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Demistifying Globalization and the State: Preliminary Comments on Re-Commodification, Institutions and Innovation

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To Javi and Celia

1. Introduction

It has become commonplace amongst some government officials, business circles, and even academics, to say that social processes are driven by market forces, and that no serious challenge can be posed to those anonymous, yet extremely powerful tendencies. Resistance becomes futile, since we are told that no alternatives exist, and bandwagoning becomes inevitable.¹ However, those economic imperatives, important as they are, do not work independently of, or isolated from, the context in which they become operative. They are embedded in broader social relations and interact with other economic and social agencies and structures. This, in turn, dynamically reshapes the features of the social processes.

Karl Polanyi has famously stated that "... labor, land, and money... must be organized in markets... (which) form part of an absolutely vital part of the economic system. But labor, land and money are obviously *not* commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them... The commodity description of labor, land and money is entirely fictitious. Nevertheless, it is with the help of this fiction that the actual markets for labor, land and money are organized; they are being actually bought and sold on the market; their demand and supply are real magnitudes; and any measures or policies that would inhibit the formation of such markets would ipso facto endanger the self regulation of the system. (Such)... principle according to which no arrangement or behaviour should be allowed to exist that might prevent the actual functioning of the market mechanism on the lines of the commodity fiction." (1944, 72-73).

Fictitious commodities undergo a process of commodification as the first leg of a double movement where the organizing principle of economic liberalism aims at the establishment

¹ The phenomena and discourses associated with the first wave of globalization are classic examples of this position. The portrait is one of a homogenising economic force for convergence which brings about irreversible changes. Hay & Marsh, 2000; Held et al, 1999. See also, Dicken, 1998; Held & McGrew, 2000; Hirst & Thompson, 1999; Ohmae, 1996 and 1990; Rodrik, 1997; Scholte, 2000; Strange, 1996; and Weiss, 1998.

of a self-regulating market, while the principle of social protection accompanies in parallel, albeit non-synchronic fashion "...aiming at the conservation of man and nature as well as productive organization... using protective legislation, restrictive associations and other instruments of interventions as its methods" (Polanyi, 1944, 132). It is as part of the double movement that labor, land and money are decommodified.

Post World War II Welfare States have roughly been associated with decommodification processes mainly within Western Europe and Anglo-Saxon economies. Likewise, efforts of social protection have been implemented all over the world. However, for most of them, incomplete, segmented and fractured practices of formal social security on one hand, and targeted social protection programs for the informal sector clearly cannot be compared with *The Three Worlds of Welfare Capitalism* Esping-Andersen portrays (1990).

Whenever a person is capable of maintaining a livelihood without reliance on the market, s/he has been decommodified (Esping-Andersen, 1990). However, there is no guarantee that such status will permanently hold. In case of reversal, that is re-entering the market, making use of her/his personal freedom to offer her/his labour power, relying on the market for making a living, such a person has either voluntarily or not, returned to the fictitious commodity status. Thus, a re-commodification process has taken place.

The allegedly retreat of the Welfare State could be associated with a fresh emphasis on a re-commodification agenda and practices where the imperfect, fractured, and flawed social protection and decommodification process in regions such as Latin America, Africa and Asia focuses on dismantling social protection nets, subordinating social needs and priorities after economic fundamentals. It is no secret that the neoliberal preference for outward market orientation carries strong social implications.

The problematic emphasis of policy-makers on re-commodification lies in the denial of its political character and on the neglect of its socially embedded features. Exclusively economic imperatives are unable to provide an integrated account of the processes of globalization and of the complementary role which States and markets play in the economic arena. Furthermore, the process of re-commodification is not limited to the three commodities originally suggested by Polanyi. It has also been suggested that knowledge and information face a similar process of re-commodification (Schiller, 1998; Jessop, 2002). Therefore, knowledge can be added to the list of fictitious commodities too.

Several quite special roles are played by the State, as there is no predetermined transformation from welfare to competition towards a residual form of State as Cerny has suggested (1990). Far from economic determinisms, being a site of strategic selectivity, a sphere of governance, and a locus of public policy and management, the evolution of the State tends to favour the ratification of former trajectories. Insofar as there is a tendency, it is not towards radical change. Rather, policy adaptation and reformism characterize social and political changes, which are in turn reflected in a concern for stability either for economic fundamentals or for political consensus. On the one hand, decommodification practices tend to be associated with patterns of increased protection from markets. Here, for instance, corporatist agencies play a leading role when the implementation of welfare policies is put into practice. On the other hand, the emphasis on re-commodification gives more room for private actors, and tends to be associated with dismantling labour's protection from the market. This latter orientation of governmental affairs is justified in terms of globalization, particularly neoclassical economic orthodoxy and the efficiency of market rules.

Nonetheless, globalization processes are highly political, because actors play a crucial role in shaping and influencing the course of events. However, this is not widely acknowledged.

For instance, according to the neoclassical economic orthodoxy, government failures not only affect optimal economic performance but also increase transaction costs. Therefore, economists trained in this school of thought advocate structural reforms and a minimal State. However, the abandonment of productive and distributive activities to the market is by no means unproblematic. Markets are not failure-free, and this is precisely the reason for government to play an active role, especially when problems of incomplete markets, inefficiencies, imperfect information and market disruptions arise. The aim of an efficient market allocation of resources requires the government to play an active role in the provision of welfare and redistributive policies. By contrast, increased market competition raises incentives and mitigates public failures (Stiglitz, 1989, 1999, and 2002; Chang, 2001). In addition to material and structural elements, such as those mentioned above, attention is paid to the ideational and agency factors implicated in the evolution of social processes. This chapter also discusses the neoclassical economic ideas and concepts and their influence upon actor's conduct. Such an antecedent of the globalization idea is prior to the discussion of the problematic emphasis on re-commodification by policy-makers. The next section focuses on the so called 'market friendly' position of the State defended by the World Bank, which is found to be structurally and economically deterministic. This is important, because the World Bank has been one of the main architects of the economic restructuring in several countries throughout the world since the early 1980s. Additionally, in exploring some of the causal mechanisms in the global process of social and political change, an analysis of the relations between the institutional framework and economic agents such as firms is presented. It follows a discussion on how the Schumpeterian notion of 'creative destruction' highlights crises and innovations as fundamental elements which help us in tracing the processes of globalization. The final part of this chapter stresses that the relational character of the exercise of power makes use of causal relations, to continuously build the ever-changing social dynamics and processes. The following section is devoted to the ideational counterpart of the material dimension.

2. Globalization (mis) perceptions: the influence of the neoclassical economic orthodoxy

It has been argued that the causal and constitutive role of ideas in the production of specific material and ideational outcomes is crucial for triggering, without determining, the behaviour and practices of actors. The interaction between ideas and material factors is multi-level and multi-factor, where the former play a casual and constitutive role in the production of material and ideational outcomes (Watson 2000, and 2001). Moreover, there is a growing recognition among scholars of International Political Economy that the elements of ideas are crucial in the social construction of the tangible and intangible contexts and realities in which agencies are situated. In addition, the role of ideas in reducing uncertainty also significantly contributes towards making institutional change possible (Blyth, 2002). For instance, Blyth presents a sequential set of hypotheses for understanding institutional change under conditions of uncertainty. He presents them in the following order: first, ideas reduce uncertainty during periods of economic crisis; second, once uncertainty is reduced, ideas make collective action and coalition building possible; third, ideas can be used as weapons in the struggle over existing institutions; fourth, after legitimising institutions, ideas function as institutional prints; and fifth, following the institutional construction, ideas make institutional stability possible (2002).

According to him, ideas and interests are not mutually exclusive analytic categories. This is important, since he regards institutional change as an endogenous process which faces a unique situation of uncertainty reducible neither to risk nor to complexity. It is under this unique situation of uncertainty associated with economic crises that agents are unable to anticipate possible outcomes and also to identify their interests in such a situation (Blyth, 2002).

However, important as Blyth's view of endogenous process is, two main problems with his account of institutional change are worth mentioning. The first regards the conditions which trigger changes in institutions. The uniqueness of uncertainty associated with economic crises, he argues, works as an external shock which sets incentives for agents to reconsider the utility of their institutions. But this sort of external incentive cannot be held as the only causal explanation for institutional change. Changes can also be small, incremental, and evolutionary, yet deliver the conditions for the endogenous process which allow for change in the institutions. By emphasizing unique situations which resemble chaos, Blyth stresses the punctuation of the process, albeit at the price of paying less attention to the equally important incremental and evolutionary character of change. The second problem with his perspective lies in his sequentially arranged hypothesis. Suffice it to say that more emphasis should be placed on causal relations than on sequential patterns. The fluid social dynamics alert us to the existence of often over-lapping tendencies and counter-tendencies which would be unaccounted for if we followed a rigid schematized account.

Economic imperatives are socially and discursively constructed by making use of external imposition of limits on what is perceived within the parameters of feasibility. This suggests that it should come as no surprise that such imperatives favour the orientation of certain preferred courses of action and outcomes over others, transforming and mediating external inputs into domestic political priorities (Hay & Rosamond, 2002).²

It is important to make clear that ideas are not the only driving force behind political and economic outcomes. Nevertheless, it is equally important to stress that their impact and leverage needs to be analyzed within contextual circumstances specific to certain points of time and space. At the beginning of the 21st century there seems to be an inert and uncritical acceptance by neoclassical economists of ideas and assumptions which have substantial material impacts and social consequences.³ Some of them are undoubtedly clear exercises of power relations in a way which not only influences governmental and private agendas, but also leads to the shaping of preferences, which in turn influence the context in which agencies are situated. For instance, the rationality of economic actors, perfect competition and symmetric information are recalled in government and private sector circles despite

² It is in this sense that the use of discourse and ideas serves to legitimate a range of policies and initiatives which might otherwise be unpalatable and would therefore have faced stronger opposition had there been different circumstances. The recourse of appealing to external constraints has been effectively used for displacing responsibility from accountable and responsible bodies to diffuse structures or unaccountable agencies, such as international priorities and global trends (Hay & Rosamond, 2002).

³ Associated with Gramsci's explanation and concept of hegemony, the acceptance of a dominant ideology might suffer a twist and turn into beliefs that are appropriated, made their own, taken for granted and rendered simple common sense. Nevertheless, it is important to be aware of this conflation and to clearly draw the conclusion that ideologies do not in and of themselves constitute a form of common sense (Van Dijk, 1998).

overwhelming evidence of the inaccuracy and inconsistency of such assumptions (Stiglitz, 1991). Nevertheless, they are sometimes justified in terms of parsimony which, in turn, implies that the theorist does not regard the assumptions as specific so much as useful. Something similar happens with the omission of social determinants and institutional differences in the abstract neoclassical economic models which have replicated the market homogeneity and policy convergence that the globalization hypothesis takes for granted (Watson, 2003a). In order to be insulated from contradictory evidence, some contemporary policies of welfare retrenchment appeal to ideological justifications, and in so doing they acquire a discursive power of their own.

Within economists' circles the General Equilibrium approach has been appropriated and faced a metamorphosis in which the analytical construct has been used as a framework with an ideological emphasis for the prescription of preferred political actions. For this mathematical neoclassical economics approach is a methodological contribution which takes perfect competition as a precondition for its reconstruction of a pure exchange economy. Despite the caveat that equilibrium is only achieved within the model and cannot be taken out of it, owing to the fact that it is only a constitutive property of the model itself, the prescribed advice has been systematically ignored beyond the academic community and has already spread in less technical and more discursive forms. Therefore, it is necessary to bear in mind that since the General Equilibrium approach is founded on inapplicable assertions, its assumptions should not be treated as realistic ones (Watson, 2003a).

The importance of ideas, and specifically of the assumptions with which economists work has been discussed by the Nobel laureate Milton Friedman in his essay on *The Methodology of Positive Economics*. There, he argues that positive science as "...a body of systematized knowledge concerning what is..." is different from normative science which focuses on the discussion of criteria of what ought to be.⁴ The former is presented as independent of any ethical position, capable of developing predictions about phenomena not yet observed by means of using a set of hypotheses, whereas normative science is said to be always dependent on a positive science (Friedman, 1953).

In this essay, Friedman considers assumptions as short-hand descriptions or presentations of a body of theory which are helpful for testing, the hypothesis by their implications, yet not directly. Although he makes it clear that assumptions offer some convenient means for specifying the conditions under which a theory is expected to be valid, this position is stretched to the limit of arguing how irrelevant it is whether assumptions are descriptively realistic or not. For him, theoretical assumptions are valid if they are used and accepted in a continuous way, and as long as the hypotheses hold for the phenomena they aim to explain (Friedman, 1953). This standpoint on a positive philosophical position needs to be examined in further detail.

The problem of mismatch between theory and practice arises whenever the assumptions of positive economics, which are theoretically presented in a closed system, are then taken out of the context in which they are operative. In the real world it often happens that descriptively unrealistic assumptions are put into practice in open systems. Needless to say, those operations do not at all match the useful approximations in a closed system which Friedman claims. Furthermore, the impact which makes carries intended and unintended consequences. The insulation of the positivist ontological position collides with the practical

⁴ Friedman's argument is based on John Neville Keynes' *The Scope and Method of Political Economy*.

prescriptions for real and concrete situations which derive from their initial philosophical and analytical standpoint. The implementation of neoclassical policy advice confronts open systems in reality, which poses a formidable challenge for them to succeed. This explains the important efforts undertaken by some economists such as Stiglitz, either relaxing unrealistic assumptions such as complete markets and perfect information, or the new group of theories which aim, amongst other things, to compensate for the inadequacy of neoclassical economics in the analysis of economic change, the lack of attention paid to institutions and the disregard of the role played by governments in coordinating economic activities (Gilpin, 2001).⁵ Moreover, the positivist ontological position defended by Friedman and some other economists has been embraced by international financial organizations whose leverage has been very strong and has had specific consequences in different countries. But before turning to those issues it is important to clarify the differences between the ontological position adopted by neoclassical economics and the critical realist ontological stance adopted here.

3. A critical view on globalization

Hay has claimed that there is a directional dependence between ontology, epistemology and methodology (2002). The former two are philosophical positions, relating the world and knowledge respectively, which cannot be reduced to empirical examples. The latter follows the former two and functions as an analytical strategy and research guide. All theoretical approaches make specific claims and assumptions, either in an implicit or an explicit way, about what is out there to know about the world. Positivism and realism have contrasting perceptions of the nature of the social and political world.⁶

Ontology, as the science or study of being, refers to the claims and assumptions that are made about the world and, more specifically for our purposes, about the nature of social reality. Epistemology is a study of theories of knowledge, which departs from the original (ontological) claims and assumptions, focusing on the ways to gain knowledge. By contrast methodology can be described as the research design, because it tells us how the research proceeds (Blaikie, 1993, 6-7).

Bearing these philosophical distinctions in mind, the ontology of positivism assumes the world to be made of ordered observable events which resemble atoms. It takes into account only observable phenomena, claiming perfect correspondence with reality. According to this position, universal propositions or constant conjunctions can be claimed in its search for the external causes of human behaviour. Positivism does not recognize the existence of unobservable structures at all, because it perceives there to be no dichotomy between appearance and reality. Therefore, it takes the world as real, and considers that there cannot be any mediation by any senses, perceptions, or socially constructed phenomena. The directional dependence of positivism's ontological stance leaves an imprint in its theory of knowledge, allowing its epistemology to affirm that empirical regularities can be given

⁵ The group of theories considered include the theory of endogenous growth, the new economic geography and the strategic trade theory (Gilpin, 2001).

⁶ Although there are other ontological positions, the nature of this research requires us to concentrate only on positivism and realism. Informed explanations of the different positions in social science can be found in Blaikie's *Approaches to Social Enquiry* (1993). Regarding the scope and methods of economics, see Lawson's *Economics and Reality* (1997).

equal status to scientific laws.⁷ By making use of induction, the observations of specific events are taken as starting points for building generalizations which end up as general propositions. These, in turn, are then claimed to provide neutral explanations of the observed phenomena (Blaikie, 1993; Lawson, 1997 and 2003). In other words, the use of direct observations to generate, test and falsify hypotheses about the interactions between the social phenomena is vital for this position, because it is a condition of statements being made about social, political and economic phenomena (Marsh et al., 1999).

In contrast, realist ontology makes distinctions between observations of experiences, events either observed or unobserved, and the processes which generate them. It takes the world as independent of observers, and assumes that as a result of the separation between reality and appearance, social relations are products of material, albeit unobservable, structures of relations. The directional dependence of the realist ontological position makes its epistemology focus merely on the tendencies of events, which makes a sharp contrast with the regularities of positivism. Starting with the observation of often different and contrasting tendencies, realism proposes models and mechanisms to explain the observed phenomena (Blaikie, 1993; Lawson, 1997 and 2003).

The realist ontology makes four primary statements about the nature of the world. Firstly, it contends that there is a clear and neat distinction between the world and all of its parts and components on the one side, and our knowledge about it on the other. In this case, the economic relations of production, distribution and exchange are independent of our knowledge about them and the rest of the world. Secondly, the observation of some structures might not be possible to achieve in a direct way, because their existence has to be inferred. For instance, power interactions are immanent in all social relations, especially at the structural levels of preference and context shaping (Sayer 1992 and 2000; Lawson, 1997 and 2003). Thirdly, the relationship among different elements can be analysed to provide insight into specific cause-effect mechanisms, albeit not necessarily law-like regularities. Objects and social relations are acknowledged to have causal powers and liabilities capable of generating events, where powers might be explained independently of them. Finally, the realist ontological directional dependence leaves a mark on its theory of knowledge, as it argues that structures neither generate nor determine outcomes. Rather, structures offer windows of opportunity and constraints which provide some room for the agencies to manoeuvre. The fact that some of the alternatives appear more feasible to realise does not necessarily mean that there is only one possible course of action, previously given or externally decided and unavoidable (Lawson, 1997 and 2003; Marsh et al., 1999; Sayer, 1992 and 2000; Cuadra-Montiel, 2007a).

Following a directional dependence from the ontology of realism, this interpretative approach features a realist epistemological stance. From the latter, it views knowledge of any kind as a social practice gained mainly through activity and interaction, which is situated in specific contexts and never develops in a vacuum. Since its fallibility and its theory-laden character of observation must be admitted, the plea to adopt a critical approach should come as no surprise. Furthermore, since the production of knowledge is a

⁷ For instance, rational choice theory makes strong assumptions about the rationality of individuals, aiming to generate testable and predictive hypotheses. Far from being a universal theory of social behaviour, excessive claims place it dangerously close to the edge of becoming a self-fulfilling prophecy. Reassessing those totalising claims might help and be a useful service to social science analysts (Hay, 2003).

social practice, the explanation and understanding of social phenomena engages the analysts in critical evaluations of society and of our understanding of our own place within society. Therefore, the formulation of informed critiques cannot be avoided (Marsh et al., 1999; Sayer, 1992 and 2000).

Realism is a philosophy of and for the social sciences which draws a distinction between transitive and intransitive dimensions of knowledge (Sayer, 2000).⁸ On the one hand, the intransitive dimension comprises objects of science, such as social phenomena or political events. On the other hand, the transitive domain pays attention to theory and discourses, which in turn could also be treated as objects of study themselves. Furthermore, acknowledging that social sciences resemble open systems where social, political and economic phenomena exhibit different degrees of complexity, it is the identification and assessment of connections, rather than of formal associations or regularities, which proves crucial. In so doing, making use of a critical method not merely describes observable, but also unobservable, phenomena, examining necessary and contingent relations, as well as warranted and unwarranted associations (Sayer, 1992; Lawson, 1997 and 2003; Cuadra-Montiel, 2007a). Therefore, the examination of relationships between structures, mechanisms and events is vital for analysing the processes of change; this adds to the importance of paying special attention to the problems of conceptualization and abstraction. For realism, the recognition that social processes are situated within specific spatio-temporal contexts should not be overlooked, as the need for geographical and historical specificity might help to overcome interpretive understandings, and move towards causal explanations, rather than formal regularities of social phenomena (Sayer, 2000; Lawson, 1997 and 2003; Cuadra-Montiel, 2007a).

Crucial ontological distinctions between positive economics on the one hand, and the realism of the hermeneutic perspective on the other, are the distinctions between structure and agency, and the material and ideational factors (Hay 2002). The theoretical perspective adopted in this study has realist epistemological and ontological positions as it pays attention to powers, relations and institutional logics (Jessop, 1990). Suffice it to say that situated agents interpret their structural situations and specific contexts regardless of where they are standing. The decisions and courses of action could affect and modify the context within which the agency is situated, making it impossible to remain unaltered. Additionally, it is argued here that, consistent with the realist ontological position, material and ideational features, observable and unobservable elements, all play a role in the dialectical relations of the social processes, although this happens to different degrees because it has various consequences and impacts within specific spatio-temporal locations.

Intangible factors such as perceptions, discourse, ideology and assumptions are elements which influence the course of actions and the decisions which agencies make when situated in specific circumstances. They are extremely difficult to quantify and measure accurately. However, this is not to say that their existence should be neglected and nor should their causal and constitutive role in social processes. Following Adam Smith's assumption that man has a propensity 'to barter, trade, and exchange one thing for another', the science of economics in its neoclassical form evolved into the study of 'self-adjusting' and 'self-regulating' mechanisms supposedly disembedded from all social relations. By so doing it is

⁸ The work of Roy Bhaskar presents and supports the Critical Realist arguments, especially *A Realist Theory of Science* (1975), and *The Possibility of Naturalism* (1979).

ignored the fact that the economic system does not run like all social phenomena, on exclusively economic motives.⁹

It is therefore misleading to follow the reductionist and deterministic neoclassical argument that agencies, either individual or collective, such as States and corporations, are unable to resist, or even to influence, the dictates of impersonal economic forces, allegedly globalization. The use of power is immanent in all social relations and is able to influence the context and the desirability of certain preferences over others. It provides agents with a transformation capacity to favour their aims and objectives, which might either be tangible or intangible.¹⁰ The way in which each capability is used is case-specific and varies in each time and space situation. Markets are embedded in larger social and political systems, where different actors and institutions interact with each other and promote their own agendas. No wonder national governments are among the most important and influential actors not only in the economic realm, but also in broader social and political systems, because markets are inherently political. Thus, as the locus of human interaction, markets are a constitutive part of a broader and more complex, dynamic and ever changing whole, where the social reality cannot and must not be reduced purely to arenas of supply and demand.

Nonetheless, the neoclassical approach to markets often presents the recurrent 'ceteris paribus' caveats, which refer to the consideration that all things being equal in the models makes them work in a static equilibrium scenario. In such scenarios there are no incentives to change any existing situations. Moreover, it places the analysis in a closed system insulated from any contact with a real world situation. Such unrealistic assumptions have considerable impact on the implementation of economic recommendations which many different countries have adopted following the prescriptions of the Bretton Woods institutions. However, before analyzing the World Bank's position on the role of the State, it is necessary to analyse contemporary economic imperatives in the next section.

4. The problematic emphasis on re-commodification

Political interests and economic activities have always been crucial for the all globalization processes. The degree of influence of power relations and the way in which the market is approached also shapes the social processes themselves. Even though economics and political science have been targeting their constituencies from different angles and perspectives, they are not incompatible at all. On the contrary, multidisciplinary approaches can provide insight and substantially enrich the analysis of global social phenomena.

⁹ Although Adam Smith had a theory of innate rationality which contained ideas about mutual sympathy, rather than personifying the characteristics of 'homo oeconomicus', it was Mill and Bentham who developed the latter concept. Thanks to Matt Watson for clarification of this point.

¹⁰ The pursuit of preferences or self-interest is characteristic of the economic rationality associated with neoclassical economics, and more generally of positivism. Since our perspective is based on a realist ontology and critical realist epistemology, it offers a different account, adopting a method of articulation in its identification of powers immanent in social relations and the causal relations of agencies. Therefore, actors are not perceived as merely rational unitary utility maximizers, but as informed agents situated in contexts. Moreover, this theoretical perspective searches for contingent necessities, presenting the analysis from abstract to concrete and from simple to complex (Jessop, 1990).

Economic activities are social activities per se as Polanyi and Schumpeter, among many other scholars, have shown.¹¹ For instance, Robert Gilpin has acknowledged that "...despite the growing importance of the market, historical experience indicates that the purpose of economic activities is ultimately determined not only by the markets and the prescriptions of technical economics, but also (either explicitly or implicitly) by the norms, values and interests of the social and political systems in which economic activities are embedded..." (2001, 12).

Therefore, neither markets, nor economic activities should be taken out of its own context. Restricting attention to a few 'fundamental' macroeconomic variables omits the social, political and historical aspects which every actor's action or transaction carries within itself.¹² Thus, it is not surprising to find a growing recognition that the goal of sustainable development cannot be achieved without changing current economic policy means and instruments (Chang, 2001).

The problematic emphasis of policy-makers on re-commodification starts from the assumption that economics in general and neoclassical orthodoxy in particular, provides the leading perspectives for the study of social and political phenomena. There are severe problems and inconsistencies with the imposition of allegedly global economic determinism and structuralist explanations. It is not being claimed that economic analysis automatically leads to determinism; rather, that economic analysis alone is no substitute for historical, political and sociological analysis, which situates the phenomena and the actors in specific contexts, crucial for informing their interactions (Lawson, 1997 and 2003). There is no such thing as a market governed exclusively by objective laws and universal principles. Not only is there no incompatibility between market activities and the role of the State, indeed the creation of the former was in itself a political act embedded in the social relation.

Neoclassical economic theory, in so far as it conduces to a false distinction between States and markets, shows clear signs of inconsistency and fallibility. Consider, for instance, one of the main arguments for orientating domestic markets to external competition. It has been argued that greater rates of growth should follow the opening of an economy, due to increases in efficiency in economic activities. However, Rodrik provides compelling evidence that openness does not guarantee economic growth, since there is no straightforward association between trade barrier levels and the long-term growth of Gross Domestic Product (GDP). No indicator of policy towards trade and capital inflows correlates significantly with per capita GDP. Average tariff levels, non-tariff coverage ratios and indexes of capital account liberalization all show a weak correlation between openness and economic growth. Most importantly, the link is contingent on the presence of complementary policies and institutions. It is the investment and macroeconomic policies that remain key in the promotion of economic growth, because the maintenance of macro-

¹¹ For economics, political science, international relations, sociology, and the social sciences in general, it has been argued, have all the common denominator of Social Theory. This is not the same as saying that there are no clear differences among all of the social sciences. Disciplinary distinctions tend to emphasize theoretical orientations, analytical focus, specific approaches and methods, while the general agenda of the social sciences clearly shows much common ground for all of the disciplines. This should not surprise any specialist, as all social sciences refer to and develop from common sources of Social Theory (cf. Cuadra, 2001; and Lemert, 2004).

¹² The emphasis on the parsimony of the theoretical models stresses their predictive capacity and level of abstraction, although it faces a trade-off between their concreteness and plausibility (Hay, 2002).

economic stability, on the one side, and the investment of an important share of GDP in the provision of welfare and adequate public services on the other, provide adequate conditions for performing economic activities (Rodrik, 1999).

More plausibly, regardless of the degree of openness of the economy, it is economic growth which works as a magnet for the attraction of trade and investment flows. The Bretton Woods institutions' prescriptions for the divestiture of public enterprises in developing countries seized the opportunity to impose detailed neoclassical economic prescriptions. Unfortunately, some of the prescriptions have gone far beyond prudential limits, either on the basis of theoretical support or empirical demonstrations (Rodrik, 1999; and Chang, 2001).

It is no secret that the orientation of economic policies represents a highly political decision. Since there is overwhelming evidence that market discipline empowers financial markets over other constituencies (Ohmae, 1990 and 1996; Strange, 1996), the degree of re-commodification of economic activities is not exempt from difficulties. It is under these circumstances that democratic governance proves increasingly difficult. Unsatisfied social conditions and demands, especially if they are not attended by externally induced disciplines and strategies, may produce unexpected and undesirable social results. Since it is domestic voters who elect their own national governments, the latter must be held accountable to the former. However, the neoclassical economic orthodoxy and discourse point to the increasing importance of foreign investors, fund managers and members of the economic oligarchy for domestic policy makers, taking the responsibility and accountability away from the immediate representatives of the electorate. An important historical lesson which should not be overlooked is that successful economic management must not be induced to converge. There must be enough room for the implementation of economic policies. The domestic focus, design, debate and degree of various issues such as the structure of institutions, the tolerated and permissible extent of inequality and the types of public goods to be provided by the government, are not only a government agenda but a civil society priority. Thus, the government is held responsible for producing outcomes which satisfy the demands and aspirations of the citizens which it represents (Rodrik, 1999).

The succession of economic and financial crises in emerging markets during recent decades has shown strong evidence for not holding the assumption that international markets get things right in all circumstances. The neoclassical economic orthodoxy has modestly made some concessions on its silence on the socially embedded character of the market. For instance, the Washington Consensus of economic reform focused mainly on the role of ten policies aiming to foster growth in the Latin American region after the early 1980s debt crisis. Suffice it to say that the label of this set of policies was intended to reflect what the members of the Washington Congress at that time, the technocrats of the international financial organizations, think tanks, economic agencies of the US government and the Federal Reserve Board regarded as a desirable set of economic policy reforms for the Latin American economies. The reforms emphasized the role of policy instruments, rather than objectives or outcomes. Additionally, there was also recognition that these actors do not always follow their own precepts. The Washington Consensus set of policy instruments featured small budget deficits, redirection of public expenditure, tax reforms, financial liberalization, competitive exchange rates, progressive reduction of trade barriers and tariffs, facilitation of foreign direct investment entry, privatization of public enterprises, deregulation, and the provision of secure property rights (Williamson, 1990).

The Washington Consensus became associated not only with the process of economic restructuring, but also with the ideological agenda of neoliberalism, precluding any concern for distributive policies. Two decades later, characterized by disappointing rates of growth in Latin America, and severe economic crises in many countries, another agenda was launched for the region. Its broadened scope incorporated equity and institutions as core issues. The post Washington Consensus took the completion of first generation reforms, and implementation of crisis-proof mechanisms as necessary conditions for embarking on institutional reforms, and also for improving income distribution and the social agenda. Furthermore, these expanded medium-term objectives were supposed to be complemented at the social and political levels as well (Kuczynski & Williamson, 2003; Birdsall & de la Torre, 2001; Cuadra-Montiel, 2007b).

The myths of 'self-regulating' and 'self-adjusting' markets proved incapable of delivering either economic efficiency or socially equitable growth. Therefore, there is growing recognition that public and private spheres are by no means opposite to each other. The pendulum of the public debate has oscillated between various emphases on markets and government interaction throughout history. Economics, especially in its neoclassical guise, has been an influential social discipline since the last century. Nowadays their economic imperatives are widely portrayed and perceived as the self-induced external mechanisms of recent decades, discursively associated with different phenomena labelled in many different ways, including neoliberalism, Washington Consensus and globalization.¹³

The common denominator of these labels is oriented towards the discourse of powerless agencies incapable not only of opposing the structural determinism of economic imperatives, but the unavailability of options to do anything else than blindly obey whatever the market dictates. It is under these circumstances that the unrealistic assumptions which Friedman (1953), associates with his 'positive' epistemological position can impact upon the open systems in the world from which they were initially isolated as a form of self-induced external enforcement mechanism. Similarly, political science has not been immune from the influence of neoclassical economics. Aiming to emulate the parsimony of this discipline, one of the most significant efforts to import the explanatory power and predictive capacity of the assumptions which distinctively made neoclassical economics important has been rational choice theory. By making use of broad generalizations and simplifications in a similar way to positivist epistemology, rational choice positions itself far away from the complexity of the phenomena which it seeks deductively to analyse.

Unsurprisingly, the assumptions of bounded rationality and utility maximizing actors, on which this theoretical perspective draws, represent one of the main examples of the real impact which ideas can have. It is important to bear in mind one caveat. No quantitative test of any of the economic fundamentals that the neoclassical economic orthodoxy prescribes is provided. On the contrary, what follows is a qualitative analysis of an idea which an international organization has promoted. According to the World Bank, the role which the

¹³ The assumptions on which neoclassical economics is based portray a homo oeconomicus who seems to have nothing in common with Aristotle's political animal. However, it is important to stress that it is precisely this lack of contact that is one of the factors which has accentuated an impasse in the dialogue between disciplines. What is needed is a decisive will to open the debate, rather than constraining them with specialists' jargon, since there is no such thing as a uniform model of economic policies and governance.

State should play in economic activities acknowledges rational choice institutionalism as one of the theoretical influences on the basis of which economic policies are prescribed. Those policies in turn, impact upon the material dimension of millions of people throughout the world. There is no intention herein to attempt a global evaluation of the economic advice of the monetary and financial organizations, on the basis of positivist assumptions. Nonetheless, it is important to highlight the notion of institutions which provide the rules of the game and in turn shape human interaction. By opening up and closing down windows of opportunity, each actor is supposed to take optimal decisions to make him or herself better-off. The structural and deterministic perspective taken by rational choice institutionalism unsurprisingly portrays agencies as powerless to make their own decisions: they can only choose from the given options. According to this perspective, the institutional framework is an important precondition for the performance of an economy, as the analysis of institutional change is pursued from the top structures down to the bottom ones. Furthermore, globalization can only be vertically induced, where organizations are able to modify the institutional framework and to alter the structural setting (North, 1990). It is therefore important to focus on the promotion of an idea by one of the most influential organizations during the post Second World War period. The World Bank has undeniably played a very important role in the dissemination, prescription and introduction of global neoclassical economic orthodoxy prescriptions and advice. They are given to member countries which borrow conditioned resources, and these in turn, either in a direct or in an indirect way, have an impact on the living standards and conditions of the people from the borrowing countries. In many cases, economic resources have been given to developing nations in Latin America, Asia, Africa and Europe. It is, then, to the World Bank's perspective of the State that the following section is devoted.

5. A structural 'market friendly' view of the state

It is not discussed here that the World Bank promotion of its particular State agenda comes before its economic recommendations. Rather, it is argued here that the influence of neoclassical economics and rational choice institutionalism has been decisive in the formulation of the perspective of such international institutions. Economists and staff trained in these schools clearly not only defend but aggressively take for granted, spread and promote the postulates and assumptions on which their economic advice and prescriptions are given. It would not surprise anybody that, based on orthodox approaches such as neoclassical economics and rational choice institutionalism, the 'market friendly' view of the State adopted in some of the World Bank's publications and reports makes explicit its preferences for outwardly oriented market criteria, economic policy convergence and harmonization of best practices.¹⁴ Whenever room is given for heterodox options, the relaxation is never loose enough to pose a real challenge to the 'economics comes first' position. However, as is stressed throughout here, markets do not necessarily set the priorities, nor do they determine some outcomes over others, since they are embedded in broader social contexts, as Schumpeter (1934), Granovetter (1996) and Polanyi (1944) have argued.

¹⁴ There are, nevertheless, some analyses which move away from the orthodoxy. Regarding rational choice institutionalism see mainly, Hall & Taylor, 1996; Hay & Wincott, 1998; and Peters, 1999.

The World Bank's recommendations and structural adjustment programmes have evolved through different phases.¹⁵ The World Bank, as one of the main economic and financial organizations of the post Second World War era, has not been untouched by the specific circumstances in which it and its members are situated.¹⁶ For example, after the oil crises of the 1970s, one of the main concerns of the World Bank for the promotion of sustainable growth in the world economy was the adjustment mechanisms for energy, trade and capital flows. Moreover, general recommendations were based on the distinction between oil importing developing countries, capital-surplus oil exporters and industrial countries. In any case, the emphasis of international policies was orientated towards the improvement of poor countries' gains from trade, assistance for developing countries' energy production and the allocation of aid to the poorest countries (World Bank, 1981). After the debt crisis of the early 1980s and two decades of lost growth and development for a big share of the developing world, the emphasis on macro-economic and micro-economic variables has been 'fine-tuned' between different generations of economic reforms, and a more explicit and intrusive position as regards the economic role of the State has been adopted.

Nowadays international organizations such as the World Bank draw up a list of recommendations and preferences about what the role of the State should and should not be, what its capabilities could allow it to do and what it could not be allowed to do. Interestingly, the recognition of the central role of the State is said to be more that of a "partner, catalyst or facilitator", rather than a major player in its own right (World Bank, 1997). The State, it is argued, has to specifically serve the market, but in a social way. The World Bank proposes a strategy in order to achieve this goal. First, the State needs to match its role to its capability, and second the State needs to have its capabilities raised through reinvigorating public institutions. According to this view, the more capable a State is, the more effective it becomes. The undertaking and promotion of effective collective actions (i.e. infrastructure, the rule of law and public health, among others) represents the State's capability. In addition, it is said to be effective when it satisfies society's demands for these goods and services (World Bank, 1997).

To achieve the first part of the strategy, namely matching the State's role to its capabilities, requires certain mechanisms for choosing what to do and how to do it. Taking into consideration the fact that the socio-political fundamentals include a range of different issues which are case specific, the strategies need to be adjusted accordingly. The fundamentals include the protection of the environment and vulnerable social groups, investment in social services and infrastructure, the maintenance of macroeconomic stability and the overall policy environment, and the establishment of a foundation of law. For the World Bank, getting the State's social and economic fundamentals right, mean providing adequate institutional foundations for markets. Such institutional emphasis is characteristic of the post Washington Consensus. These general considerations need to be evaluated and

¹⁵ See the various issues of the *World Development Report*, and Williams, 1999. Particularly useful is Yusuf's *Development Economics Through the Decades*.

¹⁶ An important aspect which needs to be taken into account is that both the role and importance of ideas are contextually specific in time and space. Important developments in economic theory have attempted to tackle some specific problems and theoretical puzzles regarding growth, development, economic cycles, inflation, trade, employment, so on and so forth. Not only are they not automatically triggered, but in some cases it takes several years, even centuries, to bring to maturity the ideas which in turn provide the bases for further theoretical and ideational evolution (Backhouse, 1994 and 2002).

tailored according to the specific circumstances of each individual State. Moreover, attention is paid to the credibility of governments and their way of ensuring the spreading and sharing of the benefits of growth for their populations; for instance, via adequate investment and the provision of education and health (World Bank, 1997).

Taking economic rationality as somehow natural, the World Bank pursues an agenda for implementing reforms at different, albeit complementary, levels. The macro-institutional reforms, such as the structural and sector-specific adjustment programmes, are complemented by other strategies. In addition to the agenda for modifying the social, political and economic role of the State, there are some other specific projects. These include the implementation of micro-level programmes, aiming to teach individuals to think in terms of economic rationality so that they can be then subjected to the discipline of the markets. In short, the construction of economic space and the making of the homo economicus programme target not only governments and institutions, but also the habits and social mores of people (Williams, 1999).

Furthermore, this first part of the strategy goes some steps further. Once they have provided institutional foundations for markets, governments are supposed to ensure that the State does not monopolize the provision of goods and services. According to the World Bank's recommendations, regulatory systems, the privatization of State enterprises and the focus on specific policies are means to avoid a situation in which the State is cast in the role of sole provider. Additionally, the World Bank acknowledges as a crucial element for a capable State the government's political commitment to economic and institutional reforms. The more committed a government is to reforming its macroeconomic policies and institutional structures, the faster and more equitable will be the economic development which it can deliver to its citizenry. The reforms of the State which aim to make it a more effective and capable entity take place not only at the macroeconomic level, where the emphasis has been on the exchange rate, industrial and trade policies, but also at the institutional level, at which they need to deal with regulation, social services, finance and infrastructure (World Bank, 1997).

The second part of the strategy which calls for reinvigorating the institutions of the State matches the institutional emphasis of the post Washington Consensus. The reinvigoration of the institutions of the State aims to stimulate better performance by raising the returns for a more efficient bureaucracy, making sure that the disincentives are always lower and less attractive than the incentives for reinvigorating the institutions of the State. The World Bank's perspective stresses openness, transparency and accountability by offering citizens a voice and partnership; the practice of effective rules and controls, preferably making laws enforceable and backed by an independent judiciary; and the promotion of a competitive environment not only for policy making, but for delivering public goods and services, and within public officials and the bureaucracy (World Bank, 1997).

The fact should be stressed that the World Bank's institutional assessment of the State does not consider it as an agency. Rather, the State is viewed as part of the economic structure, which serves and provides the foundations for markets.¹⁷ And in so doing it reproduces the

¹⁷ The phenomena associated with the processes of globalization provide non-deterministic windows of opportunity and constraints for governments to modify their practices together with effective international cooperation, versus rising transnational concerns, such as the promotion of economic stability, the protection of the environment and the aim of making international development assistance

structural and deterministic approach portrayed by neoclassical economics and rational choice institutionalism. The World Bank's market friendly formula aims to achieve faster economic development through two core elements: good policies, on the one hand, and State institutions more capable of putting them into practice, on the other. Depending on the region of the world on which we are concentrating and, specifically, on the characteristics of the specific case study, different agendas are set. For instance, the recommendations for Latin America call for the implementation of democratic practices, and decentralization of power and spending, in addition to reforms of the legal system, civil service and social policies.

In the World Bank's view, the role of the State is crucial for reaching better levels of economic and social development. In advancing this goal, it recommends that the State must never engage itself in this task as a direct provider, but simply as a 'partner, catalyst and facilitator' (World Bank, 1997, 1). The impact of all these sets of ideas is clearly having strong repercussions on the daily lives of millions of people throughout the world. The World Bank's view of the State is a structural perception which reduces the State's *raison d'être* to a set of mere strategies for effectiveness. It sees effectiveness as the crucial match and interaction between rules and institutions, where the provision of goods and services is the State's most important role. The World Bank argues that the effectiveness of a State's performance is determined by the extent to which markets are able to flourish, and thus the extent to which better living standards can be derived.

What it does not say is that the capacity for change lies in the way in which policies are implemented, and also in the courses of action selected by actors themselves, notably governments. The World Bank does not make any explicit mention that there is a broad range of feasible alternatives, although it accepts that there is no unique model for change. However, for this international organization, the nature and extent of change is reduced to a matter of incentives. According to this argument, the stronger the incentives for throwing out old policies and institutional arrangements, the more likely changes become (World Bank, 1997).

Adopting this perspective, the World Bank views change merely as a structural outcome. There is neither any recognition of the role which agencies play, nor of how vital they are for the provision of contingency in the State's tasks and effectiveness. This should not surprise anybody, since the economic concerns of macroeconomic stability and attraction of investment are perceived to be built upon, and to operate on, a stable social context within a static framework. It is argued that contingency brings uncertainty, which in the eyes of the investors is perceived as an economic disincentive. Nevertheless, the unrealistic assumption that economic transactions and activities take place in static conditions ensures that it is impossible either to reproduce them or even to find them in the real world. The fluid and non-static nature of social processes clearly needs to be taken into account.

The structural deterministic view, not only of the World Bank in particular, but of international organizations in general, promotes inaction, passive behaviour, submission and acceptance of the status quo. The huge potential which actors have for modifying the context in which they live is a cause of concern; therefore, it is deliberately excluded from conservative social, political and economic agendas. Although, in the short-term, policies

more effective, the management of regional crises and the spread and promotion of knowledge (World Bank, 1997).

may induce or select certain strategies over others, in the long-term, change with all its desired and undesired consequences will come. Unsatisfied demands and exclusionary policies can be partially attenuated. However, in circumstances in which they are not corrected, the desire for a radical transformation will build up pressures which are each time more difficult to contain. Regardless of concerns for stability and equilibrium, history teaches us that change always comes in the end.

Consistent with the argument presented herein, it is imperative to explore the links and causal relations between ideas, firms and institutional stability, as all have been instrumental in the orientation of government policies and the social impact of the efforts towards increased re-commodification. In so doing, attention is also paid to the importance of both innovation and crisis which Schumpeter terms 'creative destruction'.

6. Ideas, stability and firms: an institutional link

The role played by institutions clearly has an impact on the contexts and structures agents find themselves in. The spatial and temporal dimensions are especially important in the identification of constituent elements which play a role in the processes of globalization. For, it has been argued, geographical and historical specificity are among the most important features to be taken into account in social, political and economic theory (Sayer, 1992 and 2000; Cuadra-Montiel 2007a).¹⁸ Although the social and political contexts are undoubtedly important, some neoclassical economic analysis and recommendations based on this theoretical perspective tend to de-contextualise the economic phenomena from their specificities of time and space, as it is commonly associated with globalization. Consistent with this position, it is important to mention that, in order to bring those details back into the analysis, some efforts have been made to relax some neoclassical assumptions and present a more rigorous analysis, as are exemplified by the arguments of Stiglitz, some theories of endogenous growth, strategic trade theory and the new economic geography. None of those theories are adopted here. However, there are some common issues showed by their research agenda and the one defended herein.

What is important to stress is how actors, contexts and actions articulate by putting particular emphasis on conceptualization and abstraction. Since an hermeneutic approach is not blind to the geographic and historical contexts in which processes are situated, it acknowledges the spatio-temporal dimensions of the social phenomena, as it does with the analytical distinction between the material and the ideational, as well as that between structure and agency. The notions of institutions affect the windows of opportunity and constraint for all situated economic agents. This is a key issue as it provides a broader perspective than if the analysis had merely focused on quantitative variables. Thus, attention needs to be paid to causal elements and interactions, not merely on statistical regularities.¹⁹

¹⁸ For instance, early 20th century institutionalists argued that taking into account history and the changes which societies display over time is necessary to provide an evolutionary account of the economy. Moreover, it was also argued that the evolution of social structures is a process of natural selection of changing and cumulatively self-reinforcing institutions (Veblen, 1919).

¹⁹ Behaviourism, for instance, reduces the significance of theory to a descriptive record of material regularities. It makes use of inductive logic by applying empirical and statistical methods in its search to discover regular patterns of behaviour which would help it generate probabilistic predictions. Since

Consistent with the emphasis placed on the causal and constitutive role of ideas in globalization processes, a certain pattern of interaction between economic ideas and institutions needs to be taken into account as well. Either in the face of a crisis, or in the narration of one, we are told, institutional stability cannot be promoted without first allowing economic ideas to reduce uncertainty (Blyth, 2002). The proposition that ideas contribute towards the reduction of uncertainty during moments of crisis functions as a preliminary step in the construction of institutions, as they make political coalition and network building possible, which in turn facilitates collective action. Building on these steps and at the same time parallel to these tasks, the dismantling of existing institutions is of use because it justifies a new institutional design. Furthermore, ideas do play a role, not only in building a new set of rules, but also in paving the way for reaching or regaining institutional stability. Once the construction or adaptation and legitimation tasks for a new set of institutions are accomplished, stability is made possible to let them provide a framework conducive to the prospering of economic activities (Blyth, 2002). Thus, ideas play a causal and constitutive role in the construction of a stable institutional framework in which situated economic agents such as firms realise their productive endeavours.

Placing more emphasis on institutional change, the way in which the broad pattern of ideas and institutional change follows attempts to regain stable institutions when threatened, discursively or by crisis and instability. Nonetheless, problematizing structural notions of institutional change and focusing on the causal role of ideas is not the same thing as labelling the economic changes in the last quarter of the 20th century 'the second great transformation' as Blyth does. In my humble opinion, a qualitative historical transformation such as that of the 19th century analyzed by Polanyi in his classic work has not taken place in the contemporary period. It is important to recall that the great transformation rested on a few, but crucial, elements: the balance of power system, the international gold standard, the 'self-adjusting' market utopia and the liberal State, where the laws governing the market economy were of the utmost importance (Polanyi, 1944). Even though important economic changes have occurred since then, there is no doubt that the qualitative historical transformations of that time dwarf our times. Rather than claiming a second great transformation, the research agenda must take theoretical tools and methodological criteria to analyse the processes of globalization.

The informal and formal set of rules which actors generally follow, as defended by North, affects the room for agents to manoeuvre, conditioning the latter's interactions. Bearing this in mind, the role institutions play in producing economic and political outcomes is of crucial importance. In particular, regarding the economic sphere, the importance of firms and the ability of institutions to open up or cancel out certain courses of action have been stressed,

behaviourism treats agencies as simple aggregations of individuals and does not rely on theory to inform its observations, it suffers from narrow definitions, albeit compensated by employing rigorous statistical techniques. However, correlations among variables are sometimes confused with causes of the phenomena under scrutiny. This conflation, rare in closed systems, becomes problematic in open social, political and economic systems, where the objects and subjects of study can affect their own contexts. Therefore, the character of the open systems makes it impossible to get a clean observation, where the isolation of variables is vital. For it is one thing to quantify statistical significance between observable variables, and another either to reduce or to leave aside unquantifiable factors such as power and ideas in the analysis (Hay, 2002). What is needed is to analyse the dynamic flows of interaction of situated actors and their context, which continuously reshape the social, political and economic arenas.

among other authors, by Hall and Soskice. In their book *Varieties of Capitalism*, these authors take firms as core economic actors, and portray them as self-interested entities which strategically interact with others. According to this perspective, firms make use of their capacities in a relational way. They orientate their efforts in order to produce, develop and distribute goods and services profitably. In so doing, they also make use of strategic interactions, not only with their peers and counterparts, but also with the institutional set of formal and informal rules. The core competencies or dynamic capabilities which Hall and Soskice consider include a firm's industrial relations, vocational training and education, corporate governance, inter-firm relations and coordination problems in relation with its employees (2001).

From this point of view, structures such as institutions, condition without determining the range of available and feasible strategies for the actors (in this case, corporations). It is the institutional frameworks which provide national economies with comparative advantages in particular activities and products, from where cross-national patterns of specialization emerge, due to the availability of modes of coordination which condition firms' efficiency (Hall & Soskice, 2001). Bringing a loosely Ricardian notion of 'comparative advantage' to their framework, Hall and Soskice argue that nations prosper not by becoming similar, but by building on their institutional differences.²⁰ Because firms are able to retain the core characteristics of their long-standing strategies, the modification of practices to overcome external shocks allows firms to sustain and recreate their advantage, on the basis of common beliefs and understanding. In other words, there is room for policy diversity, which does not enforce uniformity in policies, practices or strategies. Moreover, Hall and Soskice acknowledge the path-dependent character of institutions when they mention that the institutions of any given economy are inextricably bound up with its particular history (2001).

Appealing at first glance as this 'actor-centred approach' may appear to be (Hall & Soskice, 2001, 6), it is, however, by no means unproblematic. As their analysis is heavily influenced by rational choice institutionalism, it should come as no surprise that some of the latter's deficiencies are also present in the former. The bounded rationality and utility maximizing behaviour of the actors is perceived to be affected by the institutions of the economy. In addition, it is quite evident that Hall and Soskice consider the institutional framework as a precondition for the performance of the economy, similar to rational choice institutionalism. Therefore, this sort of top-down analysis suggests that change can be induced vertically. Even though these authors acknowledge that actors interact with others, they do not make any concession as to the potential for actors to influence, promote and achieve changes.

Furthermore, Watson criticises the use made by Hall and Soskice of the conceptual abstraction of 'comparative advantage' in the face of empirical indicators which do not match the specialization of contemporary trade flows. He argues that the socio-institutional differences of their approach do not correspond to the distinctive patterns of specialization

²⁰ Taking labour and capital as immobile between two countries David Ricardo argued that trade was determined not by the most efficient producer of goods, as Adam Smith had proposed, but by 'comparative advantage' in which the relative efficiency of producers would help expand the market and stimulate growth (Backhouse, 1994). Technicalities aside, Hall and Soskice take principally the pattern of product specialization found across nations and expand the notion to allow them to insert, rather than fitting, the institutional framework into their account of institutional varieties of capitalism.

observed in the real world. His main critique points out fundamental features of the social structure of accumulation are obscured by emphasizing the existence of national models such as the ones which Hall and Soskice employ. Thus, the variety of models is poorly explained, weakening David Ricardo's notions of specialization, trade and comparative advantage (2003b).

There is an additional controversy in Hall and Soskice's work besides the strong traces of deterministic structural logic and the loose adaptation of the Ricardian notion of comparative advantage. This is the paradoxical reductionism of two broad types of market economies. The liberal model, which they associate with Anglo-Saxon countries, is juxtaposed with the coordinated model, associated with European countries and Japan. According to Hall and Soskice's analysis, the main feature of the Anglo-Saxon liberal economies is the competitive market arrangements set for firms. By contrast, in the European and Japanese coordinated economies, as well as the market mechanism, firms depend more heavily on non-market relationships to coordinate the orientation of their activities. Even though those authors hint that their typology could not fit many national cases, no efforts are undertaken to provide a more balanced and less schematized account of national systems of political economy. Clearly, there are certainly more varieties of capitalism, to use Hall and Soskice's term, than the ones which they identify. If institutions matter to the efficiency with which not only goods but also services can be produced, it follows then that we need to consider the conditions for domestic policies which aim especially at promoting endogenous growth. This makes innovation one of the crucial dimensions of economic success. A discussion of innovation in the following section is needed for a further analysis of institutions, firms and innovation to provide a different pattern of economic relations from those presented by Hall and Soskice.

7. The 'creative destruction' of crises and innovation

Innovation has been identified as one of the most important dimensions of economic success. Hall and Soskice point to one of the important elements of the distinctiveness of Anglo-Saxon economies, its tendency towards radical innovation, whereby not only production processes, but also goods, services and technology sectors are equipped with better capacities. By contrast, the coordinated market economies tend to have a more incremental model of innovation, providing continuous but small scale improvements (2001). From their analysis emerge patterns of specialization in economic activities and products which could be interpreted as responses to institutional frameworks. Therefore, the importance of innovation creates market niches and incentives for increased levels of efficiency, both of which are praised in the re-commodification dynamics which characterize contemporary economic activities. It follows firms are revealed as important units of analysis, because they are economic agents situated within an institutional framework. Thus, the analysis of economic agencies such as firms might help to provide insight into causal and endogenous mechanisms.

The academic literature on economic development takes technological issues such as innovation and transfer as crucial elements which may help national economies to develop. Besides technological developments, innovation can also be identified in social, political and economic affairs, although it is not as widely acknowledged and praised there as in its impact of technology. Limited space and analytical scope does not allow us to discuss the different

contributions in this field since the post World War II era onwards.²¹ Suffice it to say, however, that there seems to be some common ground based on two important authors. The first one is John Maynard Keynes, whose recommendations that the State should play a role in economic development, along with the caveat against market failures, gained considerable political influence in the post World War II period. Since this time, analysis of the economic role of the State, imperfect markets and asymmetric information has been expanded by Stiglitz. The other influential author whose ideas about innovation and economic development have had considerable impact is Joseph A. Schumpeter, whose publications have also influenced economics, political economy, economic sociology and political science. Innovation in economic activities was regarded by Schumpeter as a core part of the economic process. These, in turn, were never isolated from, or independent of all the social processes (1934). As open systems work, he held that social facts are never purely or exclusively economic. Like Polanyi, Schumpeter does not consider land and labour as commodities. There are, however, important differences in their accounts. In the latter's perspective, the economic exchanges between labour and land continually renew the stream of economic life, as do consumption goods as well. Money is regarded as a technical instrument which functions as an intermediate link, facilitating the circulation of commodities (Schumpeter, 1934). It is the commodification of land and labour in the first leg of the expansion of the markets, operating alongside the protection to society and nature associated with the 'double movement', which distinguishes Polanyi's contributions (1944). Situated within a broader social realm, the economic dynamics feature circular flow processes, development processes and crises, which prevent development from following an undisturbed course. The business cycle was described as having different stages. Those are i) a situation of boom which creates out of itself dynamics and which, when they end, gives way to a crisis; ii) the crisis may turn into depression which might be followed by a temporary absence of development, leading to a new equilibrium; iii) the fact that this is an underemployment equilibrium may trigger the reorganization of production which precedes another boom stage (Schumpeter, 1934). Schumpeter argued that cyclical fluctuations are as important as economic stability, because they foster the continual emergence of new economic and social forms. Overall, this has the effect of improving economic well-being (1934). In order to achieve economic development, he maintained that changes in economic life alter and displace states of equilibrium. In his perspective, changes in economic life would be more likely to appear in the supply-side of activities of industrial production and commercial life, rather than as demand-driven phenomena of consumer wants. He went on to say that changes in economic life require new combinations in materials and forces which make productive economic activities. The innovative combinations draw necessary means of production from former combinations. Innovation, therefore, becomes a core component for the introduction of new goods, new

²¹ Development economics has been associated among others, with the work of Raúl Prebisch, Gunnar Myrdal, Alexander Gerschenkron, Paul Rosenstein-Rodan, as well as analysis and reports from the United Nations Conference on Trade and Development and the Economic Commission on Latin America and the Caribbean. Albert O. Hirschman, Moses Abramovitz, Paul M. Romer, Amartya Sen and Paul R. Krugman have also made important contributions. Placing more emphasis on structural adjustment, the International Monetary Fund and World Bank programmes and recommendations have been put into practice, leaving no continent untouched.

methods of production, the opening of new markets, or carrying out the new organization of any industry (Schumpeter, 1934).

Innovations and crises combine in a process of 'creative destruction'. If crises do not permanently obstruct economic and social processes, it is in the emergence of new economic and social forms where social and economic sectors rise and fall, that innovation plays a pivotal role. For Schumpeter, the process of 'creative destruction' is regarded as an evolutionary form of economic change. As the label suggests, it incessantly revolutionizes the economic structure from within, destroying the old and creating the new. The 'creative destruction' brought by innovation and crises might translate in the economic sphere into increased levels of competitiveness as one participant finds that the latter factor command a decisive cost or quality advantage. This, in turn, strikes at the foundation of other firms (Schumpeter, 1954).

The fundamental impulse towards novelty in consumer goods and services, methods of production, forms of transportation, market shares and niches, industrial organization and management reduces the long-term scope and importance of established economic entities. To introduce new goods, services, processes and technologies, a revised and updated economic and industrial reorganization is required. This may bear little relation to the neoclassical economic orthodoxy of perfect competition. Even though new methods of production, technology or commodities do not per se confer monopolistic tendencies, those positions are often approximated. Furthermore, imperfect competition affecting market prices and economic output is situated within an institutional pattern, which in turn also creates conditions for another institutional framework (Schumpeter, 1954). Therefore, the crises and innovations which characterize the processes of 'creative destruction' decisively impact upon and make the institutional frameworks follow a similar or equivalent dynamic pattern of renovation, as they also need to adapt themselves to the ongoing changes and processes in a dialectical fashion. While crises, as mechanisms of change, provide windows of opportunity which are appropriate for a macro and meso level of analysis, innovation is better dissected at the micro and meso levels of analysis.

8. Final remarks

Since it is virtually impossible to control for all of the interactions among variables which affect global complex social and economic systems, efforts have been orientated towards revealing the contribution of causal processes of re-commodification linked phenomena. The dynamic nature and fluid interactions which characterize this orientation is undoubtedly fertile ground for contingency and indeterminate tendencies and countertendencies.

Attention was devoted to an exploration of some of the causal relations which might be found in the contemporary orientation of economic activities. Those activities are not performed in a vacuum, isolated from the world outside. They are embedded in a broader social spectrum. They are part of an inclusive social universe and, therefore, need to be analysed and dissected with these conditions and characteristics in mind. Thus, the ever-changing social dynamics do not allow us to make universal claims.

Rather than following a uniform pattern, the exercise of power makes use of a broad range and variety of causal relations which move in different directions and affect, to different degrees, actors and structures alike. The suggested causal relations were analyzed in order to highlight the interactions between structures and agencies, as well as the interactions

between material and ideational factors. Foucault stressed that power is attributed to strategic situations in all social relations (1976, 1977 and 1978). As such, its immanency in all social interactions makes use of a range of mechanisms, such as the ones suggested here, in a non law-like regular form, to continuously build perpetually moving social dynamics and processes i.e. globalization. The relational character of the exercise of power provides actors with the endogenous capacity to trigger, produce, and bring about changes which affect them, as well as the contexts in which they are situated. Moreover, the omnipresence of power interactions is not alien to economic activities as the 'invisible hand' of market forces might suggest. On the contrary, it is articulated and integrated in all and every phase of the re-commodification process. Markets are highly political, so are their transactions and activities, and especially so are the frameworks and actors which operate and interact there. If power is the core factor triggering globalization, it operates through a variety of otherwise intangible causal relations, such as the ideational and institutional, which the situated actors in context systematically transform. Power has neither an a priori essence, nor a privileged origin. The strategies through which it is relationally exercised from innumerable points never move uniformly in the same direction, or aim for the same goals. Furthermore, power relations are uneasy and unpredictable phenomena. These open-ended and indeterminate features are the ones to analyze. Exercises of power can be deciphered by tracing agencies' strategies and causal relations. Yet, the account is never conclusive. Nonetheless, no theoretical models or analytical strategies should be blamed for this, because contingency and open-endedness are the wealth, never the misery, of all social sciences.

Praising this wealth, it was emphasized the contemporary outward orientation of domestic markets to external competition. Here, rates of growth, contrary to conventional wisdom, are reported to show weak law-like regularities or correlations with the degree of openness of an economy. Markets are socially and politically embedded. They are by no means neutral or independent of the context in which actors interact. The consideration of social factors other than merely economic variables reflects the highly political character of the markets and the implementation of economic policies. The socio-political context could not be left aside, nor could stability be taken for granted, since the social character of the market provides enough room for different orientations of policies, actors' roles to be played and diversity in the implementation of strategies.

According to the analysis undertaken, the World Bank perspective on the economic and political role of the State was found deterministic and structuralist. Since, it has been contended that it is within globalization processes that agencies themselves have the capacity to internally decide which course of action to take. They are, however, situated in circumstances not necessarily of their own choosing, leaving the door ajar for contingency and indeterminacy. Emphasis is placed on the role played by agencies and on their interactions and capabilities as well. This perspective, as shown above, is not shared by the World Bank, as it emphasises a top-down view, with the perception of change as a structural outcome.

It was herein considered the interaction between firms as economic agents and institutional structures as a useful approach for the analysis of innovation. The relevance of this task lies in the fact that innovation has been identified as a core component in the economic performances and development of the State. A vital element of the expansion and strengthening of productive economic activities is novelty in the production of goods and services, channels of distribution, management and market shares and niches. As such, it highlights its association with the 'creative destruction' which, together with crises, helps to propel the onward march of economic cycles. The aim was to provide a theoretically informed and empirically grounded

analysis of the overlapping, irregular and contingent convergence of global tendencies and countertendencies in play, where agents undeniably take a decisive role.

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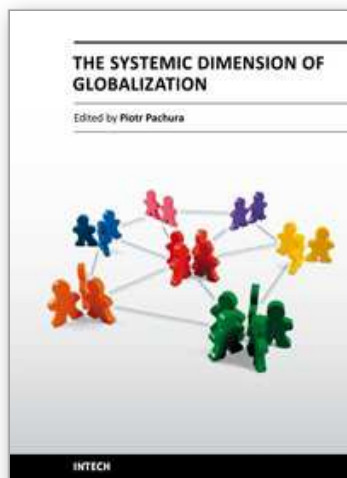
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