; Held 1995; Li and Reuveny 2003; Munck 2002; Serrano Caldera 2004) that the classic theories of democracy are not able to cope very well with the new paradigm that globalization has ushered in.

Notwithstanding the hopes that may emerge from the new ideas highlighted above for increased participation and accountability, many problems still remain to be solved. Besides the obvious realist arguments regarding power differentials among actors, direct citizen participation in global politics still faces enormous hurdles, just like any kind of citizen participation would. Still Van Rooy (2004: 136) notes that the system itself has already begun to evolve in a fashion that would help this process of democratization of the global arena. Five factors are of particular importance in her discussion

- 1- *Conducive normative frames* that highlight acceptable democratic and economic behaviour have become embedded in the institutional and organizational tissue of global politics;
- 2- *Greater number of democracies* have emerged in the recent past;
- 3- *Improved democratic capacity among non-state actors* has also been on the rise, with NGOs and non-state actors in general becoming more accountable and transparent in their activities;
- 4- *Functioning regimes* have now developed in many areas of international activity, within them many NGOs have also found increased space and voices;
- 5- *Inclusive standard operating procedures* have been incorporated by the United Nations and other organizations, which allow for more efficient and open participation of NGOs within their structures.

She suggests that the solution to the question is the implementation of “supplementary democracy” (Van Roy 2004: 137), which translates into the amplification of “voice” options in existing structures (Hirschman 1970), premised on the differentiation of requirements and needs of participatory democracy (voice), which can be taken up by NGOs and civil society in large numbers, and of representative democracy (vote) that are instead premised on the state.

Seen from this point of view, NGO participation as supplementary democracy promises to be both simpler and more easily legitimized. It also seems likely to strengthen the legitimacy of the organizations that, like the IMF, the WTO and the MNCs, are so important to globalization. Of course, there are issues of implementation and scope for the process, but this does not mean that increased participation is not worth the cost.

The framework around global processes is also more open to this kind of evolution, as the increasing number of codes of conduct, standards for operations and monitoring bears witness to. Along with allowing for the expansion and deepening of

already existing opportunities for civil society, supplementary democracy would require that NGOs and voices from the LDCs be given a larger, fairer chance of being heard. This is certainly in keeping with the idea that spontaneous organization favours consistent interaction among actors and would bring together two keystones of globalization: on the one hand the Hayekian notion that, whenever possible, the networks that allow for sustained communication and exchange of information should be employed because they can mould the progress of institutions through spontaneous ordering, and the Polanyian concern that a plurality of voices be heard so that the process of legitimization of those institutional and organizational features that are built upon these networks can be ensured.

International Economic Regimes and International Organizations

Certainly one of the most obvious organizational structures of economic globalization has been the emergence of an integrated, far-reaching trade regime. Organized in a pyramidal fashion, and largely directed by the most developed countries (Cohn 2002), it goes beyond the usual focus of analysis of much globalization scholarship, the GATT/WTO system, to include the G-7, the OECD, and the Quadrilateral Group (Quad).

Table 19 OECD Members States and Year of Accession

Austria (1961)	Luxembourg (1961)	Finland (1969)
Belgium (1961)	Netherlands (1961)	Australia (1971)
Canada (1961)	Norway (1961)	New Zealand (1973)
Denmark (1961)	Portugal (1961)	Mexico (1994)
France (1961)	Spain (1961)	Czech Republic (1995)
Germany (1961)	Switzerland (1961)	Hungary (1996)
Greece (1961)	Turkey (1961)	Poland (1996)
Iceland (1961)	United Kingdom (1961)	South Korea (1996)
Ireland (1961)	United States (1961)	Slovak Republic (2000)
Italy (1961)	Japan (1964)	

The policy-making process that takes shape within these groups is the core activity of global trade regimes. Even *prima facie*, the system appears biased in favour of the richest polities, and this is reflected in the organizational structure of the regime. This, according to Cohn (2002), depends on four factors:

- The power differentials between developed and developing countries favoured the emergence of smaller decisional units, within which powerful actors could decide quickly and efficiently;
- The decline of US economic hegemony favoured the policy input of other developed countries, supporting the global trade regime within these smaller decisional units;
- The process of globalization has generated a growing interaction among economic issues, like trade, development, and investment, fostering thicker and more frequent organizational connections that, once again, were captured in groups like the G-7;
- The unique nature of the GATT/WTO, with its very large membership, the complex process needed to amend its rules, and the unwieldy decision-making routine, also pushed developed countries to seek other smaller venues in which decisions could be made.

The role of these groups has been at the centre of much debate; Professor Cohn (2002: 25), choosing an intermediate position, argues “that smaller plurilateral institutions as the G7/G8, the Quad, and the OECD perform an essential function in helping to provide guidance and overall management of the global trade regime” while, at the same time, stressing the need for such organizations to meet at least some of the

demands for wider representation and increased openness. The early history of the international trade regime is centred on the hegemonic role of the US, and the general commitment of developed countries to further a more inclusive trade structure, albeit at their own pace, and with a particular eye towards their own interests. Even the OECD, which was originally created with a relatively narrow focus on trade had become, as early as 1967 a very important player in the field of free trade (Cohn, 2002: 44).

While the 1940s and 1950s had witnessed the very exclusive activity of the most developed countries in shaping international economic regimes, the 1960s showed a marked departure from the model of the small “club.” The change had a dual nature: on the one hand, the number of states that joined the GATT increased with the influx of developing countries; on the other hand, the institutionalization of the power blocs within the system, and the crystallization of their respective interests became apparent as richer countries sought to design discussion and decision-making fora in which specific agendas and values would be paramount. While it may be appealing to argue that efficient decision-making relies on the homogeneity and relative size of the decision-making body, this is a partial reworking of the debate on the relative costs of decision making on external and internal costs⁴⁷, which conveniently forgets to mention that as internal costs diminish, external ones increase. We should be transparent and say that a very specific set of interests is served by this setup.

⁴⁷ The number of actors involved in the decision making process influences the costs that are imposed on the groups that are subject to the decision. If all of the actors that will be affected by the decision are involved the internal costs of the process will be high. This means that to achieve a decision more resources and time will be needed. At the same time, this means that fewer actors will just suffer the effects of the decision, reducing the external costs of implementing and legitimizing it. If the situation is reversed, as with the borderline case of a dictatorship, few decision-makers can quickly reach a consensus, thereby reducing the internal costs of the process, but external costs will increase, as more resources will have to be spent in enforcing and/or legitimizing the decision itself.

The institutionalization of the global economic regime in its trading, financial and investment areas highlights the close correlation between national priorities in the most developed markets, and international economic policy. As trade and financial patterns changed during the 1970s, the structure of international organizations also adapted. The main challenge for industrialized states was the pressure from the South to obtain favourable terms of trade and to redesign the decision-making process within international fora in a more inclusive manner. At the same time, American economic and military hegemony had begun to decline because of growing trade deficits, higher unemployment, mature technologies, and a variety of military challenges.

While the demands of the countries representing the South resonated with their own populations and had definite purchase with some part of Western public opinion, the reality was that the goals embodied in the positions of advanced liberal democracies and in developing countries were still too far apart to allow for a common platform to emerge. Faced with the declining power of the United States, the major economic powers⁴⁸ saw both an opportunity to influence the shape and direction of the international trade regime, and a need to support it. The result was the establishment of the G7, a highly exclusive forum, which deals with international economic issues by focussing political action and by solidifying issues at the political level (Cohn 2002: 113-115). While the G7 served this purpose, the OECD remained the key arena within which the assessment and negotiation processes were actually carried out.

This structure was closely related to the political and economic dominance of the G7 countries in particular and of the OECD members in more general terms. Ultimately,

⁴⁸ The members of the G7 are the United States of America, Germany, the United Kingdom, Japan, France, Italy (entered 1975) and Canada (entered 1976).

the net result of this activity was the institutionalization of the positions of the more advanced world economies within the G7 itself. This effectively meant that the pyramidal shape of the international trade regime adapted to the changing conditions of the 1970s so that its most powerful members were in a position, if not to shelve, at least to deal, at their own pace, with the demands of developing countries.

By the end of the 1970s, these latter states, with the possible exception of the members of Organization of the Petroleum Exporting Countries (OPEC), had seen their challenge to the dominance of the North evaporate in these organizational settings, and their integration within the free trade system began in earnest. Still, the 1980s were inauspicious times for free trade. Split between those who wanted a new GATT round (mainly developing states), and those who were interested in reducing the barriers to trade that developing economies still had in place, hampered by disputes within the OECD on lingering protectionism and subsidies, and shaped by the sharp downturn that the world economies were experiencing, the actors in the multilateral trade regime had to work extremely hard to get to the new GATT Uruguay Round.

The developed countries retreated further into their “club mentality” by creating the Quadrilateral Group in 1981, an even more exclusive forum where only the US, Japan, the EU, and Canada were represented. This was another step in the direction of smaller, more decision-making friendly arenas for international economic negotiation and still the domestic dimensions of economic activity (and their reflections upon the international sphere) could not be easily elided from the equation. The trade confrontation between Japan and the US remained a crucial stumbling bloc and it was not

until the Plaza Hotel meeting of September 1985, where the G5⁴⁹ Ministers of Finance agreed to deal in a coordinated fashion with an overvalued American currency, that the last major impediment to a new GATT round was removed. The G7, GATT and OECD meetings of the first half of the 1980s were a painstaking affair, with progress coming piecemeal and at a “snail’s pace.” But they were the necessary premise to the new round of trade negotiations and dealt, to be fair, with very demanding and sensitive issues. Large scale policy issues affected ever more strongly trade negotiation and it is not a case that the Quadrilateral Group emerged as a powerful institution during this time by focusing cooperative efforts among the largest trading partners⁵⁰.

The need for a forum on trade issues that would meet on a regular basis was explored at the Ottawa meeting of the G7 in 1981. As this group saw its agenda expand and shift towards security matters, the members felt that ministerial meetings should be set up that could devote their full attention to economic issues. Within this context, trade was a key candidate: not only did it absorb enormous amounts of negotiating time and energy, and was a key factor in economic globalization, but it also had the tendency, within the G7, to play second fiddle to financial issues. While no formal agreement could be reached in Ottawa, the Quad became soon a reality and met, for the first time in 1982 in Key Biscayne. Set up by the most important trading economies (US, EU, Japan, and Canada) with the goal of furthering free trade on a global scale, the group became a powerful informal forum. It is a formidable policy-making and agenda setting tool, it can help the most developed economies to initiate discussion on delicate trade matters and, unsurprisingly, it aims at furthering their interests. While meetings of the Quad became

⁴⁹ The G7 members minus the two “late entrants:” Italy and Canada.

⁵⁰ The following discussion is drawn from Cohn (2002), which represents the only available cohesive discussion of the role and activities of the Quadrilateral Group.

less frequent after the mid-1990s and stopped after 1999, its members continued to meet during this period, perhaps returning to the original, informal settings that characterized early Quad meetings, as opposed to the larger-scale, formalized meetings of the mid-1990s.

Its focus on “open and informal discussion” (Cohn, 2002: 139), the open-ended agendas it provided, the formalities and pressures of other settings made the Quad a very flexible instrument that proved eminently apt at framing the direction of trade policy. This is not to imply that there were no struggles among its members and that these meetings always generated agreements. They did not, but “the Quad meetings ... helped to develop a consensus and a common strategy among the major trading powers in preparation for the upcoming GATT negotiations, and they moved the debate forward on a range of issues such as trade in services, intellectual property, trade-related investment issues and subsidies and countervailing duties.” (Cohn, 2002: 140-141). If the Quad functioned as a catalyst for consensus-building on policy direction among the largest players, the OECD did most of the background work that preceded the Uruguay round and helped set its agenda especially with trade in agricultural products and services.

In these two areas extremely contentious and complex negotiations were often required to move the issues along. The OECD brought to the table its considerable core knowledge, especially in the case of trade in agricultural products, but it is especially clear that it succeeded in supporting its proposal by using specific epistemic communities, which lent additional weight to the approach and opened novel ways of interpreting the contention (Cohn, 2002: 159). The period between 1980 and 1986 saw a

great deal of effort from all of the central actors to find common ground upon which a renewed GATT round could start.

This was also a time of shifting power balances and policy orientations within the international community: the European Community (EC) began to seriously challenge the dominant position of the USA as the most powerful economic actor, many LDCs came around on the issues of free trade, embracing the export-oriented strategies of the East-Asian states, involving themselves more closely with GATT processes and, as a result, obtaining significant concessions as with the decision to include negotiations on textiles in the upcoming Uruguay Round. This was the most ambitious GATT round yet: it would deal with agricultural products, trade in services, clothing and textiles along with a general commitment to reducing tariffs further. The negotiations that began at Punta del Este in September 1986, would be a drawn out, often frustrating, and always complex affair. It was not solely because of what issues were under negotiations, but also because the stakes were so high and the positions so far apart. Consider, for example, the background to trade in agricultural products. The US government, counting on agricultural products to at least partially redress the gaping hole in the nation's balance of trade figures, pushed for a "zero option" on agricultural tariffs. Full liberalization was never an acceptable goal for the EC that was, in fact, pouring enormous amounts of money into its Common Agricultural Policy (CAP) programs, while at the same time trying to rationalize and modernize the structure of a sector that, especially in Southern Europe, still relied heavily on family farms, which were on average small and could not compete with either the US sector or the LDCs. Much the same position was espoused by Japan, where farmers also count on massive governmental support.

Furthermore, neither side was particularly interested in the plight of those smaller countries that still relied on agricultural exports. Eighteen such actors coalesced in the so-called Cairns Group⁵¹ and sought to propose a middle ground between what seemed to be shaping up to be a possible all out trade confrontation between the US and the EC. They suggested that import quotas should be transformed into tariffs, and the latter should be dealt with in the usual fashion within the OECD negotiating process: reduced first, and then completely phased out.

On the outside, still interested (if now more focused on textiles and clothing) were the LDCs whose governments saw a clear advantage in freeing up as much agricultural trade as possible to foster a model that would allow them to access the profitable markets of the OECD states. Within this context, the formal and informal structures that revolved around the GATT did their best to further the process: the G7 kept trying to push the agenda forward, the Quad and the Quint⁵² continued to meet, and the OECD was still engaged in providing a solid framework within which all of the original goals of the Uruguay Round would be addressed.

The key issue, though, remained the gap between American and European demands on agriculture, the differences were such that they ground progress to a virtual halt and sometimes threatened to destroy it altogether. By the time the ministerial meeting to be held in Brussels in 1990 came, two things were clear: first, the US-EC deadlock was holding up the whole spectrum of negotiations and it had to be broken if any result was to be achieved on any issue at all; second, a new set of alliances had

⁵¹ The Cairns Group is composed of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay. Originally the Cairns group was composed of 14 members only.

⁵² The Quad plus Australia began to meet in 1989 to deal specifically with agricultural trade issues.

developed within GATT. This was most clearly seen in the emergence of the Cairns Group. This diverse collection of both developed and developing countries came (and stood) together on the need to solve in a logical manner the problems encountered in negotiating the elimination of agricultural tariffs. The Americans and the Europeans may very well have been the most powerful trading forces but, in this case at least, they were being brought to task by the very process that multilateral organizations are supposed to foster: the creation of a broad spectrum of interests, and by the pressure these exert on outliers (Cohn, 2002: Ch. 6).

Under the usual auspices, and facing a tough line from the EC on agricultural tariffs, the Brussels meeting failed. Six months later though, in May 1991, talks about reforms in the CAP began among EC members, signalling a shift in European attitudes. Coupled with the fact that the “fast track” authority the US Congress had granted to the executive in 1988 was soon to expire, this led to some progress, especially outside of the area of agriculture. Negotiations moved on from there and the Uruguay Round was finally completed in December 1993. It cannot be said that the GATT’s image was particularly shiny by the time an agreement was reached: the bickering between the US and the EC, the continuously missed deadlines, the attitude of the major players which could be defined as arrogant all dented the public’s view of the GATT. They also highlighted the growing difficulty that this organizational format was having in dealing with the novel needs of free trade. While the GATT had worked well in reducing tariffs on industrial goods and to diffuse a culture of free trade, it was not performing as well in the context of a broader, more integrated world market that required tariffs and quotas be eliminated for the economic flows that mattered the most, like services, and that domestic

policies be brought in line with the international balance of trade, as was the case with agricultural trade.

These were all signals that the international economic system was moving from a system of countries trading with one another, exchanging a wide range of goods, to an integrated economic process that was only partially made up of cross-border trade, relied on increasingly interconnected and integrated markets, pushed to economically rationalize economic flows, was eager to see as homogenous as possible rules for these exchanges, and was composed by increasingly active states that, even in the South, had enhanced free trade.

Multilateralism appeared to all as a viable if imperfect tool to go about establishing the institutional foundations of this economic arrangement, but the GATT had now shown to be a less than optimal venue for these negotiations (Cohn, 2002: 215). The notion that a new organizational structure was needed crystallized in the post-Uruguay Round meetings of the Quad, where the nature of the WTO was finally hammered out. These meetings gave critical direction to the “relatively unshaped” trade agenda (Cohn, 2002: 217) of the time and, perhaps, offered the largest players an opportunity to look back at the results of the last round of negotiations. The tally was not all bad: reductions in tariffs had been achieved (along with an agreements on market access) for industrial goods, a “soft” agreement on the trade of services was prepared, the LDCs agreed to reduce their tariffs on industrial goods receiving, in return, decent access to OECD markets for their clothing, textiles, and agricultural products. Still, some caveats apply especially regarding trade in agricultural products where the results were far from earth-shattering. Agriculture remains a highly protected sector even in the

formally free-trading USA, but the results, given the original premises are not to be dismissed. If one achievement had to be picked from the process, it should be that

The OECD's shortcomings demonstrated that the developed countries could not achieve their objectives in specific agreements without support from important developing and emerging countries (Cohn, 2002: 227).

The immediate result of the new balance of power was the creation of the WTO, a formal institution that expanded the original scope of the GATT to include trade in services, the issue of intellectual property and investment, brought a more focused and clearly delineated structure to the negotiation process, and provided a new organizational model that focused on continuity in the approach towards trade liberalization. But while, on paper, the post-Uruguay Round period might have looked as an excellent one for further trade liberalization, the reality was not as positive.

The realignment in relative power at the top of the world trade hierarchy left a notable leadership gap, as the US progressively saw its advantage over the European Union (EU) evaporate. The United States, faced with its now endemic balance of trade deficits, withdrew from its previous strategy of seeking wide-ranging trade accords to focus on narrow, easily manageable areas where it had some strategic interests (Cohn, 2002: 266-267). The EU showed the same type of approach and both actors engaged in a continued, if low-intensity, confrontation (Bhagwati 2000 [1999]). Add to this the increasing distance among the actual ministers who staffed the Quad, the increasingly diverse workload of the G7/G8, and the hostility shown by LDCs to the elitist decision-making process embodied in the Quad, and it is easy to see how the situation deteriorated. It was only at the end of 2001 that the Doha Round was launched and even then, LDCs' engagement was less than enthusiastic, given that they had seen little benefit

from the decisions of the previous round. At the same time, the opposition to the WTO grew among the public in most developed countries and in many developing ones as, *pace* Bhagwati (Bhagwati 2004), the Cancún trade talks showed. The abysmal failure of the latter stemmed from a series of narrow, parochial views. That the developing countries did nearly as much as the Europeans, Japanese and Americans to sabotage a lowering of agricultural and textile tariffs, is no consolation.

Furthermore, even as WTO membership kept expanding⁵³ the major players (like Canada and the USA) increasingly moved towards bilateral agreements, or looked at narrower horizons as the EU did by focusing on Eastern enlargement. If multilateral arrangements cannot be revived, and if the current distribution of trade balances remains unaltered, with the US incurring mammoth-sized deficits, and Europe, China and Japan showing important surpluses, the WTO may lose its role within the trading regime. Part of the explanation for this failure rests with the decision-making process within the WTO itself. While decision-making is formally based on consensus, the members of the Quad still enjoy enormous positional power. The formal equality of all states within the World Trade Organization, some sort of UN General Assembly of trade, coupled with the effective elitism of the major trading powers, is currently set against a background of increasing divisiveness between the latter and of less than spectacular economic growth in the developed world. Within this framework it appears that bilateral agreements and more confrontational approaches, rather than complex multilateral negotiation, are emerging as the process of choice. The relevance of regional agreements (NAFTA, EU, Mercosur) especially within the core economies is also increasing (Fligstein and Merand

⁵³ In early 2005, there were 148 members of the WTO and another 31 nations had the status of observers. The latter, with the exception of the Holy See, must begin accession negotiations within five years of becoming observers.

2002; Mansfield and Reinhardt 2003). NAFTA and the EU, in particular, are fulfilling the need of these trading areas to achieve large-scale interaction within the economic sphere and its attendant regulatory frameworks. This integration does not eliminate either internal or external trade disputes for these blocs, but positions the management of these crises within specific institutional settings that appear more functional than those enshrined in the WTO.

The grave danger here is that this approach will become the standard for future trade negotiations. If this happens, the international trade regime will be greatly weakened. While WTO achievements will stand, both the EU and the US will be able to postpone indefinitely further dialogue in areas like agriculture, which stand to benefit developing countries the most. By resorting to bilateral agreements with a select few emerging markets or mid-range economic actors, trading giants like the US can impose much harsher terms than during multi-lateral negotiations and can selectively leave out of their very desirable markets those countries that are less amenable to come to terms. One likely, and at the same time worrisome, possibility is that from a multilateral system we may shift to an oligo-lateral one where the free-trade club will become a much more exclusive and possibly internally divided one.

As the new economic regime appears to hinge on integrated international markets for both financial instruments (a particularly relevant characteristic in the Anglo-American case) and goods and services, the trend is likely to be towards retaining such a structure. The issue is whether the system needs to be premised on a multilateral approach. While the latter is the path to truly generalizing the benefits of free trade, it is also a costlier one for the advanced capitalist economies of the OECD. At a juncture

when all of the three most important trading areas (NAFTA, EU, and East Asia) are busy tempting to fall back on regional strategies and seeking agreements with like-minded trading partners, this appears to be an increasingly unlikely option. If the club truly becomes more restrictive and trade rivalries among its members are not resolved, we are also likely to witness a progressive strengthening of the “triad” structure through bilateral and oligo-lateral steps. This, in turn, is likely to create a familiar hierarchy within the international economic system placing OECD members at the top, the junior members of the club (those countries that have entered bilateral agreements with the largest economies) would be connected in an uneven manner to these core economic powers, and a set of countries would be relegated to the margins, in a state of “lumpen-development” either awaiting finicky handouts or struggling to meet the demands of the major players. An example of this situation can be gleaned from the situation in which African and Latin American countries found themselves during the US-EU dispute over bananas in the recent past.

After the creation of the WTO, the Quad became progressively less effectual as a forum for agenda setting and trouble-shooting. On the one hand, a lack of leadership emerged: as US hegemony waned, the EU effort proved insufficient and Japan did little to fill the emerging gap. At the same time, its members found themselves to be increasingly at odds on crucial matters, like the proper forum for FDI regulation. Furthermore, the developing countries had been less than amenable to allow such restricted policy process to go unchecked and so was the public opinion in most of the West.

The Quad ministerial was convened regularly for the last time at the Tokyo meeting of May 1999. While junior personnel continued to meet, and the ministers themselves often came together informally at other venues, there is no doubt that the Quad had lost much of its former impetus. So has the process of multilateral trade negotiation, replaced most often by bilateral and regional agreements (Sutherland 2004). While it may be tempting to argue that the Quad filled the needs of a period of transition in the organizational structure of the trading regime, and that other fora are now in place to substitute for its activity, the truth is different. The lack of leadership Cohn (2002) often mentions appear to hide deep contrasts on the direction in which trade liberalization should be taken.

Surely the US has seen its power decline since the Uruguay Round and has been, since 9/11, embroiled in drawn-out military campaigns. This accounts for at least part of their lack of leadership in the trade regime; nonetheless the increased bilateral and regional activity that was registered of late shows enough power and initiative to coax and prodding various actors towards freer trade. The same can be said, perhaps with even more force, regarding the European Union's successful "Eastern expansion." The members of the Quad have increasingly faced deeper divisions over fundamental policy choices; if we consider Mansfield and Reinhardt's (2003: 856) idea that "GATT/WTO members form preferential groupings to improve their bargaining position in trade negotiations with third parties," we may reach a slightly different conclusion. Namely, it is possible to interpret the past few years as a shift in policy styles of which waning US hegemony is only a part. If the Uruguay round was complicated the Doha round may be even more so.

Certainly multilateral trade negotiation of this scope does not proceed briskly (Wolfe 2004), nor does a 148 member organization favour lightning-fast decisions, nor are stumbles like the one in Cancún all that uncommon in the history, even the recent one, of the GATT/WTO system (Cohn, 2002). Still, the process is in a delicate phase. After the apparent success of the 2001 Doha meeting, as compared to the 1999 Seattle one, which Wolfe (2004) attributes to both a measure of increased representation for LDCs, better internal organization, and to the pressure of coming so close on the heels of the Al-Qaida attacks on the United States, the entire edifice seemed to crumble at the Cancún meeting of 2003. Away from the relative isolation of the Qatari resort, the WTO representatives had to contend with large-scale public protests, poor leadership, the intentional stalling tactics developing countries implemented and a deep division between the EU and the US that made previous obstacles more insurmountable.

Wolfe (2004: 593-594) argues that Cancún stressed the transitional moment the WTO was going through and its failure was rather more the result of the attempts at building consensus among disparate views and goals than a breakdown of the system. Some progress has been achieved since: the WTO (2004) General Council Resolution of August 01, 2004 puts on the table much more detailed and precise paths to achieve a balance in what Wolfe (2004: 582) describes as the defining the last two GATT/WTO trade negotiations rounds: “the triangular tension between the old issues of trade in physical things, the new issues of trade in intangibles, and the needs of developing countries.” In the annexes the agricultural trade issue is given place of pride, as is the matter of open and fair markets for cotton (one of the key issues for many LDCs in the Doha and Uruguay Rounds). The trade agenda is, at the same time, expected to go

forward in the dismantling of all barriers to free trade; in this latest proposal the most burden will fall on developed countries and sectors with high tariffs.⁵⁴ The developing countries will be allowed more leeway in their implementation and in the timing of that implementation, and are being promised more help in the creation and improvement of their administrative frameworks.

The December 2005 ministerial held in Hong Kong began at least formally with a strong vision for integration of the LDCs into the world trading system, but an integration that appears to be premised on a staggered pace that accounts for the complex situation created by the host of different economic, administrative, financial and political positions represented in the WTO. In practice, it showed, once again, that there is a strong opposition to the process of free trade. An agreement, at least a general improvement on the Cancún results, was ultimately possible and it may have been aided by the expiring of the 1995 WTO Agreement on Textile and Clothing (ATC). As a result of which, as of January 01, 2005, all WTO members received free access to the EU, US and Canadian clothing and textile markets. Given that in 2002 this represented about 6% of world trade the step is significant. The impact of this liberalization is already being felt there, especially as a result of high-volume low-priced Chinese exports. The media and many politicians have already begun clamouring for “protective” duties and quotas to be imposed on Chinese goods as different as trousers, bicycles and bras. The members have reached an agreement on cotton trade (export subsidies here are to be phased out by 2006), set themselves a deadline of April 30, 2006 to implement the WTO “full

⁵⁴ Even if, of course, the usual notes regarding special and sensitive sectors are built into the wording.

modalities” for market access for both the agriculture and non-agricultural markets, and agreed to end all export subsidies for agricultural products by 2013.⁵⁵

The scope and reach of globalization, the emergence of a hegemonic neoliberal paradigm, and the importance that international organizations, both governmental and not, have attained in the past three decades are the hallmark of significantly transformed socio-economic relations. In the previous chapters I have hinted at the dislocations and at the opportunities that globalization has presented for human beings, and have argued that the lack of some kind of “embeddedness” and the relatively simplistic image of socio-economic activity that the neoliberal paradigm uses have undermined its legitimacy. In the final chapter, I argue that the Manichean image of social vs. economic policy, which is at the basis of the neoliberal ontology, undermines its ability to re-embed the negative effects of its praxis and fosters an individualist and utilitarian process that while preserving economic liberalism tends to elide political liberalism. In this sense, the deontological nature of the Liberal ideology of Adam Smith is limited to one side only of human activity, the economic one. Thus mutilated, liberalism ends up supporting a market system that is “liberal” in the protection of economic freedoms, but veers progressively towards the “conservative” side in the political, making short work of the tenets of individual freedom that underscored liberal ideology. In the next chapter I propose a remedy for this malaise that I base on deontological premises.

There seems to be little doubt about the fact that an increasingly large number of actors feels that the current institutional paradigms of globalization, as they are embodied in many of the governmental organizations that attempt to frame the process, suffer from

⁵⁵ It should be noted that this is a conditional date, and that member states will have a certain leeway.

a variety of serious shortcomings including disregard for the social and environmental effects of the economy, weak accountability, few participation options and low transparency, low levels of response to feedbacks from civil society coupled with a heightened attention to the requests of business. This generates a feeling of illegitimacy that is threatening the ability of the system to deliver positive results. Because, as I noted above, a key characteristic of embeddedness is its processual nature, the democratization of global processes passes, necessarily through a democratization of international organizations. In practice this requires a series of steps that I outline in the final chapter, but especially passes through granting disenfranchised voices meaningful and free access to the process of debate and decision-making. This does not necessarily mean that every NGO and MNC must be given a seat on the IMF Board of Governors. It means, though, that we must recognize that limited access by LDC, and NGO to the WTO Secretariat, the low priority granted at the international level to environmental and labour issues, and the weak representation of poor and indebted countries within the IMF, for example, do shape the nature of the “rules of the game” of globalization. Changing this situation has become the challenge of the global age. The status quo simply will not do; the challenges of poverty and environmental advocates cannot be brushed aside with esoteric debate about proper FDI flows and capital account liberalization. Most anti-globalization protesters do not reject globalization *tout court*, they wish to see a more socially or economically or environmentally or culturally sensitive process in place. It is in the interest of globalization to incorporate these needs, and the easiest, most democratic way to do so is to open international organizations to meaningful debate of the nature and impacts of global trends.

5. RE-ORDERING THE DISEMBEDDED?

For the individual there is no society unless he has social status and function. Society is only meaningful if its purpose, its aims, its ideas and ideals make sense in terms of the individual's purposes, aims, ideas and ideals (Drucker 2003: xvii).

Resistance to Globalization and Deontological Ethics

In the previous chapter we looked at the International Organizations as the loci of institutional and organizational activity of primary relevance for globalization. To do so we moved from the “grand theory” level to a middle range approach that was better suited to the task. I propose now that we return to the former level to offer some final comments. The ultimate result of the analysis that I have presented above is that, while IOs offer a probably indispensable venue for globalization, there are many severe and concrete problems with their structure and operation. The question that I raised at the beginning of this thesis was whether we could define today's brand of globalization as a catallaxy or if, instead, it was a planned political project. A few reflections can now be introduced. First, it is clear that the question elicits a multi-layered response. On the one hand, there is no doubt that a free-market paradigm is driving the process of economic exchange: internationalization, free trade, Foreign Direct Investment, consumption and production patterns all point towards a conspicuous and central role for capitalist mechanisms in the process of globalization. At the same time, the catallaxy is more than just economic activity: while it remains chiefly a tool for the efficient conclusion of

economic exchanges, it is framed within complex institutional constructs that evolve conjointly with it and are nurtured by the same kind of freedom of choice and action that is crucial to catallactic activity. In this sense democracy and the free market may be correlated rather than causally dependent: both relying on spontaneous ordering to manage socio-economic interactions, both necessary to the existence of a complex polity.

If coercion and top-down management, planning and policy intervention in economic affairs amount to disruptions of the efficiency of the system, then Hayek could not be enlisted to support many of the aspects of today's globalization. Massive policy intervention was necessary to impose and maintain a specific neoclassical model of economic exchange largely based on the American example (Boyer and Souyri 2001; Candeias and Deppe 2001; Chesnais 2001; O'Hara 2002a; 2003a; 2004b). There also is little in the interventionist mantra of the IMF that might thrill Hayek: it is difficult to reconcile the detailed policy requirements it produces with catallactic processes. One is much more tempted to re-read Polanyi in this context as the biographer/prophet of the failures that emerge from imposing coercive market rules on society.

It is a fallacy to believe that the free-market can be replicated across the globe without concern for local diversity, that the same steps must be taken in a certain sequence to prepare societies for capitalism, or that only very specific institutions and rules must be in place to ensure its success. This type of process carries an inherently coercive side within itself and both Polanyi and Hayek would likely condemn it as the superficial and misguided plan of economists too enamoured with planning and rationalism to see the risks involved in compressing or directing the choice of the polity.

Polanyi is more concerned than Hayek with the impact of unbridled capitalism on the working class and with its effects on social integration. His Austrian counterpart would most likely be disheartened by the clumsiness of the planning involved in many of neoclassical policy impositions, and by the widening gap between the theory of spontaneously developing markets and the practices embedded in policy regimes and economic regulation across the globe.

In the era of modern globalization policy-making remains contested. One clear signal that emerged from the past twenty-five years is that the 20th century's protection of labour and of welfare principles is being rolled back and that economic inequality is generally on the rise (DeNavas-Walt et al. 2003; UNDP 1998; 1999). At the same time, the world population is better off, in absolute terms, than it was in previous times (Maddison 2003), even if these aggregate figures mask specific differences that are likely to emerge among the various facets of globalization, creating winners and losers both within and among countries (Bhagwati 2000b: 138-139). Still, the processes of globalization entail social, political and economic costs along with opportunities. Groups and economic interests are pitted one against the other and policy choices are often contested (Held and McGrew 2002a). Competition among national economies has increased manifold: steelworkers in the West have to compete with their counterparts in South-East Asia, and the prolific Danish dairy industry has angered Greek and Italian cheese makers with its "reproductions" of traditional local cheeses like *feta*. It is ironic that, today, the fears that gripped so many developing countries in the 1950s and 1960s (loss of the best and the brightest, descent into poverty, and so forth) are the same fears that we find in the advanced economies.

The increasing resistance to economic globalization, at least as resistance to the model premised on free-trade, to freewheeling financial and investment liberalization, and to the international regimes devised and guarded by international organizations, depends just as much on the individualist premises of current economic choices, and on its top-down approach, as it depends on an unequal redistribution of its benefits. This is evident from the context of anti-globalization epitomized by the claims made by various groups in Genoa, Seattle, Davos and Rio, and by the challenges brought by various local organizations against MNCs' projects. These protests certainly deplore the uneven distribution of benefits resulting from economic globalization, but also have a strong communitarian focus. They often reject the classic image of economic development, put solidarity over financial gains, and juxtapose local social values to global economic ones, while highlighting the different perceptions of the groups involved.

In a very real sense, the recent decades have shown a dualist approach to the ontology of the world by premising much of human activity on moral imperatives that closely resemble Platonic forms. From this process have emerged allegedly "pure" frames of reference for societal development and coercion against those who disagree with them (Esposito 2004). These frameworks (the absolute superiority of the market process, the primacy of Western political and social values, the worrisome resurgence of radical religious tenets and so forth) have often been the philosophical underpinning of neoliberal models and the necessary premise to the marginalization of political liberalism in favour of a mix of economic liberalism and political conservatism. See, for example, the bitter fight put up by Republicans in the US against gay marriage, a classic case of individual rights that no libertarian should have doubts on how to treat. The practical

results of this process are a disembedding of social norms to fit the ahistorical and apolitical nature of the dualist ontology, and a reification of the market to fit the utilitarian mould of mainstream neoliberalism (Esposito 2004: 148).

The notion of economic globalization has not been able to provide the basis for a “moral” behaviour in economics beyond the classical neoliberal perspective. Various thinkers both from a left and from a catholic perspective have raised the issue of morals and economics (Gronbacher 1998; O’Boyle 1998; Schmiesing 2001; Woehrling 2001). Common to both approaches is the claim that neoliberalism has neglected society as the necessary *locus* of economic activity, while postulating the economic agent as an individual disembedded from its social structure. These analyses can be seen as drawing on a Kantian common denominator: the deontological statement expressed in the formula of *Humanity as an End in Itself* that Immanuel Kant used as one of the examples of his Categorical Imperative:

Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end (Kant, 1785: 429).

When put into action, this is a statement with both negative and positive duties attached to it (White 2004: 93).⁵⁶ In its most obvious application it means that there cannot be any manipulation or deception of individuals, and that others can never be used only as means to an end. This does not mean that my interaction with, for example, a

⁵⁶ The notion of using a Kantian, individualist perspective to ground the ethical and moral perspective of globalization is bound to be at least somewhat controversial. There are obvious questions regarding the “readiness” of states that are not liberal democracies to allow for the use of some of its parts; it is a European source and it could be construed to represent another attempt at giving global trends a specific slant. What type of participation can be achieved by most of the citizens in the South of the world? These are all valid questions but they do not address the particular need of globalization today, which is to begin build an ethical framework that is flexible enough to change with the changing tides and that incorporates as broad as possible the values of cooperation, participation and human equality. I believe that a personalist approach couched in a Third Way political dynamic can be such a stepping stone.

caterer will fall under this prohibition; while I use his services to obtain food for a party (and therefore as a means to an end) there is no deception or manipulation involved and the caterer is willingly providing the service.

The Categorical Imperative is also formulated in two other forms: “act only according to that maxim whereby you can at the same time will that it should become a universal law” (Kant 1785: 421) and “so act as if your maxims were to serve at the same time as universal laws (for all rational being)” (Kant 1785: 438). Especially the first of these formulations has been criticised beginning with Hegel for their monological and formalist nature (O'Neill 1989). According to its critics, because Kantian philosophy is, at times, still burdened by a Cartesian mentalism, it is unable to break the dualist metaphysical framework of the phenomenal (physical) and noumenal (intellectual) worlds. Because human beings cannot have access to universal knowledge of empirical experience, Kant argued, moral laws had to be premised on an *a priori* basis. Morality rests on principles of pure reason, standing on their internal logic and independent of practical reason (Baldacchino 2002). To be sure, the whole notion had already been abandoned by Renouvier (1875) in his discussion of freedom (Gunn 1922: Ch 4; Logue 1993). To link freedom to the noumenal world by way of the supreme role of necessity in practical reason, as Kant had done, meant stunting the ability of human beings to act in a truly free manner. Free action is certainly linked to the *milieu* of individuals, with their past and their society, but it is not necessitated: human beings generate their own future and their own social, political and economic structures (Renouvier 1875). Ethics, in Renouvier (1875), emerges almost as a partner of supreme necessity, because the latter would, without the former, justify any and all excesses. But even Renouvier's neo-

Kantianism could not escape the charge of formalism that Fouillée (1883) brought against him; the sign, if nothing else, of a deeply changing epistemological attitude.

Of particular concern to the critics of Kant is the reliance on universalism as the test for ethical behaviour as it is laid out in the formulation of the Categorical Imperative (Benhabib and Dallmayr 1990). In Discourse Ethics, this position is attacked and replaced with the principle of effective discursive action:

the Categorical Imperative needs to be reformulated as follows: «Rather than ascribing as valid to all others any maxim that I can will to be a universal law, I must submit my maxim to all others for purposes of discursively testing its claim to universality. The emphasis shifts from what each can will without contradiction to be a general law, to what all can will in agreement to be a universal norm» (Habermas 1992b: 67).

Theorists like Habermas (1992a; 1992b; 1992c; 1999) and Apel (1993; 2000) have reworked Kantian ethics to incorporate the intersubjective and post-modern trends of modern philosophy into his insights, in the process sidestepping the dualism of those approaches that require basing moral behaviour on some *a priori*, foundational element.

Communicative ethics is certainly an important part of any approach to modern ethical analysis and it does advance the moral process, especially in the modern framework of globalization. At the same time, as Papastephanou (2000) notes, it often underestimates the influence of power relations on actual communicative flows, and discounts the fact that there are moral choices that are not necessarily bound with a process of discursive agreement, but still have important ethical repercussions in the way we relate with others. The decision on how to deal, for example, with a person who opposes (or supports) same-sex marriages or abortion, if we hold the opposite view does not have to go through discursive processes, and still it would certainly impact on the personal and formal relations we have with that individual. Without entering into a debate

on what moral frameworks are supposed to look like, I argue that the deontological foundation of the Categorical Imperative as expressed in the formula of the “Humanity as an End in Itself” should be taken as a grounding factor of ethical behaviour. Such an approach is echoed, in Economic Personalism (Mounier 1970; Novack 1993; O’Boyle 1998; 2000; Woehrling 2001), a Catholic framework for socio-economic relations that is easily brought back to its Kantian premises, and Amartya Sen’s concept of capabilities (Sen 1980; 1981; 1985; 1990a; 1990b; 2001).

The Kantian vision of politics has been enjoying a brisk revival in the recent past, and various analyses of its contents and shortcomings have once again begun to emerge (Höffe 2002; Saurette 2005). It is not my goal to use a metaphysical approach to ethics; my own approach is much closer to the Weberian one, which is grounded in historical and practical analysis. I am interested, though, in addressing one of the shortcomings of the current models of globalization: their lack of a referent that will allow a truly deontological vision of society. I find that this can be overcome by a Personalist vision and by referring back to the deontological notion of society. Because I am not going to argue that we should imagine a metaphysical basis for ethics, but that we should instead be interested in bettering the conditions of all human beings, I use the principle of the “Humanity as an End in Itself” almost as Kierkegaard’s “leap of faith” (Kierkegaard 1992 [1846]) in grounding my deontological approach. The Categorical Imperative is usually oversimplified by its critics overshadowing the fact that when dealing with the construction of an ethical framework

[w]e must begin with a concept of morality, then try to obtain a criterion from this concept, and then, in at least two stages, “apply” the criterion in a general and a special ethics, both of law and right and of virtue (Höffe 2002: 6).

The result is a multilevel vision of the Categorical Imperative

Table 20 The Levels of the Categorical Imperative

I. First Moral Philosophy (Fundamental Ethics)	General Categorical Imperative	
1. Semantic Level	Concept of Morality	
2. Normative Ethics Level	Criterion of Morality	
	Basic Form	Universal Law
	Formal Subform	Universal Law of Nature
	Material Subform	Humanity as an End in Itself
	Complete Determination	The Harmonious Kingdom of Ends as a Kingdom of Nature
II. Second Moral Philosophy		
3. General Branch	Categorical Imperative of Law in the Singular	Categorical Imperative of Virtue in the Singular
4. Special Branch	Categorical Principles of Law (for example, the prohibition against false promising)	Categorical Principles of Virtue (for example, the injunction to help those in need)

Source: Hoffe 2002: 7

In this sense, moral philosophy to Kant is practical philosophy that is based on but not limited to the initial concept of morality, deriving practical elements from it. Ultimately, Kantian morality is a practical morality, rooted in the reality of the community, even when it is based on the deontological value of humanity. At the same time, the Categorical Imperative as basis of philosophical and practical action is a problematic sell. As Baldacchino (2002: 30) notes, there are at least three major shortcomings of the Categorical Imperative:

- a) its “universal” elements are really drawn from Kant’s own vision and experience and then extended;
- b) it said little that could serve to guide actual practical action;
- c) its ahistorical approach was being quickly overtaken by the philosophical and scientific developments of the time.

Here I do not suggest that we use it as a premise for moral and philosophical analysis, rather I believe that in its formulation as “Humanity as an End in Itself” it works as metaphorical referent for a deontological approach to human action.

Hayek himself looked at Kant in his own fashion (Hayek 1973), so much so that John Gray (1986) called him a “sceptical Kantian” because he differed in a number of ways from the German philosopher in his thought. Hayek was certainly not a fan of Rousseau, as the German philosopher was, and argued that much of Kant’s theory of the *Rechtsstaat* was derived from Hume’s work (Hayek 1967b: 117). Whereas he may have agreed in broad terms with the idea that the particular manner in which the ethical maxims to be applied should depend on the choice of the individual (Kant 1785), because that fostered personal responsibility and mirrored the open activity of the catallaxy, he certainly did not believe that metaphysical grounding was required or even realistic for human activity. It may even be too much to say, as Day (2002: 5) does that in drawing upon Kant for his notion of the Great Society and of the catallaxy “Hayek thinks Kant’s aspirations [of totality] have been fulfilled by modern capitalism” so that Day’s (2002) subsequent critique of Hayek is less powerful than it could otherwise be. Hayek certainly did not think that *a priori* statements could ground moral action, because the latter was the result of a process of social evolution (Hayek 1978c; 1988). Day (2002: 15) notes that in Hayek’s work “individuals make their private plans strictly on the basis of what Kant called *hypothetical* and *pragmatic* – as opposed to *categorical* – imperatives” helping actors to achieve their goals. Certainly a correct assessment, but then he goes on, quite against what the actual spirit of Hayek’s work is, to state that

[r]ecognizing that the market economy necessarily reduces Kantian persons to means, Hayek believes our only duty is to use others within the existing rules. Moral judgements are “judgements about means”; and the Great Society replaces Kant’s ethical universe with a “catallaxy”, or spontaneous cosmos of exchange relations devoid of ethical content. ... Hayek replaces Kant’s transcendently binding moral law with the unconscious laws of the market. (Day 2002: 15-16)

Now, there is no doubt that Hayek is not ready to accept a “transcendentally binding law” and that is because he believes that what passes for metaphysical structure is in fact the evolution of social patterns. Nor does he argue that the market process is perfect, rather he chooses the catallaxy because, given certain ground rules, its functioning is freed of the very concerning *ought to* principles that noumenal rules embed. In this sense, it is possible to respond to Colombatto’s (2004: 3) questions regarding what he terms the “largely unexplained” use of norms beside spontaneous rules in Hayek’s work. Hayek certainly subscribes to the notion that in a Liberal society human action must be free, autonomous and informed, facilitated by a set of rules and norms that make participation and choice meaningful. This is where the creation of ground rules for the facilitation of the catallactic process comes in, just as where spaces open for a modicum of welfare protection. For choices to be meaningful to the operation of the spontaneous order they must be free; actors who are dispossessed in either the economic or the political field cannot make free choices. Because they are at the mercy of others, their preferences are hidden behind these material and political limitations. Such choice, I argue, cannot be considered part of the catallactic process, and certain ground rules, implemented by a facilitating, rather than a *dirigiste* state, are necessary. In other words, the Hayekian catallaxy is a social contract in flux. It changes and develops along the line of human interaction. Hayek believes that the “rules of the game” must be rigid and

general, allowing the proper process of spontaneous ordering and social institutional framing to emerge.

From a moral standpoint, the person takes central place in any liberal society, both as source of individual decisions and as member of social groups. Here persons are not the fragmented, solitary units of some coarse neo-conservative model, nor the stunted, de-individualized figure of some collectivist vision. In a Liberal society, the person must be granted the prerequisites of moral action: individual autonomy and the ability to make free and informed choices. These prerequisites are necessary, but not sufficient to moral action. The latter must be deontologically oriented.

Once the members of society are in a position to choose autonomously and on the basis of informed knowledge⁵⁷ the choice of both means and ends is moral if it complies with a deontological orientation: if others are treated as ends in themselves, as persons rather than as atomized individuals. This is the inescapable *a priori* of true liberalism; the practical, historically-bound implementation of these principles is likely to change with the material conditions of societies and with the historical period. I believe that this can be achieved within the context of a “Third Way” approach grounded in a deontological vision of society, a radical centrism that would provide the opportunity for a balanced mix of market and social structures by giving individuals a central role in the shaping of these rules.

All deontologically oriented approaches, I argue, require strong “voice” options to be properly implemented (Hirschman 1970). If we recognize the *a priori* importance of

⁵⁷ Here I refer to informed knowledge rather than to perfect knowledge, a knowledge the person must be willing to work for and invest on.

the person, defined as an individual free of external coercion and able to engage in moral activity (both as part of a larger group, as discursive ethic has it, and as a moral individual as suggested by Kantian philosophy), then participation is crucial. It is crucial not only to democratic processes (Serrano Caldera 2004), but also as a prerequisite to full humanity, to a personalist vision of the individual. From an Austrian-Weberian point of view, of course this is the necessary basis of institutional development and is closely related to legitimization efforts. Access to the process offers an opportunity for one's vision (and requests) to be incorporated in the institutional and organizational frameworks. Both discursive ethic and Sen's equality of capabilities presuppose participation as an enabling, empowering tool for individuals. Only through effective "voice" options, can human beings participate in the institutional development process and be empowered to set, and work towards, their goals

Any process of re-embedding of globalization should be a practical one. Because there can be no lasting legitimacy for any process that denies options for effective participation, it is fundamental that those be added to globalization. It is only by enabling the participation of individuals that we can counter resistance to globalization with credible options to embrace diversity of social and economic arrangements and to expand the reach and welfare generating opportunities it involves. Resistance to globalization comes, broadly speaking, from three separate arguments:

Nationalist/Isolationist: these are the arguments of those who, like Jean-Marie Le Pen in France or Pat Buchanan in the U.S., hearken back to the early nationalist *leitmotifs* of national culture and character being polluted by foreign elements like immigration, ethnic food, foreign TV shows, and so forth. The supporters of this position leave very

little space for globalization to operate. Part of this resistance was relegated into a subordinate position by the centralizing aspects of the Communist regimes, or by the diffused individualism of Liberal capitalism, but it has never been eliminated from the political discourse.

Traditional: in this case globalization is often seen as a tool of cultural colonization/modification to be rejected because it carries the “wrong” message. While a nationalist tends to reject integration outside of national borders per se, traditionalist visions may not exclude cross-border integration of like communities. Fundamentalist Islam and Christianity can be seen as such geographically disaggregated communities. Al-Qaida has, in fact, aimed at constructing an anti-Western world-wide network and used some of the tools of economic and technological modernity and integration, like information technology, to do so.

Left-wing opposition: these are the arguments of union leaders, activists and some politicians, who argue that globalization is the handmaiden of neoliberal capitalism. These are often embodied by activists like the French farmer José Bové, who is particularly famous for his fight against the “mallbouffe,” the bad food that is epitomized by McDonald’s restaurants (against which his and his followers’ ire is often directed) and genetically modified foods. There are also “softer” positions, like that of mainstream Socialist politicians Lionel Jospin who minted the phrase “oui a l’économie de marché, non a la société de marché”⁵⁸ to encapsulate the negative impacts of a runaway liberal model of socio-economic relations. Within this current it is argued that the claims for a weakened state, the need for global competition, and the focus on reducing labour costs

⁵⁸ Yes to a market economy, no to a market society.

and the flexibilization of the workforce are imperatives only for the capitalist elites. Opposition here spans a relatively wide number of positions, from all out refusal of globalization, as is the case with anarchist movements, to calls for the protection of labour standards.

The contested nature of globalization means that, along with people who oppose it completely, we find numerous groups that would wish for a more selective application of some of its tenets. Academics like Jagdish Bhagwati (2000a; 2004) and Joseph Stiglitz (2002; 2003b) have often noted the perils of unfettered financial flows, consumers are becoming increasingly hostile to business practices that breach environmental and labour standards in developing countries, law enforcement agencies have pointed out the challenges involved in providing security in an increasingly borderless world. Resistance to a multifaceted process like globalization means a host of different challenges, demands, attacks, and attempts at bargaining, modification and participation from a multiplicity of groups. As noted above, there is little scope for neo-Luddites nowadays, and little purchase for their arguments. Yet, the institutional and organizational premises of globalization need to be opened to increasing levels of participation and contestation because it is only through these processes that legitimate solutions can be devised for the problems arising out of global flows.

Free trade may often provide positive aggregate results for those involved, but can we seriously expect these arguments to carry much weight with those who have been made redundant by technological advances or foreign competition, or saw their crop's value plummet because of cheap imports? FDI is most definitely an important tool for economic growth in the developing world, but why the resurgence in monoculture pushed

in developing countries by large agribusiness corporations? If the process of globalization is supposed to be positive, why is economic inequality increasing even within developed countries (Migone 2004)? It is often the case that answers to these questions are not offered by the organizational structure that emerged with globalization itself. Organizations like the IMF are often perceived as remote and opaque, lacking the transparency and openness that they are supposed to project, and draw many critiques regarding their nature (Aglietta 2000; Stiglitz 2003a; Vines and Gilbert 2004). The question regarding the future of globalization should not be so much an economic one, as a political one. Given the obvious potential benefits of a globally integrated economic system, can we afford to let its future be decided in an environment that is lacking effective democratic representation and that is, by and large, exclusionary of national dimensions, while fostering sub-national and regional structures? The liberal-capitalist democracies of the second half of the 20th century represented, with their socio-economic and political structures, a force that could bend the parameters of nationalism to the goals of integrated economic and political growth.

The transformation of nationalism into patriotism, the emergence of a framework that was centered around cooperation and competition rather than confrontation and opposition among capitalist countries was premised not only on undeniable material interests, but also on the ability of democratic systems to respond to the demands and needs of various social and political forces, including those that opposed, if not most, much of capitalist democracy. In a very real way, the extension of free markets and liberal-democratic tenets to Western Europe and Japan has been premised on the contemporary extension of democratic rights to its people and of effective accountability

measures to its ruling class. It depended on an ethical model of the polity that implied, at least nationally, an egalitarian nature of human relations. This allowed for a safety valve that could be used when the weight of markets and/or policy became too heavy or too distant from the needs and wishes of the citizens. Integration remained partial of course: the Soviet Bloc was in opposition to its World War II allies, as were the other communist regimes, and developing countries, many of which were just then emerging from their colonial phases, often engaged in bitter independence conflicts with their European would-be-masters.

Oppositional politics may have remained more or less latent among liberal-democracies, but did not disappear, and was not forgotten. It remained a very vibrant model. It continued to be an efficient tool during times of confrontation and in focusing the energies and efforts of the population. In the West, some of this opposition, rooted in nationalist policies, has begun to emerge again as it confronts, once again, militant Islam. At the same time, economic globalization, cultural penetration, and industrial development are liable to generate tensions if no voice is allowed for those who oppose it or who feel cut off and disadvantaged.

The process of embedding, after World War II, passed through the adaptation of specific economic and political frameworks to the material and political realities of individual states. Embedded liberalism allowed for the progressive diffusion of Fordist models within capitalist economies, while still giving national governments enough latitude to deal with socio-economic matters in a relatively autonomous manner (Helleiner 2003b; Lacher 1999a; Ruggie 1982). Security concerns and the natural tendency of Fordism to rely predominantly on national markets helped this process to

crystallize in the various embodiments of the Keynesian welfare state (Jessop 2002a). The end of the cold war, the passing of the Fordist economic arrangements, the hegemonic reach of neoliberal ideology, and the increasing reliance, especially among the most advanced states, on processes of economic internationalization, have radically changed the forms of embeddedness that are available to the state.

The protestant ethic was, in the analysis of Max Weber (1930), the *Stahlhartes Gehäuse* the “shell as hard as steel,” the necessary conduit for modern capitalism to emerge, the necessary institutional framework that would enable individual practices that were consonant with the economic efficiency demanded by capitalism. Today, globalization has its own “shell” but rather than being built of steel it appears to be a *Geldhartes Gehäuse*, an economic shell because so much of the success of the globalization appears to hinge on the continued existence of efficient economic internationalization, based on Neoliberal economic tenets. The latter offers an equivalent institutional foundation to globalization to what the Protestant Ethic had done for modern capitalism, favouring specific organizational developments, like the emergence of international organizations and MNCs. But this “golden straightjacket” (Friedman 1999) lacks flexibility, has little to say about the protection of the weaker parts of society and is disturbingly silent regarding the violation of individual freedoms. President George W. Bush may be very vocal about exporting democracy (note the “commercial” nature of the verb) to the rest of the world (whether they want it or not), but passes law after law diminishing the scope and effectiveness of individual freedoms and constricting privacy spaces.

Institutional changes often initiate in the economic realm because the process of spontaneous ordering that is dominant there fosters institutional and organizational experimentation. Because successful institutional and organizational change in the economy, as with the ascendancy of the MNC or the development of mass production techniques, impacts more than market exchange, these processes are crucial to the nature of societies and generate change in the political and social spheres as well. The current phase of globalization owes much to the emergence of economic internationalization (of finance, of industrial production and of trade) as the most viable alternative to the national Fordist economic models.⁵⁹

Its tenets spread quickly through economically advanced capitalist countries and the Newly Industrialized Countries (NICs) that had embraced export-oriented growth policies. There, they seemed to accelerate a process of internationalization that was ongoing and faced relatively muted opposition. At the same time, the changes that they introduced were to affect deeply the socio-political landscape. The success of the MNC, intended as an organizational model, redesigned the scope and the territorial distribution of manufacturing; free trade and technology were fundamental for the tertiarization of OECD economies and were instrumental in defining the divide between “winners” and “losers” among developing countries. There was a shift towards a predominantly “economic” understanding of strategic relations, even towards rhetoric of economic, rather than military, engagement with the communist states.

⁵⁹ There is little doubt that the most vital and powerful economies like the US and Japan, had a large hand in designing some of the institutions and organizations of the new economic architecture. Their sheer economic power certainly mattered at the time, just as it mattered that their companies were allowed to and were willing to explore the options of internationalization.

The proposal that I will try to develop in this final chapter is linked to a Third Way perspective that places the needs and hopes of the individual first, and is premised on a deontological approach to moral, and practical action. This, I argue, is akin to provide stronger “voice” options to individuals understood as the foundational and necessary part of social life. From a prescriptive point of view, this choice carries important consequences because once we recognize that, as a principle, human beings ought to be treated as ends, we also recognize that the fairest manner in which this can be achieved is to allow for individual preferences to be voiced. This requires that, at all levels of the polity, and this today means local, national and supranational, individuals be given meaningful and viable access to economic and political participation. In practical terms, this means democratizing the current organizations by acting on the fields of participation, representation and accountability.

The Evolving Economic System: the Move Away from the Welfare State

One of the most important actors of the past few centuries has been the state. Either in its nation-state format, as it emerged from the 18th and 19th Centuries, or in its more modern one, it has been with us for a long time, dictating much of what citizens are allowed and not allowed to do. While some key elements of the liberal or communist or fascist state are common to all, there is no denying that this organization does not come “ready to wear.” Differences among states and their organizational structures are great even within the OECD, are relatively homogeneous group as things go, let alone in the

larger international community. Through the state itself and its apparatus are filtered the flows of globalization and are negotiated the responses that they elicit. States, though, are increasingly forced to confront a specific set of questions and demands that economic, technical and social fluxes generate. Much of my research focuses on this particular side of globalization.

The most relevant achievement of post war societies was the establishment of a set of institutional parameters that allowed for the development of national strategies aimed at securing a viable social reproduction within the framework of continued liberal economic development (Ruggie, 1982). In this context, the Keynesian Welfare State (KWS) developed protocols aimed at reducing the most evident aspects of class and social conflict. Alongside them, progressively emerged the increasingly relevant patterns of social interactions that we call “civil society.”⁶⁰ Between the end of World War II and the late 1970s, socio-economic policies in the core economies of the OECD were carefully designed to ensure a particular balance of economic growth and social welfare.

Since the ascendancy of the Neoliberal paradigm in the 1980s, much of the canons that had been considered the very key of socially acceptable policy-making in the two previous decades, have been substantially eroded and the philosophies that they

⁶⁰ The LSE definition of civil society runs as follows:

Civil society refers to the arena of uncoerced collective action around shared interests, purposes and values. In theory, its institutional forms are distinct from those of the state, family and market, though in practice, the boundaries between state, civil society, family and market are often complex, blurred and negotiated. Civil society commonly embraces a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power. Civil societies are often populated by organisations such as registered charities, development non-governmental organisations, community groups, women's organisations, faith-based organisations, professional associations, trades unions, self-help groups, social movements, business associations, coalitions and advocacy group.
[http://www.lse.ac.uk/collections/CCS/what_is_civil_society.htm]

inspired have crumbled. The market became the enabler and referent of socio-economic activity, and welfare policies were scaled back. Many saw in this evolution the rolling back of the approaches that had emerged from the “double movement.”

Polanyi (1957: 76) described the double movement as a deep-seated reaction to the dislocations imposed on society by the market, which provoked an inherently antagonistic relation with the latter and was incompatible with it (Polanyi 1957b: 130). He even couched it in terms of spontaneous ordering:

The countermove against economic liberalism and laissez-faire possessed all the unmistakable characteristics of a spontaneous reaction. At innumerable disconnected points it set in without any traceable links between the interests directly affected or any ideological conformity between them. (Polanyi 1957b: 149)

The liberal century and its political adjunct, the unfettered market, were attacked and ultimately failed because their costs were too high, because at their root was the need to dissolve too many societal bonds, because to obtain the flexibility and the “willing worker” upon which the liberal market was premised “it was necessary to liquidate organic society, which refused to permit the individual to starve” (Polanyi 1957b: 165; also Gray 1998).

The reaction was not simply one of increased pressures from trade unions or unhappy workers; the Liberal century sowed the seeds of both of the brutal fascist autocracies of the 1920s and 1930s, and of socialism:

Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. (Polanyi 1957b: 234)

If there ever was a political movement that responded to the needs of an objective situation and was not the result of fortuitous causes it was

fascism. At the same time, the degenerative character of the fascist solution was evident. It offered an escape from an institutional deadlock which was essentially alike in a large number of countries, and yet, if the remedy was tried, it would everywhere produce sickness unto death. That is the manner in which civilizations perish. (Polanyi 1957b: 237)

Both of them, he argued, were the result of the socio-economic policies that had been at the core of liberalism, both domestically and internationally. They owed their meteoric rise and their fundamental appeal to the faults that were inherent in the Liberal model:

Fascism, like socialism, was rooted in market society that refused to function. (Polanyi 1957b: 239)

There is little doubt as to the judgement that Polanyi reserved for autocracy of whichever political colour; his goal in *The Great Transformation* was to show that, if pushed hard enough, organic society would rebel against the hardship that threatened to destroy it. He is very explicit about this:

Nineteenth century civilization was not destroyed by the external or internal attack of barbarians; its vitality was not sapped by the devastations of World War I nor by the revolt of a socialist proletariat or a fascist middle class. Its failure was not the outcome of some alleged laws of economics such as the falling rate of profit or of underconsumption or overproduction. It disintegrated as the result of an entirely different set of causes: the measures which society adopted in order not to be, in its turn, annihilated by the action of the self-regulating market. (Polanyi 1957b: 249)

The postwar reaction was to create an international community through the United Nations (Bennett 2002; Ruggie 2003b; Taylor 2003), which, along with security issues, could also deal with trade (Cohn 2002; Hockman and Kostecki 1995) and finance (Helleiner 1994; 1995b) and which was premised on the notion that domestic stability and social integration were a necessity and should be pursued: it was the birth of the

socio-institutional accommodation that supported the expansion of the Fordist model; what Ruggie (1982) called embedded liberalism.

Hayekian analysis forces us to differentiate between *Thesis* and *Nomos* and to be careful about the roles that each should play. Both are necessary and may occasionally overlap, but the internal premises that shape them are radically different. If individual freedom and its nurturing are at the core of the analysis, as they were with Hayek, then the principle of *Thesis* should be limited to situations in which individuals freely choose to belong to an organization. The concept of *Nomos* should be reserved for those areas where the individual is generally without a choice as to whether to participate or not, in which material conditions dictate the ability of individuals to join in or remove themselves from the sphere of the activity, as with market exchange. Once again, this does not ensure, for example, that all those who participate in the market will have a minimum income, or that certain specific goals will be achieved.

All that the *Nomos* can ensure is that, by limiting coercion to a minimum, spontaneous ordering will emerge as the result of human interaction. There is no assurance that specific norms will develop in a society to protect the weak, the sick and the poor. Nor is it clear that certain development goals would be met out of spontaneous ordering, the latter being, inherently, a trial-and-error process. This would be a blatantly insufficient paradigm for social reproduction if we understood individuals as disaggregated or as irrelevant (Hahn 1973). In short, if social relations are obliterated, there can be no enduring social action, but social relations need not be solely identified with organizational relations or be premised on the notion of *Thesis*.

The notion of organic justice can be linked to the theory of Economic Personalism. This latter is also a deontological theoretical approach to socio-economic development and social integration. Born within the Catholic movement (O'Boyle 1998, Finn 2000, Schmiesing 2001), it argues that the most important element of human beings is their personhood, their *a priori* value in front of all other issues. Its analysis calls for individual freedoms matched by the ability of the person to create the groups that will sustain a valuable, meaningful social life. These include, given the background of the scholars who support this approach, churches, but also clubs, interests groups, neighbourhood associations, and everything that is required to maintain a vital society, intended as a collection of persons who care and cooperate with each other.

A certain degree of social interaction is necessary for society's very survival. Hayek lamented that this integration was overwhelmingly provided through organizational *fiat*, through the mechanisms of the *Taxis*. Even if he was in favour of some state intervention he believed that the key factor that assured better overall economic gains and a true freedom of choice was the catallactic process. In Economic Personalism there is a way to reconcile organic justice with social integration, because it relies on the deontological argument and must be linked to the freedom and opportunity to express ourselves as full persons. For those who dislike the idea of dressing the process in Catholic clothes, it is very easy to strip the whole thing of its religious parameters and to relate it to the Kantian and deontological principles that animate it.

The problem with current socio-institutional frameworks is not that they are focused on the individual, but that they have an individualistic focus (Migone 2003). The institutions that support the current economic regime have been bent to foster an ever-

expanding consumerist pattern (Migone 2004) and the delicate web of social relations that is supposed to frame market exchange has been substituted with individualist outlooks and practices. Individualism atomized individuals rending the social fabric in which they are embedded and attempting to sever the complex webs in which they operate.

In a functioning society, social and economic institutions are interdependent and they both must be healthy. It is only in this manner that we can generate truly meaningful and long lasting structures for individual (and group) activity. A Hayekian perspective does not advocate the elimination of proper institutional arrangements for non-market exchange. Hayek notes that there are proper institutional settings that should be used for each activity.

If we were to apply the unmodified, uncurbed, rules of the micro-cosmos (i.e., of the small band or troop, or of, say, our families) to the macro-cosmos (our wider civilization), as our instincts and sentimental yearnings often make us wish to do, we would destroy it. Yet if we were always to apply the rules of the extended order to our more intimate groupings, we would crush them. So we must learn to live in two sorts of worlds at once. (Hayek 1988: 18)

It is crucial that we strike a reasonable balance between the social and the economic, that we allow for realistic spaces within which human beings can live by the rules of both the micro and the macro cosmos. Today both of these spaces are deeply impacted upon by the effects of globalization.

Globalization has often been singled out for having negative effects on the social fabric of the world (Abella 2001; Bienefeld 2000; Brubaker 2001), for forcing workers to give up the protection of unions (Candland and Sil 2001; Nissen 2002), transforming the welfare state into the “competition state” (Cerny 2000), or simply addressing them as the new premises of empire (Hardt and Negri 2000). In many ways, these critiques focus on

the “de-nationalizing” effect of global economic pressures and of their attendant cultural and consumption aspects. They are voiced from both the left and the right of the political spectrum (Held and McGrew 2002a) and tend to be at the core of street protests like those that took place in Seattle, Genoa, and Cancún.

It becomes, then, very important to assess the reality of the current form of embeddedness and its effects on society. We can look at social and spatial embeddedness. The first refers to the institutional framework that regulates socio-economic activity and it is mainly constituted of the neoliberal market approach. The latter refers to the actual organizational effects of globalization. Just as the institutional framing of current globalization has produced a series of dislocations in the institutional sphere, spatial embeddedness has generated rapid and far-reaching change in the organizational one. This is evident not only in the industrial and financial sectors, but also in consumption patterns across the world economies, and is reflected in the literature on individualistic attitudes (Putnam 1995a; 1995b; 2000) and its effects on social organization (Lin, Cook, and Burt 2001).

The progressive tertiarization and internationalization of OECD economies is mirrored by changes in the developing world. The emergence of a sizeable middle class in both China and India; the careful orchestration of FDI and financial agreements in some of the more advanced LDCs, the novel role of the MNC as a transmission belt for core economic growth, and the necessary role played by membership in international organizations, all speak of a deeply renewed space for the modern polity.

There are limits to the fluidity of our societies, most notably in the exercise of socio-economic choices, which are everywhere cast in one hue or another of neoliberal

philosophy. That the ontological premise of neoliberalism is individualism partially masks this limit, because it provides for wider options in the personal sphere by supporting human rights and personal choice. Neoliberalism has, in theory, a deontological attitude in the social sphere when it refers back to the principles of political Liberalism, but not in the economic one. It tries to establish a separate ethic and praxis for the economic and the social spheres, but this generates an inherent tension within the polity both because it represents a break with previous arrangements, like the Keynesian Welfare State, and because its implementation generates a series of effects that are in strident contrast with its claims. The increase in visible poverty and homelessness in OECD countries, the heightened polarization of income and persistent poverty throughout the world appear to run against the notion that globalization “will lift all boats.” The bitter fight that pharmaceutical companies put up to prevent LDCs from accessing generic drugs to cope with the AIDS pandemic and the accounting scandals of ENRON and Parmalat seem to give the lie to the idea of the multinational as good corporate citizen, leaving the way open for the more populist description of the corporation as psychopath (Bakan 2004). At the cultural level, how does one escape the certainly simplistic but immediate appeal of the McWorld vs. Jihad slogan, especially when often Western intervention amounts to a thinly veiled attempt at institutional and organizational colonization, as with Iraq? Why is it, also, that the new technologies have failed to reduce the workload of the average OECD worker, while blurring the boundaries between home and work environments with telecommuting, remote access and flexibilization? Neoliberalism fails to address these questions beyond the reference to

market conditions and individual opportunities. This failure is a structural consequence of neoliberal thinkers' choice to insulate social ethic and praxis from the economic one.

To disembody socio-economic relations from the pre-existing Keynesian models, neoliberal theorists argued successfully that the economic and the social spheres were independent. As a result, the discourse of their critics was undermined at its bases: one would not speak of socio-economic policy, but of social policies and of economic policies, with the former often dictated by the constraints imposed by the latter. This was a brilliant achievement, one that ensured the hegemonic status of neoliberal theory throughout the 1980s and 1990s. It also had another consequence: it took away the option of going back to socio-economic embeddedness for neoliberal thinkers. Once that tool was removed, and its suppression made one of the core tenets of neoliberal political economy, it could not be retrieved without invalidating the whole paradigm.

This limited the flexibility of the neoliberal project by fixing its responses in sharply divided fields. This is why Bhagwati argues that social and environmental concerns should not be linked to trade agreements, even when it is the effect of trade and FDI that engenders them in the first place. It is also why Best (2003a) finds that the new embedded liberalism is an attempt at gaining more adherents to neoliberal policies rather than an actual rolling back of the negative social effects of its precepts.

One of the most significant tenets of advanced capitalist economies during the Fordist period was the presence of a social safety net designed to allow for social stability within nationally centred economic systems. The Keynesian Welfare State (KWS) became the socio-economic instrument that guaranteed the viability of the post-war

economic model within the liberal democracies of the West, the necessary factor of social democracy that sustained economic development.

This meant more than just supporting demand with supply-side intervention. While the exact scope and reach of the welfare state differed across the OECD, it demanded an increased relevancy of the nation-state within the economic realm, as a direct employer (often as an employer of last resort), in stimulating investment, consumption, and the development of infrastructure, and as a mediator between capital and labour. Its role hailed, with few exceptions (Hicks and Kenworthy 2003), as an important if not necessary one, the principles of social democracy firmly embedded within the political and economic discourse and appropriated even by members of the business community (Esping-Andersen 1994; Holmwood 2000).

The theory of the welfare state is quite vast and complex (Deacon 1995; Deakin, Jones-Finer, and Matthews 2004; Esping-Andersen 1990; 1994; 2002; Holmwood 2000). In its practical structuration it represented the attempt to re-embed the principles of Atlantic Fordism within the political, economic and social boundaries of the state (Jessop 2002a). It is, in other words, a useful yardstick to measure the eventual erosion of social embeddedness and the progression of the Neoliberal paradigm within OECD states (Armingeon and Beyeler 2004; Niggle 2003). The literature on the impacts of global trends on the activity of the welfare state is also quite substantial and brings together different positions. In general there seems to be an agreement that, at least as far as advanced capitalist countries are concerned, the welfare state has not disappeared even if changes have been evident both in its operational logic, its reach and capabilities, and in the political rhetoric that supports these policies (Benvenisti, Nolte, and Barak-Erez

2004; Boyer 2002; D'Apice and Fadda 2003; Deacon 2001; Nielsen and Kesting 2003; Rhodes 2002; Södersten 2004).

I use Jessop's (2002) analysis, where he defines the welfare state as the result of the particular socio-economic institutions that emerged from the Fordist/Keynesian model of the postwar period. In keeping with Jessop's (2000a; 2002a) terminology, we could say that the Keynesian Welfare National State (KWNS) was part of the spatio-temporal fixes that worked to defer the contradictions of capitalist accumulation (Jessop 2002: 73). Its social policies were closely linked with "Atlantic Fordism [which] can be briefly defined as an accumulation regime based on a virtuous autocentric circle of mass production and mass consumption secured through a distinctive mode of regulation that was discursively, institutionally and practically materialized in the Keynesian welfare national state" (Jessop 2002: 55). The KWNS was the necessary national complement to the international framework that found its expression in the regimes of embedded liberalism (Lacher 1999a; Ruggie 1982; Ruggie 2003a).

The new economic regime depended on a specific process of economic evolution and consolidation:

In broad terms the dynamic of global expansion after 1945 was based on the continuing spread of Fordism as a labour process from the United States (where it was already en route to dominance in the interwar period) to the other Atlantic Fordist economies and, in parallel, on the consolidation of its mass production and mass consumption dynamic in this expanded space. (Jessop 2002: 58)

Along with these came a set of "embedding" processes. It is Jessop's (2002) contention that the KWNS could be identified on the basis of the existence of distinctive economic and social policies the state administered primarily at the national level and

with a national focus to compensate for market failures. While the underlying goal of the KWNS was the same across borders the individual realities of the various economies yielded different practical responses.

Four responses can be distinguished in this regard in Europe and North America:

- *liberal welfare regimes are linked to finance-based, market-regulated capitalist regimes where the money concept of capital tends to dominate;*
- *social democratic welfare systems are linked to small open economies with strong Fordist export-oriented branches and/or niche market oriented, high-skill, high-productivity, high-wage, flexibly specialized export sector;*
- *more conservative, corporatist welfare regimes are linked to larger economies, open or closed, with close coordination between industry and finance as well as between large industrial concerns and small and medium enterprises, an emphasis on craft production and guild organization, and a large traditional and new petite bourgeoisie*
- *the Southern European welfare model is linked to late developing, peripheral Fordist economies with large agrarian sectors, traditional social structures and family capitalism. (Jessop 2002: 68)*

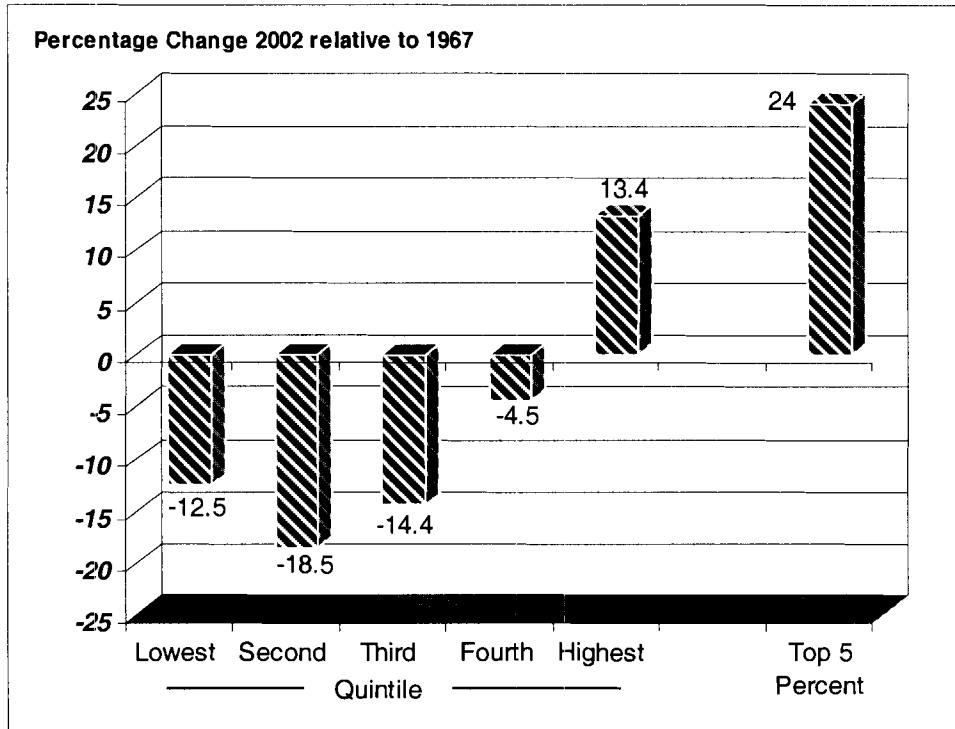
By adopting this model, Jessop manages to highlight the differences among the various realities, without losing sight of the underlying unity of purpose that these arrangements all had in functioning as mechanisms that temporarily dampened and delayed the crisis of capital accumulation. As noted above, the locus of the policies implemented by the various governments and of the economic and political process was the state, with all other levels being defined and functioning as a system of supports for the former. "In short, there was a close and mutually reinforcing linkage between the national state form and Keynesian welfarism. Indeed, the KWNS probably gave fullest

expression to the organizational and societalizing possibilities of the national state in large economies” (Jessop 2002: 72). While these strategies and their results remain inherently tentative and temporary because of the nature of capitalism (Hayek would note that the reason is that these are all attempts at planning and therefore doomed to failure), they still represent the process of embeddedness for the second part of the 20th century and the paragon for current analysis.

There is no doubt that the process of globalization meant more than simply the internationalization of economic activity and the restructuring of industrial models. It signified, to different degrees in different countries, the recasting of social as well as economic parameters. In some cases, as with the United Kingdom and New Zealand, these modifications have cut very deeply into the connective tissue of the Fordist society reshaping, probably for good, the nature of their relation; their embeddedness. At the same time, the result has been to foster some of the attitudes and approaches that were considered necessary for the success of free markets. The question is about the balance that has been struck between the two.

That Neoliberal adjustments may have a heavy price was noted by Gray (1998: 53) in *False Dawn*. In recapping his analysis of the socio-economic dislocation that was experienced in Great Britain, Mexico and New Zealand he wrote: “[t]he free market acted as a vice within which the middle classes were squeezed. It enriched a small minority and increased the size of excluded underclasses. It inflicted serious damage on the political vehicles through which it was implemented.” Even in the USA, the relative distribution of income favoured the richest.

Figure 17 Changes in the Share of Aggregate Income for US Households: 1967-2002



Source: U.S. Census Bureau, Current Population Survey, various issues.

There is little doubt that the realignment of socio-economic indicators has reshaped our societies, at times in a drastic manner. Whether the polarization of incomes, the deindustrialization of the OECD core, and the increasing environmental pressures on the developing world are philosophically just or practically sustainable is an open question, for each to answer individually. What is not in doubt is that there is an increasing delegitimization of the facets of globalization that are not open to actual debate and meaningful choice. There is increasing uneasiness with the ubiquitous presence of the *Geldhartes Gehäuse*, and a blossoming of alternative visions, even if these are often disconnected and unrelated to one another. These attempts at reembeddedness would be best served, I shall argue, by a radical centrism acting as a facilitating framework for individual choice within a deontological vision of society.

Bending the Bars of the Cage: Changes to the Regulation of Globalization

I noted that the framework for the re-embedding of the current process of globalization is that of radical centrism. The history of such an approach is long enough to bring us back to the fertile political and philosophical grounds of the period between the 1890s and 1930s, when both social democrats and progressive thinkers withdrew from the communist and more extreme Liberal visions of the day and met in a heterogeneous and varied centre that espoused political and economic democracy, proposed a vision of integrated social bonds created by individuals, and went beyond Kant and even neo-Kantianism, beyond the idealist-positivist debate to create a theoretical approach based on a historical, experiential understanding of reality and human activity. Among others there were Dilthey, Croce, Fouillée, William James, and Dewey (Kloppenbergh 1986). They were dissatisfied with the materialist approach of empiricism, with the neo-Kantian dualism, and with the extreme transcendentalism of Hegel. They represented the experiential world as continuous rather than atomistic and, in general, attempted to design an epistemological construct that would give actors a more prominent role, a dynamic, complex and socially embedded role. They achieved a momentous change in the political and philosophical history of the West because

they transformed the ideas of revolutionary socialism and laissez-faire liberalism, and thereby helped to give birth to the political world in which we now live.

.....

Prior to 1870, the ideas of social democracy and progressivism did not exist; by 1920, they were central to the political discourse of Great

Britain, France, Germany, and the United States. (Kloppenber 1986: 411)

The process was one that created a new *Via Media*, a third way between the two radical ideologies of the time and emerged out of the philosophical and practical disconnect that its supporters felt for them, rather than out of feeling of exhaustion engendered by these projects (Kloppenber 1986: 411-412). Their analysis was experiential and freely admitted that the uncertainty was to be considered a constant companion of the human condition, but personal responsibility, freedom of the individuals, and democracy could offer a path for societies to lift themselves out of the limitations of the Victorian age and strict dualist philosophy.

The 1930s and 1940s saw a dramatic drop in the ability of these moderate voices to be heard, but the elements of radical centrism re-emerged with Polanyi (1944) and with those scholars who, like Keynes (1936), saw the need for the dual application of freedom and moderation to bring back a stable democratic society. After the end of the welfarist experience in the 1980s and the hegemonic rise of the neoliberal paradigm, we are, once again, at a point in time when these principles must be made the centre of our political and philosophical stance. The *Third Way* approach has once again become a popular call, especially in Anthony Giddens (1998; 2000; 2001; 2003) and John Gray's (1998) recent work, and has been embodied by the policies of, among others, Prime Minister Tony Blair and President Bill Clinton.⁶¹ Here, I argue that the process of

⁶¹ "The Third Way philosophy seeks to adapt enduring progressive values to the new challenges of the Information Age. It rests on three cornerstones: the idea that government should promote equal opportunity for all while granting special privilege for none; an ethic of mutual responsibility that equally rejects the politics of entitlement and the politics of social abandonment; and a new approach to governing that empowers citizens to act for themselves." (Source: [NDOL The Third Way Progressive Governance for the 21st Century by Roundtable Discussion](#))

globalization makes embracing a deontological approach to the process an urgent necessity. As policies, social, cultural, and economic flows are increasingly set across rather than within borders we need to develop an approach that will make choice meaningful and free for all those involved. This will require the implementation of policies that, within a democratic milieu, will ensure the provision of accessible education to all those who desire it, the implementation of the principles of subsidiarity and devolution of decision making, the reinforcement of international institutional and organizational structures with the aim to foster human development. The key tenet of this process, though, is the deontological approach. Without the latter, nothing can be done to change the plea of those who are disadvantaged and marginalized and the organizations and institutions that fail to provide such relief are, ultimately, doomed to be replaced.

Every process of embedding depends on a philosophical image of the role of human beings in society. It is not sufficient, as Courchene (2002) argues, to focus on building up civil society. Civil society always exists; it is how it understands and operationalizes the role of the individual that matters. If human beings are not treated as persons, as *a priori* relevant to society, deserving of inclusion and respect because they are the building blocks of that same social structures, the fabric of cooperative relations upon which modern society depends for its very survival will fail.

But society does not admit relational vacuums: if one model does not succeed, it will be replaced by another. When Liberal tenets failed early 20th century societies, Fascist nationalism was ready to offer those structures that the former could not supply (Drucker 1939). After World War II, the Keynesian Welfare State provided a corrective to the excesses of the first half of the century; today economic globalization is being

tempered from various sided by demands for more inclusiveness, increased access to information and the policy arena, and generally a strong push towards the reassertion of visions that are alternative to those of the MNCs or of the panoply of international organizations that have been established since the 1950s.

The reaction to the “beggar thy neighbour” policy of the early 20th Century, to the wars and the excesses of Fascism and Nazism are easily interpreted through the lens that Karl Polanyi (1944) gave us. Polanyi was not against the market as such; he inclined more towards Durkheim’s (1893) vision of organic society than towards Marx’s revolutionary agenda. He was not naïve and understood the socio-economic needs of modern society but had a warning for those who were too eager to give free rein to market egoism, for those who did not feel that embeddedness was a relevant part of society

The true criticism of market society is not that it was based on economics – in a sense, every and any society must be based on it – but that its economy was based on self-interest. Such an organization of life is entirely unnatural, in the strictly empirical sense of exceptional. (Polanyi 1957b: 249)

And, in the same way, he warned against the simplistic measure of freedom that some of the free-marketers had put forward to justify their claims of a bright future and a wealthy society:

The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals and that could not, therefore, be removed again by their volition. Vision was limited by the market which “fragmentated” life into the producers’ sector and that ended when his product reached the market, and the sector of the consumer for whom all goods sprang from the market. The one derived his income “freely” from the market, the other spent it “freely” there. Society as a whole remained invisible. The power of the State was of no account,

since the less its power, the smoother the market mechanisms would function. (Polanyi 1957b: 258)

Polanyi was, rightfully, pointing out the devastations that followed the application of a certain model of capitalist development and that were favoured by the dictatorial shift of many European governments. Many go on to fault Liberalism *tout-court* for this turn of events. What is often overlooked is that Liberalism was born as a philosophy deeply committed to the protection of minorities through the principle of individual freedom and negative rights (Mill 1859; Smith 1776; 1853). Its most worrisome degradation has been the loss of this commitment.

Bruner (2003) notes how there has been a progressive shift from the 18th century conception of political liberalism, with its emphasis on individual freedom, personal responsibility, and protection of individual action from the undue interference of the state, to a notion of economic liberalism. The latter has jettisoned many of the “political” aspects of Liberalism, especially as they related to the informed and critical participation of citizens, and superimposed a rather Conservative, top-down approach, to the notion of free markets and free trade. The self-regulating market has been presented as practically disembedded from social and political structures, its functioning often shrouded in esoteric premises that must be dogmatically accepted rather than questioned and explained. The notion of institutional development that emerges from this paradigm is one of managed organizations rather than one of spontaneous ordering. Furthermore, the relationship between society, economy and polity is not, as with Austrian and Weberian approaches and the original Liberal paradigm, one of complex embeddedness, but rather, one in which the economy, and its more mechanic sides, trump polity and society and

must be kept separate from them to prevent undue “contamination” from non-economic ones.

This concern with separating the economic from the non-economic, the latter becoming a vast residual, often difficult to define, category, also runs against the grain of Hayek’s understanding of the motives for engaging in economic activity:

The ultimate ends of the activities of reasonable beings are never economic. Strictly speaking, there is no “economic motive” but only economic factors conditioning our striving for other ends. (Hayek 1944: 89)

Globalization is a complex process; it involves finance and trade just as much as it involves culture, politics and technology. Its institutional underpinnings have affected in manifold ways the structure of societies and on the priorities of politics around the world. This is clearly reflected not simply in more readily quantifiable indicators like trade openness, FDI levels, transfers of technology, patterns of industrial production, and international financial transactions, but in the organizational and institutional changes that have intervened in the past twenty-five years.

There is no doubt that economic integration has been one of the keystones of the last quarter century, but it has emerged alongside more generalized notions of cooperation, integration and unification. Convergence in the economic and financial spheres has, often enough, been followed by convergence in thornier social and political issues like immigration, the environment and some select human rights. Convergence often did not lead to the higher standards in these sectors and sometimes broad multilateral agreements have meant lowering some of them. At the same time, it meant the creation of an international arena where relevant policy action can emerge. I argue

that the creation of these organizations is an important part of the current wave of globalization because it expresses the core institutional belief that policy is increasingly to be set at the international, if not supranational levels.

The shift in the role of the state, of the international organizations and of local and regional structures reflects the new reality of power relations. The key institutional tenets that underpin this shift are listed below:

- Inherently positive view of integration, cooperation and exchange among countries and peoples
- Increased relevance of the international and supranational spaces as the proper negotiation and policy-making
 - The local and regional levels are also emerging as key foci of policy-making as the notions of globalization and integration dovetail with the principle of Subsidiarity
 - Multilateral procedures are seen as optimal tools in the negotiation of international agreements, but the system is flexible enough to allow for bilateral accords as second best
- Emergence of the Liberal market model as the most appropriate economic arrangement to properly exploit new global trends and comparative advantages
 - Open markets and free trade are a necessary premise to inclusion in the global economy
 - Private investment is the necessary and functionally desirable way to economic development, whether domestically or internationally

As a result of the increased application and relevance of these principles, some trends have increasingly been evident. First of all, as the policy field shifted towards the international level, the state redefined and reshaped its spheres of power (Stoppino 1982) and its scope, devolving (both upwards and downwards) some of its competencies and focusing on tasks, like security, that pertain to the classical image of the Minimal Liberal State (MLS). It has not turned, though, to the latter. Whereas the MLS was the offspring of a national vision of power and was strictly delimited by it, even if it preached free trade, the state at the end of the 20th century often allows for its power to be constrained

by international organizations. The most striking example, of course, is the European Union's ability to supersede national legislation.

This trend was partially predicated on and partially facilitated by the emergence, during the 1980s, of Neoconservative governments in the West. As industrial, economic, and financial policy tenets lost their Keynesian flows in favour of a conservative one, the state abandoned the most interventionist sides of economic policy and the relative weight of the policy actors changed too. A host of international organizations, both governmental and not, both in favour and against Neoliberal policy tenets, have emerged since, the model has taken root in a very deep manner in the political and economic spheres of most countries and is not going to simply wither and disappear. It is, though, in need of reform, it is in need, most of all, of a more democratic mode of governance. The latter can only be the result of a new approach to fundamental rights human beings, and can only be grounded on a deontological approach.

The question of how to democratize globalization passes through the notion of democratizing its institutional and organizational facets. The structures of global governance have developed in the recent past to take advantage of the options that the system has offered, sometimes creating rather solid results (Scholte 2004). At the same time, it is not possible to simply transfer the procedures and organizations of democracy that are in place within the state to the international arena, as some argue (Griffin 2003). Besides the fact that globalization has unhinged the "coordination between economic markets and political boundaries (Coleman and Porter 2000: 388), the attempts to democratize it have generally underestimated three additional challenges. These are the increased relevance of private and technical authorities, and the unequal distribution of

power among states (Coleman and Porter 2000). The true challenge is one of creating integration between the various polities from the local to the global, and of framing the process not simply in terms of bureaucratic structures, but especially in terms of shared institutional notions (Scholte 2004: 1049)

The suggestion that extensive regulation of the socio-economic sphere may generate the needed changes is unlikely to bear results comparable to the expectations. Governmental intervention has the potential to gravely squeeze both individual and group rights and freedoms. At the same time, it would be beyond naïve to think that MNCs, interest groups and other organizations will not attempt to obtain the best possible results for themselves. Within the context of socio-economic relations it is important to set rules that will prevent exploitation of those who are weaker and have less access to the policy arena. The balance is one to be struck between allowing maximum individual freedom supported by a set of social support that will make the choice of individuals both informed and free. In this context the provision of accessible education to all those who desire it, the implementation of a process of subsidiarity and devolution of decision making must be linked to the effort to strengthen the international institutional and organizational structures that can foster human development. The latter requires the creation of organizations like a World Environmental Organization that are not fostered by a mainly economic framework, and the strengthening of organizations like the WHO and ILO. The focus would also to be on the provision of substantial levels of human development as indicated by the UNDP reports and plans.

I believe that the adoption of a deontological approach is crucial in initiating a process of democratization and deep legitimization of the flows of globalization. Every

actor will need to contribute to this project, but they will need to do so according to their own nature and roles. There is no doubt that MNCs have a pivotal role in globalization because of the socio-economic impact their activities have on societies. At the same time, we should not expect corporations to put social welfare at the top of their priority list. They are designed to exploit the advantage of market exchange to generate profits. What we must require of corporations in general is transparency in their dealings. The environmental, social and economic impacts (both positive and negative) of their activity should be readily and fully available to all. It is the responsibility of the consumer, understood as an interested participant on the polity, to weight personal preferences and practical needs, moral positions and economic satisfaction and to decide to shop at Wal-Mart or at a fair trade outlet.

Some companies, like IKEA and Starbucks, have embraced environmental and labour standards protection, both because it makes good business sense, helping with their branding, and because their CEOs are committed to these activities. These are important and sensible steps in an advanced economy and, especially in the case of IKEA, show that a MNC can implement sensible policies working together with a wide cross-section of stakeholders ranging from environmental groups to national governments, to shareholders.

Much of the same transparency is required of NGOs, but their role also demands that they continue to explore and test the activity of governments, MNCs, international organizations and of other NGOs and to report back on their failures and success. They need, in a word, to work as a check on the information that these actors put forward. It is a fundamental need of the catallaxy that the market interactions on which it is reliant be

as transparent and truthful as possible. Perfect information is, generally, very difficult to achieve, but in its absence a broad choice of easily verifiable and accessible information is the best option.

International organizations function as arenas of bargaining and interconnection for the institutional framing of the flows of globalization. It is their duty to progressively open their membership and their procedures to more participants, especially to the NGOs, which have been the least involved up to now. By creating options through which concerns and points of view may be presented and heard, IOs become both more legitimate and more accountable, perhaps at the cost of some of the “purity” of their initial institutional message. This approach is grounded in the notion of a Third Way, and is perfectly reconcilable with the Hayekian vision of the catallaxy and with Polanyi’s concerns. The model of embeddedness that derives from this project, dovetails with the notion of complex methodological individualism because it places the individual’s action at the centre of the decision process.

For the state, the challenge will be to provide democratic values and organization able to support both democracy and participation. Only by providing the means of free and informed decision can the state inspire a truly democratic process. Ensuring that all citizens are able to make meaningful choices when called upon to participate in the polity is a necessary corollary of the existence of the state; just as the notion that the state is supposed to shield from unnecessary pain those who are unable to do so by themselves. In this sense, a certain amount of social protection must be provided, without allowing the state to cater to interest groups. In a liberal society those who can provide for themselves should do so; while it is a moral duty to help improve the human condition,

we should start from those who are worse off. How to do so should be left to the individual polity to choose, the practical intervention of the state should be one of fostering participation, of creating the conditions and the will for individuals to participate in the political arena. This passes not only through the provision of minimal human development standards, but by fostering a society that will entrench political participation, groups and associational life as a central tenet of liberal-democratic action. Because globalization is multifaceted and unevenly implemented it is also arguable, as Coleman and Porter (2000) do, that the best way to democratize it is by focussing on the “principles of democracy” rather than on organizational models.

The proposed process of reform is necessarily difficult to implement in that it requires the intervention of the state in fostering the importance of a critical, informed, and participating public. The idea itself is not new, the image is the one of the Greek polis and the call for a critical approach to politics is also not new. Polanyi (1933) had already noted that information is a crucial part of active and successful political citizenship, Marden’s (2003) and Bruner’s (2003) are only two of the most recent contributions to the idea that, in a time of increasingly flexible policy spheres as is the current one, individual participation and responsible political action written large is a necessary premise to democratic activity. The question remains open of how will actual bureaucratic structures (both at the state and the international levels) be able to apply these principles. The New Public Management (NPM) process that has swept much of the higher cadres of public bureaucracies in past decade has little to make it a good stepping stone for this reform. Ideally it could be possible to address the issues of participation and empowerment through the organizational structures themselves, but the NPM’s focus on

market processes and reduction of actual advocacy would certainly present some implementation difficulties.

The process I suggest is very much charged with responsibilities. Like all deontological approaches it presumes the existence of individuals who are participants in the polity, who understand that their belonging to the political community involves privileges and responsibilities alike, to be enjoyed and discharged in practical ways (voting, choosing from whom and what to purchase, and so forth) and always trying to make the most informed decision possible. It is difficult and more burdensome for the individual than simply sliding by with the “granted” rights and protections that many consider sufficient, but it does create more freedom of choice, a better quality of choice, and the ability to exercise one’s will and options to the fullest of extents. In the polity there can be no true freedom without conscious participation in its life, no opportunity without the responsibility that comes with it.

No deontological principle can ever hope to succeed if the individuals do not themselves embrace this responsibility towards their institutions, organizations and fellow persons. Human beings can never be seen (and treated) as persons deserving of respect and entitled to choice by anyone except those who commit to the responsibility and privileges of the polity. The results of such process need not be homogeneous in their detail, but all are based on the basic Categorical Imperative of the value of the person *per se*. In this way, it is perfectly viable for them to comply with other approaches in the same vein as, for example, Sen’s (1980) capabilities one. In the long run, no socio-economic system can be sustained that does not embed in its working rules a set of ethical principles that are acceptable to those who live within it. Classic Liberalism

supported its economic prescriptions with political liberalism, inspiring the notions of human rights and equality to be written large into the political systems of our times. So flexible and efficient was its framework that it could even accommodate the growth of the Keynesian Welfare State after World War II, while retaining the economic fundamentals of the market system.

With the scaling back of the welfare state after the 1970s, neoliberalism resurrected the tenets of economic liberalism but failed to support them, to the extent that would have been necessary, with true political liberalism preferring, instead, a rather conservative approach. For a while, this system gained enough supporters that its hardships could be written off but, of late, this has proven impossible, and resistance, even violent resistance, to its precepts has grown in scale and in success.

There is a serious danger, as noted above, that these protests will end up forcing out the positive gains that globalization offers along with its negative impacts.⁶² What is called for is a return to the fundamental principles of political liberalism, to the deontological vision that is central to Kantian ethics. This is a moral vision that relies on individuals' constant and practical involvement, that demands of our citizens (corporate and not) a series of informed and conscious social, economic and political choices. It requires transparency and freedom of information, and demands commitment to these principles. Freedom, whether political or economic, is a blend of responsibility and privilege that must be continuously nurtured and fostered. It is, furthermore, a responsibility directly and indirectly linked to individuals. Directly when they shop at

⁶² Sometimes economic readjustments will bring short-term "pain" to certain sectors. This is understood and it is acceptable if the polity is equipped to deal with its consequences, both social and economic. Child labour, gender exploitation, and the destruction of the environment are not cases of such structural adjustment and cannot be accepted within a Kantian (or any other I would surmise) moral framework.

certain outlets, turn a blind eye to the suffering and injustice done to others, or when they gather information about their own choices. It is their indirect responsibility when their representatives act for them in the polity. This does not solely include our governments, but encompasses the clubs and associations we belong to, the financial institution that manage our money and so forth. Only by accepting these responsibilities can we enjoy the benefits of free society. It is up to the individual to begin this change, to define the boundaries of what is acceptable and what is not in the process of globalization. It is individuals who must support and foster processes they deem positive, and challenge those that do not resonate with their vision.

Within my thesis I have attempted to highlight three themes: the multidimensional nature of globalization, the analysis of organizations, and the dialectic between individuals and organizational and institutional structures. By analyzing globalization as a multifaceted set of processes, rather than as a flat representation of exclusively economic or cultural factors, we are better able to grasp its complexity and diversity, and to do justice to them.

Through the use of an Austrian-Weberian theory of institutions and organizations, and by approaching socio-economic activity as dialectic between the Hayekian and Polanyian perspectives I can explore them as different approaches to institutional development and organization-building. Properly couched within the Weberian and Austrian traditions, which highlight the relevance of power struggles and of individual action, the institutional and organizational sides of globalization become the central focus of the analysis. In turn, the response to the question of how to "re-embed" globalization becomes a search for an inclusive, participatory and meaningful process of decision. I

argue that rather than providing a top-down model (whether pro- or anti-globalization) of socio-political response to globalization, we should facilitate informed and free choice from as large a group of people as possible and allow for that interaction to produce a final decision. This process will involve process of legitimization and of participation. The added proviso here is that such choice should be deontologically oriented to be morally acceptable.

The final issue is about how to articulate these three themes. Because of their nature, I cannot do this by using a mid range theory. The answer is that, as I noted in the introduction, institutions and individuals operate in a dialectical relation that is, at the same time, enabling and constraining. The multidimensionality of the process of globalization offers to individuals a complex field of opportunities that helps unlock a wide variety of possible end results for the process itself. The evolution of the institutional and organizational sides of globalization relies on the opportunity of choice that the process itself offers. This is encouraging as it implies that multiple possible equilibria are open for us. Complexity makes, in catalytic environments, for multiple options, and so for multiple possible solutions.

At the same time, this places the articulating of the three themes into the realm of what is often referred to as “grand theory.” I wish to offer a caveat here. Although theory at this level is useful as a way to frame inquiry, and is sometimes necessary (as in this case) to connect the parts of the theoretical approach in an organic manner, not all answers can be found at this level. This is a framing exercise; something that I felt was needed to bring a broad analytical unity to the field. The various parts of the process of globalization may be more usefully studied using a narrower approach: organizations and

culture are likely to yield interesting data when probed with mid-range theories, which allow for finer analysis. Yet, we should not lose sight of the fact that it is necessary to be able to see both the parts and the whole, especially in a closely interconnected world as the one that globalization has helped to shape.

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