Constructing the International Economy

Edited by Rawi Abdelal, Mark Blyth, and Craig Parsons

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First published 2010 by Cornell University Press
First printing, Cornell Paperbacks, 2010

Printed in the United States of America

Library of Congress Cataloging-in-Publication Data

Constructing the international economy / edited by Rawi Abdelal, Mark Blyth, and Craig Parsons.
p. cm. — (Cornell studies in political economy)
Includes bibliographical references and index.
ISBN 978-0-8014-4865-2 (alk. paper) —
ISBN 978-0-8014-7588-7 (pbk. : alk. paper)
1. International economic relations—Social aspects. 2. International economic relations—Political aspects. 3. Economic policy—Social aspects. 4. Economic policy—Political aspects. 5. Social constructionism. I. Abdelal, Rawi, 1971– II. Blyth, Mark, 1967– III. Parsons, Craig, 1970– IV. Title. V. Series: Cornell studies in political economy.
HF1359.C678 2010
337—dc22 2009051496

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Cloth printing 10 9 8 7 6 5 4 3 2 1

Paperback printing 10 9 8 7 6 5 4 3 2 1

Contents

Contributors ix

Preface xi

Introduction: Constructing the International Economy 1
Rawi Abdelal, Mark Blyth, and Craig Parsons

Part I MEANING 21

1 Shrinking the State: Neoliberal Economists and Social Spending in Latin America 23
Jeffrey M. Chwieroth

2 The Meaning of Development: Constructing the World Bank's Good Governance Agenda 47
Catherine Weaver

3 Institutionalized Hypocrisy and the Politics of Agricultural Trade 68
Mlada Bukovansky

Part II COGNITION 91

4 Frames, Scripts, and the Making of Regional Trade Areas 93
Francesco Duina

5 Imagined Economies: Constructivist Political Economy, Nationalism, and Economic-based Sovereignty Movements in Russia 114
Yoshiko M. Herrera

Part III UNCERTAINTY 135

6 Firm Interests in Uncertain Times: Business Lobbying in Multilateral Service Liberalization 137
Cornelia Woll

7 Trade-offs and Trinities: Social Forces and Monetary Cooperation 155
Wesley W. Widmaier

Part IV SUBJECTIVITY 173

8 Moby Dick or Moby Doll? Discourse, or How to Study the "Social Construction of" All the Way Down 175
Charlotte Epstein

9 Bringing Power Back In: The IMF's Constructivist Strategy in Critical Perspective 194
Jacqueline Best

10 The Ethical Investor, Embodied Economies, and International Political Economy 211
Paul Langley

Re-constructing IPE: Some Conclusions Drawn from a Crisis 227
Rawi Abdelal, Mark Blyth, and Craig Parsons

References 241

Index 283

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Preface

This book has been a long time coming, and in more ways than one. When we first began this project—longer ago than we care to recall, though our patient contributors have reminded us from time to time—it seemed obvious that some taking stock of an emergent trend was past due. The trend was the growing influence of social constructivist theory on the field of international political economy. The three of us had recently published our first books, much influenced by and constitutive of constructivism, and we knew many others who were doing exciting work along the same lines.

We began the project with a simple agenda: to promote intellectual engagement among scholars of political economy. The potential gains from such trade were, and remain, promising. Yet scholars working with theories informed by social constructivism regularly ignored the rationalist and, generally, materialist mainstream of international political economy. The so-called mainstream, as a collective, did not so much dismiss the usefulness of constructivism as fail to notice it. Scholars were not talking past each other; they were not even talking.

That unhappy state of affairs already has changed significantly during the past several years. We believe that more remains to be done, and that our mutual learning will reap great rewards. To that end, we offer this book, which we hope will be seen as an invitation to join a conversation that is ever more fascinating.

We are grateful, first and foremost, to Peter Katzenstein, who has been our most important supporter and trenchant critic during the years it has taken us to complete this book. Peter's enthusiasm helped to sustain our progress, and his advice has been invaluable. When we finally, after many, many drafts, settled on the right framing for the introduction and the book as a whole, Peter's congratulations were especially welcome, since he had let us know at many previous moments that we were not quite there.

We also thank Roger Haydon, whose support of the project has been welcome and invaluable. Roger's always pitch-perfect advice about prose and publication strategy helped us tremendously.

We have each presented parts, spin-offs, and revisions of this project at countless venues. In particular, the workshop on discourse and political economy

hosted by Ove Pedersen and John Campbell at the Center for Business and Politics at the Copenhagen Business School deserves special mention.

This project was supported financially by the Radcliffe Institute for Advanced Study at Harvard University. The Radcliffe Institute helped us to host an engaging and successful authors' conference early on, and we have built on that first step. The Division of Research at Harvard Business School also generously supported some of the research for this project.

Juliana Seminerio has managed countless details and dozens of drafts over the past several years, and we are grateful for her keen attention to detail and timely interventions on our way to press.

We are in debt to those who read and commented on the introduction and our contributors' chapters at various stages in the process. For their careful readings and sound advice, we thank Regina Abrami, Phineas Baxendall, Marc Busch, Jerry Cohen, Keith Darden, Frank Dobbin, Patricia Goff, Colin Hay, Peter Hall, Rodney Bruce Hall, Yoshiko Herrera, Ralf Leiteritz, Kate McNamara, Stephen Nelson, Ben Rosamond, John Ruggie, Vivian Schmidt, and Leonard Seabrooke.

Finally, we thank our teachers for continuing to inspire us.

CONSTRUCTING THE INTERNATIONAL ECONOMY

Introduction

Constructing the International Economy

Rawi Abdelal, Mark Blyth, and Craig Parsons

We have, as a rule, only the vaguest idea of any but the most direct consequences of our acts. Now the whole object of the accumulation of wealth is to produce results, or potential results, at a comparatively distant, and sometimes an infinitely distant date. Thus the fact that our knowledge of the world is fluctuating, vague, and uncertain, renders wealth a peculiarly unsuitable topic for the methods of classical economic theory. . . . About these matters there is no scientific basis on which to form a calculable probability whatever. We simply do not know.

John Maynard Keynes, 1937

The world is, as they say, complicated. The world economy is especially so. Unpredicted events often influence markets in improbable ways. Individuals and organizations—firms, governments—surprise observers by behaving in ways that appear contrary to their presumed material interests as events defy the categories and concepts we construct to contain them. Crises recur with worrisome frequency. As the world internationalizes, these complications become more profound. Yet it would be difficult to find evidence of these complications in much of the scholarly study of international political economy (IPE). Scholars of IPE have arrived at a comfortable certainty about how the world works. Most see the environment in which firms and governments operate as predominantly material. The incentives, they argue, that actors derive from the material structure of the economy determine what firms and governments do. These scholarly constructs are generally presumed by their constructors to correspond to reality rather than to represent stylizations of the heuristics that, we assume, inform decision making within organizations (Blyth 2007a). As their materialist theories and rationalist models become more sophisticated, these scholars have hoped that the world will become more knowable. And to some extent, progress has, in fact, been made. We grow more and more satisfied with our ability to explain the world to ever more detailed degrees.

Tremendous gaps in our understanding still exist, however, because scholarship based on the connection between observer-deduced material incentives

and observer-imputed rational responses leaves a great many empirical questions unanswered. Some answers that seemed useful enough to many scholars, moreover, have over time been undermined by the wide diversity in the ways that firms and governments react to seemingly similar situations. The revealed rules of economic action seem to shift erratically across time and space. Increasingly, many scholars of international political economy have come to suspect that purely social phenomena intervene between actors and material structures. Structures do not come with instruction sheets for managers and policymakers (Blyth 2003b). Instead, people can interpret their material environments in very different ways. Indeed, so many "similar people" make so many "dissimilar choices" that our mainstream theories correspond, at best, only to time- and space-specific subsets of the world economy (Berman 2006; Vogel 1996).

In this book we advance a strong version of the following claim: the assumption of a purely materialist view of theory is not—and never was—tenable. All political economy scholarship needs at least to consider, as a plausible hypothesis, that economies might vary substantially for nonmaterial reasons. In other words, the field needs to engage more systematically with constructivism, a theoretical approach that emphasizes precisely those nonmaterial influences on both institutions and practices.

The central insight of constructivism is that collectively held ideas shape the social, economic, and political world in which we live (Wendt 1999; Hacking 1999). That is, the world in which firms and governments act is neither transparent nor, in their own interpretations, similar across all cases. What objects mean to agents, how collectively held ideas differentially filter the environment for agents, how agents creatively respond to uncertainty, and how agents are coextensive and interdependent with the world in which they both act and analyze all vary (and matter) too much for the assumptions of a simple material correspondence theory to hold. Building in diverse ways on this central insight, scholars across disciplines have increasingly embraced insights that either resemble or are informed by constructivist theory.

Beyond political science scholarship in international or comparative political economy, economic sociologists, for example, have for decades explored the influence of the social facts of the world on economic practices.[1] Increasingly, many economists believe that "cultural economics" and the influence of beliefs represent the cutting edge of research.[2] Meanwhile, psychologists, anthropologists, and (even some) political scientists continue to make progress in our understanding of how identities and beliefs influence both individual preferences and societal practices.[3] In political science, however, it is in the subfield of international relations where the revolution has cut most deeply. Today the study

1. See, for example, Swedberg 2003; Dobbin 2004a, 2004b; Smelser and Swedberg 2005; and Nee and Swedberg 2005.
2. See Di Tella and Dubra 2008; Greif 2006.
3. See, for example, Geertz 1974; and Abdelal et al. 2006.

of conflict, war, and peace is well nigh dominated by constructivist arguments, which increasingly appear as commonsensical notions in popular media.[4] Scholarly insistence on the importance of social constructions is so prevalent as to border on the cliché. Identities, norms, beliefs, and symbols seem to be everywhere.

Everywhere, that is, except in the mainstream of international political economy, which has remained resistant to this trend. As used to be the case elsewhere, the view of the world that still informs much political economy scholarship is materialist and rationalist.[5] That is, the vast majority of IPE scholars assert that we can derive sufficient explanations of action from some function of rational responses to objective and largely knowable and transparent environments (Rogowski 1987; Keohane and Milner 1996).

A recent survey by Jeffry Frieden and Lisa Martin goes so far as to argue that the field of IPE has approached a "consensus on theories, methods, analytical frameworks, and important questions," at least for "North American scholarship" and less so for "much European scholarship" (2003:119). Though their review charts the many impressive accomplishments of a flourishing field, notably absent are not only "European" ideas, but also the norms and identities that characterize economic sociology and constructivist political economy. Paradoxically, as some IPE scholars have converged to an understanding of the field that mimics the analytical language of economics, economists themselves are embracing culture and beliefs more systematically as essential elements in a useful theoretical tool kit. Thus the basic approach has become standard: "Scholars identify the socioeconomic interests at stake, how groups are organized, and how organized and general interests express themselves in the context of domestic electoral, legislative, and bureaucratic institutions. On this basis, other work focuses on the interaction of states at the international level, emphasizing especially the impact of the informational environment and the strategic setting on relations among states" (Frieden and Martin 2003:145).

According to this traditional thinking, political action varies not with different interpretations of the world, but with the resources people hold and the relative position they inhabit in arenas like markets (Frieden 1991b), security competitions (Powell 1996), and contests for domestic political power (Snyder 1991). In other words, people select certain actions as a rational response to their place in an environment implicitly characterized as an "obstacle course," in which payoffs may be opaque, but they are knowable; and it is this "correspondence theory of the world" (plus a behavioral rule or two) that drives action.

The classic versions of such thinking in international relations—Marxism, Liberalism, and Realism—share this vision of an obstacle course composed of an exogenously given distribution of resources and technology. Each of these schools offers a certain theoretical description of the obstacle course, and

4. Katzenstein 1996a, 1996b.
5. See Katzenstein, Keohane, and Krasner 1998; and Ruggie 1998.

argues that generally smart and resourceful actors figure out what the world "really" looks like and strategize accordingly. In comparative politics (and in some parts of international relations), more recent institutionalist scholarship emphasizes the man-made organizational aspects of the obstacle course (Pierson 2004; Thelen and Streeck 2005). This focus on the man-made aspects of the environment leads to a stress on mechanisms of feedback and path dependence, since it implies that actions at one point change the man-made constraints for subsequent action, but otherwise both views are equally rationalist in downplaying interpretation.[6] Both posit rational people responding to an obstacle course that any human being would perceive fairly similarly. From neo-Realists to rationalist institutionalists and back again, material or organizational features dictate the interests that explain actions. Ideas, norms, and their attendant uncertainties are conspicuous by their absence.

This is so primarily because the context for choice is characterized as essentially asocial. In security studies, that context was defined by the fact of anarchy, that is, the absence of a world government, and the standard starting point was to deduce meaningful hypotheses about state behavior from that simple, asocial fact. In much of IPE, the basic context was seen as the market, albeit an unusually austere, utterly material market. Yet the "facts" of anarchy or of the market, scholars have repeatedly shown, have taken us not very far toward a richer understanding of how the world works.

Change, however, is afoot, even within scholarship on the international political economy. An increasing number of scholars have highlighted empirical puzzles and posed research questions during the past fifteen years that they see as answerable only through attention to the influence of social constructions. These have not been marginal issues or irrelevant findings. Such scholars have argued that the relationship between the welfare state and the international economy (Blyth 2002), the trade and financial practices of developed and developing countries (Duina 2006; MacKenzie 2006), the organization of the international monetary and financial system (Best 2005; Abdelal 2006 and 2007), the character and logic of European integration (Parsons 2003; Jabko 2006), or the policies underlying Eurasian disintegration (Abdelal 2001; Herrera 2005) have all varied in major ways due to the influence of norms, identities, and social interpretations.

As highly regarded as many of these contributions are, though, their collective impact on the field as a whole has not yet been transformative. Engagement with alternate constructivist hypotheses is still not an obligation for scholars publishing in leading journals or with university presses. International political economy is still regularly practiced and taught without serious analysis of the norms and identities that could provide the foundation for a more useful, convincing account of the empirical puzzles that drive research. Scholars whose

6. Other "historical institutionalist" and "sociological institutionalist" scholars take the "institutionalist" label in partly or fully constructivist directions.

work is informed by constructivism have uncovered a wealth of evidence for novel explanations of important aspects of the world economy, but given their diverse starting points and theoretical orientations, the relationships among them remain unclear. The collective force of a constructivist research agenda can be hard to see, and not only for the mainstream IPE theorists who have paid little heed so far. Even constructivists themselves have difficulty specifying the common ground and different emphases within this growing body of work. For constructivism to become a more systematic part of central debates in all of political economy, this diversity must be organized into a more coherent set of complementary positions.

This book aims to effect that organization, but not by proposing a synthetic constructivist "theory of everything." Though one of constructivism's challenges is terminological confusion, there is also real, substantive diversity among constructivists. Scholars can agree on the importance of socially constructed interpretation but still make a variety of distinct arguments about the world. From this mix of positions we propose to lay out what constructivism in IPE looks like, in three ways. First, we outline and relate several different arguments for why scholars might see reasons for attention to social construction, inviting the widest possible array of scholars to engage with constructivism. Second, we examine points of terminological or theoretical confusion that create unnecessary barriers to engagement between constructivist and nonconstructivist work, and also among styles of constructivism. Third, we articulate several substantively different varieties of constructivism, organizing the tool kit that both constructivists and their critics can use to debate how much and when social construction matters.

Our inspiration for this book is the most important "first generation" constructivist project, Peter Katzenstein's 1996 book *The Culture of National Security*. Some departures from that model underscore, however, that the challenges for "second generation" constructivists are somewhat different. Katzenstein and his collaborators chose the terrain of long-dominant rationalist-materialist realism in security studies to elaborate the core themes of a constructivist research program. A decade later, with constructivist arguments spreading across issue areas and diversifying in theoretical logics, we survey and organize constructivist work to suggest its implications for the major subfield it has penetrated least, IPE. In so doing we mean both to broaden and to sharpen debates in IPE, and to advance constructivist theorizing more generally.

Speaking to Two Audiences without Being Janus-Faced

In this book we seek to advance the debate over the place of constructivism in IPE scholarship in two directions. In this introduction we try not to sing to the choir. That is, we try to lay out the broadest possible case for taking constructivism seriously *for skeptics of constructivism*. Prior to the logical, epistemological, and empirical force of any given constructivist claim, we need to spell out

why differently inclined scholars should accept that social construction *could* matter for what they care about explaining, and why it consequently deserves consideration as a plausible alternative in their research designs. To this end we lay out four different "paths to constructivism": rationales that start from different theoretical positions but all suggest that social construction matters. We then address the much-discussed divide between nonconstructivist "causal-explanatory" scholarship and the constructivist focus on meaning and "constitutiveness." We argue that many constructivist claims are more open to direct engagement with traditional causal-explanatory schemas than skeptics on either side may realize. One does not have to "give up on causation" or "devolve into mere description" to take constructivism seriously. Some constructivist scholarship does resist causal claims, of course, but we suggest that even across an explicit version of this epistemological divide, scholars can usefully engage much more than they do.

In sum, we aim to bring constructivism into conversation with the mainstream of rationalist-materialist theorizing in IPE. In important ways this effort at promoting engagement also seeks to reverse a growing geographical segregation in political economy. In European journals and faculties that are otherwise increasingly integrated with American social-science debates, arguments about social construction have become very influential in studies of international organizations, trade, finance, and markets. In American IPE, meanwhile, successful careers are still routinely made without any real engagement of any variant of constructivism (whatever its provenance) (Cohen 2007; Higgott and Watson 2008; Ravenhill 2008). From our point of view, this means that large numbers of smart, well-meaning scholars on both sides of the Atlantic are forgoing debates that could improve all their arguments. They should and can fruitfully debate one another.

Why American IPE Is Different, and Why This Matters

Although scholars outside the United States do not need reminding of this fact, it is worth recalling how "American" the origins of IPE are (see Cohen 2007, 2008). The origins of IPE date to a period when concern over the United States' putatively terminal economic and military decline was at its height—or depth, as it were—during the 1970s and 1980s. More comparatively oriented scholars picked up this declinist thesis too, through the analysis of how some states handled the oil and inflation shocks of the 1970s better than others, and sought to explain this variation accordingly (Katzenstein 1976b). For others scholars, though, most notably Robert Gilpin, what we were seeing, once again, was an example of hegemonic decline (Gilpin 1981). Indeed, whether the United States was seen as a "malignant" or "benign" hegemon (Russett 1985) ran secondary to the consensus that the United States was in fact *in decline,* and the main research problem was then how to understand this and, if possible, arrest it. As a consequence, the entire research program of hegemonic stability theory

(Gilpin 1981; McKeown 1983) about how international regimes might "stave off" the inevitable undersupply of international public goods that the hegemon provides (Krasner 1982), and how international institutions could be second-best solutions to decline (Keohane 1984), came to the fore and dominated the field for a decade.[7]

What is of interest here, then, is how, despite the certainty pertaining to this scholarship and its thoroughly materialist underpinnings, practically all its key claims ran aground on the unexpected politics and historical events of the late 1980s and early 1990s. The end of the Soviet Union, the unification of Germany, the renaissance of the European Union, and the reemergence of global finance as a major force in international politics combined to send the supposedly rising hegemon, Japan, into an era of stagnation now in its second decade, while the declining hegemon was suddenly, and quite unexpectedly, upgraded to "hyperpower" status. That such a large swath of the field missed what was going on by such a wide margin might have suggested that focusing only on material factors, such as relative shares of world trade, was perhaps less illuminating than one might hope. In reply to this failure, mainstream IPE picked itself up and set about looking for the materialist determinants of political action under new conditions. Many quickly settled on internationalization and globalization (Frieden 1991b; Keohane and Milner 1996).

While attentive to new shifts in the global economy that had blindsided the older school, such as the sudden importance of finance as well as trade, this next-generation school committed the same error of assuming too much stability and predictability in the world based on seeing the environment as a materialist obstacle course. For example, some of the most influential materialist analyses of how financial globalization would affect agents' interests provide clear predictions as to which sectors and which actors, with which assets, would win and lose under globalization (Frieden 1991b; Keohane and Milner 1996). Thus predictions about preferences and likely coalitions could be made. Unfortunately, although these models provide clear predictions, the reality they purport to explain has not, once again, been very compliant. As empirical work on the preferences of real financial actors shows clearly, some sectors do not organize despite their assets, and some actors have exactly the opposite or even *no preferences at all* over alternative policies (McNamara 1998; Mosley 2003; Jabko 2006; Abdelal 2006; see also Crystal 2003b). Similarly, consider materialist scholarship on the future of the welfare state which saw open capital flows leading to a race to the bottom in taxes, the death of expensive models of welfare, and a convergence on a neoliberal form of capitalism (Kurzer 1993). Instead, what we see today are the high-spending and high-taxing social democratic welfare states ranking among the most economically successful in the global economy.

7. Indeed, the two positions that dominated the field, realism and neoliberal institutionalism, differed on little more than the imputed behavioral rule governing state behavior (Baldwin 1993; Powell 1994).

The Multiple Paths to Constructivism

Our point is not to pillory any and all materialist claims about politics. We wish to encourage engagement and debate, not to insist on the obvious superiority of a different selective take on the world. We think that a focus on material factors alone, one that does not even engage constructivist alternatives, limits what IPE scholars of any persuasion can hope to achieve. The same is true in reverse.

But arguing generally for wide debate across theoretical alternatives is only a small step toward taking constructivism seriously. Mainstream IPE scholars tend to neglect constructivism not because they think their own approaches so airtight that clashes with alternatives are unimportant, but because they think constructivism in particular cannot offer legitimate or coherent alternatives. Many see constructivism as "relativistic," "lacking a research program," "being against science," and "being against explanation" (Keohane 1993). This is not simply demonization, of course: though constructivists sometimes use somewhat different terms, many describe themselves as having distinct views of science and explanation. Yet as suggested above, we think that some misunderstandings lurk beneath this divide, and that even the real differences it does comprise are not obstacles to serious engagement. A first step to make the case for such engagement is to consider why scholars from a variety of theoretical points of departure might come to suspect that social construction deserves their attention. What are the different paths to constructivism?

Most self-consciously constructivist work to date justifies itself by what we call the path of meaning. Others arrive at similar analyses, however, through quite distinct logics. We see paths to constructivism through cognitive science, environmental uncertainty, and the emphasis on subjectivity in postmodern or post-structuralist theory. All these logics provide rationales for doing empirical research that asks how much social construction matters. Each also carries some distinct implications about how social constructs tend to arise, and about the mechanisms for their effects. At this step, however, our key point is that different scholars could agree to engage constructivist analyses while perceiving different justifications for doing so.

We begin our survey with the path of meaning, since it is the classic route to this literature. Then we address the paths of cognitive science and environmental uncertainty, which we think are most likely to be persuasive to our audience of IPE skeptics. Finally, we discuss how postmodern theorists can and should play a positive role in these discussions and debates.

The Path of Meaning

Human dependence on meaning and interpretation is the foundation of most explicitly constructivist scholarship. In a line of thinking that extends from Max Weber through a variety of intermediaries in sociology to contemporary political-science constructivists such as Nicolas Onuf and Alexander Wendt, the opening for socially constructed variation in action lies not in the unpredictability or

complexity of the material world but in its inert, almost meaningless relationship to human existence and choice (Onuf 1989; Wendt 1999). While people are fairly rational and their views and actions indeed vary with their material surroundings, views and actions also vary a great deal in terms of the myths, identities, symbols, norms, and conventions that people construct to motivate and prioritize their actions. From this point of view, not even the least uncertain material environment is free of potential variation in meaning.

Thus the identity of "teacher," "president," or "central banker" is constituted through the authority relationships that make it possible to recognize an agent as a teacher, a president, or a central banker (Hall 2009). The emergence of such social constructs and the role identities they both presume and make possible therefore narrows choices in action from a potentially wider range of options that were conceivable in terms of nonconstructivist causes. Theories that neglect how actors assign meanings and how meanings vary may not just miss out on "thick description" of what actors think. If the presence of certain meanings constitutes certain actors as actors of type X rather than Y, and thereby causes certain actions to obtain over other possible (from a materialist standpoint) outcomes, then nonconstructivist theories may be systematically and demonstrably wrong.

Indeed, a strong version of meaning-oriented constructivism holds that societies and policymakers rarely, if ever, interpret the world around them in purely material terms. Rather, they endow the economies in which they are embedded with social purposes. These purposes are embedded in a variety of collective identities, including national identities.[8] Economic activity and international interdependence tend to be treated not as ends in themselves or as brute material constraints, but rather as modes of acting within the world according to different constituted identities. How societies interpret the material processes of production and distribution, or how policymakers recognize patterns of interdependence as natural or worrisome, reflects purposes shared among members of an identity group. Such purposes may be in a process of either constant contestation or broad, taken-for-granted acceptance. Such societal identities tend to be sui generis rather than categorical.

An alternate, more institutional approach to meaning in IPE finds that norms of appropriate behavior are implied by state identities of various types (Bukovansky 2002). Thus the boundaries of legitimate policymaking vary for "developed," "European," and "civilized" states. In this sense, international norms define the boundaries of choice and thereby affect how societies, policymakers, and market participants discern the meaning of various policy stances. In macroeconomic policymaking, this effect is particularly profound because of the endogeneity of policy outcomes. As Jonathan Kirshner and Ilene Grabel have pointed out, policies that are deemed illegitimate by the international financial community, composed also of market participants, simply cannot

8. See Abdelal 2001 and Abdelal et al. 2006 on the purposive content of identities.

succeed: capital outflows sparked by an out-of-bounds policy can undermine a choice that, at another historical moment, may have been a perfectly plausible response to a policy challenge (Kirshner 2003b; Grabel 2003; Abdelal 2007). Michael Barnett and Martha Finnemore (2004), for example, have examined the role of international organizations in fixing meanings, thereby constituting the legitimate boundaries of policymaking. Although such processes are rarely observed as evidence of the attempt to fix meanings, political and economic organizations such as intergovernmental agencies and firms in fact regularly contest and thereby attempt to define the boundaries of acceptable practices and legitimate policy through the socialization (and persuasion) of other actors in the system. Thus the decline and eventual fall of otherwise regular economic transactions—buying and selling persons, invading indebted countries, monetizing government debt, and Asian "crony capitalism," for example—were precipitated by the purposeful efforts of ideational entrepreneurs to brand them illegitimate (Keck and Sikkink 1998; Finnemore 2003; Hall 2003).

The Path of Cognition

Another prominent line of theorizing that leads to constructivism takes a pathway through cognition. Many experimental psychologists and cultural sociologists have long argued that human beings depend on heuristics and shortcuts to organize action and choice (Kahneman, Slovik, and Tversky 1982; Swidler 1986). Their core observation is not that agents search for significance and purpose, but that human beings filter information from the environment via heuristics and biases and consider it in highly selective ways that vary across social settings. While such dependence on heuristics might be rational in a very broad sense, since strictly rational information gathering and calculation could leave us paralyzed in overanalysis (Rabin 2000; Mercer 2005), the point is that rationality per se tells us little about which heuristics or shortcuts to employ.[9] Instead, we tend to pick up certain scripts, schemas, cognitive maps, frames, or analogies from locally available social constructions (or we hit on new ones in action).

This basic psychological view of mental processes has become increasingly mixed with a logic of meaning since the 1960s, as most cultural sociologists have replaced Weber's notion of meanings as socially constructed "values" with a more cognitive view of meanings as "taken-for-granted" social constructions (with people able to conceive of only certain legitimate meanings). Still, this literature clearly offers a distinctive logic of selective cognition to suggest that social construction matters, with particular mechanisms of both learning and filtering information coming to the fore. Social constructs shape action not so much because agents need meaning to inform action, but because they depend

9. Psychologists have documented many heuristics or biases that seem to be common to all human beings to some degree, but the directions and degrees in which these universal biases are activated is generally seen as dependent on social constructions.

cognitively on stabilizing or simplifying frames to organize information and attention in order to act at all (Benford and Snow 2000).

Following this line of reasoning, Yoshiko Herrera (2005) has identified the cognitive schema that led different communities within Russia to make sense of ostensibly material changes—price increases, for example—through frames that imply a shared causal model.[10] Economists such as Arthur Denzau and Douglass North emphasize these causal constructions as central to the institutional environment of the economy.[11] Two features of these cognitive schema are particularly important for a constructivist interpretation of economic action. First, these schema are shared across members of a group. That is, cognitive processes that filter and piece together information are connected to social identities, as opposed to merely individual psychological biases and predispositions; they are *shared* mental models (Denzau and North 1994). Second, these cognitive constructions are most powerful when they become taken for granted—when, for example, "everyone knows" that inflation results from greedy unions that push costs upward, such that Americans in the 1970s interpreted price increases as evidence of the power of the United Auto Workers (Widmaier 2005). Yet by the early years of the new century, "everyone knows" that inflation results from weak, soft central bankers (Denzau and Roy 2007).

The Path of Uncertainty

The epigraph from Keynes suggests another path to constructivism that begins with uncertainty. This path is most common among comparative political economists who have sought either to bring "ideas" back in to the study of institutional change (Schmidt 2002; Blyth 2002; Hay 2004c; Widmaier 2004) or to examine experimental modes of governance (Kristensen and Zeitlin 2005), but it too arrives at the same interest in social construction that has arisen in international relations (IR). To see what is distinctive about this path and the position it entails, it is useful to draw contrasts once again to the materialist way of viewing the world.

As noted above, nonconstructivist theories in political science typically assume a materially unambiguous world (except for informational asymmetries) populated by agents with clear interests whose realization rests on available resources, barriers to collective action, and further information restrictions. Such theories consequently posit that actors confront a world of risk plus incomplete information due to the complexity of the environment (North 1990). In principle, then, if information could be enhanced (that is, counterfactually, if cognitive shortcuts and heuristics could be done away with), then the world could be seen "as it really is." Variance in outcomes that was not a direct function of the material environment would decline almost to zero.

10. Also see Abdelal et al. 2006 on the cognitive content of identities.
11. This is what in a rationalist framework, à la Goldstein and Keohane (1993), is identified as worldviews and causal ideas.

In contrast to cognitive constructivists, other constructivists, who see the world as "uncertain" rather than "complex," view the world not as one of risk, which is in principle calculable and whose outcomes are quasi-normally distributed, but as one of genuine uncertainty, where past events are not necessarily a reliable guide to future probabilities. Frank Knight (1921) originally made a distinction between situations in which agents know their interests but are unsure how to achieve them (probabilistic uncertainty, or "risk") and the qualitatively different situation of genuine uncertainty, in which no such probabilities can be assigned since the outcome in question is perceived as unique. In Keynes's phrasing, in the latter scenario there is no basis for "forming calculable probabilities" over a certain range of possibilities. Within that range, stability, and even coherent action and interaction of any sort, depends on shared social constructions of "how the world works" rather than exogenous forces.

To make very clear why this distinction leads to constructivism, consider three types of "possible worlds" set out by Taleb and Pilpel (2004) and elaborated on by Blyth (2006, 2007a), each of which is characterized by different types of "outcome generators." A type-one world is one in which directly observable generators produce predictable risks. A six-sided die, for example, does not generate "17" as an outcome. A type-two world, by contrast, is one in which generators are only partly observable and past patterns draw a more volatile curve with fat tails. Here risk shades into uncertainty. For example, in a stock market we see outcomes in the movement of shares, but we do not see the generator of those movements: a monetarist theory of inflation or a belief in the "new economy." Such generators are not directly observable and are interdependent with the beliefs of the actors themselves. A type-three world is even more unsettling. Here highly complex, unobservable generators produce patterns that shift in unexpected directions. Such distributions may look stable and regular over certain periods until a major unexpected shift invalidates the theories developed from sampling past data. The end of the Cold War seemed to bring such a shift in IR broadly, and as the latest subprime mortgage debacle shows all too clearly, many financial crises seem to do so with an unexpected frequency in IPE. The simple fact that there are three "generations" of economic models that seek to understand three different currency crises strongly suggests that highly complex generators produce inconstant causes. That is, the causes of one currency crisis at "time-1" change institutions and expectations such that the causes of the next crisis at "time-2" cannot be experienced (or caused) the same way.

Mainstream materialist and rationalist approaches view the IPE as a type-one set of interactions: with enough rolls of the dice we should be able to work out the distribution. Constructivists who take the route of uncertainty, however, see the unpredictability of IPE outcomes over time and space as suggesting that the IPE may actually be a type-three arena. Their working hypothesis is that agents inhabit type-three worlds of great uncertainty, have a hard job living in such a random world, and thus construct stability through the development and deployment of governing ideas, institutions, norms, and conventions (Biernacki 1995; March and Olsen 1986; Blyth 2006). From doctrines of free trade to

dogmas of religion, agents create the stability that they take for granted. The implication is that much of the stability and regularity that we do see in parts of the IPE—the temporal and spatial islands where type-one models seem to work, since they are unconsciously tailored to these contexts—are "socially constructed" to their core.

The Path of Subjectivity

Most existing surveys of constructivism organize its variants around different views of how science works and knowledge accumulates—that is, epistemology—and not around different views of social construction (Hopf 1998; Adler 1997, 2002; Checkel 1998, 2005; Guzzini 2000; Wiener 2003; Jacobsen 2003). On the one hand, they see "conventional" or "modern" constructivists who endorse fairly mainstream epistemological views of positivism, scientific realism, or pragmatism.

On the other hand, many contemporary, empirically minded constructivists informed by a mainstream social scientific epistemology see "critical," or "postmodern," constructivists who adopt more relativistic epistemologies. Such postmodern scholars also tend to start from observations about meaning and interpretation in human interaction, but follow a separate path that invokes social construction on two levels. Not only do they maintain that actors' identities and interests are deeply socially constructed; many of these scholars also carry a substantive emphasis that differs from the foregoing observations about meaning, cognition, and uncertainty. Each of the preceding paths presumes preexisting *agents:* already constituted actors who endow material facts with social meaning, employ cognitive devices, or manage their pervasive uncertainty about the material underpinnings of the economy. What we might group together as "postmodern constructivists" start their investigation of meaning and interpretation by thinking of *subjects, not agents.* Such scholars see discourse and identity as the foundational elements of a social context, with the position a subject takes within a particular discursive field defining that identity. For these scholars, socialization plays a distant second fiddle to the role that is being performed by the subject (MacKenzie, Muniesa, and Siu 2007). For such theorists, what is "truly believed" by the subject is less important than what is made possible, or impossible, by the position of oneself in a particular discourse. As a consequence, such scholars' positions on what norms "do" differ from those of other constructivists in that they do not see norms simply as regulative or even constitutive features of the world. Rather, norms are seen as expressions of power *in the world* insofar as adherence to a norm excludes particular actions by defining what it is possible and impossible to say and thus do in a given context.

In contrast to what many mainstream scholars seem to assume, the main point of such scholarship is not to insist that "anything goes" or to blithely assert that "the world is a text." Rather, its purpose is to demonstrate that creating politically salient identities is an ongoing process wherein agents, rather than being socialized into a particular fixed role, are constituted as distinct subjects

by their position within a particular discourse and by performing distinct roles within that discourse. Seen in this way, such arguments do not evacuate agency. Indeed, the arguments they then make invoke interactions of agency and structure much as other constructivists do, and in that sense those scholars appear distinctive in tending toward a different periodization of related arguments. Rather than see agency begetting structure, which constitutes a certain kind of agency, they tend to focus on how structure—that is, discourse—constitutes agents who reproduce or incrementally shift structures.

Charlotte Epstein (2008), for example, shows how whaling, a set of once completely normal practices, was discursively delegitimated by nonstate actors in the 1970s to the extent that performing as a "good anti-whaling state" has made the possibility of overturning the 1982 whaling moratorium impossible, irrespective of the scientifically verifiable material reality of whale stocks. We can fish tuna to the last catch or fin sharks until they are all gone, but there could be enough minke to make a bridge from Seattle to Tokyo, and it would still be impossible to fish for them legitimately. Embracing the subject position of being an anti-whaler rules out whaling despite changes in the material environment that would make it possible to have a sustainable catch. The taken-for-grantedness of such a social construction thus informs what is even possible to consider. In a sense, the basic scholarly stance of this postmodern approach is to connect the "thinkability" of a practice to an already hegemonic conventional wisdom, which has become unassailable in terms of alternate truth claims.

A similar example comes from Marieke de Goede (2005a). Creating a "genealogy of finance" in which one examines the subject through the subject's own representation of itself, de Goede reverses Epstein's problematic and asks why many practices once frowned on become normal rather than why normal practices become frowned on. Unlike whaling, much of modern finance, such as futures markets, options, swaps, and the like, was once seen and outlawed as petty "gambling." However, with the invention of "technologies of risk"—themselves simply the mathematical extrapolation of the same gambler's problem of pricing—what was once outlawed became not only respectable but a cornerstone of the modern economy. In elaborating this genealogy, scholars emphasizing the problematic of subjectivity argue that it allows us access to a way of knowing the subject that other approaches lack. As such, this is an explanatory project; and it is thoroughly constructivist.

One could of course criticize this position from a materialist vantage and argue that what is actually going on in finance is that as models of risk management get better, they measure more of the world, and thus more of the world "becomes knowable," in a classic materialist experience-updating-experience model of functional learning. However, there are grounds from a post-structuralist perspective for doubting such a "just-so" functionalist story. Consider for example the work of Donald MacKenzie (2003a, 2003b, 2006) on performativity in financial markets. Using actor-network theory, an offshoot of post-structuralist theory, MacKenzie investigates how employing ideas that seek to measure a given phenomenon brings the phenomenon into being. As he

puts it, "financial economics . . . did more than analyze markets; it altered them. It was an 'engine' . . . an active force transforming its environment, not a camera passively recording it" (MacKenzie 2006:12).

For MacKenzie, economic analyses do not stand outside reality "analyzing it as an external thing" (MacKenzie 2006:16). Rather, he posits an *interdependence* of subject and object such that the beliefs of the former influence the behavior of the latter. MacKenzie shows how market participants' use of the Black-Scholes options pricing model, which made assumptions about markets having zero transaction costs and being efficient, helped legitimate arguments and policies designed to make markets more efficient (MacKenzie 2003a and 2003b). As he puts it, using the model "altered patterns of pricing in a way that increased the validity of the model's predictions" (MacKenzie 2003b:852). It was not that the model's "fit" got better over time as its accuracy grew. Rather, the model's usage by more and more actors made the markets themselves behave more like the model (MacKenzie 2006:263–268).

In our view, while post-structuralist and postmodern constructivists take a pathway that diverges from the others in epistemological terms, this does not constitute a reason to dismiss that work as either "out there" or irrelevant to scholars from other traditions. These scholars already engage with other approaches, criticizing materialist and rationalist scholarship or more "modern" constructivist claims. The same is possible in reverse despite epistemological differences. Nonconstructivist arguments about the objective rationality of observed behavior can engage their claims about actors' subjectivity. Other constructivists can engage them about the power of discourse and the relative freedom of agents at various points in processes of social construction. Differences over standards of argument and method will surely remain unresolved, but all theorists can profit by considering the claims made by insightful scholars in all camps. In other words, even if a scholar's research is informed by mainstream epistemology, he or she need not adopt the epistemology of postmodern scholarship in order to engage with the relative usefulness of a particular account of how, to paraphrase Weber, the world has come to be so and not otherwise.

Constructivism, Explanation, and Constitutiveness

Scholars of all types might find the preceding section persuasive but still be wary of the kind of engagement it advocates. A variety of theoretical traditions may provide reasons to suspect that social construction matters, but the arguments that one could make about social construction might still somehow be incommensurate with most nonconstructivist arguments. In other words, scholars might accept that constructivism is valid but locate it mostly in a separate realm of inquiry.

This is precisely the view that many scholars hold—especially, if not exclusively, some constructivists themselves. Some follow Weber's distinction between the material-causal explanations that interest nonconstructivists and the

"understanding" that traces the role of meaning in action. Others posit a distinction between standard causal claims and the constitutive claims of most constructivist scholarship. In either version the implication is that there are "two stories to tell" about action that are both valuable but do not directly engage each other.

We consider these two distinctions and argue that much more engagement is possible than many scholars realize. Constructivism obviously invokes a very special kind of "cause" that is distinctive in its basic nature, in the category of "social kinds" and in the constitutive ways in which it often relates to action. Yet neither the Weberian nor the causal/constitutive divides prevents constructivism from generating implications that engage directly with nonconstructivist approaches.

Explanation versus Understanding

Weber's treatment of meaning and "understanding" created the best-known divide between constructivism and social-scientific explanation. He posited a difference between an argument's "adequacy on a causal level"—its explanatory force—and the kind of understanding, or "adequacy on the level of meaning," to which ideational scholarship aspires (Weber 1978:11–12). He suggested we could capture causality in action (being confident that under certain conditions, certain people would do certain things) without understanding the significance of what people were doing as they saw it. Though Weber himself went on to emphasize the interdependence of these two strands in valid explanation, later scholars strengthened his distinction to put ideational work in its own interpretive or hermeneutic category, setting it off from the causal dynamics that non-ideational explanations of action ostensibly share with the natural sciences (Taylor 1985; Hollis and Smith 1990). As Martin Hollis and Steve Smith argue, "there are *always* and *inevitably* two stories to be told, one concentrating on 'Understanding,' the other focusing on 'Explaining.'" These stories are "irreconcilable" (Hollis and Smith 1990:210, 215; original emphasis).

The problem with this distinction is that it rests on a definition of explanation that many scholars—constructivist or not—no longer accept. Weber created the "understanding" category by defining explanation as a purely correlational exercise. Following Hume, he included only arguments that infer causal laws from cross-case patterns without elaborating the causal mechanisms of action. While some nonconstructivist scholars retain a Humean definition of explanation (King, Keohane, and Verba 1994), diverse nonconstructivist theorists have increasingly argued for definitions of explanation that require at least some attention to "within case" causal mechanisms (Elster 1998; Little 1991; Hedström and Swedberg 1998; Brady and Collier 2004; Brady and Seawright 2004; Bunge 2004; Wight 2006). If we accept this view of explanation, then objectively rationalist arguments make claims over the same pathways as constructivist ones. As rationalist theorist John Ferejohn remarks, any explanatory claim that invokes objective rationality "obviously has an embedded interpretive

perspective" (2002:227). With the rare exception of the most instinctual psychological mechanisms—those in which some of our behavior is genetically programmed—no social-science argument claims to offer a causal mechanism in human action that bypasses perceptions and decision making. To the extent that nonconstructivist theory sketches or at least implies causal mechanisms (and it usually does), it does not actually claim that people react mechanically to their surroundings like billiard balls, earthquakes, or chemical reactions. Instead, it explicitly or implicitly uses the device of intersubjective rationality (or "objective rationality," in more positivistic language) to model how people interpret an objectively present landscape around them and think about the best course of action. Even the most deterministic such theory does not actually suggest that people react to external conditions, rising international trade, or threats of war in the same way that an apple is compelled by gravity. Such scholarship simply employs a universal, regular, and relatively simple model of interpretation as the mechanism behind people's reactions to external conditions.

Moreover, most rationalist theorists recognize that strict demonstration of rationality is impossible in complex real-world situations, and suggest pragmatically that we settle for some process-tracing evidence of roughly rational-looking decision making (Elster 1986:12–16; Fiorina 1995; Levi 1997). This puts them squarely in the same basic category as constructivism. They share a cognitively routed kind of explanation that makes claims about how people interpret their situation. This is not to deny that constructivist claims add an additional level of complexity in suggesting that actors' interpretations can vary widely for reasons that do not trace to salient, intersubjectively real features of the environment. But it does mean that we can set aside Weber's reasons for isolating constructivism in a special realm (see also Wight 2006:273; Kurki 2006:198).

Causality versus Constitutiveness

Another logic posits a parallel divide between explanatory and constitutive scholarship. As Alexander Wendt develops most forcefully, most constructivist scholarship asks "how" or "what" questions in a constitutive mode, creating a division of labor with the "why" questions posed by explanatory work (Wendt 1998, 1999). "So even though I have framed the issue differently than Hollis and Smith," Wendt writes, "I agree with them that there are always 'two stories to tell' in social inquiry" (1999:85). Culture, norms, ideas, identities, and other social constructs define certain aspects of reality and imbue them with meaning in inseparably constitutive ways. Standard explanatory scholarship plays out the more mechanistic causal workings within that context. Since he prefers not to surrender the powerful term "explanation" to nonconstructivists and relegate constructivist arguments to "mere description," Wendt argues for the notion of separate theoretical contributions in a vein of "constitutive explanation." Constitutive explanations point to constitutive social constructs that are so important for the presence or form of key elements of certain actions that the actions make little sense without them.

Wendt (1999) notes that constitutive explanations are by no means limited to the social sciences, and he discusses the example of the double-helix theory of DNA. Watson and Crick's contribution did not take classic causal-explanatory form. Rather than spell out how DNA came into being or what effects it had on something else, it spelled out DNA's defining properties in a static sense. Their theoretical contribution thus stood separately from causal-explanatory claims one could make about DNA, as a static "property theory" rather than a causal "transition theory," but it was so foundational to such claims that it is generally treated by scientists as "explanatory" (Cummins 1983; Rappaport 1995). For Wendt, this is the kind of distinct theoretical contribution to which most constructivism aspires in the social realm.

Though we agree with Wendt that "property theories" can make distinct theoretical contributions in principle, we think most constructivist contributions do not take this form. The typical questions and debates around constructivism in human action are quite different from those of the DNA example. Consider the example of norms of sovereignty that is so common in constructivist IR literature. Sovereignty norms are not directly observable, as DNA was with Watson and Crick's technology. Unlike the case of DNA, however, no one argues that the intellectual challenge of sovereignty is to imagine what the defining properties of sovereignty rules could possibly be. Instead, the debate is about how much actors respect these fairly simple rules, and especially how much these rules should be seen as socially constructed (Krasner 1999). In other words, the debates are "transitional" ones about the observable effects of rules and the process by which the rules were established, not "property" debates about the static shape of the rules. There is hardly any debate at all over different conceptions of the rules of sovereignty.

There might be more debate about the nature of other norms, identities, and ideas, though on our reading most constructivists have not rested their claims to theoretical contribution on the notion that they have discovered previously unnoticed or misread rules of social action. Instead, their most common argument is that the rules that others accept as natural—determined by rational reactions to an objectively present material landscape—are in fact socially constructed. To say that something is "socially constructed" is, as the language states very directly, both a "property" claim about its static nature and a "transition" claim about the mechanism that produced it. It was produced by social construction, rather than being selected as the obvious, most functional thing to do by objectively rational actors confronted by clear environmental challenges.

To put the same point differently, "property" claims about constitutive norms, identities, or ideas inherently imply "transition" causal-explanatory claims because there are always nonconstructivist alternative explanations for any imaginable "property" of norms, identities, or ideas, and these alternative claims imply that the norms, identities, or ideas are not actually constitutive in the constructivist sense. Nonconstructivist arguments do not typically argue that there are no norms or ideas in human action (which is surely an absurd position for academics to take!), but argue that the norms or ideas that we might seem to

observe are just congealed rational responses to an objectively present material or organizational obstacle course. Thus the debate about the constitutive nature of norms, ideas, or identities is a debate not about static properties but about why people ended up with particular norms, ideas, or identities. Constructivism, as its name suggests, is mainly about a dynamic process of social construction that engages directly with other dynamic claims about how the world came together.

It is very important to stress that this observation does not dispute in any way the insightfulness or basic distinctiveness of arguments about the constitutive power of norms, identities, or ideas. Constitutive social constructs have a different relationship to action from the causes featured in typical nonconstructivist arguments. As Searle (1995) and others elaborate well, they are social kinds with what is often described as "deontic" power, conferring rights and authority and legitimacy in ways that the nonsocially constructed conditions around an action do not. They also tend not to shift shortly before specific actions, as in the classic model of proximate "instigating causes." In most constructivist claims the norms, identities, or ideas arise at some time well before the actions in question, constituting a certain kind of arena or actor or strategy. This is not a serious problem for engagement with other arguments, however, because similar "standing conditions" form part of the "causes" invoked in almost any argument (Little 1991:26). Certain resource endowments, levels of technology, and the like are common standing-condition causes in nonconstructivist political economy. Constructivist arguments trace any given action to a distinct kind of mechanism (social construction) and a distinct kind of cause (deontic norms, identities, or ideas), but otherwise address the same questions that others ask about *why* people do what they do. Rather than see "two stories to tell" between constructivist and nonconstructivist scholarship, then, we tend to see both competing and, in some cases, complementary stories. Constructivist and nonconstructivist arguments are distinct but not incommensurate. In any sort of scholarly realm, those are precisely the qualities that call for engagement of debate.

PART I

MEANING

Our first group of empirical chapters takes the most traditional, meaning-focused path to constructivism. Each chapter begins by arguing that nonconstructivist scholarship wrongly portrays particular economic actions, policies, or rules as the product of fairly obvious rational responses to clear environments. Instead, these authors try to show that the actions, policies, or rules in question follow only as actors attach new, non-obvious meanings to their economic contexts. Each chapter also then takes meaning-focused constructivism in new directions.

Jeffrey Chwieroth makes a classic constructivist argument about cuts in state spending in Latin America, but draws our attention to methods that most constructivists (especially in political science) will see as atypical. Nonconstructivist work attributes the dramatic spending cuts mainly to direct pressures of sharper market competition or to lobbying by business groups. Chwieroth shows, however, that the size of cuts across Latin American countries maps strongly onto the presence of key economic policy makers who were trained in the "greater Chicago consensus" programs at Chicago, Stanford, and Columbia universities. He traces the arrival and influence of neoliberal policy makers in Chilean and Peruvian case studies, but his main demonstration takes the form of a quantitative cross-sectional time-series analysis of Latin American policy advisers' economic training (the degree to which they are a coherent neoliberal group or not), economic conditions, and consequent policy influence. While similar methods are the norm in economic sociology, they are rare so far in other constructivist work.

Catherine Weaver's and Mlada Bukovansky's chapters display a more substantive novelty vis-à-vis existing constructivist scholarship. Much constructivist work focuses on background constitutive norms and ideas that are (or become) broadly taken for granted, but these chapters deal very directly with ongoing contestation between various ideas and norms. Like Chwieroth, Weaver traces the training and ideas of economists and other officials to see how their ideas affect their policies. Her context is the World Bank, where she investigates the shift from the neoliberal "Washington Consensus" framework to the broader "good governance" agenda in the 1990s. Weaver's story is not one of a smooth uptake of new meanings, however. Internal calls for more attention to social

and political conditions produced the "governance" agenda, but its proponents had to adapt to the Bank's largely neoliberal and ostensibly apolitical institutional norms. The resulting Bank policies indeed gave more attention to non-economic conditions—giving advice on legal and judicial reforms, civil societies, pluralism, and some human rights—but in an oddly truncated, technocratic way that continued to exclude discussions about democratization and other political goals. Debate over the place of "governance" in the Bank's economic mission continues today.

Bukovansky focuses still more directly on contested norms by examining hypocrisy in the WTO regime. It has become common for poorer countries to accuse the developed world of hypocrisy for the semi-exclusion of agriculture from the WTO's free-trade agenda. In contrast to simpler realist-style views of hypocrisy as the prerogative of the powerful, or liberal views of hypocrisy as anomalous holes in functional regimes, she argues that the international agricultural regime embodies contradictory normative frameworks. One is based on liberalization and views agricultural products as a commodity; the other is based on a norm of "embeddedness" and recognizes their "multifunctional" (cultural) character. Individuals and states draw on both with some opportunism and some sincerity. The United States waxes lyrical about the family farms that hardly exist, and the European Union ostracizes bio-engineered crops, not as protections per se (though they are that), but as equally valid aspects of a semicoherent normative order of "embedded liberalism." Seeing hypocrisy as the entangled strands of a complex normative order, Bukovansky argues, helps us to see how agents accept it as an ongoing legitimacy contest rather than a simple strategy or a failure of the rules.

1

Shrinking the State

Neoliberal Economists and Social Spending in Latin America

Jeffrey M. Chwieroth

The reduction of the size of the welfare state is one of the defining elements of the wave of policy reform that swept Latin America in the 1980s and 1990s (Huber 1996; Inter-American Development Bank 1991; Mesa-Lago 1994:12). This trend toward state shrinking begs the question, what accounts for this dramatic change in the size of the welfare state in these countries? Moreover, what explains variation in a government's commitment to social spending?

In the literature on the welfare state in developing countries, two general explanations have emerged. One explanation attributes welfare state retrenchment in Latin America to constraints imposed by markets (Stallings 1992:41–48).[1] In this view, the poor economic conditions that Latin American governments faced in the 1980s left policymakers with little choice but to reduce social spending. Another explanation, rooted in pluralist models of decision making, contends that domestic interests and democratic institutions helped to shape social spending policy (Haggard and Kaufman 2008; Kaufman and Segura-Ubiergo 2001; Rudra 2002; Rudra and Haggard 2005).

Despite the important contributions they make, these arguments are not entirely persuasive. The market-constraints explanation fails to recognize that material trends are socially mediated and that actors must rely on ideas to provide such trends with meaning. Even a material downturn affecting a number of countries more or less identically, like that which occurred in Latin America during the 1980s, can still be imbued with different meanings. The pluralist logic underpinning domestic-level explanations also limits our understanding of policy choices in Latin America. Evidence from a number of studies suggests that policymakers are not always responsive to interest group pressures (Haggard and Kaufman 1989, 1992a; Nelson 1988; Bates and Krueger 1993:455; Stallings and Brock 1993:99;

1. The logic of this view is also consistent with what Garrett (2001) labels the "efficiency view" of globalization.

Grindle and Thoumi 1993:141; Frieden 1991a:157, 158). Moreover, these studies also find that interest groups are often uncertain as to where their interests lie, leaving significant scope for policymakers to develop their preferences free of interest group pressures (Haggard and Webb 1993; Bates and Krueger 1993:456; Hall 1997:197). Existing explanations thus overlook the importance of meaning and uncertainty—two critical factors that point to the need to examine processes of social construction (Abdelal, Blyth, and Parsons, this volume).

A key task for those investigating processes of social construction is to locate the possible sources of policymaker preferences and scope conditions under which these preferences are likely to be implemented into policy. To uncover one vital source of the content of social spending preferences of Latin American policymakers, I develop a meaning-oriented account, though one that also emphasizes the importance of uncertainty. Extending my earlier arguments (2007a, 2007b) about capital account policy, I argue that welfare state retrenchment in Latin America was driven in part by the influence of economists advocating neoliberal ideas prescribing reductions in social spending.

These neoliberal ideas argued for welfare state retrenchment in both an indirect and direct sense. In an indirect sense, neoliberal ideas diagnosed excessive government intervention as a leading cause of the economic difficulties Latin America faced, legitimating welfare state retrenchment as an appropriate means of adjustment. Welfare state retrenchment was thus in part an indirect by-product of budgetary policy prescriptions aimed at reducing overall government spending. Neoliberal ideas also prioritized welfare state retrenchment in a direct sense. Here neoliberal advocates recommended state shrinking as a means to remove distortions and inefficiencies introduced by large welfare states in the context of trade and capital market integration.

The constructivist literature on "epistemic communities" (Adler and Haas 1992; Haas 1992a) and the organizational sociology literature on "normative isomorphism" (Dimaggio and Powell 1983) give us some insight into the role that influential carriers of ideas may play in shaping policy decisions. These literatures suggest that the ideas shared by neoliberal economists can influence policy by fixing particular meanings to material trends—such as rising trade and capital market integration—that legitimate welfare state retrenchment. When these economists successfully insert such meanings into the policymaking process, via negotiation and persuasion, social spending is likely to be reduced.

But constructivists and organizational sociologists pay little attention to the scope conditions under which shared ideas are likely to be inserted into the policymaking process and thus affect policy outcomes. Extending my earlier arguments about capital account policy, I build on the constructivist and organizational sociology literatures, arguing that the formation of a coherent policymaking team is one important factor that shapes the impact of shared ideas on policy. By producing nearly consistent advice from like-minded policymakers and by enhancing the autonomy of these policymakers from interest group pressures, coherence increases the likelihood that neoliberal economists can implement their shared ideas into policy. When these economists form a coherent policymaking team, state shrinking is more likely to occur.

The influence of these neoliberal economists on social spending policy can thus be usefully conceptualized as involving a two-stage process in which (1) a consensus develops among these economists as to what policies are possible, desirable, legitimate, and appropriate in a given context, and (2) the acquisition and exercise of bureaucratic power by these economists engenders policy changes consistent with their shared ideas. The first stage is driven by processes emphasized by constructivists and sociologists, and the second stage is shaped by conditions highlighted by historical institutionalists and models of bureaucratic politics.

In addition to the theoretical and empirical contributions this chapter seeks to make, it also advances constructivist research methodology, what one source labels an important "missing link" (Adler 2002:109). Most constructivists devote little if any attention to assessing the importance of shared ideas relative to factors suggested by alternative theories. Constructivists thus often point to the influence of advocates of various ideas but usually do so without a proper assessment of their relative effect on policy. If constructivists are to argue that scholars from different theoretical and ontological points of departure should engage more actively with constructivism, then constructivists also must be more attentive to the factors and explanations suggested by these scholars.

This chapter seeks to address these issues in a systematic and rigorous manner. Utilizing a new data set that codes the professional training characteristics of Latin American policymakers, I employ quantitative analysis of fourteen Latin American economies from 1972 to 1997 to assess the relative impact of neoliberal economists on social spending policy. I also use qualitative methods to provide case illustrations that supplement the quantitative results. I find that neoliberal meanings fixed to the economic difficulties Latin America faced—in particular, rising public sector debt burdens—helped to shape the trend toward state shrinking. Significantly, I also find that without the presence of such meanings a rising public sector debt burden did not result in significant state shrinking. Overall, these results underscore the importance of being attentive to the manner in which shared ideas give meaning to particular material trends and policy options (see also Bukovansky this volume; Weaver this volume).

The rest of this chapter proceeds as follows. I begin by surveying the existing literature and identifying some inadequacies in these accounts. The second section then develops a meaning-oriented explanation, though one that also takes into account the importance of uncertainty. I then sketch how this theory can be tested empirically by discussing sample, data, and methodology. The next section examines the results of the quantitative analysis and explores social spending decisions in some Latin American countries to illustrate the results. Finally, I conclude by discussing the implications of these results.

Existing Explanations of Social Spending in Latin America

As we have seen, two broad explanations have emerged to account for social spending decisions in Latin America. One prominent explanation, emphasizing

market forces, holds that welfare state retrenchment in Latin America resulted mainly from inexorable market constraints accompanying the 1980s debt crisis (Stallings 1992:41–48). In this view, the evaporation of lending from foreign banks, the rise of interest payments, and the deteriorating terms of trade undermined the ability of Latin American governments to continue with their debt-financed policies. Governments thus had little choice but to pursue neoliberal social welfare models so as to meet their debt service commitments.

This line of argument usefully elucidates some crucial reasons why Latin American governments might have embraced neoliberal social welfare models. However, it overemphasizes the constraining force of markets and overlooks the critical importance of how material trends can by imbued with different meanings by various policymakers. Whereas some governments pursued neoliberal models in the face of the economic constraints of the 1980s, others developed more social democratic models, which suggests that the full range of policy possibilities is broader than the market-constraints argument envisions (Huber 1996). These empirical anomalies arise from the implicit assumption of this argument that deteriorating material trends provide a self-evident and necessitarian meaning to policymakers.

Constructivists, however, maintain that material trends are indeterminate in specifying a government's policy preferences. Policymakers must fix meanings to material trends and rely on these meanings—which are often subject to debate—to arrive at the "appropriate" course of action. Policy choices can thus be viewed as a function of the way policymakers understand material conditions and what type of policy response these understandings legitimate. The process of fixing meanings also features prominently in studies of the comparative political economy of policy reform. As Stephan Haggard and Robert Kaufman (1992a:22–23; emphasis added) observe:

> The effort to explain policy preferences by reference to economic conditions...yields some insights, but...[such] explanations must often rely in the last instance on the way ideology shapes elites cognitions and values.... *There can be no question that a growing perception of the limits of state intervention has conditioned the way elites interpreted the economic crises of the 1980s and the kinds of policy options necessary to remedy them.*[2]

Indeed, not all policymakers responded to comparable economics conditions in a similar fashion. While there was general acceptance among Latin American policymakers that some new policy measures were needed, as Evelyne Huber notes (1996:161, 164), the specific social welfare model chosen "reflected the different governments' visions of an appropriate model of the relationship between state and market." How governments come to define this appropriate model thus constitutes an important empirical question that cannot be answered solely with reference to material trends.

2. See also Nelson 1990a:325–326 and Haggard and Webb 1993.

Another prominent explanation of welfare retrenchment in Latin America—underpinned by a pluralist logic—focuses on how the strength and organization of domestic interests and the nature of domestic institutions shape policy decisions.[3] For proponents of this view, interest group pressures drive changes in social spending (Haggard and Kaufman 2008; Kaufman and Segura-Ubiergo 2001; Rudra 2002; Rudra and Haggard 2005). These arguments, however, are not fully convincing. In particular, they tend to overemphasize the role of societal actors and underemphasize the degree of uncertainty these actors may have about their own interests.

Societal actors often play a less central role in the policymaking process than this view depicts (Haggard and Kaufman 1989, 1992a; Nelson 1988; Bates and Krueger 1993:455; Stallings and Brock 1993:99; Grindle and Thoumi 1993:141; Frieden 1991a:157, 158). As Haggard and Kaufman (1992a:36) note: "In the final analysis, it is entirely possible that neither interest-based explanations nor institutional ones will be entirely satisfactory for explaining how societies cope with the challenges of policy reform." Haggard and Kaufman (1992a:36) therefore suggest that we turn our attention to "the formation of elite preferences, ideas, and ideology . . . [as] potentially important explanatory variables"—a central concern for constructivist political economists. Because societal groups are often uncertain about their interests (Haggard and Webb 1993; Hall 1997:197), researchers must look elsewhere for the source of policymaker preferences. As Robert Bates and Anne Krueger (1993:456) conclude: "In such situations, advocates of particular economic theories or of ideological conceptions of how economies work can acquire influence." The next section examines how such advocates might implement their views into policy once they acquire influence.

A Meaning-Oriented Explanation

After a period of some neglect, some constructivist political economists (Chwieroth 2007b, 2010), as well as a number of "ideas" scholars working in comparative political economy (Biglaiser 2002a; Teichman 2001), have rediscovered the critical role that epistemic communities can play in shaping policy decisions. As originally defined by Peter Haas (1992a:3), an epistemic community comprises "a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area." By acquiring positions in relevant bureaucracies, these experts are able to influence policy by framing how decision makers think of a particular policymaking context, by setting regulatory standards, and by diffusing their shared normative beliefs about "appropriate policy" (Adler

3. This logic also implicitly underpins the "compensation view" of globalization that Garrett (2001) identifies.

and Haas 1992:375–85; Haas 1992a:30). Without the support of these technocrats, policy reforms across a range of countries would have, in all likelihood, been seriously hindered and less comprehensive in scope.

Organizational sociologists describe a similar process as "normative isomorphism" (Dimaggio and Powell 1983). In seeking to explain the spread of particular practices, these scholars often focus on the influence of like-minded professionals across various organizational contexts who draw on shared beliefs associated with their common professional training to form judgments about "appropriate policy" (Babb 2001). Practices are said to diffuse when like-minded professionals staffing these various organizations are able to implement their shared beliefs into policy.

To summarize, policy decisions can often be shaped by committed and influential carriers of particular beliefs. The influence of what Haas (1992a:27) calls "cognitive baggage handlers" can be understood as a two-stage process in which (1) a consensus develops among a group of actors as to what policies are possible, desirable, legitimate, and appropriate in a given context, and (2) the acquisition and exercise of bureaucratic authority and power by these actors results in policy practices consistent with their shared beliefs.

Content

If carriers of particular beliefs about social spending shaped the trend toward state shrinking in Latin America, then the first stage of the aforementioned process suggests that we should consider the content of the normative consensus shared by these carriers. The economics profession is often a vital source of shared beliefs about "appropriate" economic policy (Chwieroth 2007b, 2010). Among Latin American economists, two broad schools of thought can be identified (Foxley 1983; Kahler 1990; Biglaiser 2002b).

Neoliberalism and Its Alternatives

One school of thought, structuralism, advocates activist government and intervention in controls over the economy. Another school of thought, neoliberalism, espouses the virtues of minimalist government and free markets.

As their name suggests, structuralists locate the fundamental cause of economic problems in the "structures" of the world economy and various national economies. Focusing on the structure of the world economy, one influential structuralist argument claims that the world is divided into an industrial center of developed countries and a primary-product periphery of developing countries. In this structure, developing countries export products that experience declining terms of trade, low elasticity of demand, and extreme price variability. Structuralists therefore tend to express varying degrees of "export pessimism" and thus traditionally advocate varying forms of import-substitution industrialization (Prebisch 1950, 1984). Because structuralists typically attribute the economic problems that developing countries face to the vagaries and failures

of unfettered markets, and because they tend to prioritize growth and equity over price stability and efficiency, they are less likely to view cuts in government spending in general, and social spending in particular, as necessary to alleviate an economic downturn or crisis. In the structuralist view, maintaining, even increasing, existing levels of social spending therefore often takes precedence over seeking to make or reschedule debt repayments.

The subject of inflation, a recurring phenomenon in Latin America, has also been of great interest to structuralists (Arndt 1985; Sunkel 1960). Inflation, according to structuralists, results from the national economic structures of developing countries, which are typically characterized by low factor mobility, market segmentation, and disequilibria between sectoral demands and supplies. As a result of these characteristics, when growth proceeds, supply-side rigidities produce an inadequate supply response to increased levels of demand, resulting in a bottleneck and thus inflationary pressures. Structuralists point to insufficient productive capacity and domestic savings, shortages of foreign exchange and intermediate inputs, and rigidity in the government's tax and expenditure structure as the principal bottlenecks that can give rise to inflationary pressures.

In addition to policies such as wage and price controls and tax and land reform, this diagnosis of inflation lends legitimacy to public sector expansion. Two bottlenecks in particular—insufficient productive capacity and income inequality—are often targeted with public expenditure. In this line of argument, public expenditure is utilized as the basis for sustaining productivity increases and income redistribution in poorer segments of the economy.

Neoliberalism offers an alternative perspective on social spending, advocating for its reduction in both an indirect and direct sense. Within the economics profession, many leading proponents of this view are associated with monetarism and New Classical economics. Monetarism and New Classical economics—a set of understandings based on Rational Expectations theory—locate the problems economies face in government intervention and the solution to these problems in shrinking the state and unleashing market forces. Monetarists and New Classicals are broadly united by the belief that government intervention in general and government spending in particular is ineffective in the long run and often proves counterproductive. These arguments against government intervention prescribe welfare state retrenchment in an indirect sense.

Monetarists, for instance, claim that government attempts to stimulate the economy fail to affect real variables in the long run and serve only to increase inflation (Friedman 1968a). With policy tools unable to influence the trade-off between unemployment and inflation, and with inflation increasing with each stimulus, monetarists prescribe the abandonment of attempts to control market outcomes in the long run through government policy. Rational Expectations theorists (Muth 1961; Lucas 1972; Sargent 1973) claim that market agents use "all available information" to form their expectations about economic conditions. Therefore, if a government is committed to spending, then market agents will be able to anticipate its impact on wages and prices, thereby nullifying the

effect of any government stimulus on real variables and serving only to heighten inflationary pressures.

Public choice theorists also espouse beliefs that inform the neoliberal school of thought. Using concepts and models such as "the political business cycle" and "rent seeking," public choice theorists hold that inflation is the consequence of deliberate actions by governments, particularly those in democratic countries. Assuming politicians seek to remain in office, public choice theorists argue that governments will provide goods to their constituents (i.e., high levels of social transfers and spending) to maximize votes. Inflation is then a natural consequence of governments seeking to prime the pump prior to election cycles (Nordhaus 1975; MacRae 1977). Moreover, public choice theorists argue, because market expectations adjust to a new higher equilibrium rate of inflation after each stimulus, later attempts to deflate the economy will prove futile. Monetarists, Rational Expectations theorists, and public choice theorists thus share the view that government intervention tends to be ineffective and often ends up being counterproductive.

Neoliberals also warn against excessive social spending in the context of trade and capital market integration. In this view, large welfare states lessen market discipline and crowd out private investment due to higher interest rates when financed via borrowing or they distort investment decisions when financed via taxation. These effects can in turn reduce the efficiency gains from greater market integration. Since neoliberals link government spending to inflationary pressures, at best capital markets can be expected to place an interest rate premium on economies with a large welfare state and at worst engage in massive flight until policies are altered. Far from seeing these effects as harmful, neoliberals typically represent these market forces as imposing a valuable "discipline" on otherwise profligate governments. These arguments thus prescribe reducing social spending in a direct sense.

In contrast to structuralists, because neoliberals typically attribute the economic problems that developing countries face to "government failures," and because they tend to prioritize price stability and efficiency over growth and equity, they are more likely to view cuts in government spending in general, and social spending in particular, as necessary to alleviate an economic downturn or crisis. In the neoliberal view, reducing social expenditure in order to make or reschedule debt payments therefore often takes precedence over poverty reduction and redistributing market allocations of wealth and risk.

In addition to structuralism and neoliberalism, populism has also informed government policy choices in Latin America (Dornbusch and Edwards 1991). The objective of populist governments is to increase the real income of urban groups while pursuing a program of reform designed to relieve bottlenecks. These governments uniformly reject the claim that deficit spending is inflationary, arguing that mobilization of unused spare capacity, declining costs, and price controls can be used to stimulate demand and lower inflation. As a result, populist governments typically combine support for real wage increases with rapid monetary and fiscal expansion.

Coherence

The content of the beliefs shared by influential carriers is thus critical for understanding their influence on policy, as it specifies which policy choices are possible, desirable, legitimate, and appropriate. Constructivists and organizational sociologists suggest that if these influential carriers can acquire and exercise authority and power in relevant bureaucracies, then there are likely to be policy changes consistent with their views. Yet these perspectives devote little attention to the conditions that facilitate the implementation of these shared beliefs into policy (Yee 1996:86).

It is here that the second stage of the process begins. In the second stage, advocates of particular beliefs must convince the chief of government (COG) of the desirability of their preferred policy choice. From their positions in the bureaucracy, these advocates can influence the policymaking process because of the authoritativeness they derive from their credentials and professional training. Their standing as experts or well-respected professionals enhances their credibility as transmitters of ostensibly objective knowledge about "appropriate" policy and thus their ability to convince the COG of the desirability of the policies they advocate.

As I argue elsewhere (Chwieroth 2007b), one key factor shaping the capacity of influential carriers of beliefs to implement their prescriptions into policy is the extent to which they form a coherent economic team sharing a unified sense about the possibility, desirability, legitimacy, and appropriateness of a particular policy choice. The importance of coherence also features in the work of historical institutionalists (Skocpol 1985:9–14; Hall 1993:290–291) and in earlier research on the political economy of policy reform (Nelson 1990a:347, 1990b; Haggard and Williamson 1994:594).

A coherent policymaking team is one that is characterized by a preponderance of like-minded actors in key bureaucratic positions. Coherence can enhance the capacity of these actors to implement their shared beliefs into policy for two reasons. First, consistent advice across a range of sources often facilitates the success of actors in persuading others to adopt their proposals (Checkel 2001). Coherence—which would result in nearly consistent advice to a COG from members of the policymaking team—can thus help facilitate the implementation of ideas into policy. Without coherence, differences among policymakers afford the COG the opportunity to rely on those policymakers whose ideas are compatible with his or her own and who can be used to legitimate the COG's preexisting policy preferences or to enhance the COG's domestic power base (Levy 1994b:301). But in the absence of competing ideas to guide policy, a coherent team is more likely to be in a position to convince the COG that its advice is "correct" and to leave little room for alternative policies.

Coherence can also increase the insulation of policymakers from societal demands, thereby enhancing the political viability of a particular set of beliefs. A coherent policymaking team—armed with a set of ideas to guide policy—is likely to be in a stronger position to resist societal demands than a heterogeneous

team. A shared set of ideas will guide policymakers as to what constitutes the appropriate policy course. Still, even in the absence of such guidance, these ideas at least provide a means for policymakers to resist some societal demands while accepting others as appropriate. By shielding the decision-making process from societal demands, the insulation that coherence provides can also help facilitate the ability of carriers of particular beliefs to persuade the COG to support their prescriptions.

The influence of advocates of particular beliefs thus depends on both the content of the shared beliefs (stage one) and the coherence of the policymaking team (stage two). While the content of shared beliefs defines the boundaries of "appropriate" policy practice, it is the coherence of the policymaking team that provides influential carriers of these beliefs with the capacity to implement them into policy.

Testing the Argument

Constructivists working across a wide range of issue areas have shown empirically that ideas often have a decisive effect on political outcomes. Unfortunately, most constructivists pay sparse attention to assessing the relative importance of such factors, what Craig Parsons (2002) labels the "how much" problem. Postmodern constructivists confront this problem by denying it. These constructivists reject the notion of an objective context that can be assessed and measured, privileging interpretation rather than hypothesis testing as the goal of research.[4]

Although conventional constructivists use fairly standard research methods to address ideas, these researchers have relied almost exclusively on qualitative methods to deal with the "how much" problem. This methodological strategy is puzzling, as the social ontology underpinning constructivism in no way restricts the choice of methods to the qualitative variety (Wendt 1999:33–40, 2000:171–172; Finnemore and Sikkink 2001:395). Here some critics may object that the use of quantitative methods is antithetical to the constructivist tradition on the interrelated grounds that constructivists should ask constitutive rather than causal questions (Wendt 1999), and that ideas can be captured only via an interpretive approach (Ruggie 1998).

Yet quantitative methods do enable constructivists to ask constitutive questions. The structuralist and neoliberal beliefs I discussed earlier "make possible (or impossible)" in constitutive terms certain policy practices that would otherwise not be. For instance, neoliberal beliefs cast the use of government intervention and spending to stir growth as "impossible" in the long run and as only leading to inflation. By contrast, structuralist understandings view the use of government intervention and spending to combat inflation as effective and certainly within the realm of "possibility." It also should be noted that the search for

4. For a fuller exposition of the arguments made in this section, see Chwieroth 2007a.

correlations using quantitative methods is simply a more elaborate variant of the kind of search for empirical "correspondence" in which even postmodernists engage in seeking to match texts to identity (Wendt 2000:171–172). Thus, rather than being antithetical to constructivism, the use of quantitative methods helps to extend, broaden, improve, and refine it in a valuable fashion.

More specifically, quantitative methods offer constructivists at least two benefits that offset the weaknesses of research designs that rely solely on qualitative methods. One advantage quantitative methods offer is the ability to assess formally what might be called the bias-efficiency trade-off (King et al. 1994:66–71, 97; Collier et al. 2004). To gauge "how much" ideas matter, existing methodological advice by constructivists recommends using a version of the method of difference (Parsons 2002:48–50). Though useful in some circumstances, this strategy tends to overemphasize the importance of providing unbiased estimates of the effect of ideas at the expense of offering efficient estimates of their effect. In urging researchers to ensure that actors "face identical material constraints" to minimize the possibility of a biased inference, existing methodological advice can inadvertently lead researchers to include irrelevant control variables, thereby introducing inefficiency and lessening the degree of certainty one can have about the inferences drawn from a single study. This conundrum is what I earlier referred to as the bias-efficiency trade-off. Whereas evaluating the bias-efficiency trade-off using qualitative methods is quite difficult, quantitative methods offer a means to better assess this trade-off through various statistics, such as the mean square error.

Quantitative methods also offer to constructivists the advantage of helping to overcome objections by skeptics about the importance of beliefs for a particular outcome.[5] By controlling for other variables included in the model specification—which presumably encompasses all relevant variables opposing theories suggest—and specifying the effect of varying a single variable, quantitative methods can provide a means to assess the relative importance of beliefs net of other factors. Quantitative methods thus offer precise estimates of how much beliefs matter through the parameter estimates, making it easier for constructivists and scholars from different theoretical and ontological points of departure to engage more actively with one another.[6]

Sample

The sample used to test the argument comprises annual data from fourteen Latin American economies from 1972 to 1997.[7] Data sources appear in Appendix 1.

5. For a concise statement of the skeptics' view, see Jacobsen 1995:285.

6. It would seem that the disciplinary success of sociological institutionalists and economic sociologists is to some extent due to this empirical strategy.

7. The countries are Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Paraguay, Peru, Uruguay, and Venezuela. Colombia, Cuba, Haiti, Honduras, Nicaragua, and Panama were excluded because of missing or noncomparable data.

Data

Dependent Variable

Social spending in this analysis encompasses total government spending on social security, health care, and education. These expenditures in turn are captured as a proportion of gross domestic product (GDP) [SEGDP].

Independent Variable

A quantitative constructivist approach to understanding state shrinking in Latin America faces the daunting task of measuring neoliberal beliefs. To capture these beliefs I focus on the importance of professional training and rely on an approach I develop elsewhere (Chwieroth 2007a). This approach demonstrates that an individual's professional training characteristics can serve as a useful proxy for the beliefs that individual shares. Professional training shapes an individual's preferences by promoting, both implicitly and explicitly, a particular set of causal and normative beliefs. These beliefs provide a lens through which actors develop shared diagnoses about the problems economies face and the appropriate solutions to them. Common professional training can thus be an important reason why individuals carry similar "cognitive baggage."

As noted, in the economics profession many of the leading proponents of restraining social spending are associated with monetarism and New Classical economics. Therefore, in accordance with the approach I develop elsewhere—which relies on qualitative research that documents cultures that tended to prevail in various economic departments as well as publication frequency in the *Journal of Political Economy*—I identify the University of Chicago, Stanford University, and Columbia University as being the most likely institutions to instill neoliberal beliefs about social spending in their students.[8] I then use the presence of training at one of these academic departments as a proxy for the neoliberal beliefs that individuals are likely to share as a result of their common training, the logic being that professional training at economic departments with particular empirically documented normative commitments tends to lead individuals trained in these departments to adopt similar beliefs.[9] These individuals then act as carriers of these beliefs.

8. The *Journal of Political Economy (JPE)* is the most prominent journal for publishing articles associated with these views. Chicago, Stanford, and Columbia economists were the most frequent publishers in *JPE* from 1968 to 1985. The year 1968 was selected as the starting point because it represents the beginning of the ascendancy of monetarist understandings in the economics profession (Friedman 1968a). The year 1985 was selected as the end point because it marks the point when New Keynesians were able to increasingly call into question monetarist and New Classical understandings (Mankiw and Romer 1991; see also Widmaier 2003:68–69). See also Ramos (1986:6–7n 5), who describes Stanford and Columbia as part of the "greater Chicago" consensus, and Colander (2005) and Colander and Klamer (1987), who show that the responses of Chicago, Stanford, and Columbia students tend to cluster around similar belief positions.

9. It is also possible that individuals trained in other leading American economic departments during this time found themselves exposed to ideas about shrinking the state. Some observers

The earlier theoretical discussion suggests that the key individuals in question are those that comprise a country's economic policymaking team. Ideally, one would examine the entire decision-making tree of all relevant bureaucracies of each country in the sample and code the professional training characteristics of these individuals. This approach, however, is not possible, as the type of information needed is not available. Alternatively, we can focus on the cabinet-level economic policymakers in each country and code their professional training characteristics. Since these data are available, that is the approach I adopt. The data on professional training characteristics of these policymakers were found in Proquest's *Digital Dissertations* database.

In this study I limit my analysis to two critical policymakers: the finance minister and the head of the central bank. Although other cabinet-level policymakers are often involved in decisions about social spending, an examination of the reform experiences in a number of Latin American countries reveals that decisions about social spending were often the exclusive domain of the finance minister and the head of the central bank. Indeed, in several cases, there is evidence that the finance minister and the head of the central bank purposively and successfully excluded the heads of "the spending ministries" when the COG was considering decisions about social spending (Stallings and Brock 1993:87; Grindle and Thoumi 1993:138–139, 145; Nelson 1990b:186–187). I aggregate the scores for finance minister and head of the central bank and compute the proportion of these policymakers with neoliberal training (where 1 = trained at monetarist or New Classical academic department, 0 = otherwise) to produce the variable labeled neoliberal team [NLT]. This variable ranges from 0 to 100, with higher values indicating more neoliberals and thus greater coherence.

At the heart of my argument is the notion that the effect of economic conditions on social spending depends on how the policymaking team *interprets* these conditions and what type of policy response this interpretation prescribes. The primary independent variables are thus the interactive effects of selected indicators of economic conditions and the NLT variable. In particular I focus on gross capital flows as a proportion of GDP [KFLOW], trade flows as a proportion of GDP [TRADE], public sector debt as a proportion of GDP [DBTGDP], reserves as a proportion of monthly imports [RESM], and inflation [INFL]. I take the natural log of each of these variables because each is positively skewed. I then combine them with NLT in order to assess the extent to which interpretations of material conditions, rather than material conditions per se, shape policy responses.

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note that American graduate education in economics in this period had generally tilted in a direction that prescribed limiting state intervention in the economy (Pinera 1994:227; Biglaiser 2002b:276). However, the conviction these other departments held toward monetarist and New Classical understandings was likely not as strong as in the departments identified. See, for instance, Colander (2005) and Colander and Klamer (1987), who find that Harvard, MIT, and Yale graduate students tend to agree more with the proposition that "fiscal policy can be an effective stabilizer" than graduate students from Chicago, Stanford, and Columbia.

For each of these variables except RESM, if the interactive effects are negative, then it can be suggested that neoliberal interpretations of increased capital and trade exposure, public sector debt, and inflation result in weaker government welfare commitments. For RESM, if the interactive effect is positive, then it suggests that neoliberal interpretations of balance of payments difficulties, which prioritize demand compression, result in less social spending. It should also be noted that the results for the variable NLT are of little importance to the analysis. By itself, this variable indicates the influence of carriers of neoliberal beliefs when the economic indicators cited earlier equal zero, a highly implausible situation that does not exist in the sample.[10]

Control Variables

A standard set of control variables from the literature on social spending in developing countries is included to isolate the effect of neoliberal beliefs and to check for other influences. Social spending is also often found to be shaped by the number of young and elderly dependents [DEPEND], the presence of a populist government [POP], democracy [DEM], and the presence of a program with the International Monetary Fund [IMF] (Brown and Hunter 1999; Esping-Andersen 1990; Tang 1996; Rodrik 1998; Kaufman and Segura-Ubiergo 2001; Stallings 1992:55–58; Garrett 2001; Rudra 2002; Rudra and Haggard 2005).

Finally, I also take into account time effects. Two decade dummies are used to account for the important differences in the world economy over the course of the time period under investigation. The first decade dummy covers 1973 to 1981, the years when many Latin American countries were able to borrow quite extensively from international capital markets. The second decade dummy extends from 1982 to 1990, the years of the debt crisis, marked by economic recession, structural adjustment, and difficulties tapping international capital markets.

Methods

Several diagnostic measures are used to confront the issues of temporal dependence, unmeasured heterogeneity, and heteroskedasticity that typically characterize the time-series-cross-sectional data that this chapter employs. Regrettably, there is no panacea to deal with these issues, and thus I subject the results to sensitivity analysis across estimation methods.

A lagged dependent variable (LDV) is included in the analysis to account for temporal dependence. An LDV eliminates all temporal dependence in the model, suggesting it is superior to alternative error correction specifications (Beck and Katz 1995).[11] Country-specific fixed effects are sometimes

10. See Braumoeller 2004.

11. A Lagrange multiplier test revealed this to be the case. Additionally, there are substantive reasons to include an LDV in the model, as social spending policy is likely to be path-dependent.

recommended as means to deal with unmeasured heterogeneity. Yet fixed effects will suppress the explanatory power of time-invariant or "slow-moving" variables. In such cases, the loss in terms of inference on important variables may outweigh the gains of minimizing bias. An LDV can also often make fixed effects less relevant, further suggesting that fixed effects should not be included (Beck and Katz 2009).

However, diagnostic tests using the Bayesian information criterion reveal that LDV models with fixed effects outperform those models without them. Omitting fixed effects also may not be advisable if the correlation between the regressors and the unmeasured heterogeneity is sufficiently large, which it is found to be. Analytically, fixed effects are also preferable since they permit an analysis of *changes* in social spending, which are presumably more influenced by the processes highlighted in this chapter than *levels* of social spending. I therefore estimate models with an LDV and fixed effects, as well as panel-corrected standard errors (PCSEs), in order to account for heteroskedasticity.

Still, there is a complication that arises if one seeks to account for temporal dependence with an LDV and heterogeneity with fixed effects, as the former is correlated with the latter and hence the error term. Although this correlation will produce biased and inconsistent parameter estimates, the bias declines as the time-series lengthens (Wilson and Butler 2007:107). Moreover, recent Monte Carlo analysis suggests that the bias is usually quite small in data sets used by political scientists and that it is generally confined to estimates for the effect of the LDV, which is of little substantive interest here (Wilson and Butler 2007:108). Nonetheless, as a robustness check I also employed alternative estimation procedures, such as a model using an LDV, fixed effects, and robust standard errors (Kristensen and Wawro 2006) and one using a dynamic panel estimator with robust standard errors (Arellano and Bond 1991; Wawro 2002), but they did not alter the results. Due to its relative simplicity and ease of interpretation, I present the results from the model using PCSEs.

Empirical Results and Discussion

Table 1.1 contains the estimates from the model. Column 1 presents the "baseline model," which contains the control variables and the uninteracted indicators of select economic conditions. Columns 2–6 then add separately each of the interactive terms as well as the NLT variable. The interactive terms could not be added simultaneously to the model due to problems of multicollinearity.

As expected, the results in column 1 from the baseline model reveal that rising public sector debt tended to constrain social spending policy. Because I take the natural log of public sector debt, the coefficient for this variable, as well as the interactive effects that include it, should be interpreted as a lin-log model. Thus, a 1 percent increase in public sector debt is found to decrease SEGP by.05 percent. The effect of a rising public sector debt burden is found to be influential in addition to the significant decadal effect associated

Table 1.1. Covariates of Social Spending as Proportion of GDP in Latin America, 1972–1997

Variable	(1)	(2)	(3)	(4)	(5)	(6)
KFLOW	−.067	−.053	−.053	−.067	−.054	−.039
	(.125)	(.131)	(.125)	(.125)	(.128)	(.128)
TRADE	−.231	−.242	−.208	−.197	−.246	−.216
	(.389)	(.388)	(.400)	(.395)	(.390)	(.404)
DBTGDP	−.446**	−.487**	−.509**	−.265^	−.489**	−.489**
	(.206)	(.198)	(.201)	(.211)	(.199)	(.202)
RESM	−.012	−.007	.038	.012	.032	.058
	(.191)	(.189)	(.187)	(.188)	(.205)	(.185)
INFL	−.101	−.029	−.023	−.051	−.041	−.069
	(.079)	(.083)	(.078)	(.078)	(.080)	(.092)
DEPEND	.012	.012	.015	.022	.015	.016
	(.016)	(.016)	(.015)	(.016)	(.015)	(.016)
POP	−.088	−.118	−.158	−.158	−.134	−.140
	(.241)	(.244)	(.252)	(.242)	(.244)	(.243)
DEM	.029	.032	.037	.032	.035	.037
	(.022)	(.022)	(.023)	(.022)	(.022)	(.024)
IMF	.076	.112	.114	.205	.113	.111
	(.186)	(.185)	(.185)	(.192)	(.188)	(.185)
NLT		.0009	.035	.059**^	.010	.013
		(.013)	(.037)	(.025)	(.010)	(.008)
NLT*KFLOW		.005				
		(.006)				
NLT*TRADE			−.007			
			(.010)			
NLT*DBTGDP				−.016**^		
				(.008)		
NLT*RESM					.0007	
					(.007)	
NLT*INFL						.001
						(.003)
1973–1981 Decade	−.469	−.484	−.512	−.458	−.512	−.516
	(.351)	(.349)	(.351)	(.360)	(.351)	(.351)

Table 1.1. (*continued*)

Variable	(1)	(2)	(3)	(4)	(5)	(6)
1982–1990 Decade	−.536**	−.495**	−.469**	−.543**	−.485**	−.469**
	(.234)	(.234)	(.235)	(.234)	(.231)	(.237)
LDV	.751**	.748**	.745**	.764**	.748**	.749**
	(.074)	(.073)	(.074)	(.074)	(.074)	(.074)
Constant	3.19	3.50	3.09	1.79	3.11	2.74
	(2.82)	(2.92)	(2.82)	(2.93)	(2.83)	(3.03)
R-Squared	.951	.952	.952	.953	.952	.952
N	241	241	241	241	241	241

Note: Panel-corrected standard errors in parentheses: ** $p < .05$; ^ jointly significant $p < .05$.

with the 1980s debt crisis. None of the remaining variables is found to be significant.

Interestingly, the introduction of the interactive effects in columns 2–3 and columns 5–6 fails to overturn or modify the conclusions reached from the baseline model. While the interactive effects for RESM and TRADE have the expected sign, the interactive effects for KFLOW and INFL do not. None of these results is individually or jointly significant, however. Yet column 4 presents some rather interesting findings.

In particular, the interactive effect for DBTGBP is negative and significant, while the uninteracted effect for DBTGDP, though negative, is insignificant. Moreover, the interactive effect and its constituent elements are jointly significant. Contrary to those who assert the primacy of market constraints, this result, which is in addition to the 1980s decadal effect, suggests that rising public sector debt burdens do not command an automatic response. Policymakers must rely on their beliefs to interpret this trend and arrive at an appropriate course of action. The negative coefficient on the interactive effect suggests that state shrinking by Latin American governments is due in part to the ability of influential carriers of neoliberal beliefs to convince COGs, via negotiation and persuasion, that their interpretation of a rising public sector debt burden is "correct" and that the policy response legitimated by this interpretation is the "appropriate" course of action. In the view of these neoliberals, a rising public sector debt burden necessitates cutbacks in spending in order to meet or reschedule debt repayments. It is not that these actors are unaware of the growth and equity implications of such actions, but rather that they give greater consideration to the benefits of behaving as "responsible debtors." Consistent with earlier arguments, the results indicate that neoliberal policymaking teams have a substantively different impact on policy choices than policymaking teams staffed with individuals informed by alternative perspectives. The evidence also suggests that

as the policymaking team becomes more coherent, the capability of neoliberals to implement their beliefs into policy increases.

To better understand the nature of this interaction effect, I use the results from column 4 to present in Figure 1.1 the conditional effect of public sector debt burdens on social spending policy in Latin America. This figure enables us to observe the effect of a rising public sector debt burden on social spending as the policymaking team becomes increasingly neoliberal and coherent. The evidence strongly suggests that the negative effect of rising public sector burdens depends on the interpretations of policymakers and that this effect exhibits increasing returns as the policymaking team becomes increasingly neoliberal.

When no neoliberals are present on the policymaking team, a 1 percent increase in the public sector burden fails to produce a statistically significant policy change. This finding suggests that governments staffed with non-neoliberals tend to be reluctant to reduce social spending even when faced with a rising public sector debt burden. This is in marked contrast to governments staffed with neoliberals. Figure 1.1 reveals that a 1 percent increase in DBTGDP with an intermediate level of neoliberals present in the policymaking team results in a statistically significant reduction of .83 percent in SEGDP. The statistically significant negative effect of a 1 percent increase in DBTGDP on social spending then increases further, to 1.63 percent, with a high number of neoliberals present. The varying effect of DBTGDP across policymaking teams characterized by different belief systems is quite striking. Indeed, while a one standard deviation increase in DBTGDP (24.15 percent) with no neoliberals present would fail to produce a statistically significant change in SEGDP, the same increase in DBTGDP with a high number of neoliberals present is estimated to result in a 39.4 percent reduction in SEGDP. These results thus underscore the importance of investigating the beliefs that policymakers share in order to understand how they tend to respond to varying material conditions.

The reforms implemented in Chile during the Pinochet regime best illustrate the influence on social spending policy that neoliberal interpretations of material conditions and a coherent policymaking team can have.[12] When military forces seized power on September 11, 1973, they faced an economy experiencing hyperinflation, a rising debt burden, and serious fiscal and balance of payments imbalances. Initially, the military agreed to share power among the four service chiefs. In the early 1970s, these service chiefs as well as other senior officers in the Chilean military generally opposed neoliberal policies (Frieden 1991a:156–157). Augusto Pinochet—the commander of the army and a member of the military junta—had repudiated market-oriented policies and wanted to continue to protect the economy. Another member of the junta—Gustavo Leigh, the commander of the air force—favored Keynesian ideas (Biglaiser 2002a:68, 95).

12. Other cases of attempts by neoliberal economists to reform social spending include Argentina (1976–1980, 1991–1997) and Brazil (1980–1983). On these additional cases, see Lal and Maxfield 1993, Huber 1996:172–175, and Ramos 1986.

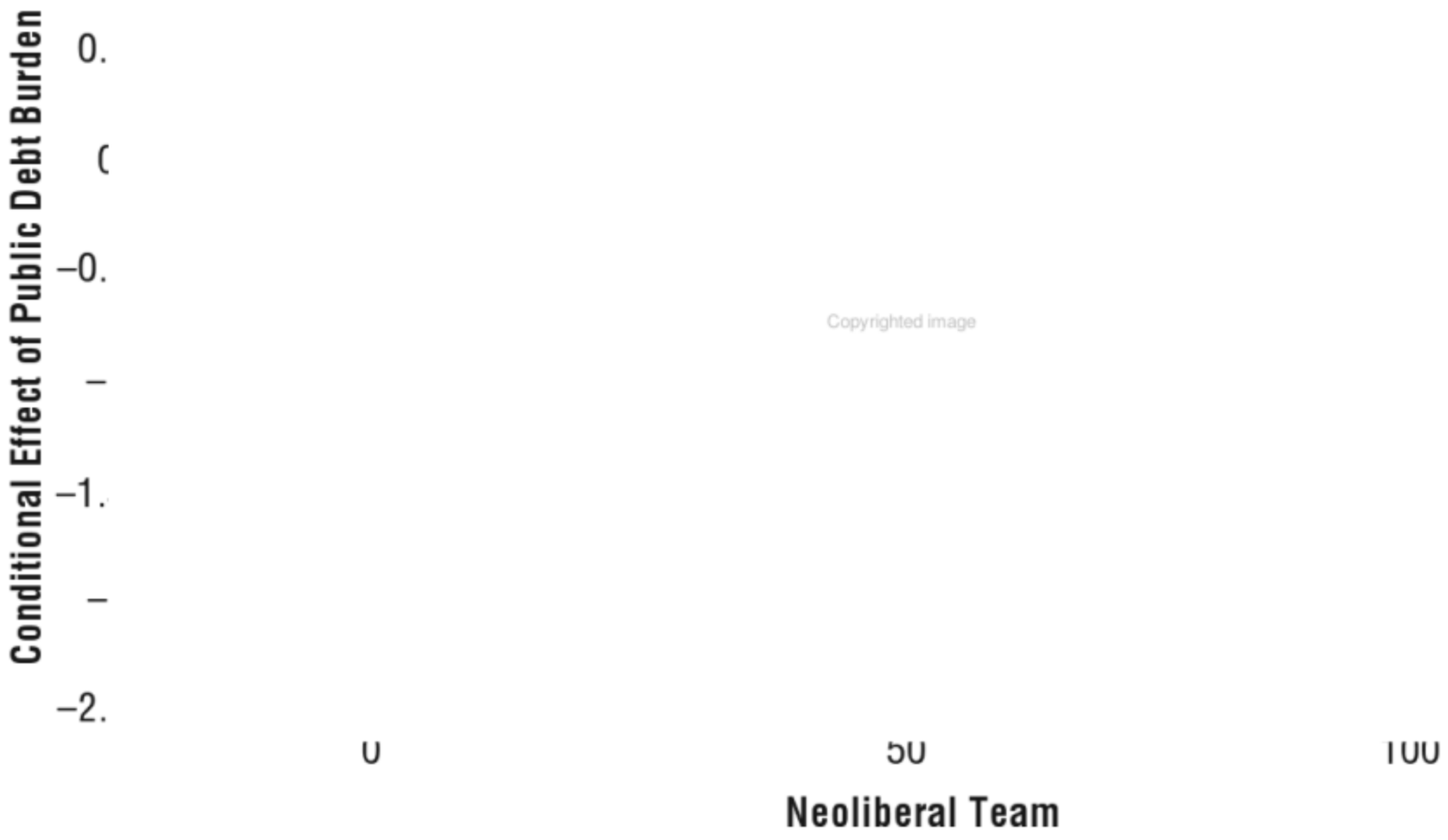


Figure 1.1. Effects of public debt burden conditional on policymaking team.

Though the military regime was largely opposed to neoliberal policies, it also had little idea about what alternative policies might be implemented (Stallings and Brock 1993:81). The first economic team, notable for its ideological heterogeneity, was not prepared to adopt strict neoliberal policies (Arriagada 1988:7; Biglaiser 2002a:95). The first ten months of the military regime (October 1973–July 1974) were therefore characterized by internal struggles over what direction policy should take. As a result, policy reforms aimed at stabilizing the economy tended to be delayed, piecemeal, and incoherent (Stallings and Brock 1993:87; Huber 1996:165). Chile's debt position also deteriorated rapidly, with public sector increasing from around 17 percent of GDP in 1973 to nearly 52 percent by 1975, a level exceeded in Latin America prior to the 1980s debt crisis only by Bolivia.

During this time a group of economists who served in subsecretarial and advisory positions—known as the "Chicago Boys" because of their links to the University of Chicago Economics Department[13]—actively sought to persuade Pinochet, who had worked diligently to secure and consolidate power within the military government, of the desirability of neoliberal reforms. The coherence of this group of neoliberal economists seems to have been a critical factor in accounting for their ability to persuade Pinochet to support their views. As Judith

13. Not all members of this group were educated at the University of Chicago Economics Department. Many were trained at the Catholic University of Santiago, where a number of members of the Chicago faculty served as visiting professors and a number of University of Chicago–trained Chilean doctoral students returned to teach (Valdes 1995). Other members of the Chicago Boys group received their training in departments that formed part of the "greater Chicago" consensus, such as Stanford and Columbia. The "Chicago Boys," however, is the label commonly used for this group of economists, and thus I use it as well.

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Teichman (2001:72) notes, that the neoliberal economists "were united, more numerous than other bureaucratic factions in the state, and had a policy solution backed up by detailed studies were all no doubt important factors in their ability to persuade Pinochet that [neoliberal] reform was necessary."

In July 1974, several key changes were made in the policymaking team. The most important changes came with the promotion of Columbia-trained economist Jorge Caus and Chicago-trained economist Sergio de Castro to head the finance ministry and economy ministry, respectively. Caus and de Castro also brought with them a number of other Chicago-trained economists. Over the next few years, despite some personnel changes, economists trained at the University of Chicago and other economic departments instilling neoliberal ideas came to dominate nearly all levels of economic policymaking.

With the formation of a coherent policymaking team, the government embarked on an economic program that sought to restructure the Chilean economy according to neoliberal prescriptions.[14] Radical market-oriented reforms were introduced across virtually all sectors of the Chilean economy. Public sector debt was also brought under control, declining as a proportion of GDP to less than 14 percent by 1981.

As part of their efforts to manage and reduce Chile's debt burden, the neoliberal economists implemented drastic reductions in social expenditures such that by 1979 per capita social spending was only 83 percent of the level achieved in 1970 under the previous socialist government (Huber 1996:165). The neoliberal economists—as part of Pinochet's seven modernizations—also embarked on a series of reforms in the areas of social security, health, and education.[15] As Alejandro Foxley (1983:104) observes, in line with neoliberal prescriptions, the reforms were intended "to decentralize public institutions, leave as many of these activities as possible to the private sector, let market decision making operate, and, in a general way, guarantee freedom of choice to individuals concerning the provision and access to basic social services."

In 1980, the Chicago Boys instituted the first private social security system in the world (Mesa-Lago 1989:105–142, 1994:115–132; Huber 1996:165–167). As Barbara Stallings and Philip Brock (1993:113) note, "Hayekian considerations on social insurance systems heavily influenced the [design of] the 1980 Social Security Law."[16] Education and health reforms followed similar principles of transferring responsibility from the government to the private sector. The government partially privatized the education and health system and guaranteed the provision of free minimum services only to the very poor (Foxley 1983:108; Huber 1996:167).

14. For a discussion of the full range of neoliberal policies implemented, see Foxley 1983, Ramos 1986, Edwards and Edwards 1987, and Valdes 1995.

15. Labor, regional decentralization, agriculture, and justice comprised the other four modernizations.

16. Friedrich Hayek was, of course, one of the early pioneers of neoliberal beliefs. Stallings and Brock (1993:118–119) cite a passage from Hayek's *The Road to Serfdom* that they claim "expresses well the economic team's belief with regard to state insurance policies." See also Stallings and Brock 1993:83.

In line with theoretical expectations, the coherence of the Chilean policy-making team greatly facilitated the efforts of the Chicago Boys in two important ways. One way was by enhancing their ability to persuade military leaders of the desirability of neoliberal policies. José Pinera (1994:226), the chief architect of the social security reforms, notes that when one of the leaders of the Chilean military was asked why the military had heeded the advice of the neoliberal economists as opposed to other groups, he responded: "Because you agreed with each other and gave us simple answers to our questions." Pinera (1994:226) goes on to state:

> [The neoliberal economists] constituted a team that could work together to get things done without becoming mired in endless debate and infighting. The fact that this team of like-minded and similarly trained economists was available to take the reins of policy during this crucial period in Chile's history is, I believe, the principal reason Chile was able to launch and sustain its ultimately successful economic reforms.

Another way the coherent team strengthened the neoliberal economists' reform efforts was by helping to insulate policymaking from societal demands. As Pinera (1994:226) notes, "Without the cohesiveness and single-mindedness that only a team can provide, any attempt at comprehensive reform . . . is sure to fall prey to factionalism and special interest politics." Jeffry Frieden (1991a:157) also finds the coherence of the Chilean policymaking team to have been a crucial factor, noting, "Under the orthodox [neoliberal] team, economic policy was made by economists who ignored sectoral demands." Indeed, Frieden (1991a:158)—a proponent of the pluralist view—concedes, "There is little evidence that policy was made with sector-specific targets in mind."[17]

The case of Peru from 1985 to 1989 under the leadership of Alan Garcia is also worth considering.[18] The Peruvian case helps to illustrate why governments informed by alternative perspectives may arrive at different policy courses when faced with rising public sector debt burdens than do those governments informed by neoliberalism. In particular, such cases demonstrate how structuralist and populist-minded policymakers may interpret the constraints that rising public debt burdens place on social spending to be less severe than do neoliberal policymakers.

Replacing a government that had pursued one of the region's most committed neoliberal reform strategies of the period, Garcia inherited an economy that had experienced balance of payments and public sector debt difficulties for much of the 1980s. Reversing his predecessor's neoliberal agenda, Garcia turned to structuralist economists from the Centro de Estudios para el Desarrollo y la Participacion (CEDEP), a research institute in Lima, to design his

17. See also Stallings and Brock 1993:99.

18. Other cases of "heterodox" economic programs pursued by populist governments or by governments staffed with structuralist economists include Argentina (1973–1976, 1981–1989), Brazil (1986–1989), and Mexico (1970–1982). On these additional cases, see Kaufman 1990, Haggard and Kaufman 1992b, Dornbusch and Edwards 1991, and Lal and Maxfield 1993.

economic program (Stallings 1990:142–143, 146; Pastor and Wise 1992:96). In addition to appealing to Garcia's center-left political platform and populist electoral promises, the coherence of the structuralist policymaking team likely helped to ensure support from Garcia. As Stallings (1990:143) notes, "it [the economic program] did not...have to compete with alternative programs."[19]

In line with structuralist interpretations, the economists working for Garcia understood Peru's balance of payments problems as resulting not from excess demand but rather from long-term supply and price constraints for exports, high import propensities, and capital flight (Pastor and Wise 1992:96, 100–102; Lago 1991:270–273). Although the structuralists viewed neoliberal prescriptions for demand compression as likely to reduce imports temporarily, they also saw expenditure-reducing measures as likely to trigger a recession that would stimulate capital flight and thus worsen the payments imbalances (Thorp 1987). In direct opposition to neoliberal prescriptions, the Peruvian model aimed for demand-led growth. Consumption and government expenditures were promoted to reactivate the economy through the use of idle capacity. External imbalances would then be brought back into long-run equilibrium by import substitution and export promotion.

To deal with the foreign exchange constraint and to provide the space to reactivate the economy, Garcia famously declared that no more than 10 percent of exports would be devoted to interest payments on debt.[20] In contrast to their neoliberal predecessors, Garcia and his structuralist policymakers sought to refuse to permit growth to be constrained by the world economy in general and debt service obligations in particular. By partially relieving Peru from such constraints, the government aimed, as Rosemary Thorp observes (1987:164), "to pursue a healthier combination of growth and equity" than its predecessors had achieved.

As leading members of Garcia's policymaking team noted:

> It is necessary to spend, even at the costs of a fiscal deficit, because if the deficit is the result of transferring public resources to consumption of the poor so they can demand more products and firms are able to reduce unitary costs, this deficit will not create inflationary pressures, but all the contrary....This constitutes our major departure with respect to the previous strategy of demand restraint. (Quoted in Lago 1991:271)

This statement contrasts sharply with assertions made by members of the previous government just two years earlier. One finance minister from that government indicated its general neoliberal approach to policymaking by bluntly stating, "Don't fool yourselves into thinking that I am here to reactivate the economy....It is

19. See also Pastor and Wise 1992:105.

20. In reality, although the Garcia government decreased debt service payments as a proportion of exports from levels inherited from its predecessor, it nonetheless failed to meet its 10 percent target until 1988. Even then the result came about mostly due to an inability to pay rather than a conscious strategy. See Pastor and Wise 1992:99.

impossible to reduce inflation if wages continue high, if sales continue high, and if public works continue full steam ahead" (Stallings 1990:133).

Policymakers in Garcia's government believed that government spending not only would serve to relieve Peru's balance of payments and inflationary problems, but also would help to improve the country's severely unequal distribution of income, which had been worsened by a sharp decline in real wages during the first half of the 1980s. Large increases in public sector wages, some of which translated into increases in social spending, were implemented with the goal of reactivating demand and improving social equity. Although Garcia's policies achieved some initial success, this proved short-lived. Ultimately, his policies failed to solve Peru's economic problems. In 1988, opposition to his economic policies from within his own political party resulted in the replacement of Garcia's structuralist confidants with more orthodox economists. Predictably, the result was implementation of a half-hearted neoliberal stabilization package.[21]

Implications

The findings of this chapter have important implications for three areas of research. One area is the debate over the efficiency versus compensation logic of market imperatives in developing countries (Rodrik 1998; Garrett 2001; Kaufman and Segura-Ubiergo 2001; Rudra and Haggard 2005). This analysis highlights an important "pathway to constructivism" by providing evidence that market imperatives actually contain no self-evident or automatic logic (see also Hay and Rosamond 2002). Rather, market imperatives—like all other material trends—are socially constructed and therefore must be imbued with meaning by policymakers whose shared beliefs shape their understandings of such processes and legitimate certain policy responses. Future research in this area should devote more attention to understanding how particular beliefs about market imperatives and the trade-offs between growth and price stability on the one hand and equity and efficiency on the other rise to prominence across various settings.

A second area of research is the debate between pluralist and institutionalist theories of policymaking. The findings in this chapter suggest that coherence is one key factor that can help to insulate the policymaking process from societal demands. Under such conditions, the pluralist approach is silent as to where the preferences of policymakers may originate. Institutionalist approaches also often generate poor predictions of policymaker preferences on social spending. The argument in this chapter thus complements these theories by highlighting one critical route—advocacy by influential carriers of particular beliefs—through which preferences may emerge. In doing so, this chapter also speaks

21. Interestingly, Garcia was reelected president of Peru in 2006 and has since pursued more orthodox policies, though the logic underpinning them bears little resemblance to the arguments elaborated by monetarists and New Classicals.

Appendix 1.1. Data Sources

Variable	Source
SEGDP	IMF Government Finance Statistics
NLT	Discussed in text
KFLOW, TRADE, DBTGDP, RESM, INFL, DEPEND	World Bank World Development Indicators
POP	Kaufman and Segura-Ubiergo 2001
DEM	POLITY IV
IMF	Vreeland 2003

to the literature on policy diffusion by bringing into sharper focus the role that economists often play in spreading policy practices.[22]

Finally, this research also speaks to the issue of welfare state retrenchment in developing countries. Although a number of studies focusing on OECD countries show, as Geoffrey Garrett (1998) indicates, that "citizens still have a real choice to make about how to govern the market," it remains unclear as to whether such optimism is warranted for developing countries. This analysis shows that there are important normative and ideational underpinnings for decisions about social spending in the current era of globalization. To the extent that norms and ideas about social spending matter for policy, this research demonstrates that fears about the demise of the welfare state in developing countries may be overstated. Moreover, it suggests that welfare state retrenchment is not an inevitable, irreversible, and "natural" part of globalization. Rather, such a process is a contingent outcome stemming from a set of socially constructed understandings that are reversible. Certainly, in the first decade of this century, the rise of leftist and social democratic governments, the demise of the Washington Consensus, and the accompanying expansion of social welfare commitments across much of Latin America suggest the enduring importance of the way contrasting norms and ideas about the role of government can inform the policymaking process.

22. For a review of the literature on policy diffusion, see Simmons, Garrett, and Dobbin 2006.

2

The Meaning of Development

Constructing the World Bank's Good Governance Agenda

Catherine Weaver

Today the apparent sine qua non of development theory and practice is good governance. The notion is embraced in the official publications and speeches of the international aid community as the foundation, if not the panacea, for uprooting persistent poverty within societies. Contemporary development theories present good governance as the essential precondition for a market-friendly environment needed to attract investment and ensure sustainable growth (Burnside and Dollar 2002; World Bank 2007a). Moreover, good governance is seen to be the institutional means by which the poor can achieve the most basic human security, become empowered to exercise their voice, and overcome the barriers to realizing the fundamental freedoms that constitute human development (Sen 1999). In several recent pop-economics treatises, world-renowned experts tell us that good governance is critical for countries to ascend to the first rung of the development ladder and to escape the traps of conflict and poverty that plague their societies (Sachs 2005; Collier 2007). Despite some skeptics' concerns over the "high modernist" and "central planning" ideology of the governance agenda (Scott 1998; Easterly 2006, 2008), these ideas have profoundly transformed the practice of aid over the past fifteen years. Development experts generally accept the argument that the presence of a transparent and accountable public sector and the rule of law is necessary for ensuring a country's capacity to implement and sustain development programs, for guaranteeing the effectiveness of aid, and for deterring the corrupt use of donor funds.[1] Yet twenty years ago it would have been taboo in multilateral aid organizations to tie such a political-laden idea to the goals and procedures

1. World Bank 1998; World Bank 2001; Marquette 2003; Collier 2007. Prominent programs and reports, such as the United States Millennium Challenge Corporation and the United Nations Millennium Project Report, target good governance not only as a key means and end of development goals, but as a precondition for the selective allocation and use of development aid.

of development. So how did good governance travel from "prohibition to prominence" (World Bank 2006:38)?

In the context of this book's objective of illuminating the paths to meaning in the world economy, we can pose this question in two ways. First, how did good governance achieve this purported "taken-for-granted" status in development theory and practice? Second, to what extent has good governance in fact gained the status of conventional wisdom that it seems to enjoy at first glance? The path toward this "bulwark of common sense" (Ferguson 1997:150) was neither spontaneous nor smooth, nor is it unambiguously complete. Rather, the evolution and current status of the good governance agenda within the international development regime reflects a long, deep, and persistent debate over ideas and resources.

Important in understanding this contested path toward meaning and practice is the *locus* and *agency* of this debate. Contrary to state-centric theories of international organizations, the debate that produced the contemporary contours of the good governance agenda largely occurred *within* development aid organizations. The governance agenda as we see it today is the result of what can best be termed the strategic social construction of an economic idea and practice, pursued by norm entrepreneurs who employed distinct tactics to gain bureaucratic entry and traction for governance ideas and practices within a cultural and political environment that was initially quite hostile. To demonstrate how the changing politics of development are ultimately concerned with contesting the meaning of development, I focus on institutional origins of the governance agenda within the World Bank. Scholars and practitioners widely acknowledge that the Bank was the first mover in coining and touting "governance" within its overall development paradigm (Miller-Adams 1999; Rapley 2002; Marquette 2003). As the intellectual and financial leader in the global development community, the Bank took the initiative in defining the objectives and parameters of the good governance agenda. The way the Bank adapted good governance has in turn exerted a strong isomorphic effect on how other international institutions, especially the other multilateral development banks, integrated the concept into their own theories and operations. Thus, *why* and *how* the good governance agenda was crafted within the Bank's broader development agenda is an important question for understanding and explaining broader policy shifts in the development aid regime since the early 1990s in general, and for showing the power of and limits to a constructivist politics of meaning in particular.

Such an analysis makes the case for a constructivist approach to international political economy, insofar as the evolution of the good governance agenda is not easily explained through traditional international organization (IO) or IPE theory. Specifically, careful process tracing reveals that we cannot easily attribute the debut of good governance to shifts in global balances of state power or interests or to material gains for rational actors within or outside the organization. Rather, its evolution is a result of strategic action by staff within the Bank who actively challenged existing ideas about development and sought to redefine the boundaries of acceptable practices and legitimate policy through the socialization (and persuasion) of other actors in a way that propelled good governance to the top of the organization's development agenda.

Specifically, this case reveals how governance advocates strategically engaged in a battle of ideas within the Bank's organizational culture. This organizational culture embodies the collectively held ideologies, norms, languages, and routines that provide individuals within the Bank the heuristics and shortcuts necessary to structure their actions and choices. The strategic choice set of policy entrepreneurs with respect to questions of when, where, and how to promote the governance agenda were broadly informed by the scripts, schemas, cognitive maps, frames, and analogies from locally available social constructions. They were also strongly influenced by perceptions of their own role identities vis-à-vis more powerful "others" in the organization, namely orthodox economists, and accordingly pursued ideational strategies that would "speak to power." In other words, the rationality (and thus strategic choices) of governance advocates was intersubjective insofar as it had to operate within a shared context of meaning. I argue that it was this intersubjective form of rationality that indelibly shaped the evolving meaning as well as the eventual policies and practice of the good governance agenda.

Explaining the World Bank's Path to Good Governance: Orthodox Approaches

This chapter analyzes the origins and complex evolution of the development ideas and practices that "frame the world economy" and become the "common sense" behind the material reality of foreign aid (Bøås and McNeill 2004; Finnemore 1996). As we will see, though the governance agenda remains contested in important ways, its rise marks a deep change in the broad terms of debate and practical strategies within the development community—a shift in what David Laitin (1986) calls the "points of concern" to which all actors refer. Traditional theories of international relations provide limited clues to this end, insofar as they miss much of the aforementioned locus and agency of the debates from which new development ideas and practices arise. By focusing almost exclusively on state interests and power, realist and institutionalist theories hypothesize that development paradigms and practices of aid organizations reflect underlying preferences and bargaining positions of powerful member states (Mearsheimer 1995; Keohane and Milner 1995). Certainly these variables matter, and there is good reason not to neglect the external authorizing and task environment in accounts of IO behavior and change (Weaver 2008). By and large, however, these approaches view IOs as instruments of state policy or as a forum for interstate interaction and thus treat them as unopened black boxes. They do not investigate how IOs—especially relatively autonomous bureaucracies possessing high degrees of expertise in their respective issue areas—exercise initiative in defining their own missions (Barnett and Finnemore 2004). In neglecting this autonomy and agency of IOs, traditional approaches provide incomplete or misleading explanations.

The exception may be the rationalist principal-agent (PA) approach, which has grown in popularity since Mark Pollack first applied the economic theory to

his study of the European Union (Pollack 1997 and 2003). Like many contemporary constructivist IO scholars, PA scholars view IOs as relatively autonomous (and sometimes powerful) actors whose collective interests and behavior cannot simply be explained by reference to state power or preferences. Instead, the focus here is on the delegation relationship between the principals (usually the states, in "multiple" or "collective" form) and the agent (the IO). PA models then ask, When and how can IOs, as self-interested rational actors, deviate from what their principals want them to do? The answer is contingent on the degree of slack or slippage in the delegation chain, which can result from numerous factors, including information asymmetries and principal preference heterogeneity (Nielson and Tierney 2003; Hawkins et al. 2006).

The potential of PA models to inform our understanding of what shapes an IO's path of meaning and practice becomes clear when we frame this in terms of what we think the principals might want and how they go about getting the IO to do it. In this case, the PA model would hypothesize that the emergence of a core development concept such as good governance and its translation into practice is the result of the convergence of the most proximate principals' preferences around a new idea or agenda, followed by efforts by these principals to individually or collectively ensure that the IO acts on this idea by utilizing various oversight and control mechanisms to direct agent behavior. Likewise, PA models might acknowledge that IOs generate new ideas and pursue new goals on their own, which they can do if the delegation relationship allows them to pursue their autonomous preferences (i.e., when conditions for slack or slippage exist, allowing for errant agent behavior).

This latter hypothesis seems quite promising insofar as the good governance agenda appears to have been initiated from within the Bank. The problem is that PA models do not really tell us what an IO wants. They assume, rather than explain, an IO's abstract interests (namely, maximization of resources and independence to ensure their bureaucratic survival) and infer substantive preferences only from observed behavior. Why and how an IO like the Bank—and more specifically, the people who work within the Bank—would pursue one idea, one set of meanings, or one set of practices over other possibilities cannot be easily explained, particularly when potential material gains are highly uncertain. More critically, by focusing on the formal delegation relationships and incentive structures between principals and agents that overemphasize agents' logic of consequence to the neglect of agents' logic of appropriateness, PA models miss much about social embeddedness and ideational aspects of the ongoing debates that drive agents' choices regarding paths of meaning and practice.

An Alternative Approach

I argue that constructivism ultimately is a more powerful analytical approach for addressing these questions. Constructivist IO theory is first and foremost concerned with explaining the power and authority we observe in IOs, which

it sees as derived from the ability of IOs to create, interpret, and disseminate the information and ideas that inform actors' interests and behavior (Barnett and Finnemore 2004:7). The social construction of ideas thus matters because it becomes the source of IO influence in the world. Moreover, constructivist IO theory, which is largely derived from organizational sociology, is inherently interested in the political and social dynamics within complex international bureaucracies, dynamics that contending theories overwhelmingly neglect (see, e.g., Cooper and Packard 1997; Miller-Adams 1999; Babb 2003; Barnett and Finnemore 2004; Barnett and Coleman 2005; Momani 2005; Bebbington et al. 2006; Lipson 2007; Chwieroth 2008). In this black box, constructivist scholars see organizational culture—the collectively held ideologies, languages, norms, and routines—as providing essential clues to the missing variable of IO preferences, what IOs want, why they want it, and why those wants vary over time, and as explaining complex patterns of organizational behavior. As Barnett and Finnemore have argued, organizational cultures can "shape bureaucrats' view of the world, define their social tasks, shape their interests, and orient them in similar ways toward the world. They do more than just bound rationality; actors' rationality itself, the very means and ends they value, are shaped by the bureaucratic culture" (Barnett and Finnemore 2004:19).

In this chapter I employ a constructivist approach to explain the evolution of the Bank's good governance agenda. The Bank's organizational culture is crucial for this account. Indeed, I show that the internal social dynamics of the Bank's bureaucracy explain a great deal about the initiative behind and the substantive crafting of the governance agenda. That is, I explain why the idea of governance emerged when it did, who was central in getting the governance agenda onto the table, how these actors strategically navigated the Bank's cultural environment, and how the governance concept took its current form, including the neutral language of governance as opposed to the politically laden government or democracy. The intellectual evolution of the governance agenda in the Bank can in this way be characterized as a battle of ideas within the organization.[2] In particular, early advocates of governance issues (what we may call the norm entrepreneurs or carriers [Finnemore and Sikkink 1998]) faced resistance from the Bank's organizational culture. This culture on an ideological level was (and remains somewhat today) dominated by a neoliberal economic orthodoxy. To the extent that notions of good governance were informed by a necessary, positive role for the state in development planning, governance advocates met with considerable skepticism and resistance within an organizational culture dominated primarily by Anglo-American-trained economists. In speaking the truth to power, the emerging discourse of governance was over time narrowed to fit within the prevailing language and methods of neoclassical economics and articulated in a manner that reified rather than challenged prior development

2. Bebbington et al. (2006) offer a very similar analysis of the evolution of social capital ideas in the World Bank. See also Chwieroth 2008 on the internal norm contestation within the International Monetary Fund concerning capital account liberalization.

thinking within the Bank. As Bøås and McNeill (2004:2) astutely note, all multilateral institutions are necessarily technocratic, and thus all new ideas, if they are to have any impact on organizational practice, must be translated into terms that can be operationalized in the prevailing organizational culture. This transformation of new ideas into practice does not occur in a vacuum, but rather happens in the context of preexisting operational norms, an already existing staff, and standard operating procedures that staff have more or less internalized and habitualized.

Consequently, any change that demands deep transformation in how staff members perceive the nature of the problem must resonate with staff's understanding of how things work in the organization, something that requires a change in both the formal and informal rules governing operations (Weaver and Leiteritz 2005). Thus, processes of persuasion and socialization around the governance agenda required significant shifts in the logics of consequences and appropriateness governing staff members' expectations about what behavior would be rewarded or sanctioned within the Bank. As a result, the process through which governance "ideas pass[ed] into the practical realm of policy" (Carter 1997:136) has by no means been spontaneous, nor can this process (as judged by recent internal mainstreaming reports) be considered complete. Rather, the agenda's path of practice in the Bank is marked by ongoing patterns of contestation, resistance, and construction.

Strategic Agency and the Intellectual Origins of the Good Governance Agenda: External Drivers

Although the impetus for the good governance agenda cannot be solely explained by factors external to the Bank, there were several significant events in the international system that created opportunities for strategic policy entrepreneurs to seek a paradigm shift within the organization. The first was a matter of learning from experience. By the early 1990s, the Bank was grappling with the empirical evidence of its development failures, foremost of which were the dismal results of structural adjustment lending in Latin America in the 1980s and the debacle of shock therapy in the transition economies of the former Soviet Union in the early 1990s. Both experiences revealed the key flaws of the Bank's neoliberal, anti-statist model. The ultimate inability of the Washington Consensus package to get the prices right and incite rational market behavior focused attention on the need for clear property rights, a "market-friendly" legal system (including arbitration and bankruptcy), deep institutional reforms in the banking and financial sectors, and an efficient and accountable public sector to govern it all (World Bank 1996). At the same time, there was a significant epistemic change in economic theory toward new institutional economics, based on the Nobel Prize–winning works of Douglass North, Ronald Coase, and Oliver Williamson.

The embrace of a passive yet critical nurturing role of the state in the development process marked a significant departure from the new political economy

theories undergirding the Bank's past policies. This was reified by the Bank's own observations on the tremendous economic growth in East Asia from the mid-1980s through the mid-1990s. Despite the Bank's rather liberal interpretation of the causes of the region's boom, its 1994 report on the "East Asian miracle" admitted that the state played a positive role in ensuring a market-friendly environment for foreign investment and export-led growth (Wade 1996). This modified approach represented, in the words of one Bank staff member, the "revenge of the institutional economists."[3] Without conceding to a pro-state development theory, the Bank began to embrace in official publications the relatively neutral language of institutional economics as a means of attributing past economic failures in developing countries to poor governance (i.e., corrupt and inefficient governments) and institutional deficiencies (i.e., no rule of law or accountability mechanisms).

Finally, changes in the Bank's broader political environment played an important role in opening the door to the governance debate in the Bank. The end of cold war tensions relaxed concerns about sovereignty that had formerly impeded international aid agencies from intruding on politically sensitive areas of domestic reform (Kapur and Webb 2000; Santiso 2001). Staff members perceived that they now could, within limits, discuss reform proposals once deemed "too political." Moreover, Part I (donor) member states and private capital markets began to view the governance agenda as an effective way of promoting market-friendly language consistent with the support of liberalized trade and the development of institutions and policies that would facilitate foreign investment.[4]

Internal Developments

These external events do not explain how the debate over the good governance agenda began. First of all, the timing is off insofar as the *internal* shift toward governance preceded the above *external* events by at least fifteen to twenty years, starting with early advocacy by a very small group of operational staff in the African division of the Bank in the 1970s. Faced with evidence of stagnating growth in Africa, the group uncovered evidence that pointed to the Bank's own failure to recognize and address public sector weaknesses. Specifically, the group argued that Bank development programs had neglected the importance of efficient and sound public institutions capable of implementing and sustaining the objectives of development aid. If the Bank was to be effective in Africa, it would have to address the political dimension of socioeconomic development.

Not surprisingly, in an era of an emerging neoclassical economist majority in the Bank, the initial reaction of the Bank's management to these critiques was quite weak.[5] Despite great skepticism about getting involved in "political"

3. Interview with Mari Kuraishi, World Bank, May 2000, Washington, D.C.
4. Interview with Douglass Webb, April 2000, Washington, D.C. See also statements by Larry Summers as undersecretary of the U.S. Treasury, 1999–2000.
5. Interview with Pierre Landell-Mills, April 2000, Washington, D.C.

matters, the early governance advocates managed to persuade President Robert McNamara to create a tiny public sector management task force in 1979 under the direction of Arturo Israel. It was given few resources and little formal authority. In an effort to gain attention that might enable them to attain greater resources, the group also sought to establish a forum for publicizing their concerns, the Public Sector Management Symposium, comprised of a small number of Bank staff that met annually to discuss the expansion of the Bank's work on public sector management (Miller-Adams 1999). In 1983, the group succeeded in getting a small section on "good government" included in that year's *World Development Report.* Regional offices were encouraged but not required to set up units on public sector reform in their operations departments. The result was little impact on the Bank's key lending activities.

According to Pierre Landell-Mills, one of the lead advocates, these regional offices (especially the Asian department) were very reluctant to reallocate resources to this new area and were not instructed to do so by any senior management directive.[6] As a result, the public sector task force had virtually no means to influence operational policy or research directions in a meaningful way. Nonetheless, the strong advocacy efforts targeting the operational managers (namely, country directors) eventually resulted in the creation of a central division for public sector management in 1981. Yet even as the group began to have small successes in translating public sector reform projects into operational work, the interest and support of the Bank's higher-level management began to wane.[7]

The 1980s also presented few opportunities for pushing governance ideas, insofar the Bank as a whole was overwhelmingly preoccupied with the debt crises in Latin America. Consequently, Bank research and operations focused on macroeconomic restructuring through structural adjustment, which presumed that sound socioeconomic policies could be imposed through aid conditionality. To the extent that public sector reform was addressed at all, it was within the context of a rather standard set of orthodox economic reforms that emphasized decentralization, the downsizing of civil service, and the reduction of public budget expenditures. Most often, these reforms were integrated into existing loan and grant packages as technical assistance. This was opposed by a small minority within the public sector group, who argued that public sector reform held deeper political dimensions that were not amenable to the quick technocratic fixes built into the Bank's standard loan programs.[8] They continued to argue, somewhat fruitlessly given the Bank's economistic culture, that programs were still paying too little attention to the actual ability or willingness of governments to implement and sustain those policies.

6. Ibid.

7. Interestingly, a 2001 report by the Operations Evaluation Department on the governance agenda attributes this diminishing support to the Bank's further recruitment in the early 1980s of neoclassically trained economists, most of whom showed little appreciation of non-economic factors affecting development (World Bank Operations Evaluation Department 2001:19).

8. Interviews with Pierre Landell-Mills and Richard Messick, April–May 2000, Washington, D.C. See also Miller-Adams 1999 and World Bank Operations Evaluation Department 2001.

In 1987, when newly appointed president Barber Conable launched a large-scale reform of the Bank's internal bureaucracy, the public sector management division was eliminated altogether. Public sector work was folded into a single division with private sector work. Coupled with the neoliberal ideas of the chief economist's office (then under the leadership of Anne Krueger), private sector concerns soon completely dominated public sector work. This left the public sector management staff orphaned for the next several years. Six years later, in yet another internal reorganization in 1992–1993, the remaining public sector management group (in what was then named the Public Economics Division of the Development Economics Vice Presidency) was eliminated altogether. The one remaining specialist in public sector management was relocated to the Human Resource Development and Operations Policy Vice Presidency.[9] A 1994 report on public sector management, intended for presentation to the Bank's Board of Governors, was never completed. This is "an indication of the low level of attention being paid by senior management to governance and public sector management" even by late 1993 (World Bank Operations Evaluation Department 2001:20).

Moving the Meaning of Development, Part 1

Nevertheless, a major breakthrough occurred in 1989. In that year, the Bank's Council of African Advisors sponsored a report, *Sub-Saharan Africa from Crisis to Sustainable Growth: A Long-Term Perspective Study*, which rejected the standard economic explanations of Africa's failures in development. Instead, the report argued that the region's difficulties were due to kleptocratic elites (World Bank 1989).[10] The first draft of the report strongly criticized the Bank's management for ignoring this problem and continuing to lend to corrupt borrowers (World Bank Operations Evaluation Department 2001:3). The draft report was opposed by senior managers and executive directors on the grounds that its language was too political (according to the Bank's legal counsel), contained unflattering connotations about corruption in borrowing member states (according to the executive directors from China, Brazil, India, and several African countries), and smacked of socialism (according to the British government).[11]

To keep the report alive, the authors strategically chose to adopt in the second draft the more neutral language of good governance, which they defined as "the exercise of political power to manage a nation's affairs."[12] In its conclusions,

9. Interview with Pierre Landell-Mills, April 2000, Washington, D.C.

10. The Council of African Advisors was a group of senior African political officials, including Ellen Johnson-Sirleaf (current president of Liberia).

11. Phone interview with Pierre Landell-Mills, 11 June 2007.

12. World Bank 1989:60. Pierre Landell-Mills argues that the language of good governance was already catching on in academic literature, and the removal of overtly political words such as "kleptocracy" was enough to sway senior managers to accept the report. Phone interview with Pierre Landell-Mills, 11 June 2007.

the report argued that the core of Bank activity—private sector reform and the introduction of market mechanisms—was not sufficient for economic growth. Rather, even prior to these reforms, the primary need was to direct technical assistance and loans toward building efficient public sectors, reliable judicial systems, and accountable political administrations (World Bank 1989:xii; see also Klitgaard 1990).

This report coincided with an increasing internal awareness of systemic failures in the Bank's aid effectiveness. In 1992, the Portfolio Management Task Force, led by Bank vice president Willi Wapenhans, issued an internal evaluation of the Bank's lending portfolio over the previous decade. Critically, the Wapenhans Report found that the decline in loan performance was in part due to the kinds of governance failures identified in the 1989 report: the Bank's inattention to borrowers' weak public institutions, inadequate legal frameworks, scarce financial accounting and auditing systems, uncertain policy frameworks, and wide-scale corruption and waste of aid funds (World Bank Portfolio Management Task Force 1992:4). Of particular use to governance advocates was the report's critique of Bank management for neglecting the aspects of governance that represented key obstacles to the implementation and sustainability of development projects. Inattention to borrower country governance was making the Bank ineffective to an extent that its relevance and raison d'être was seriously questioned.

And Then Ignoring It...

Despite this groundswell of attention to governance issues, reception within the Bank remained less than welcoming. The Bank's senior management, strongly socialized into an apolitical operational culture, continued to be extremely cautious. Senior management was particularly concerned that the strong political language would be perceived as a breach of sovereignty in the Bank's client countries (Landell-Mills and Serageldin 1991:307). Indeed, many of the Bank's borrowers openly expressed hostility.[13] As a result of such perceived resistance from the organization's principals, Bank management continued to sidestep governance concerns:

> For many Bank managers, denial was often the easy way out. They preferred to disregard obvious abuses and took at face value borrowers' claims of dedication to honest and efficient government. Signs of poor governance tended to be treated as though they were the outcome not of lack of commitment, but rather of weak capacity, which was to be tackled by structural reforms, technical assistance, and training. (World Bank Operations Evaluation Department 2001:7)

A key obstacle to openly addressing governance issues was the Bank's own charter mandates, which were strictly interpreted at the time by the Bank's general

13. Interview with Bank staff member, April 2000, Washington, D.C.

counsel, Ibrahim Shihata. In particular, in arguments with governance advocates, Shihata and the Bank's management repeatedly invoked Article IV, Section 10, of the IBRD Articles of Agreement, which dictated that "the Bank and its officers shall not interfere in the political affairs of any member, nor shall they be influenced in their decision by the political character of the member or members concerned." Shihata argued adamantly that any effort to pursue an open governance agenda would violate this mandate. Moreover, he maintained, it would damage the Bank's carefully maintained image of a neutral technocracy, which he argued was essential to the organization's external legitimacy.

By 1991, however, the now swelling numbers of staff in the Bank's operational units sympathetic to governance concerns managed to persuade a few of the Bank's senior managers to pressure Shihata to issue a legal opinion that would reinterpret the scope of the governance work with respect to the Bank's Articles of Agreement. Shihata's response reflected the prevailing imperative of upholding the politically neutral facade: "The Bank's credibility and strength has traditionally depended on its status as a quintessential technocracy exclusively concerned with economic efficiency" (Shihata 1991:54). Internal advocates were now bolstered by growing external acceptance of the governance agenda, including from Part I (donor) member states, who were quite interested in promoting notions of good governance (and by default democracy) in the post–cold war environment. The same senior managers renewed their pressure on the very reluctant Shihata to issue a flexible interpretation that would enable the Bank to openly discuss governance issues.[14] To do this, Shihata defined "political" according to the Oxford English Dictionary, as "belonging to or taking a side in politics or in connection with the party system of government; in a bad sense, partisans, factions,...and the political principles, convictions, opinions or sympathies of a person or party" (Shihata 1991:70). This new interpretation opened the door for advocates to justify funding for governance reforms as long as they could argue that such development programs remained essentially consistent with the Bank's culture of lending—driven by apolitical, neutral, and fundamentally economic (rather than partisan) motives.

It's Not Political—It's Technical

Promoting the governance agenda suddenly became much easier within the Bank, now that it was confined to language and modes of argumentation that stripped it of its political content and made it appear a more technocratic task. In particular, advocates hoping to build constituencies within and outside the Bank were very careful to avoid explicit political language in official documents for fear of closing doors they had worked so hard to open. This was especially evident in a 1992 internal task force report, which adopted a carefully limited

14. Interview with Bank staff member, May 2000, Washington, D.C.

and even more apolitical definition of governance than the 1989 report. In the 1992 report, governance is defined "as the manner in which power is exercised in the management of a country's economic and social resources for development" (World Bank 1992:1).

This report identified four specific areas in which the Bank would be allowed to approach governance reform: public sector management, accountability, the legal framework for development, and information and transparency (World Bank 1992:2). The definition was even more carefully stated in a 1994 report, which articulated the constitutive elements of governance as "epitomized by predictable, open, and enlightened policy making (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law" (World Bank 1994:1).

In one of the most sensitive areas of governance—legal and judicial reform—the general counsel was asked once again to define the scope of Bank involvement. In response, Shihata declared that any legal and judicial reform sponsored by the Bank must demonstrate a direct and obvious link to economic development.[15] Responding to anticipated borrower reaction to perceived intrusions on sovereignty, Shihata also argued that all such reforms must be initiated by the country itself and the Bank staff could then respond favorably to a request for loans only if such reform programs could be shown to be directly relevant to the country's *economic* development and to the success of the Bank's lending strategy for that country (Shihata 1991:89). Thus stated, the Bank's promotion of good governance in borrowing countries was intended to be *reactive* and passive.

Internal advocates of governance issues were dismayed by Shihata's legal interpretations. Interviews with staff members present during this time indicate that the Bank's departure from the explicitly political language held in earlier reports was not simply due to concern over the Bank's mandates and external image. The legal decisions paralleled the ideological battles within the organization, dominated by economists who were strongly opposed to the injection of political theories into their economic models.[16] It was this ideological resistance that prompted internal governance advocates to strategically adopt a more conciliatory language, characterizing governance reform as essential to creating an "enabling environment" for the private sector and ensuring the checks and balances needed to guarantee the capacity of governments to implement Bank-financed projects. In this way, governance advocates were consciously constrained by the Bank's economist culture and thus chose suboptimal strategies in order to speak to power and claim a seat at the table at a time when sympathy for their cause was thin.

15. This prompted Bank staff working on legal and judicial reform projects to engage in linguistic gymnastics in order to justify certain components of projects that could have more direct political and social consequences (such as legal education and public awareness campaigns). Interviews with Bank officials, September–October 1999, Washington, D.C., and October 1999, Moscow.

16. Interviews with Bank staff members, April–May 2000, Washington, D.C.

Unsurprisingly, by the early 1990s there was still very weak progress toward mainstreaming the governance agenda. Given the absence of strong, widespread support among the middle and senior management, much less the president and Executive Board, very few resources had been allocated to governance research and operations. The 1992–1993 reforms under President Lewis Preston came close to eliminating institutional resources for governance altogether. Staff members were openly discouraged from addressing governance and related issues such as corruption (World Bank Operations Evaluation Department 2001:7). Nonetheless, the governance issue was not dead. In the words of one Bank staff member, Shihata's opinion allowed governance advocates to keep their foot in the door, insofar as "an economic rationale can be found for almost anything."[17] However, what the governance advocates needed to make a significant breakthrough inside the Bank was a stronger and more visible alliance *within* the senior management to overcome systemic bureaucratic resistance.

Moving the Meaning of Development, Part 2

That push came in 1995, when James D. Wolfensohn became World Bank president. Wolfensohn, a former Australian national and a lawyer and investment banker by training, held little trust for orthodox economists and eagerly sought to champion the governance agenda. He immediately started to challenge the Bank management's resistance to tackling issues of corruption that lay at the core of the governance agenda. In a speech given in 1999, Wolfensohn confessed how difficult this was in the Bank's culture:

> When I came to the Bank nearly five years ago, I was told we did not talk about corruption. Corruption was political. It was the "C-word." . . . But it soon became very clear to me corruption and the issue of press freedom, while they may have a political impact, are essential economic and social issues, both key to development. *So we redefined corruption, not as a political issue but as an economic and social issue.* Corruption is the largest single inhibitor of equitable economic development, and in redefining the issue in this way our shareholder countries reacted very favorably. Indeed, six months later at a meeting of our development committee, ministers all made speeches about corruption and asserted that it was at the core of the problems that affect development. (Wolfensohn 1999:A39; emphasis added)

Sebastian Mallaby, in his biography of Wolfensohn, describes this speech as having the effect of "breaking through the intellectual dam" (Mallaby 2004:176). As a result of Wolfensohn's brutal admonition of the Bank's neglect of governance and corruption problems, senior management finally started to come around. This change was further helped by Wolfensohn's appointment of Joseph Stiglitz as chief economist. Stiglitz, a scholar famous for his work in institutional economics and criticism of the orthodoxy that informed the Bank's past structural

17. Interview with Ian Newport, May 2000, Washington, D.C.

adjustment policies, incited a dramatic turnaround in the Bank's research and hired many new staff trained in institutional economics, legal reform, and public administration (mainly finance). The balance of ideological power started to shift in the Bank, albeit from one variant of economic theory to another.

A series of major publications also indicated that "good governance" was finally finding ground in the Bank's development discourse. In particular, in 1997 the Bank published its flagship *World Development Report* on the theme of the state in a changing world and also issued its first official anticorruption strategy, *Helping Countries Combat Corruption: The Role of the World Bank.* In 1998, the Bank published a report titled *Assessing Aid,* based on the research of widely respected economists David Dollar and Art Kraay. The authors argued that the effect of aid on economic growth was neutral or even negative until countries with "good" economic management were statistically distinguished from those with "poor governance."[18] The study found that with good governance an additional 1 percent of GDP in aid increased growth in per capita income by 0.5 percent and reduced the level of poverty by 1 percent. In countries with poor governance ratings, aid was not found to be effective, owing to a higher chance of its being misused, pocketed, or distorted due to local institutional "incapacity" to deliver public services effectively. This study represented a watershed moment for the governance agenda, articulating a specific economic justification, stated in convincing quantitative terms, for allocating aid selectively on the basis of governance performance. It resonated strongly with the Bank's economists in part because it was quantitative in orientation and did not try to overturn fundamental neoclassical assumptions.

By 1997, in terms of normative advocacy, the governance agenda appeared to have passed the tipping point. This was particularly evident in the rapid institutionalization of governance work and critical victories in terms of securing organizational resources. As part of another massive reorganization of the Bank's management structure, a thematic group on Poverty Reduction and Economic Management (PREM) was created and endowed with a number of staff keenly interested in governance issues.[19] Now one of the largest networks within the Bank, PREM included a separate division for analytical and operational work on the public sector, headed by its own director and sector board. By 2001, the staff of this group (PRMPS) reached fifteen specialists in areas of public expenditure management, tax administration, judicial and legal reform, public administration, institutional assessment, and decentralization. The Bank's legal department was also expanded to include staff devoted to frontline legal reform operations. "Rule of Law" reforms quickly became an extremely popular component of the governance agenda, including in geopolitically critical countries such as Russia.[20]

18. The measurement of "good governance" remains a contested issue. For a full list of governance performance indicators and explanations on how they have been compiled and measured by the Bank, see http://www.worldbank.org/wbi/governance/govdata/.

19. Interview with Rick Messick, April 2000, Washington, D.C.

20. The World Bank sponsored a $98 million legal and judicial reform project in Russia between 1996 and 2000.

By 1997–1998, the good governance agenda seemed to have found a home within the Bank's internal bureaucracy and was well on its way to becoming the conventional wisdom that we recognize today.

Constructing, and Contesting, New Meanings

By the late 1990s, from a materialist point of view, it appeared as if governance advocates were winning the battle. Yet what substantive ideas were these resources mobilized behind? By the end of Wolfensohn's presidency in 2005, there remained considerable doubt within and outside the Bank on the extent to which the organization's embrace of the good governance agenda represented a true paradigm shift in the Bank's collective understanding of development. Although the Bank widely proclaimed a "post-Washington consensus" that largely rested on the acceptance of good governance ideals, skeptics were quick to point out that the emerging flood of Bank research and policies on governance issues contained few critiques of past neoliberal policies (e.g., Kiely 1998; Miller-Adams 1999). Even within operations, the key Country Assistance Strategy papers that set the reform agenda for borrowing countries continued to highlight the traditional list of neoliberal reform policies, including prescriptions for trade and price liberalization, deregulation, and privatization (World Bank Operations Evaluation Department 2001). The original elements of good governance articulated by the seminal 1989 report remained missing.

The ideological tensions that remained within the Bank's culture were evident in many of the Bank's official publications in the late 1990s and early 2000s. Many reports' views of the role of the state in economic development remained antagonistic (consistent with the Bank's orthodox economic ideology), and their prescriptions continued to conform to preexisting organizational norms and laissez-faire ideology (Faundez 1997; Miller-Adams 1999; Naim 2000; Santiso 2001; Pincus and Winters 2002; Marquette 2003). In this framework, a well-governed state was a passive actor in the market, providing public goods, a benign policy environment, macroeconomic stability, and investment in people and infrastructure. Governance reform programs focused (and to a large extent continue to focus) on curbing arbitrary state actions and corruption, achieved by subjecting state institutions to greater meritocratic competition and bureaucratic downsizing, and making the states more responsive to citizen needs by enhancing participation and decentralization. This essentially neoliberal message was reified in the 2000–2001 *World Development Report,* which argued that developing countries should employ governance reform to constrain states from impeding private property rights and engaging in excessive regulation, poor macroeconomic policy, and a restrictive trade regime.

Understanding the contestation of meaning is important not just as an intellectual exercise. For many Bank staff working in this new area, the continued habits of viewing the governance agenda through the filter of the organization's apolitical, technical, and neoliberal economic culture constrained the manner in which the new ideas could be translated into practice. According to

one Bank staff member who later left, the Bank's *official* view of the state by 2002 still lacked a theory of politics and has no forthright examination of power.[21] Emphasis remained focused on the technocratic ingredients of public sector service capacity, and overtly political or cultural factors were ignored. Consequently, the Bank continued to neglect the "intangible (and analytically difficult) social foundations that determine state legitimacy and authority, without which the best of designs for improving state capability are bound to flounder" (Kapur 1998:8). In interviews conducted between 2001 and 2005, Bank staff members readily admitted (off the record) that governance reforms did not fit the Bank's apolitical and technical modus operandi. However, they also explicitly recognized that sustaining the myth of governance and anticorruption as essentially "economic" and "technical" problems was necessary for the issues to gain a prominent position among the Bank's competing policy paradigms.[22] This intellectual framing, which resulted from the internal ideological battles that shaped the governance agenda's path of meaning, in turn has had a profound effect on the path of practice. By fitting good governance into a neoliberal framework, it has necessarily reduced the scope of policy to that which fits the preexisting script and set of routines.

From Contested Meanings to Contested Practices?

Nevertheless, if one were to contrast the Bank's current operational efforts in the area of governance and anticorruption reforms to its efforts ten or fifteen years ago, the differences would be stark. Today the Bank claims to have mainstreamed (in organizational parlance) the governance concept into practice. For example, between 1990 and 2006, governance (including anticorruption work) accounted for a growing portion of the Bank's total loan portfolio. According to the Bank's own accounting and reporting methods, total expenditures for public sector and legal reform work totaled 20.0 percent of all lending in 2006, up from 0.6 percent in 1995. Since 2005, governance assessments have been mandated within the key Poverty Reduction Strategy Papers and Country Assistance Strategy papers, and several new operational policies have been instituted to increase attention to governance and anticorruption issues. The World Bank Institute, under the leadership of Daniel Kaufmann, developed the Governance Indicators to provide a relative measure of governance and institutional quality in developing countries, aggregate scores that are now widely used by many aid organizations in their allocation decisions. In 2006, the Bank's Board of Executive Directors adopted a new Governance and Anticorruption Strategy Paper, which espoused a renewed commitment to mainstreaming and

21. Interview with Mari Kuraishi, April 2000, Washington, D.C.

22. This point was reiterated in several interviews with Phillip Keefer, Rick Messick, Mari Kuraishi, Linn Hammergren, in addition to several other Bank staff members who wish to remain anonymous. April–May 2000 and July 2005, Washington, D.C.

enhancing the Bank's governance and anticorruption work (World Bank 2006). Despite this seemingly rapid transformation from prohibition to prominence, the path of practice—the operationalization of the governance agenda post-1995—has been strongly contested, both within and outside the organization. From a purely constructivist point of view, as alluded to above, we can clearly discern the constraining influence of the Bank's operational culture and dominant ideas, as well as the legacy of the intellectual battle in the path of meaning.

However, it is also evident that the Bank's growing attention to these issues in the Wolfensohn era sparked interest outside the Bank that in turn mobilized external sources of pressure both in favor of and against the governance and anticorruption agenda. As I explain elsewhere (Weaver 2008), the push and pull of donor versus borrower states, bolstered by nongovernmental organization (NGO) mobilization around the anticorruption agenda, fits well into a rationalist principal-agent model. This model would hypothesize that the Bank's troubled progress toward mainstreaming, as evident in what principal member states viewed as the reluctance of Bank management and staff to push governance reform on recalcitrant borrowers or their persistent "tolerance for corruption" in aid programs, was a result of principal preference heterogeneity or weaknesses in the ability and willingness of powerful member states to oversee the Bank's compliance with governance and anticorruption policy commitments. In particular, external political interest surrounding the Bank's governance and anticorruption work started to firm up and then diverged in the late 1990s, with most donor states (incited by NGO campaigning) expressing broad support for increased lending for governance and anticorruption, while many important borrower states openly objected to the overt political interference represented by the agenda. The Bank, caught between a proverbial rock and a hard place, responded by enacting a series of espoused policies to appease the donors, which, on scrutiny, were not fully upheld in practice to appease the borrowers. The path to practice was thus riddled with political uncertainties, inconsistencies, and hypocrisy.

The principal-agent model does not, however, provide sufficient explanatory power in this case. Mostly, it is a simple empirical matter of timing. As previously argued, there was not significant state pressure on the Bank with regard to its governance and anticorruption activities until well after the emergence of internal pressure to mainstream the agenda. In fact, principal preferences remained relatively weak and diffuse well into the Wolfensohn era, and intensified only when Paul Wolfowitz, Wolfensohn's successor in 2005, tried to champion the anticorruption agenda by canceling high-profile loans and blacklisting allegedly corrupt borrowers.[23]

It is only by reference to a constructivist approach that delves deeply into the dynamics of the Bank's internal culture, its cognitive frames, and dominant ideas that we can see how actors within the bureaucratic environment responded to

23. Notably, Wolfowitz's action earned him little acclaim outside the United States and actually served to undermine the European donors' support for the anticorruption agenda. See Weaver 2008:131–137.

the task of translating new ideas into practice. First was the difficulty operational staff faced in working with the constructed meaning (definition and body of theoretical evidence) of governance in development, which provided little justification for reallocating or building new resources toward this end. Second was the clash of the new agenda's imperatives with the Bank's preexisting operational culture, whose norms, incentives structure, and routines did not mesh well with the nature of institutional reform and political commitment demanded in governance reforms and fighting corruption, and quickly proved an ill fit with the task of actually devising and implementing governance and anticorruption reforms in developing countries.

With respect to the first argument, the mechanistic, technocratic, and apolitical language permeating the evolving discourse of good governance "place[d] enormous faith in the powers of formal rules, organizational structures, and technological innovations to reorient behavior of economic actors in developing countries" (Burki and Perry 1998:13). The institution building at the heart of governance reforms was largely seen as a matter of creating the right incentives through formal rules, a view that neglected Douglass North's insights about informal institutions and left the Bank's governance approach acultural, ahistorical, and overconfident in the ability of aid providers to design and predict the direction and pace of institutional change.[24]

The framing of governance work in economic terms also directly affected the way material resources were invested in the new agenda, which on close examination revealed little change in *who* the Bank was hiring in new sectors despite the purported substantive shift in its research and operational focus toward governance issues. Staff members I interviewed between 2000 and 2005 attribute this to the pervasive distrust and cynicism the Bank's economists had for "social and political scientists." In the words of one economist in the Bank's research department I interviewed in 2000, "Why do we need political scientists? We're not interested in voting behavior."[25] Indeed, even five years after Wolfensohn claimed to have broken the taboo and signaled his commitment to the governance and anticorruption agenda, social scientists within the Bank were few and far between in comparison with economists, engineers, and business and finance specialists. The few that have been employed sporadically throughout the research and operations departments have been put to work on grassroots-level issues, leaving an absence of systematic work on the sociology and politics of institutional development at the important level of policy formation. According to the 2001 internal evaluation of governance mainstreaming in the Bank:

> Good governance is the product of complex political, social, economic, and cultural factors. Good analysis of governance problems requires skills in all these areas. However, to date the Bank is preeminently an organization of economists and is

24. Interview with Rick Messick, April 2000, Washington, D.C., and personal correspondence with Linn Hammergren, 3 July 2000.

25. Interview with Bank staff member, April 2000, Washington, D.C.

> dominated by economic thinking. Its 100-odd social scientists are deployed almost exclusively at the project level to undertake beneficiary analysis and oversee work on participation and involuntary resettlement. The Bank's handful of political scientists are largely marginalized. (World Bank Operations Evaluation Department 2001:54)[26]

Likewise, for staff who were hired to work on governance issues, there was still the problem of how to talk about it. The politics of borrowing countries had always been the subject of intense discussion behind closed doors, yet staff members still perceived an implicit taboo against open discussion, including within now publicly available technical assistance papers and other project documents.[27] "Political analysis [was] treated as a luxury and is not debated openly."[28] As a result, the internal advocates of governance issues (many of whom are the marginalized social scientists identified by the Operations Evaluation Department [OED] 2001 report), succeeded most in promoting governance issues in operations only where they were able to find a way to couch these issues in terms that appealed to the "economist types" in senior management (internal correspondence 2005; Cernea 1995; Woolcock 1998; McNeill 2001; Bebbington et al. 2006). In the words of one staff member, a key problem in getting governance research and operations off the ground was that "in the Bank, non-economists are treated like second-class citizens."[29]

These biases and habits in governance research tended to neglect the non-quantifiable political, social, and cultural aspects of development. As a result, the early diagnostic tools that were vaunted as evidence that the Bank was taking the governance agenda seriously, such as the new Public Expenditure Reviews and the Institutional and Governance Reviews, were not perceived as useful by operational staff (and thus were rarely used).[30] Full "buy-in" by country directors—the most important locus of resource decision making in the Bank—also remained uneven. The 2001 OED evaluation revealed that there was still a general feeling among staff that resources for the professionalization training in governance issues were woefully inadequate (as evident in the reduction of the budget for public sector training in the late 1990s). In a 2000 survey, only one-third of staff members questioned felt that they had sufficient training to carry out governance programs, and only 13 percent thought the Bank had

26. Even by 2001, when the governance agenda had been fully embraced in Bank publications, the total number of people employed in the public/private sector of the Bank came to only 125 out of the total staff of 6,411 at the Bank's headquarters. Moreover, despite the visible increase in legal and judicial reform as one of the primary pillars of governance reform activities, the number of legal and judicial specialists in the Bank is estimated at around fifteen individuals (World Bank 2002:64).

27. Interview with Mari Kuraishi, April 2000, Washington, D.C.

28. Interview with Pierre Landell-Mills, May 2000, Washington, D.C.

29. Interview with Bank staff member, April 2000, Washington, D.C.

30. World Bank Operations Evaluation Department 2001 and interviews with Bank staff members, April 2002 and June 2004.

enough specialized staff to do the required work (World Bank Operations Evaluation Department 2001:25).

When the New Mainstream Meets the Old

Recently, the most publicized cultural resistance has been in the area of anticorruption programs. Bank management and staff, by and large, do not deny today that corruption is a problem for developing countries. But there has been strong and growing bureaucratic resistance to some of the chosen strategies for pushing the anticorruption agenda on reluctant borrowers, and this has led to a renewed critical reflection on the Bank's appropriate role in governance and anticorruption programs. In particular, internal (and external) resistance against the Bank's foray deeper into anticorruption activities surfaced in the aftermath of Wolfowitz's speech on good governance in Jakarta, Indonesia, in April 2006. In his speech, Wolfowitz stated his intention to dramatically make up for the Bank's previous failures to meet the goals of the governance and anticorruption agenda. He promised to substantially increase staff resources, issue more loans for public sector reforms, and exercise more oversight over what he saw as the Bank management's "inconsistent application of governance and anticorruption concerns across country programs" and inattention to "results-oriented change at the frontline of Bank ground operations" (Wolfowitz 2006). But most controversially, Wolfowitz sought to signal the Bank's growing commitment to good governance and anticorruption by unilaterally (often preempting Board consideration) canceling or withholding loans to corrupt governments.

Some Bank staff and management supported this bold move, but a majority felt that Wolfowitz's policies went too far and threatened to endanger Bank staffs' ability to continue working with many borrowing governments. Simply put, Wolfowitz had deviated too far from the Bank's apolitical and technical culture. To many staff (and some of the donor states), withholding Bank loans from corrupt governments only "made the poor pay twice," and some even went so far as to argue that some tolerance for corruption in aid programs was necessary to meet the Bank's broader development objectives (de Tray 2006; Benn 2006). Wolfowitz's intention to champion the agenda thus backfired, catalyzing a growing skepticism about the Bank's role in governance and anticorruption programs instead of mobilizing a broader base of support. The new governance and anticorruption strategy paper, released a few months after his speech, met with a "bruising reception" at the annual meetings of the Bank's Board of Governors in Singapore in September 2006. It seemed that a tenuous consensus had been reached regarding the essential role of good governance and anticorruption in development. But by the end of Wolfowitz's short administration in May 2007, and even today, what this means in terms of actual policy is hotly contested and uncertain. To invoke Laitin's (1986) terms again, the ideational "points of concern" in the development community have shifted significantly,

but that certainly does not mean that all actors' positions have converged within the shifted debate.

Conclusion

If we have learned anything from the current global financial crisis, it is that we need to be constantly problematizing our collective ideas about the way the world economy does and should work. This, to my mind, is the invaluable contribution of a constructivist approach to IPE. In order to deconstruct and critique what we perceive to be conventional wisdom, such as the notion that good governance is central to progress in socioeconomic development or that capital account liberalization and trade openness is required for sustained economic growth, we need to understand how we arrived at such taken-for-granted notions. Ideas and practices in the world economy are not natural and immutable constructs. They are social and political constructions, and as such they can be, and often are, reconstructed. We are better positioned to analyze and perhaps contribute to this dynamic process if we can develop a framework for observing how (and by whom) such construction occurs.

I have argued in this chapter that international financial institutions play a central role in defining and enacting the ideas and practices that drive the world economy, and I set out to demonstrate this through a case study of the World Bank's governance agenda. I argued that a constructivist approach, with its focus on nonmaterial structures such as bureaucratic culture, provides persuasive tools for analyzing these questions. It opens up for analysis the intellectual and material battles that characterize organizational life, distilling the complex processes of socialization and persuasion among management and staff, and in the end provides a much richer explanation of paradigm shifts in IOs than conventional rationalist and material approaches that tend to leave the black box sealed.

Perhaps most important, it shows us how the politics of construction are central, not peripheral, to so-called battles of material interests. That the ideas of the new governance agenda were not adopted whole cloth does not show how such ideas and their attendant constructions are unimportant. Rather, it shows how the power of old ideas and constructions, as embedded in organizational cultures, scripts, and routines, can nullify or redirect new claims and new ideas armed with the best evidence. That these old ideas proved relatively impervious to disconfirming facts ranging from the failure of structural adjustment to the current financial crisis surely shows that what outcomes "mean" to actors, even, if not especially, economic actors, is perhaps most central of all to our putatively economic concerns.

3

Institutionalized Hypocrisy and the Politics of Agricultural Trade

Mlada Bukovansky

Agricultural trade is often seen as a policy area where short-term self-interest (protectionism) is pursued by those who are able to do so (the rich), cloaked in a hypocrisy that trumpets the value of liberalization. But the meanings of agriculture and of protection are highly contested among different parties to the World Trade Organization (WTO). Such differences are especially stark between the developed and developing countries, though increasingly the developed countries, and especially the United States and the European Union, find themselves just as much at odds. Hypocrisy is rife in the WTO, and not limited to the rich and powerful. In fact, it is hard to imagine the WTO (or any complex institution) surviving without it; hypocrisy often seems like a practical convention among the parties.[1]

However ubiquitous, hypocrisy is a complex phenomenon that must be carefully interpreted rather than simply written off as a power play or as bad behavior. To this end I develop and deploy a constructivist approach to understanding hypocrisy in international trade, aiming to integrate realist and liberal insights about how to "read" hypocrisy in international institutions. Such integration helps us to understand in greater depth than would be possible with materialist and rationalist insights alone the political contestation taking place within institutions. This in turn allows for more informed speculation about the status and legitimacy of the WTO after the collapse of the Doha Round of trade talks.[2]

I am grateful to Jacqueline Best, Patrick Jackson, Peter Katzenstein, Michael Lipson, Len Seabrooke, Kate Weaver, Greg White, and especially Mark Blyth for comments on various iterations of the argument presented here. I also benefited greatly from discussion of earlier versions presented at American University, Northwestern University, Columbia University, University of Massachusetts at Amherst, and Smith College. Christa Daly and Katey Pillars provided excellent research assistance.

1. I am indebted to Mark Blyth for this articulation.

2. I use the term "legitimacy" to connote beliefs that an institution or policy is right and proper, while acknowledging that standards of legitimacy will vary across time and context (Bukovansky 2002; Seabrooke 2006).

Hypocrisies of Agricultural Trade

I discuss definitions of hypocrisy below, but it suffices for now to work from a commonsense definition of hypocrisy as the concealment of base motives behind claims to virtue. The nongovernmental advocacy group Oxfam International has epitomized the political act of "calling out" the rich countries on their hypocritical approach to agriculture, maintaining that such hypocrisy has been detrimental to institutional legitimacy. In 2002, as part of a campaign titled "Make Trade Fair," Oxfam published "Rigged Rules and Double Standards: Trade, Globalization, and the Fight against Poverty."[3] The report argued: "Measured by the criterion of wealth creation, the strength of the international trading system has reached an unprecedented peak. Yet the legitimacy of the rules and institutions which govern that system has never been weaker" (Watkins et al. 2002:26). The explanation for this crisis in legitimacy, the report claims, is the "double standards and hypocrisy of Northern governments" in pursuing a liberalization agenda abroad while protecting their own domestic producers; agricultural protectionism is a central component of this hypocritical stance (Watkins et al. 2002:26 and passim).

A scholarly study published the same year (Steinberg 2002) argues that consensus decision rules in the WTO, and the attendant norm of sovereign equality, constitute instances of "organizational hypocrisy" (also see Brunsson 2002) which conceal the power asymmetries that set the agenda and substantially affect the bargaining outcomes of trade negotiations. In contrast to the Oxfam argument, Richard Steinberg sees hypocrisy as a device serving to validate rather than undercut the legitimacy of the trade regime because it puts a velvet glove of multilateralism on the iron fist of power asymmetry, making the asymmetry more palatable.[4]

The hypocrisy argument as articulated in the Oxfam report has gained substantial traction in the media and policy circles, as discussed in more detail below. At the same time, few in the mainstream seem ready to give up on the WTO despite the collapse of the Doha Round, and at least some pretense to sovereign equality remains robust. As J. Michael Finger writes in the classically liberal *World Trade Review* (2007:135), "The WTO, we hope, is an institution that mutes the importance of raw power—provides a system for working out problems among countries in which the interests of smaller countries are not always overwhelmed by those of the larger."

Given all this, should we conclude that hypocrisy undermines or upholds the legitimacy of the WTO? Is hypocrisy, like etiquette, a necessary social balm,

3. This report was subsequently published as a book (Watkins et al. 2002).

4. A related argument may be derived from Judith Goldstein and Lisa Martin's cautionary stance that increased legalization in the WTO, and the consequent decrease in flexibility and ambiguity of trade rules, may actually hurt rather than help liberalization because it motivates domestic protectionist groups to mobilize (Goldstein and Martin 2000). Like hypocrisy, ambiguity may keep actors in a regime when greater clarity would foster domestic resistance and pressure to stall further liberalization. On ambiguity as a positive aspect of international institutions, see Best 2005.

papering over differences and disparities so as to make a modicum of social cohesion possible? Or alternatively, is hypocrisy corrosive of legitimacy and the social cohesion required to sustain it? This chapter works through these opposed ways of interpreting disputes over agricultural trade liberalization in the WTO, and builds on them to develop a constructivist approach to hypocrisy. Such an approach refocuses our attention on the politics underpinning negotiations and conceives of politics not just as power politics but, as is common in meaning-oriented constructivist analyses, contestation over ideas about legitimate social purpose. In the process I also wish to push the constructivist view of norms beyond the simplistic claim that norms matter and into the more difficult terrain of the strategic use of norms, acknowledging head-on the pervasiveness of deception and hypocrisy.

While realists and rationalists might both be comfortable with the notion that hypocrisy is useful for strategically concealing harsh realities or true motives, they may have a harder time with the argument that accusations of hypocrisy—especially those leveled by the weak at the strong—undermine the legitimacy of an international regime. But the fate of the Doha Round of trade talks suggests that there may be a limit to the effectiveness of hypocrisy in sustaining a multilateral order. When the hypocritical veneer involves, as WTO negotiations do, legally binding rules and decisions, as well as publicity, then even strong players may be vulnerable to the rhetorical force of accusations of hypocrisy.[5] Such accusations may elicit shame, which may in turn constrain the behavior of even the powerful. Alternatively, such accusations may reveal a deeper rift in perceptions of the broader aims and purposes of the regime. In that case, the rhetorical force of accusations of hypocrisy may actually deepen divisions between actors rather than paper them over or bring opportunists back into line.

It is difficult to explore the relationship between hypocrisy and legitimacy within a materialist or rationalist framework of analysis because such frameworks do not adequately analyze the nonmaterial underpinnings of legitimacy, and especially of *contested* legitimacy. Realists treat legitimacy and norms as by-products of power. Neoliberal institutionalists focus their analyses on norms and institutions but assume that the legitimacy of those norms and institutions is derived from their capacity to serve and coordinate the long-term interests of their participants. Legitimacy in this view is defined in terms of, and resides within, the rules and institutions themselves. This makes "illegitimate" activity a compliance problem, not a struggle over legitimate social purpose.

The constructivist view I develop here differs from the neoliberal view by challenging the assumption that legitimacy is simply a characteristic of institutions and norms. Because of hypocritical evasion and opportunism, institutions, rules, and norms cannot in themselves define legitimacy; rules may remain on the books long after practice has passed them by and people no longer respect

5. By rhetorical force, I mean the capacity of words to constrain subsequent action by referring to a rule or norm, thereby introducing or reinforcing a normative constraint on action.

them—are they then legitimate just because they are rules? We must look more closely at how the legitimacy of institutions and rules is contested because this may reveal the birth of alternative articulations of legitimate practices. Further, the process of contesting legitimacy is not just an exercise in the use of material power; in a rule-rich context such as international trade, it is also an exercise in rhetorical strategy, legal argument, and persuasion.

The latest round of WTO trade talks, the Doha Round, began to stall out at the Cancún ministerial in 2003 and as of this writing appears to be unofficially dead.[6] The 2005 Hong Kong ministerial and subsequent high-level Geneva negotiations in 2006 and again in 2008 failed to make significant progress toward any new agreement on liberalization, and the negotiating energy of trade ministries, such as it is, has shifted to regional and bilateral accords. As a global recession took hold in 2009, protectionism was on the rise (Gamberoni and Newfarmer 2009). Although there have been numerous points of disagreement among the negotiating parties, agriculture has long been the major sticking point. At Cancún, a coalition of developing countries and agricultural exporters who wanted more progress in liberalizing agricultural trade evoked the norm of liberalization to accuse the EU and the United States of not living up to their own standards (*Economist* 2003:11; Clapp 2006). The demands of the so-called G-22[7] focused on ending many forms of trade-distorting agricultural support by wealthy countries, including the slashing of subsidies and the removal of some of the ambiguities and loopholes from the notoriously loophole-filled text of the Uruguay Round's Agreement on Agriculture (URAA). The European Union, Japan, and the United States initially resisted much of this pressure, seeking to focus the talks on the so-called Singapore issues of cross-border investment, competition policies, trade facilitation, and government procurement. After this proved to be a nonstarter, wealthy countries turned instead to issues of market access and reciprocity, in the process revealing deep disagreements among themselves as to how to make progress on agricultural subsidies and supports.[8]

Although in the last days of the Doha Round the wealthy countries began to change their tune, it was too late to break the long-standing impasse (*Wall Street Journal* 10/8/07:A18). Developing countries in turn had hardened their positions, and the talks foundered in the end on the issue of special safeguard mechanisms—tariffs allowed for developing countries facing floods of low-price imports (Batson 2008:A10). Commentary almost universally noted the growing clout of developing countries in the WTO, especially the emerging powerhouses of Brazil, India, and China, but the assignment of blame to any specific state party is very much a political game.

6. The Doha Round has not been officially declared dead as of this writing. See http://www.wto.org/, accessed on 29 April 2009.

7. Not to be confused with the G-20 of finance ministers. It was sometimes referred to as the G-21; coalition members varied but included many developing countries, and especially India, Brazil, South Africa, and China.

8. A useful summary can be found in United States Government Accountability Office (2007).

A constructivist account of the WTO impasse over agricultural trade can move the scholarly discussion beyond the analysis of rule compliance, bargaining power, or whose interests are best served by the trade regime, which tend to be the preoccupations of materialist accounts. The compliance issue has taken a backseat to the formulation of ever more complex negotiating texts. The baroque intricacy of such texts, and the plethora of qualifications and exceptions (normal in any international negotiation, but surely reaching new heights with Doha), suggest that sidestepping has come to replace forward movement. Accusations and counteraccusations of hypocrisy in agricultural trade negotiations signal that the parties have deeply incommensurate approaches to agriculture and the role of government in relation to agriculture.

Defining and Interpreting Hypocrisy

The *Oxford English Dictionary* (1989) defines hypocrisy as the "assuming of a false appearance of virtue or goodness, with dissimulation of real character or inclinations, esp. in respect of religious life or beliefs; hence in a general sense, dissimulation, pretence, sham." Most definitions of hypocrisy are built on notions of disparity or dissonance, whether between word and deed, rhetoric and reality, or publicly accepted norms and actual behavior. I accept that some sort of dissonance is integral to the definition of hypocrisy, but I do not assume that this dissonance is between "rhetoric" and "reality." Instead, I proceed from the proposition that central to the definition of hypocrisy is a disparity between different frameworks for guiding and interpreting behavior. That is, hypocrisy connotes the existence of conflicting sets of rules, norms, and social purposes. Thus a hypocrite feels it necessary to claim to be abiding by one set of norms and purposes when in fact she is being guided by a different set of norms and purposes, rather than simply being driven by material incentives and hiding that fact with normative pretenses.

This proposition is consistent with a relatively "thick" constructivist argument about the social construction of not only cooperative behavior but strategic and conflict-prone behaviors as well. In this view, self-interest is just as much a social construct as altruism. Altruism and self-interest are different reasons for action, but both are reasons and both rely on sociolinguistic frameworks of meaning in order to be understood.[9] Either one can be faked or used in a dissimulating manner—even self-interest, as when a person devoted to a cause cannot bear to admit it to more cynical friends and thus feigns self-interest in pursuing it. Of course, such a situation is less likely than the pretense to altruism in the service of self-interest, but the point is that one cannot simply be reduced to the other. Moreover, if actors bargaining over interests in institutions end up

9. This should hold true even if it can be shown that there are biological or neurological bases for selfishness and altruism, as the communication of these motivations and their expression as reasons and rationales is a social act.

changing their interests in the process, then interest itself is clearly a social construct. Institutions are arenas for contending visions of rectitude and legitimate social purpose, as well as for different interests. From all this it follows that we cannot reduce norms to mere covers for interest on the grounds that interests are somehow more "real" while norms are more "rhetorical." Both norms and interests, insofar as they constitute reasons for action, are socially constructed (Kratochwil 1989).

The appearance of hypocrisy within an institution may indicate that the institution is subject to a variety of pressures and purposes pulling in different directions, rather than signal an intentional dissimulation about what sorts of norms are guiding the policies of some of its members or of the institution itself. "Institutional hypocrisy" may thus be very different from the hypocrisy of an individual, and the former may not deserve the moral condemnation we often level at the latter. Nils Brunsson (2002:8) offers a sociological articulation of the problem: "Different interests in the environment demand different things of the organization, both regarding products and ways of producing them. Various professional groups inside and outside the organization have different ideas about how the organization should be run. All these demands not only differ from one another, they may well be difficult or impossible to combine." Given the complexity of contradictory demands in modern multilevel organizational environments, hypocrisy may be seen not only as a functional response to institutional strain, but as a useful convention that, even if it doesn't quite reconcile the irreconcilable, at least renders that irreconcilability tolerable.

However functional hypocrisy may be, it creates vulnerabilities (Weaver 2008). People at times "call out" or expose ambiguous state policies as hypocritical, and level accusations of hypocrisy at policymakers representing states and international institutions. Such a rhetorical strategy is enabled by an international policy domain governed by norms and institutions that can be used as measures by which the legitimacy of state policies is judged. If hypocrisy, deceit, and duplicity are uncovered, this opens up the possibility not only of condemning the violators for noncompliance, but also of challenging the legitimacy of the institution itself. Accusations of hypocrisy differ in important ways from accusations of noncompliance.[10] But noncompliance is often the primary preoccupation of materialist and rationalist accounts of rules.

Hypocrisy thus produces a certain form of vulnerability to public criticism. It is in this way that it brings with it the risk of undermining the legitimacy of international (or indeed any) institutions. But when might it do so? To address this question, I present three alternative interpretations, derived from existing traditions in political theory and international relations, by which we might interpret hypocrisy: a realist framework, a liberal framework, and a constructivist framework.

10. In some ways they may be more damaging, a situation compellingly explained by Judith Shklar (1984) in her essay on hypocrisy, discussed below.

Realism: Princely Hypocrisy

For Stephen Krasner, as for many other realists, hypocrisy is about the disparity between rhetoric and reality, and we should stop being fooled by the former and pay closer attention to the latter. Material interest and power motivations, which in Krasner's view operate according to a "logic of consequences" rather than a "logic of appropriateness," have stronger causal force than do normative motivations, at least in the international system (1999:5, 10). For most realists, the fact of hypocrisy dictates skepticism regarding normative motivations; normative claims cannot be taken at face value, and because of this, we need to dig beneath them to uncover motives and interests that are far less likely to be articulated in public because of their lack of legitimacy and acceptability. These unsavory motives are the driving forces of politics.

Hypocrisy is thus a prerogative of power in the realist worldview. Machiavelli's Prince is encouraged to simulate virtues that would be disastrous for him actually to possess because that is one way he maintains his grip on power: "it must be understood that a prince, and especially a new prince, cannot observe all those things which are considered good in men, being often obliged, in order to maintain the state, to act against faith, against charity, against humanity, and against religion." But although it is not necessary for a prince to have the qualities of faith, charity, and the like, "it is very necessary to *seem* to have them" (Machiavelli 1950:65; my emphasis). Ever since Machiavelli dared to articulate this justification of princely hypocrisy, it has been routinely evoked both as an observation of how rulers actually operate and as a justification for the necessary cruelties they must commit in order to preserve the state.

Liberalism: Hypocrisy and Shame

In contrast to the realist view, the political theorist Michael Walzer has made the argument that hypocrisy is essentially the tribute vice pays to virtue, and hence a testament to the power of shared norms in social life. In his *Just and Unjust Wars,* Walzer argues, "The clearest evidence for the stability of our values over time is the unchanging character of the lies soldiers and statesmen tell. They lie in order to justify themselves, and so they describe for us the lineaments of justice. Wherever we find hypocrisy, we also find moral knowledge" (1977:19). Neta Crawford (2002) has made a similar argument, explicitly drawing on Walzer, in discussing the impact of ethical arguments about human rights and equality in propelling changes in slavery and colonialism. Even when norms of human equality were used as hypocritical cover for less than virtuous action, Crawford, like Walzer, interprets that hypocrisy as the homage vice pays to virtue. In Crawford's account, virtue wins in the end, at least with respect to slavery and decolonization, because the ethical arguments made by those advocating progress in human rights ultimately had concrete effects on policy. The hypocritical use of human rights arguments as cover for other sorts of policies and interventions

is, from this perspective, ultimately less important than the ethical force of the arguments themselves.

Even liberal theorists who work in the rationalist and institutionalist traditions seem to suggest that hypocrisy is a source of shame. For example, the acknowledgment that reputation matters in international institutions implies that a "bad" or shameful reputation ought to be avoided (Goldstein and Martin 2000; Alvarez 2002). Indeed, it also follows from a rationalist perspective that hypocrisy, when detected, undermines the credibility of an actor's commitment to an agreement, and may therefore undermine the viability of an institution grounded in such commitments. In such an articulation, hypocrisy is still the tribute vice pays to virtue, but it may also erode the reliable practice of that virtue over time. This more pessimistic liberalism is nevertheless in agreement with Walzer's "tribute" theory on the key point that everyone can pretty much agree on what constitutes virtue and what vice.

Constructivism: Hypocrisy, Ideological Conflict, and Mutual Inaccessibility

Judith Shklar's (1984) work suggests a third way of interpreting hypocrisy, which I find useful for developing a constructivist approach.[11] Shklar directly challenges Walzer's claim that the practice of hypocrisy reveals the existence of shared moral knowledge; rather, in some instances it may be just the opposite:

> Walzer can accuse the military strategist of hypocrisy only because the latter often does have to face accusers *who differ from him in every relevant respect*. Faced with publics that do not share his approach to war or political combat, the strategist pleads necessity and takes other measures to evade criticisms. That hardly implies that he accepts the validity of these reproofs, especially as they usually come after the event. (82; my emphasis)

In this view, practitioners of realpolitik and those who accuse them of hypocrisy are operating in two different moral universes, and the imputation of hypocrisy "does not imply shared knowledge, but mutual inaccessibility" (Shklar 1984:81). Shklar acknowledges that there are times when charges of hypocrisy are made by people who share moral knowledge and "agree about the ultimate purposes of politics. When that happens the hypocrite is, however, not said to be just feigning virtue—he is also accused of covering up a crime" (84).

Shklar's critique of Walzer would at first glance seem to support Krasner's distinction between a logic of consequences (governing the actions of a statesman) and a logic of appropriateness (governing the moral universe of the public audience that accuses the statesman of hypocrisy). However, although

11. I should acknowledge that Shklar is a liberal, though not of the sort we find in rationalist, neoliberal international relations today.

Shklar denies that these two actors—the statesman and his democratic public audience—share common moral ground, she does not claim that one's motivations are more "real," or more causally efficacious, than the other's. They are simply different, and what is interesting about the charges of hypocrisy that are exchanged between the parties is the political dynamic such charges entail. Charges of hypocrisy in this context of ideological conflict, of disagreement about morals and the ultimate purpose of politics, evoke a politics in which character assassination rather than reasoned argument takes center stage.

> When political actors disagree about right and wrong, and everything else, they can only undermine each other with the revelation that their opponent is not living up to his own professed ideal. It is not difficult to show that politicians are often more interested in power than in any of the causes they so ardently proclaim. It is, therefore, easier to dispose of an opponent's character by exposing his hypocrisy than to show that his political convictions are wrong. (Shklar 1984:47–48)

This sort of exchange feeds on itself. "In the unending game of mutual unmasking, the general level of sham rises. As each side tries to destroy the credibility of its rivals, politics becomes a treadmill of dissimulation and unmasking" (67). The results of such politics are not likely to be progressive reconciliation, but rather increasing confusion and "sham" wherein any real progress toward reconciling different interests has stalled.

I do not classify Shklar with the realists because I argue that both the reality of a world of reasoned argument and shaming and the reality of a world of mutual incomprehension are constructed by the types of ideas and rhetoric actors throw into the field. As Victoria Kahn puts it: "The rhetorician's abuse of power presupposes a notion of language that does not simply represent but rather constructs the world as we know it.... In providing us with the means of force and fraud, and legitimation of the status quo, such rhetoric simultaneously gives us the power to dissent" (Kahn 1994:239–240). For scholars such as Kahn and Shklar, and for constructivists as well, the fact that political leaders use hypocritical rhetoric in power struggles does not automatically lead to the conclusion that rhetoric is therefore not worth studying; just the opposite. The use of rhetoric to conceal other motives is a coercive technique that carries with it certain risks. The audience toward which the rhetoric is directed has a choice of whether or not to believe it, even if they have no choice about complying with the commands of the speaker. If they choose not to believe the rhetoric, then their compliance may be half-hearted, as in passive resistance (see Scott 1985), or they may find a way to use the rhetoric against the actor who deployed it. We see this happening all the time in politics. The trick for analysts, then, is to determine which sort of dynamics are taking place in the mutual recriminations that have been flying in the context of the World Trade Organization negotiations on agricultural trade liberalization—Walzer's and Crawford's dynamics of argument within a shared moral universe or a politics of mutual incomprehension and character assassination.

The answer is that a little of both—shared norms and mutual incomprehension—can be gleaned from examination of the WTO negotiations on agriculture. But I argue that hypocritical evasion of WTO regime norms on agricultural trade, and the accusation that such evasion is taking place, signals a legitimacy contest between both major and minor players in the regime, and this legitimacy contest should be further analyzed in an attempt to uncover the parties' different visions of the broader social and political purposes of agricultural production and exchange.[12] I am not claiming that arguments about the social purposes of agriculture were the sole or even the primary cause of the failure of the Doha Round, but rather that such arguments help to explain why reaching agreement has been so difficult. It is not primarily the fact that parties have not complied with their WTO obligations which threatens the legitimacy of the institution; it is the fact that the parties cannot agree on its underlying social purpose, and nowhere is this more evident than in the debates over agriculture.

Calling Hypocrisy Out

Widespread public exposure of the impact of rich-country subsidies on poor-country economic performance has given a great deal of traction to the hypocrisy accusations articulated in the Oxfam report "Rigged Rules and Double Standards." The "calling out" process has not been limited to leftist journals. The *Wall Street Journal* has decried "subsidies to U.S. farmers, which help depress global prices of some vital cash crops that developing countries count on" (Thurow and Kilman 2002:A1), focusing attention on U.S. cotton subsidies and both EU and U.S. sugar subsidies (Thurow and Winestock 2002:A1), as well as on the global distortions of the rice market (von Reppert-Bismark 2006:A5). Stories and opinion pieces regularly appear in U.S. and international newspapers decrying impact of rich-country agricultural policies on the welfare of poor countries. In the United States, such opinion pieces are a regular feature every time a Farm Bill comes before Congress—most recently in 2001–2002 and 2007–2008.

Before the spike in food prices that began in 2007, an intellectual consensus had emerged among academics and many policymakers that agricultural protectionism of wealthy countries hurt developing countries, though there has been disagreement as to how much and in what ways. The Oxfam report, for example, made the claim that "when developing countries export to rich-country markets, they face tariff barriers that are four times higher than those encountered by rich countries. Those barriers cost them $100bn a year—twice as much as they receive in aid." Further, "if developing countries increase their share of world exports by just five percent, this would generate $350bn—seven times as much as they receive in aid" (Watkins 2002:5, 8).

12. In this vein see also Seabrooke's (2007) argument about legitimacy gaps and everyday action.

But this attitude is not limited to the activist wing. In its *World Development Report 2008,* the World Bank noted that "developed-country agricultural policies cost developing countries about $17 billion per year—a cost equivalent to about five times the current levels of overseas development assistance to agriculture" (World Bank 2007b:103). The Bank distributes blame for distorted agricultural markets more evenly among developed- and developing-country policies, and argues that subsidies are the primary culprits only for certain commodities: sugar, rice, and cotton (World Bank 2007b:99). Nevertheless, the fact that the World Bank subtitled its report *Agriculture for Development* is telling, and its criticisms of agricultural protectionism in the developed countries are in line with the spirit, if not the statistical analysis and policy details, of the Oxfam criticisms. The Uruguay Round agreement and Doha Round negotiations have put some pressure on developed-country agricultural policies, and the World Bank notes that among OECD countries, "the average support to agricultural producers fell from 37 percent of the gross value of farm receipts in 1986–88 (the beginning of the Uruguay Round) to 30 percent in 2003–05." However, "the amount of support increased over the same period from $242 billion a year to $273 billion" (2007b:97).

In a representative example of the economic literature, Xinshen Diao et al. (2002:784) have argued that "agricultural protection policies in the EU appear to block developing countries' opportunities for entering the EU. The EU is the largest market in world agricultural trade, so its agricultural policies have important effects on developing countries. If 10% of intra-EU trade in agriculture were replaced by trade with the South, then the South's total agricultural exports would rise by 9%." These studies and others like them argue that agricultural trade liberalization would enhance global welfare; a number of different economic models are cited which vary in their estimates as to what such gains might actually be.[13] Although he argues that most studies tend to exaggerate the amount of agricultural support that can be attributed to subsidies, Timothy Wise (2004:2) nevertheless concludes by advocating "policy reforms at the global and national levels to address measurement flaws, raise commodity prices, and reduce the undercutting of developing country farmers by below-cost agricultural exports from the North."

Pro–free trade economist Jagdish Bhagwati noted with dismay in his autopsy of the 2003 Cancún ministerial the prevalence of arguments about the failure of rich countries to play by their own rules: "Even such a splendid economist as Nicholas Stern, the World Bank's senior vice president, has observed, 'It is surely hypocritical of the rich countries to encourage poor nations to liberalize trade, whilst at the same time succumbing to powerful groups in their own countries that seek to perpetuate narrow self-interest'" (Bhagwati 2004:58). Moss and Bannon (2004:53) take it as widely known that "critics highlight the hypocrisy of rich countries giving lip service to free trade while maintaining tariff barriers and paying subsidies to their farmers." Bhagwati (2004) blames the NGOs such as Oxfam for giving developing-country negotiators, and the

13. See OECD Joint Working Party on Agriculture and Trade 2002:16 for a useful summary.

World Bank itself, very bad advice based on the misperception that developing-country protectionism may be ignored because rich-country protections are so much worse. That Bhagwati would feel it necessary to field such a criticism highlights the ubiquity of the "hypocrisy" view of agricultural trade.

The 2007–2009 surge in food and other commodity prices may end up changing the hypocrisy discourse, though as yet there is little evidence in the mainstream media that this has occurred. The price surges have been interpreted as causing a "food crisis" for developing-country farmers, and attention has turned to measures developing countries must take to ensure their "food security" (Millman and Thurow 2008:A1; Polaski 2008). So although the outcry against rich-country subsidies may have ebbed somewhat, preoccupation with boosting poor-country agricultural capacity has not. In fact, the "food security" issue has been part of the underlying dynamic of the hypocrisy discourse during both the commodity price trough and the recent spike.

Even where the support for liberalization is highly qualified, as among NGOs and governments committed to such things as fair trade, food security, and the ability of developing countries to resist liberalization and formulate industrial and agricultural policies on their own terms, it has now become commonplace rhetoric to push the rich countries to walk the walk of liberalization. This rhetorical strategy is effective precisely because, in agriculture, wealthy countries have been talking the talk without walking the walk—hypocrisy. Robert Wade (2003) has revived Friedrich List's concept of "kicking away the ladder" in critiquing the constraints that international institutions (especially structural adjustment programs) place on developing-country governments' ability to formulate industrial and agricultural policies designed to nurture development. His views are strongly echoed in Oxfam's literature, as well as in the literature put out by NGOs focusing on agriculture and food security.[14] But even where there is no consensus on global liberalization, the only people defending the agricultural protectionism of the wealthy countries seem to be the domestic constituencies within those countries that benefit directly from the subsidies—a very small percentage of people who admittedly bear a disproportionate amount of political clout. The intellectual consensus seems to be on the side of liberalization—at the very least, liberalization by the rich.

The policy realities differ starkly from the intellectual consensus. As noted in a 2003 World Bank publication: "While proposals and statements preach and recognize the need to move toward liberalization, the reality of policies, in both industrial and developing countries, indicates a revival of protectionist influence" (Ingco 2003:4). Or as Mattoo and Subramanian (2008:8) have noted more recently:

> Under "normal" agricultural conditions, we have huge distortions in terms of costly taxpayer support to reduce imports and encourage production and exports. Under abnormal conditions, such as are prevailing now, we see the opposite

14. Good examples are www.grain.org and www.iatp.org.

> where countries liberalize their imports but prevent exports. We need a system where *both* imports and exports remain free to flow in good times *and* bad. This is especially true if trade is to remain a reliable avenue for food security.

Much of the discrepancy between intellectual consensus and policy practice can be traced back to the tensions within the post–World War II "embedded liberalism" compromise, and agriculture has emerged as a key issue challenging the efficacy and durability of that compromise.

Embedded Liberalism as Hypocrisy Generator

The term "embedded liberalism," John Ruggie's widely accepted description of the post–World War II international economic order, evoked the combination of international liberalization aspirations with domestic social stability provisions that constituted the core of the multilateral regimes governing money and trade (Ruggie 1983). The General Agreement on Tariffs and Trade (GATT) was a core component of the postwar economic regimes; it aimed to liberalize trade in an orderly, multilateral fashion while maintaining safeguards and exceptions that member states deemed necessary to preserve social stability. The multilateral negotiating framework of the GATT helped to ensure that the measures states took to preserve social stability did not impose unacceptable costs on others—that is, the GATT helped to regulate the externalization of the costs of adjustment that often constitute societal responses to liberalization pressures. If a state seeks to preserve social stability by protecting an industrial sector via tariffs, foreign exporters of that product will suffer; the adjustment cost has been externalized. GATT (and now the WTO) sets limits on whether and how—and how much—that can be done.

But such limits were never seriously applied to agriculture. As Judith Goldstein pointed out twenty years ago, U.S. agricultural policy has been an exception to liberalizing tendencies ever since the 1930s (Goldstein 1989). Europeans shared and exceeded this protectionist impulse toward agriculture. The experience of the Second World War, with its dire food shortages, left Europeans committed to food security via self-sufficiency. This commitment has evolved into the Common Agricultural Policy (CAP) of the EU, which accounts for about half the entire EU budget, and has made the European Union an agricultural superpower in terms of productive capacity and market size. Ever since the United States requested and received, in 1955, a waiver under Article XXV which basically excluded its domestic farm programs from GATT rules and scrutiny (Wolfe 1998:59), agricultural policies were largely ignored by the GATT. This began to change with the conclusion of the Uruguay Round negotiations in 1994.

In his study of the Uruguay Round, Robert Wolfe (1998) takes up and extends Ruggie's description and conceptual framework to analyze the core features of the WTO that emerged from that round, with a specific focus on the provisions for agricultural trade (the Uruguay Round's Agreement on Agriculture,

or URAA). Wolfe shares two important aspects of Ruggie's analytical perspective: what we would now call its constructivist commitment to attending to the importance of principles, norms, and rules in structuring international life, and its evocation of Karl Polanyi's (1944) conception of the "double movement" with respect to understanding the tense and sometimes conflicting relationship between the spread of markets and the quest for social stability. Wolfe argues that the impetus for including agriculture in the Uruguay Round was the onset in the mid-1980s of a "farm war" between the United States and the European Community. The immediate causes of the farm war included global overproduction of food (butter mountains, milk lakes) combined with weak demand, but these factors were themselves largely caused by protectionist agricultural policies in the wealthy countries: "Domestic policies in rich countries that tried to shield producers from market signals crashed on the shoals of low growth in food demand and high growth in supply due to increased food production. The goal was preserving farm income and employment but the tool was support for food production. The result was a surplus that nobody needed and which the world market could not absorb" (Wolfe 1998:77). The farm war that Wolfe describes was a battle between the United States and the EC to protect and support their domestic agricultural producers in a climate of overproduction and insufficiently growing demand—essentially a battle to externalize or avoid the adjustment costs required of domestic agriculture by competitively unloading the surplus on world markets. The developing countries were caught in the crossfire of the farm wars, seeing their own agricultural sectors hurt or decimated by cheap imports and influxes of non-emergency food aid, and their access to wealthy markets for agricultural products severely limited by protectionist policies. In many cases, developing-country governments exacerbated the problem by directly or indirectly taxing agriculture in favor of supporting industrial or manufacturing development, and reaping the benefits that cheap imported food could bring to urban populations.

The farm war ended—or at least experienced a cease-fire—when the United States and the EU, along with other GATT members, agreed to focus on agriculture in the Uruguay Round. According to Wolfe:

> The Agreement on Agriculture is designed to end the Farm War by opening markets and reducing subsidies; it is also designed to prevent a recurrence of the war by providing international rules to guide the evolution of national policy while allowing room for those domestic policies to reflect differing national priorities. The two *principles* are that policy should support gradual adjustment in this sector; and that support should be given in the least trade-distorting manner possible. (1998:108)

The URAA pledges to work toward the elimination of market-distorting policies in agricultural trade, but recognizes that this must be done through a gradual, negotiated process that allows member states to nevertheless devise ways to support their agricultural sectors using non-market-distorting (or less distorting) means.

Institutionalizing Hypocrisy: The Agreement on Agriculture

The URAA articulates "three pillars" of support that countries use to protect agriculture and whose control and reduction should form the basis of agricultural trade liberalization policies: market access (including tariffs and quotas); domestic support (including subsidies and income supplements); and export subsidies (GATT 1994:Articles 4, 6, and 9; Roberts 2003). One of the main mechanisms to improve market access was conversion of various barriers into tariffs, or "tariffication," which is supposed to enhance the transparency of barriers to market access. Because of the manner in which tariff peaks and reduction commitments were negotiated, countries have had much room to maneuver, and in many cases have actually been able to increase rather than reduce their tariffs via practices known as putting "water" in the tariff rate and "dirty tariffication," the latter referring to the process of padding base points from which tariff reductions were negotiated (Roberts 2003; Ingco 1995).

With respect to domestic support measures, the URAA identifies three "boxes" by which to classify such support. Measures that are thought to distort production and trade generally (GATT 1994:Article 6) such as price supports or subsidies related to production quantities fall into the "Amber box." These measures are subject to certain limits and reduction commitments. The "Blue box," however, provides for exceptions to the Amber box. It encompasses measures such as subsidies that at the same time require farmers to limit production. "Green box" subsidies are acceptable domestic support measures that do not require reduction. In order to qualify for the Green box, a measure must not distort, or must only minimally distort, trade; it must be government funded, and it must not involve price support (GATT 1994:Article 7 and especially Annex 2). These measures include such things as environmental protection and regional development programs—programs that do not target specific products but rather are designed to support agricultural regions and issues as a whole. They also include income transfers to farmers that are "decoupled" from production levels or prices. Export subsidies are contained in a "Red box" and are prohibited for new products but have a ceiling and reduction commitments for existing products (GATT 1994:Articles 8 and 9).

The Agreement on Agriculture did not end the farm wars by liberalizing agriculture; most assessments of its achievements in the area of liberalization do not find it to be particularly impressive (Diakosavvas 2003; Ingco 2003; Roberts 2003). Besides providing a host of exceptions to reduction commitments, such as the Blue box and the Green box, URAA provisions can be evaded in a myriad of ways, such as manipulation and inflation of base rates from which tariff levels and reduction commitments are deduced. Further, as Roberts notes, the three pillars are interrelated and can in some cases be substituted for one another.

> In particular, the European Union has significantly reoriented its support for some commodities (cereals and beef) away from price support underpinned by export subsidies and market access limitations and into blue box support through

> production limiting arrangements that are exempt from limitations or reduction under current rules. Similarly, the United States has reoriented much of the distorting deficiency payment and export subsidy support it had previously used for grains to exempt green box support through what the United States considers to be decoupled domestic support payments that are deemed to be minimally market distorting. (2003:8)

Countries that have the resources and legal expertise to do so may evade and circumvent the URAA and subsequent agreements on agricultural trade liberalization.

Is this a signal of the failure of the application of the trade regime's embedded liberalism compromise to agriculture, or is it rather a signal of its success? The answer depends on how one interprets the core purposes of the regime: is the regime more about liberalization or "embedding"? The case of agricultural trade suggests that rather than see embedded liberalism as a coherent compromise, we need to address the tensions within it as potentially divisive, involving different worldviews that parties to the GATT/WTO may have about the ultimate purposes of that regime. New members joining the regime have used the tensions embodied within it to further their own claims, and differences that could once be papered over now begin to rankle.

Realist and Liberal Interpretations of WTO Hypocrisy

Do the hypocrisies of the URAA and WTO more generally sustain or erode its legitimacy? From a realist perspective, the hypocrisy of the rich countries in the WTO is a fact of life that testifies to the power disparities in the international system. Hypocrisy is one way that the strong pursue their interests; it is in their interest to maintain strong agricultural sectors, and if they have the resources to dominate market share, then the weak have little choice but to adjust to this reality. So hypocrisy sustains the regime. One might counsel the poorer countries to accept whatever deals they can manage to negotiate because otherwise the whole charade of multilateralism will fall apart (as it now appears to be doing, with the proliferation of regional and bilateral deals), which will hurt the poor more than it hurts the rich. The poor push their agenda in the WTO at their peril and risk a move toward unilateralism, bilateralism, or regionalism by the rich.

From a strictly liberal perspective, all the players in the agricultural trade negotiations—rich and poor countries, the United States and the EU, ardent liberalizers like Australia and heavy agricultural protectionists like Switzerland—basically know that liberalization is good and that they *should* be liberalizing. Their protectionism, justified through hypocritical rhetoric, is the homage vice pays to virtue. Because they believe in the virtue of liberalization, and realize that their deviation from it is illegitimate, they are to some extent vulnerable to the rhetorical force of accusations of hypocrisy, though it is hardly a foregone

conclusion that such accusations will ultimately bring about policy change. Still, while the actual process of liberalization will involve hard bargaining, the basic value of liberalization will remain unquestioned.[15]

Constructivist Interpretations of Hypocrisy

Two interpretations are possible from a constructivist perspective. The first would posit mutual incomprehension, on a number of levels, and the second would, much like the liberal interpretation, affirm "embedded liberalism" as a common value system. Mutual incomprehension results when rich countries and poor countries accuse each other of hypocrisy, revealing to us the fact that they have entirely different value structures. Rich countries view agriculture as a privileged sector to be protected against the adjustments that would be necessitated by market competition; poor countries view agriculture as a means toward securing themselves against hunger and famine, and as a basis for further economic development. If we push this perspective further, we can argue that the hypocrisies of the WTO agricultural trade liberalization process reveal to us a fundamental contest about *defining the social purpose of agriculture* and the way in which agricultural production and exchange should be understood.

The Meaning(s) of Agriculture

Conflicts between rich countries such as the United States and the EU, moreover, also reveal different visions about the purpose and meaning of agricultural production. Europeans stress the "culture" at the core of agri-*culture,* arguing that the sector needs support because of its special role in the culture and social structure of a nation. They use the term "multifunctionality" to describe agriculture and to defend its exceptional status with respect to liberalization. In this view, agriculture is not just a commodity but also a way of life and a part of a broader set of ecological concerns (OECD Joint Working Party on Agriculture and Trade 2002; European Commission 2007). The Americans, by contrast, are torn between their commitment to free trade and their vision of preserving the "family farm," a vision which has very little to do with the reality of agricultural production in the United States and which is itself a part of the rhetoric that accompanies the domestic politics of agricultural trade protection.[16] Conflicting visions

15. We can add onto this liberal perspective a gloomier assessment derived from liberal institutionalism, wherein the ability of countries to make credible commitments to liberalize their agricultural sectors will increasingly be undermined as their hypocrisy becomes exposed. Therefore, though all continue to understand the value of liberalization, fewer and fewer will actually practice it and the balance of behavior will tip away from virtue and toward vice. But liberals seem silent on what happens when vice wins the day. Perhaps in those conditions they leave the field to the realists.

16. A newer discourse in the United States revolving around organic food and buying locally has introduced yet another version of social purpose into the mix.

of agriculture within the United States perhaps prevent it from presenting as coherent an ideology as that of the EU, and the EU itself is of course conflicted over the CAP, especially since enlargement has put pressure on the budget. However that may be, the parties' negotiating positions are based on markedly different ideas about the desirability of agricultural trade liberalization. Mutual incomprehension at many levels seems to be the order of the day.

A more sanguine constructivist perspective is also possible. For Wolfe, "the Uruguay Round negotiating framework…recognized that interventionist farm policies would continue to exist. The principle at issue then becomes the perceived negative effects of agricultural policy." That is, the URAA attempts to limit the ability of one state to externalize its adjustment costs to another, so as to "ensure that domestic intervention did not undermine international stability" (Wolfe 1998:134). The need for domestic intervention to support agriculture was not questioned; rather, the means became subject to greater transparency and some degree of multilateral regulation.

The URAA made agriculture a part of the multilateral negotiation process within the general framework of the WTO, and as the membership and activism of developing countries in the WTO has grown, the pressure to keep agriculture at or near the top of the agenda remains. Thus one could argue, as Wolfe does, that the URAA signifies a willingness to extend the embedded liberal compromise to the developing world, especially as under the agreement developing countries have extra leeway to provide support to their agricultural sectors and to deal with the costs of adjustment to more open markets. Agriculture will continue to be one of the more "embedded" aspects of the embedded liberalism compromise, but by addressing agriculture within the multilateral framework of the WTO, where at least in principle developing countries have a say and where the veto power of the strong has been curtailed by the institution of a Dispute Settlement Body, the compromise is being further extended to include those countries that were previously excluded from its social purpose, negotiating framework, and benefits. Wealthy countries should no longer be able to externalize the costs of their adjustment by dumping their agricultural surpluses onto the developing world. Poor countries should be given assistance to help them adjust to the costs of further liberalization; such proposals can be found in not only the WTO but the World Bank literature as well (World Bank 2007).

Wolfe further notes, "The creation of the Green Box is a recognition that being a farmer is a cultural and social not just economic activity" (1998:146). As noted earlier, wealthy WTO members who most strenuously protect their agriculture, such as Japan, South Korea, and the EU, stress the "culture" of agriculture. An OECD report on the results of a ministerial committee statement of goals uses somewhat anodyne terms: "In particular, the multifunctional character of agriculture was recognized. It was agreed that the challenge lay in designing well-targeted policies, in order that concerns with respect to food safety, food security, environmental protection and the viability of rural areas be met in ways that maximize benefits, are most cost-efficient and avoid distortions to production and trade" (OECD Joint Working Party on Agriculture and Trade

2002:2). Again, in this view agriculture is not just a commodity but a way of life and a part of a broader set of ecological concerns including environmental protection, food safety, and animal welfare; this justifies its exceptional status with respect to liberalization. Thus a more sanguine constructivist interpretation suggests that the legitimacy of the regime is stable when seen in terms of the way it embeds markets in a broader social purpose.

In contrast, when measured by the other goal that it embodies, not embeddedness or "multifunctionality" but liberalization, the WTO regime might be said to be losing legitimacy. Some argue (and countries have taken cases to the WTO on this basis, as in the bovine growth hormone dispute between the United States and the EU) that concerns over things like food safety and animal welfare have merely been used strategically—and hypocritically—as excuses to implement more extensive protectionist measures. James Rude maintains that multifunctionality "is a new name for an old idea. The idea is that agriculture produces unpriced spillover benefits that occur in addition to the provision of food and fiber. These benefits range from environmental benefits, to rural employment and development, to food security" (Rude 2001:239). Rude finds it unfortunate that rather than decry these concerns as market distorting, the current regime provides room to incorporate them. Although not nearly enough to please the most strenuous advocates of environmental protection, food security, food safety, biodiversity, and animal welfare, the WTO regime leaves a surprising amount of room for these concerns to legitimately shape the domestic policies of member states.

From the liberalization perspective, which is shared by many economists and by a coalition of liberalizing countries led by Australia and New Zealand (the Cairns Group, which also allies with the United States on some issues), the URAA is seriously deficient, and current negotiations should address these deficiencies. According to the advocates of liberalization, economic studies clearly show that the welfare benefits to be derived from liberalizing agriculture far exceed the costs. While the United States has frequently allied itself with the Cairns Group and against the EU on liberalization issues, the 2002 as well as the 2008 U.S. Farm Bills have eroded much of its credibility as a leader in liberalization efforts. "Though technically not breaching WTO commitments, the [2002] bill has reduced the credibility of the United States as an advocate of the reduction of such [domestic support] payments" (Josling 2003:665; Roberts and Jotzo 2001; also see Westhoff and Binfield 2008).

Hypocrisy as Convention or Criticism?

It seems ironic that some of the strongest criticisms of the WTO can be derived not from those who resist liberalization but from those who observe that it has not gone far enough. Focusing on agricultural trade brings this issue to the fore. This pro-liberalization interpretation would seem to support the so-called neoliberal agenda in international political economy—an agenda which was spearheaded by the United States and which Mark Blyth (2002) has argued

involved disembedding the state from the market, just as it was embedded into the market in the Bretton Woods agreements. But the continued acceptance of the "multifunctionality" of agriculture, and the continuation of policies by leading economic powers that protect their agricultural sectors (even as they disagree on what the legitimate forms of protection might be) certainly undercuts their neoliberal message and leaves huge holes in the project of internationalizing a neoliberal agenda. Of course, in the context of a global recession and financial crisis, the neoliberal agenda faces greater challenges than that of agricultural trade. But the agricultural issue nicely illustrates the potentially institution-sustaining benefits of a hypocrisy convention that allows institutions to pay lip service to one set of norms while furthering another, as well as the political vulnerabilities engendered by such a convention.

Each of the schemas I have applied to the problem of agricultural trade liberalization—realist, liberal, and constructivist—tells a plausible story, consistent with its theoretical underpinnings and consistent with a good body of evidence. The constructivist schemas are, I suggest, more complex, but in many ways they are the most intellectually satisfying because they put political conflict over values and legitimacy at the center of the analysis, acknowledging the importance of power and interests without thereby reducing politics to material power and rationalist strategies alone. We can see liberalization itself as a value that must compete with other values, and political contestation as both a material and a rhetorical exercise. Constructivism does not take for granted the legitimacy of existing institutional arrangements, as liberal approaches often do (Bukovansky 2002; Seabrooke 2007). Institutional legitimacy may be contested not only by those who are against the agreements entirely, but also by those who believe that the rules have been honored only in the breach. The political dynamics that ensue when the hypocrisy and bad-faith accusations begin to fly have the potential to decisively erode the capacity of an international regime to achieve a workable bargain among the parties, let alone to produce changes in behavior in line with prevailing norms and sentiments about what is the right thing to do. Hypocrisy that produces cohesion, that is, hypocrisy as convention, can over time slip into hypocrisy that produces corrosion.

Conclusion: Hypocrisy and Contested Legitimacy

It requires little strain to discern hypocrisy in international regimes. Arms control, human rights, democratization, and trade liberalization are just a few of the areas in which governments may be found publicly advocating one set of norms as legitimate while letting quite another set of considerations guide their actions. Krasner (1999) has observed that the "*grundnorm*" of international politics—sovereignty—is a clear case of "organized hypocrisy" because the norm is so often breached by the powerful even as they pay it lip service. Steinberg (2002) has explicitly applied an "organizational hypocrisy" model to the operation of the World Trade Organization, arguing that the norm of sovereign

equality enshrined in the GATT/WTO framework serves as a cover for the very real power disparities that generally govern bargaining outcomes within the regime. Clearly we cannot develop an adequate understanding of international norms and institutions without analytically confronting hypocrisy.

But hypocrisy requires careful interpretation precisely because its consequences are not obvious. Sustaining dominance through hypocrisy is risky if it undercuts the system through which one's hegemony is maintained. While the hypocrisy of the strong and rich with respect to the rules of agricultural trade in the WTO may have perpetuated their dominant position in the international political economy of agricultural trade (though this is highly contestable), it has nevertheless served to undercut the legitimacy of the regime not only by providing rhetorical ammunition for those who would like to see the regime work differently, but also by helping to produce a set of conditions that make contestation over regime norms more likely. The material context that facilitated the Uruguay Round Agreement on Agriculture has changed significantly since that agreement was concluded: there are now many more members bargaining in the regime (Clapp 2006), and more recently, the condition of overproduction and falling commodity prices has been replaced by shortages and rising prices (see UNCTAD 2008). Thus the agreement the parties seek to revise (the URAA) no longer fits existing conditions or even, according to Mattoo and Subramanian (2008), confronts the most important challenges to trade liberalization.

Both political and economic developments have exacerbated the unresolved contradictions built into the WTO regime, contradictions which have long been papered over by a hypocrisy convention but which have been "called out" so much in the recent decade that the convention is no longer holding. A constructivist perspective helps us to see that such changes have not all been the result of exogenous shocks, self-interested noncompliance, or modifications in the interests of the dominant states; they have also been the product of the way the regime works and of the negotiating dynamics within it. Multilateralism has come to mean more players, as clearly implied by the concept. The URAA has in fact opened developing-country markets to competition from subsidized European and U.S. products, making some countries more dependent on food imports and thus heightening vulnerability and creating crises when supplies run short. The regime has helped to create at least some of the material conditions that now make it appear inadequate and more nakedly hypocritical, granting more opportunities to contest the key principles of, and social bargains underpinning, the regime.

Contested legitimacy may not be such a bad thing if it facilitates productive discourse between parties advocating different values and norms, a discourse that allows for progress in transcending or resolving differences. But the question boils down to whether the legitimacy contest fosters reasoned argument about the purposes of the trade regime, or whether that contest remains one of "mutual unmasking" based on profoundly different conceptions of those purposes. This analysis suggests that in agricultural trade the tendency at present is in the latter direction, though not irreversibly so. The parties seem more

inclined to attack each other's policies—and indeed character—than to resolve differences. As the conflicts in the Doha round have led to a stalling out of those negotiations, powerful actors like the EU and the United States, not to mention China, Japan, and South Korea, have taken to pursuing bilateral trade deals on the side. This resurgent bilateralism allows for more naked (i.e., not hypocritically cloaked) power dynamics in the negotiations, weakening the multilateral aspects of the WTO. We may end up mourning a fading hypocritical multilateralism: the sincerity of raw economic clout may replace the hypocrisy of multilateral concessions to sovereign equality (Steinberg 2002).

Do the regime challengers want to risk destroying a system that may be the last thing standing between them and a more naked form of bilateral power politics? The multilateral character of the trade regime and its strengthened institutional form in the WTO has ensured that a forum exists to articulate and pursue challenges by weaker parties to the hegemony of its dominant members, as well as to regulate hegemonic struggles between the dominant members themselves. But as I have tried to show, the character of such challenges ought to receive close scrutiny; it is important to distinguish between the alternative paths of character assassination, mutual unmasking, and incomprehension on the one hand, and progressive reconciliation on the other. Those committed to liberalization cannot continue to speak and act as though there exists only one legitimate set of norms to follow; they need to make a better case for the virtues of trade. It is not enough to chide the protectionists and repeat incessantly the lessons of classical liberalism when such lessons are being actively contested and vice no longer seems to be bothering with the pretense of paying tribute to virtue. At stake is not just the issue of further liberalization in areas that have previously been neglected by the WTO, but also the redefinition of the legitimate social purposes states may pursue in protecting their agricultural sectors, as well as the survival and robustness of the WTO's multilateral negotiating framework itself.

Rather than signify that norms do not matter in the face of power and interest, hypocrisy provides us with an entry point into understanding the normative terms through which legitimacy contests are conducted. This in turn helps to explain the difficulties of reaching agreement. Brian Mercurio (2007:199) exposes the weakening of the WTO's hypocrisy convention by noting that "the time is now ripe to begin evaluating and understanding how the Doha Round negotiations became a seemingly endless charade and why the possibility of a substantial and workable agreement continues to elude WTO members." A constructivist account of the status of agricultural trade in the WTO sheds a good deal of light on why that charade occurred, how the players were unmasked, and why the play may now be going into a long intermission.

PART II

COGNITION

This second section is composed of chapters that deal with the cognitive schema: scripts for behavior based on a logic about how the world works, socially constructed framings of decision points, and taken-for-granted understandings of economic phenomena. While social psychologists and behavioral economists have long emphasized the importance of cognitive models for political and economic practice, the authors of these chapters emphasize the process of social construction and even legal codification that leads to those models being collectively shared among members of a group, however defined.

Francesco Duina's chapter on frames and scripts in regional trade agreements explores one set of microfoundations for these effects: the bargaining among the agents of countries who negotiate the legal obligations of regional trade agreements. Much of this bargaining, Duina finds, is prosaic and predictable: the bargaining revolves around expected gains and losses that result from a new institutional landscape for cross-border markets. Duina argues that an even more profound kind of politics necessarily becomes central: cognitive standardization that results from the codification of what things "are" and how they are defined. Based on his analysis of the variety of trade agreements around the world, two solutions have dominated: an "interventionist" system in which complex legal systems are constructed to define everything for all countries involved, and a "thinner" result based on mutual recognition of one another's standards. These seemingly technical decisions then have tremendous consequences for how the agreements work in practice, including the process of adjudicating disputes. The legal traditions of countries involved in these negotiations, Duina finds, helps to explain these alternate approaches: civil law countries tend to favor interventionist codification, while common law countries find greater accord with thin mutual recognition. That is, these legal scripts inform negotiating stances. Furthermore, apparently successful trade agreements produce, by their very success, scripts that are adopted by other countries. Duina does not naively discount the importance of power and relative gains in these negotiations, for their outcome, he observes, consistent with the existing literature, depends on such power differentials. A fuller, more satisfying explanation of the negotiating stances, the legal implications of cognitive standardization,

and the isomorphic effects of "successful" trade agreements around the world requires Duina's nuanced and sophisticated analysis.

Yoshiko Herrera's chapter deals with the material basis of sovereignty movements and nationalisms more generally. In a trenchant critique of "objectivist" political economy, Herrera argues that cognitive schema—"processors, developed through experience, used by individuals to understand information about the world"—mediate the relationship between individuals and organizations, on the one hand, and the real economy, on the other. This argument is necessary to resolve a set of empirical puzzles of post-Soviet Russian political economy. Although conventional accounts treat separatist movements, and within the Russian federation in particular, as epiphenomena of objective, material reality, Herrera finds that different Russian regions collectively imagined their economies in distinct ways. An in-depth examination of prevailing interpretations of the economy in Sverdlovsk oblast and the movement for a Urals Republic leads Herrera to conclude that the struggles between Moscow and the provinces during the 1990s require inquiry into how communities interpreted their material reality through the cognitive schema that had been socially constructed and widely shared. Many scholars of nationalism argue that although "nations" are imagined, economic interests are definite and real. The Russian experience, like many others, shows that the putative economic interests of particular communities are, like their identities, imagined as well.

4

Frames, Scripts, and the Making of Regional Trade Areas

Francesco Duina

The end of the cold war brought instability into the world. The bipolar order was over. Countries nervously looked around for new relationships and alliances. Most found some security in regional trade areas (RTA). In 1990, there were fewer than forty RTAs in existence. Today there are nearly two hundred. For the purposes of this chapter, we can define RTAs as spaces where several, usually neighboring, countries decide to merge parts or the whole of their economies. To achieve this goal, they remove some or most tariff and non-tariff barriers to trade so as to liberalize the movement of some combination of goods, capital, services, and labor.

International political economists became very interested in RTAs. Understandably, their primary concern was with the basic design. What, they asked, is being liberalized? And why? Their answers were mostly inspired by rational-choice theory. They argued that RTAs reflect heavy bargaining among national representatives who, calculative and deliberative, mobilize to advance the interests of their countries' industrial, financial, and agricultural sectors. Those with the best resources and strategies secure arrangements that advance the welfare of their constituents.

However sound in logic and empirical analysis these accounts might have been, they remained focused on the grand *objectives* of integration, as set out in the major agreements of RTAs. A proper understanding of RTAs, however, requires that attention be paid to the *practical pursuit* of those objectives. What challenges do RTA officials across the world face as they mobilize to integrate national economies? If we observe major differences in solutions across RTAs, what can account for such variation? In this chapter, I offer a sociological explanation—one that is in line with cognitive variants of constructivism in IPE—of how RTA officials have tackled one of the most daunting challenges of integration: misalignments in the worldviews of market participants.

RTAs bring together people with remarkably different understandings and expectations about the world. Those differences represent a major obstacle

to free trade. Officials must therefore address them. They face a fundamental choice: should they aim for extensive standardization, and thus embark on the production of enormous bodies of regional law? Or should they instead impose the principle of mutual recognition, and therefore devise a rather minimalist regional legal system? Their choice will have a profound impact on the architecture of RTAs and daily life in those regions. Officials must then determine what judicial mechanisms should be used to handle disputes over law as integration progresses. Should there be permanent, well-supported courts for conflict resolution? This would invite public debate over law and further institutionalize RTAs in the public space. Or should there be only transient, ad hoc panels? This would help keep RTAs out of scrutiny and the public mind.

RTAs differ a great deal in both the legal and judicial dimensions. Accounting for RTAs means, in good part, explaining those differences. A rationalist approach focused on interests, calculations, and utility-maximizing outcomes can offer limited insight into those differences. RTA officials do not operate in a vacuum. First, they work in environments with established, and often similar, national legal and judicial traditions. Those traditions provide the *frames* through which officials interpret and solve the challenge of worldview misalignments. They develop legal frameworks and judicial mechanisms that mirror, in their overall character, what is already in place in the member states. Officials behave, in other words, as Yoshiko Herrera expects they would in her contribution to this book: they make sense of the world by relying on experience-derived tools of interpretation. Second, officials are aware of RTAs in other geographies. These provide ready-made detailed instructions, or *scripts*, for the specific formulation of given laws and judicial mechanisms. If they are consistent with the national traditions in a given RTA, scripts are often adopted or mimicked by officials. These choices have little to do with what is "best" for trade liberalization and the fulfillment of national interests. They have a lot more to do with continuity and expediency.

I begin the chapter by introducing the basic objectives of RTAs and the dominant rationalist perspective in the literature. Then I discuss the problem of misalignment in worldviews, the possible solutions of law and judicial adjudication, and the role of frames and scripts in influencing the choices of RTA officials. Next I offer evidence in support of my arguments, using as examples seven RTAs: the European Union (EU), the North American Free Trade Agreement (NAFTA), Mercosur, ASEAN's Free Trade Area (AFTA), the Andean Community (CAN), the Common Market for Eastern and Southern Africa (COMESA), and the European Free Trade Association (EFTA). I conclude by reflecting on the findings' implications for the usefulness of RTAs and future lines of research.

RTAs and the Rationalist Perspective

Without question, the primary objective of most RTAs is economic. The goal is the integration of national economies. This is to be accomplished by way of

trade liberalization: by removing tariff and nontariff barriers to the movement of a combination of goods, services, capital, and labor. Tariff barriers are primarily taxes levied on imports. Nontariff barriers include quotas, subsidies, fiscal incentives, and cross-national differences in regulatory regimes. Some RTAs may have political and other sorts of aspirations. This is certainly the case for the EU, for instance. But all—including the EU—remain primarily economic projects.

RTAs vary, of course, in their specific objectives. Some are primarily concerned with the trade of goods. Others add some or all forms of services and capital. Only a few include labor. Some impose a common external tariff regime on the member states, others do not. The recent explosion of RTAs only added more variety. The seven RTAs treated in this chapter were selected based on their importance, different aspirations, and varied geographical location (the Americas, Africa, Europe, and Asia). Table 4.1 provides a snapshot of their current membership and objectives.

There is now a great deal of research on RTAs. Some of it is concerned not with the process of making RTAs but rather with their impact on internal trade, the global economy, key societal groups (e.g., labor, women, migrants), the environment, and sovereignty. But a good amount focuses on the crafting of RTAs. Two sets of closely related questions have received considerable attention. First, how can we explain the specific content of the major agreements of RTAs? Why, for instance, does NAFTA target many agricultural products? Why, in the section on services, does it not include oil exploration? Second, how do RTA officials operate? (RTA officials are understood in this chapter to be national representatives involved in the project of regional integration and, in the rare situations in which an RTA has supranational institutions, officials from those institutions.) What motivates them and what are they pursuing?

Most of the answers have come from international political economists subscribing fully or partially to the rationalist model of human behavior, according to which human beings—driven mostly by self-interest—engage in lucid calculations and strategies that ensure the maximization of their utility.[1] In the case of RTAs, this means accounting for any given characteristic in the major agreements by viewing it as the outcome of extensive bargaining among purposeful national representatives who, in asymmetrical positions of power vis-à-vis one another, work assiduously to advance the interests of their domestic constituents (and, in so doing, their own, since they depend on their constituents for reelection).

Perhaps the best-known proponent of this rationalist perspective is Andrew Moravcsik. In his view, EU national representatives always go to the bargaining table with a clear mandate: to advance the interests of the major economic

1. Note that we are not dealing here with the literature on *why* countries choose to form an RTA (see, for example, Mansfield 1998 and Mattli 1999). Our focus is on what they agree on once they have decided to join. It is worth pointing out, however, that the literature on the motivations behind the founding of RTAs is also heavily shaped by rationalist accounts.

Table 4.1. The Objectives of RTAs

RTA (start date)	Members	Objectives
EU (1957)	Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden	Common market: goods, services, capital, and labor with common external tariff
Mercosur (1991)	Argentina, Brazil, Paraguay, Uruguay	Common market: goods, services, capital, and labor with common external tariff
NAFTA (1993) & Side Agreements on Labor and the Environment	Canada, Mexico, United States	Free trade area: goods, selected services, all capital, no labor
ASEAN's AFTA (1992) & Associated Services and Investments Agreements	Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam	Free trade area: most goods, most services, and most capital
Andean Community (CAN) (1969)	Bolivia, Colombia, Ecuador, Peru	Common market: goods, services, capital, and labor with common external tariff
COMESA (1994)	Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	Common market: goods, services, capital, and labor with common external tariff
EFTA (1960)	Iceland, Liechtenstein, Norway, Switzerland	Free trade area: most goods (except agriculture) and (after 2001) services, capital, and labor

groups of their countries. Throughout the process, they remain faithful to that mission. "On not a single major issue," Moravcsik wrote in reference to all major agreements in the history of the EU, "did governments take a position openly opposed by a major peak industrial, financial, or agricultural interest group" (1998:475–476). Accurate in their calculations, they then strike the best deals for their constituents. These agreements always lie on the "Pareto-frontier," a zone where all decisions "improve welfare for all governments" (1998:25) and subject no member state to unexpectedly harmful principles or policies.

Helen Milner, a second prominent scholar, made a similar argument about RTAs in general in an important edited volume on the topic (Mansfield and Milner 1997). "Why," she asked, are RTAs "shaped differently" in "the amount of liberalization accorded each economic sector"? Her answer was unambiguous: "the

character of regional agreements reflects the rational responses of governments to their *domestic* political situations…I argue that governments craft regional trade agreements in an attempt to balance consumer (and thus voter) interests and pressures from their private economic agents" (Milner 1997:77). Most of her collaborators, such as Stephan Haggard, agreed: "a theory of regional cooperation…must address the more fundamental question of policy preferences and capabilities of the relevant actors…the content of these agreements is primarily determined by bargaining among prospective members" (Haggard 1997:21, 31).

These basic rationalist arguments were followed by numerous empirical analyses of single RTAs. Mercosur received considerable attention. Karl Kaltenthaler and Frank Mora argued, for instance, that the member states have extracted "the maximum economic and political benefits from integration while forgoing as little sovereignty as possible" (Kaltenthaler and Mora 2002:90, 92), while Rafael Sánchez stressed that "the rebuilding of regionalism in Central America reflects the governments' preferences constrained domestically by their political economy…and externally by global pressures" (Sánchez 2004:31). Perhaps the most studied case after the EU, however, was NAFTA. Maxwell Cameron and Brian Tomlin (2000), in probably the most important book on the making of the agreement, examined closely the strategies that each negotiating party used to advance its agenda. A key finding was that the misalignment in objectives between the Canadian and Mexican governments strengthened the bargaining position of the United States. Numerous studies followed. In an intriguing analysis, for instance, Antonio Ortiz Mena (2006) showed how Mexican representatives managed to extract concessions from their American counterparts in key energy sectors by adopting clever (unyielding at first but more open-minded later) negotiation techniques.

These rationalist interpretations of RTAs have certainly not been without their critics. But the most important counterarguments have come from scholars of the EU: whether their predominantly institutionalist insights can be turned into coherent and comprehensive replies to rationalist accounts of integration remains unclear since they hinge on the EU's supranational character (whereas most RTAs are intergovernmental). These works have included arguments about path dependency (Pierson 1996; Ackrill and Kay 2006; Sverdrup 2002; Holzinger and Knill 2002), the ability of organizational entities within the EU to accrue power over time at the expense of the member states (Heisenberg and Richmond 2002:204; Alter 2001), and reinforcing loops between EU institutions and between those institutions and their environments (Sandholtz and Stone Sweet 1998; Bulmer 1998:373). Constructivist (Mayer 1998; Laursen 2003), network-focused (Dreiling 2001), state-centric (Malamud 2005), and other sorts of arguments have certainly been put forth for the other RTAs. But these have tended to be few and concerned only with single RTAs. A sustained alternative response to the rationalist perspective on RTAs, then, is still missing.

In the following sections, I put forth a sociological approach to RTAs. The focus is on the practical pursuit of grand objectives. The explanatory variables

are frames and scripts rather than self-interest and calculation. My objective is to craft a basic (i.e., widely applicable, empirically driven, and related to fundamental aspects of integration) account of integration that departs, in spirit, from those rationalist interpretations that have so far dominated the literature.

Regional Integration: Misalignment, Frames, and Scripts

RTAs come with few instructions. Their objective is clear: trade liberalization among the member states (for their entire economies or parts of them). But a guidebook for how that objective can be pursued in practice does not exist. To use the language of world society scholars (Meyer et al. 1997), the "worldwide model" for regional trade liberalization—available at the global level and fast diffusing across geographies—is incomplete. One challenge especially is left in the open: how to address disparate worldviews among market participants and, once a solution is found, how to deal with conflict in the new order.

The challenge of disparate worldviews is almost overwhelming. Unlike most markets in history, RTAs propose that countries merge sections or the entirety of their economies very rapidly. The effort entails bringing together populations with different perspectives on reality into a single marketplace. Those perspectives include definitional and normative notions about objects, actors, and activities in the world. Definitional notions have to do with what things "are" in the marketplace and beyond: What is beer? What is a computer keyboard? What does pollution mean? Normative notions have to do with what things "should be like" in the marketplace and beyond: Are inequities in pay between men and women permissible? How should animals in slaughterhouses be treated? How should companies report their income? Misalignment in perspectives is problematic for free trade in three different ways. First, consumers and producers from one country hesitate to buy anything from another country if it does not conform to their expectations. Second, domestic laws often formally embody domestic cultural frameworks and make the importing of foreign products and services problematic. Third, to the extent that domestic producers have to comply with domestic law, misalignment generates different production costs. This, in turn, distorts trade flows.

RTA officials have been well aware of the problem of disparate worldviews. To resolve it, they have turned to regional law. A quick look at RTAs throughout the world shows officials veering toward one of two types of solutions. The first is the erection of very complex legal systems seeking to standardize in definitional and normative terms vast areas of economic life and beyond. We may call this approach interventionist. The second approach is far more minimalist. It emphasizes the principle of mutual recognition, according to which the member states are asked to accept each other's standards. The resulting regional legal system is much "thinner": with far less being subject to standardization, the number of laws is much smaller and their content far less ambitious. Not all RTA officials have clearly chosen between these two models, of course. Some hybrid approaches exist.

These differences in law are of great importance. Even if RTA law is only partly implemented (as is often the case), it subjects countries to enormously different pressures. The interventionist model pushes market participants toward a conceptual, formal harmonization of their worldviews. The minimalist approach is certainly less intrusive, but it is imposing nonetheless: citizens and producers in any given member state must accept multiple worldviews—more specifically, the products that embody them—as valid. Their own beliefs, values, and ways of doing things are challenged by the coexistence of alternatives. Minimalism, in other words, brings about the challenge of pluralism.

The problem of adjudication follows the erection of standardizing legal systems. Disputes over compliance with law always arise. Thus, we see that RTA officials have designed resolution mechanisms to deal with such disputes. Once again, they have typically chosen between two very different options. The first is the establishment of courts staffed with permanent judges and support personnel housed in dedicated physical spaces (offices with libraries, archives, etc.). These courts represent a commitment to sorting out regularly over time the meaning of regional law—and, therefore, the expectation that there will be frequent disputes over standardization brought to these courts. The second option is reliance on ad hoc panels asked to resolve disputes as they arise. The composition of these panels changes with each case. Support in terms of human resources and physical infrastructure is minimal. A choice to rely on such panels indicates a general belief that recourses to official adjudication will be infrequent—either because of the low likelihood that disputes will arise or, perhaps more often, because other, less formal, mechanisms are expected to resolve problems.

Though less immediately obvious than is the case with law, these choices in the judicial realm are also of profound consequence. Permanent courts, by way of institutionalizing conflict resolution and initiating a corpus of rulings, have the potential to broaden the presence of regional law in the public sphere. They "amplify," or add a further layer, to the legal system. Along with other permanent bodies, they also help RTAs become concrete, tangible entities in society. Ad hoc panels achieve the opposite effect. With their more modest profile, they add little to regional law or the presence of RTAs in the public eye.

Social scientists have so far been surprisingly silent about the incomplete nature of the integration model available in world society and the legal and judicial differences among RTAs. Yet given their consequences in their respective member states, those differences deserve explanation. From a policy perspective, accounting for them will also highlight the existence of multiple paths to integration.

One could attempt to explain differences among RTAs in a rationalist fashion, but such an approach is unlikely to bear much fruit. RTAs all aim to liberalize trade. From the point of view of efficiency, one would expect a single formula for the basic characteristics of regional law and the required dispute resolution mechanisms. The fact that RTA officials have opted for drastically different formulas suggests that what is efficient in one place is not efficient in another. Immediately, we would find ourselves exploring the question of context: what factors

make one approach efficient in some RTAs but not in others? The answers would most likely have little to do with rationality. It is also the case that the legal systems and judicial mechanisms of RTAs have often functioned and evolved in ways not predicted by their designers (Alter 2001; Duina and Buxbaum 2008; Pierson 1996). Problems of compliance have in turn partly undermined their impact (Falkner et al. 2005; Malamud 2005). Such developments would undermine any rationalist account for the raison d'être of those systems and mechanisms.

I thus propose an altogether different explanation. Our attention, as cognitive variants of constructivism in IPE would suggest, should turn to frames and scripts. In line with the sociological and social-psychological literature, by *frames* I mean collectively shared and accepted ways of interpreting situations and problems in life. Frames help individuals simplify and make sense of the world (Benford and Snow 2000:614). When it comes to RTA officials in particular, frames determine how those officials approach the problem of market building and misalignment in worldviews. How do they understand and make sense of that problem? What sorts of solutions are they likely to envisage? Put differently, what do they know and feel comfortable with? What is instead outside their worldviews?

By *scripts*, in turn, I mean socially available, specific instructions or codes for how to behave in certain situations or respond to particular problems as they arise. Scripts are less about interpreting the world and more about responding to it. They make navigating through life easier by providing already formulated answers to challenges and by endowing adherents with a certain degree of legitimacy (Scott and Meyer 1994; Jepperson 1991). Thus, once problems are identified—through frames—and particular types of solutions entertained as acceptable, scripts provide attractive, detailed answers for actors. Recent work in economic sociology in particular has shown how given answers to economic problems diffuse across regions of the world (Simmons, Dobbin, and Garrett 2008).

Let us now consider the question of law. What determines whether RTA officials opt for interventionism or minimalism? In many cases, the answer has to do, first and foremost, with the legal traditions that are in place in the member states. In any given RTA, officials typically come from countries sharing one of two types of legal environments: civil law or common law. Those in the former (primarily countries in continental Europe and their former colonies in Latin America, Africa, and Asia) are accustomed to codification and regulation as the appropriate responses to the challenges inherent to social life. State intervention through law in this sense is a positive matter: a way of enabling things and not only restraining and punishing. Those RTA officials operating in common law traditions (as found in the United Kingdom and most of its former colonies throughout the world) are instead accustomed to the state laying down basic regulatory principles, allowing social life to unfold, and then dealing with conflicts as they arise. A priori state intervention is looked on with suspicion at best.

These legal environments provide the frames through which RTA officials view the problem of misalignment in worldviews. When coming from civil law traditions, officials are inclined to respond by thinking of it as a legal challenge that calls for a legal response. They will talk about the need for "harmonization"

of disparate regulatory regimes. And they will accordingly engage in the production of extensive definitional and normative legal principles at the regional level. The choice will not be a matter of much reflection. It will be, instead, an almost instinctive reaction. In foundational agreements and treaties, officials will simply recognize the need for legal intervention. When probed, they will admit that alternative choices were hardly entertained.

In RTAs where common law is the legislative tradition of the member states, officials understand the problem of worldview misalignment in quite different terms. In their eyes, the problem before them does not require harmonization: differences in national legal traditions can coexist within a single marketplace. The task is therefore to ask market participants to embrace the principle of mutual recognition. They will accordingly craft a nonintrusive legal system at the regional level. Foundational treaties will not mention the problem of harmonization. And when asked about their choices, these officials will recognize that alternative choices were simply not considered.

But specific scripts also influence the work of RTA officials. Once the problem of misalignment is understood, by way of frames, as requiring an interventionist or minimalist response, officials scout the world for specific, detailed answers. These are the treaties and laws already in place in other, usually successful, RTAs. Borrowing and transplanting those scripts is a matter of expediency but also a quick way of acquiring legitimacy—much like what happens in organizational fields more generally with the practice of mimicry and the resulting high degree of isomorphism (DiMaggio and Powell 1983). RTA officials will therefore look at what their counterparts in other RTAs have crafted. These exchanges will be made all the easier by modern technology as well as formal and informal channels of communication between RTAs.

Similar dynamics affect the choice of judicial mechanisms. Why do some RTAs exhibit highly institutionalized courts and other RTAs ephemeral ad hoc panels? Officials usually tackle judicial matters after the legal ones. As they do, they continue to operate with the same frames in mind. They will therefore opt for a judicial solution that complements the legal one. Permanent courts with professional staff ready to process large number of cases can be expected in interventionist RTAs rich with legal principles intended to harmonize national differences. Ad hoc panels are instead the appropriate answer in those RTAs where officials, in line with national traditions, have chosen not to engage in extensive codification and normative regulation of the world—in RTAs, that is, where conflict over law is expected to be relatively less frequent.

But, again, scripts matter here as well. Officials pay close attention to other RTAs for inspiration and outright borrowing. They model their courts or panels after the more successful examples. This again is a matter of convenience as well as legitimacy. Transplanting a system that has proved to work elsewhere is easier than devising an entirely new one. It is also rather difficult to criticize.

Now as the editors of this book noted in the opening pages of the introduction, the world is a complex place. Any given explanatory model thus requires refinement and flexibility. The framework outlined here is no exception. The first, and quite important, caveat is that there of course exist RTAs where the

founding member states have conflicting legal traditions. This is the case for NAFTA, for example, where only Mexico is a civil law country, as well as EFTA, whose seven founding member states included the United Kingdom but also Portugal and other civil law countries. In those RTAs, *power differentials* determine the final choice of legal system. Whichever countries enjoy more power will project their national traditions at the regional level. There are, nonetheless, RTAs where there is no clear power differential among member states with conflicting traditions. What happens in such cases? What tradition is likely to prevail? Here we see RTAs exhibiting a blend of approaches—with heavy standardization present in some policy areas and not others. Such a blended legal system can be supported by either permanent courts or ad hoc panels.

We should then acknowledge that late entrants can bring different legal traditions. This has been the experience of the EU, for instance, with the arrival of the United Kingdom and Ireland. We are bound to observe the new countries exerting some pressure to shape things in their direction. Depending on their level of influence, this may impact the evolution of regional law and the work of courts and panels.

The third caveat concerns exclusivity. Frames and scripts are not the only variables shaping influencing national representatives as they design their RTAs. Other factors—such as member states' concerns with preserving sovereignty, for instance, and even a good amount of calculation and strategic thinking—are also at work. The point here is one of relative importance: frames and scripts are key variables that drive outcomes in many very important cases. They need to be a central part of any account of regional integration.

Finally, we should clarify something about objectives. A tempting explanation for differences in legal and judicial approaches centers on the ambitiousness of the RTA in question: does it extend beyond goods, for instance, to include services, capital, and labor? Within any given realm—goods, for example—does it seek to liberalize the flow of most things or just some? It seems reasonable to think that heavier legal systems and adjudication mechanisms will be present in more ambitious RTAs. This idea is actually flawed. Differences in approaches are very much visible when the comparison is direct and fair: when, in other words, we consider the trade of goods (which is an objective of all RTAs) and, within that, of the same sorts of goods, or any other sector of the economy. A focus on objectives will not help us understand why this is the case.

Evidence

What sort of evidence would support the claim that frames and scripts matter for the legal and judicial design of RTAs? First, in terms of frames, we would expect to see a systematic correspondence between the dominating type of national legal tradition (civil law versus common law) in a given group of countries and the type of legal and judicial design in the resulting RTAs (interventions with permanent courts versus minimalist with ad hoc panels). Second, in terms of scripts, we would expect to see significant instances of cross-RTA borrowing, in

terms of both law and judicial mechanisms. Third, with regard to both frames and scripts, we would expect RTA officials to reveal something—in statements made to the press, in treaties, and in other venues—about the factors influencing their choices of law and adjudication mechanisms as well as their own efforts to export their perspectives to other RTAs.

In this section, I present evidence on all three fronts. Our attention turns to NAFTA, CAN, and Mercosur in the Americas, the EU and EFTA in Europe, ASEAN in Asia, and COMESA in Africa. Future studies can consider additional RTAs and examples.

Correspondence

There is indeed a clear and striking correspondence between dominant national legal traditions and the legal and judicial design of RTAs. Table 4.2 shows this for the seven selected RTAs. Consider the three cases where all the founding members shared a civil law tradition: the EU, Mercosur, and CAN. The EU alone has over time accepted new member states with common law traditions: the United Kingdom and Ireland. But these countries joined late (1973), when EU law was well established and in full development, and despite attempts by the United Kingdom to water down the legal structure of the EU, it has had little influence on the overall character of the EU legal system. Since their inception, Mercosur and CAN have included only civil law countries.

Now in all three cases RTA officials have engaged in massive amounts of legal standardization. Anecdotes about the EU's zealous drive to legislate abound, of course. Though often bordering on the amusing, they reflect the far more serious extent to which EU officials have sought to harmonize the worldview of market participants. Despite their younger age, much the same can be said of Mercosur (launched in 1991) and CAN (launched in 1969). Indeed, all three have created relevant bodies charged with this task (the Commission in the EU, the Grupo Mercado Común and the Consejo del Mercado Común in Mercosur, and the Comisión in CAN).

We can measure legislative production (and its harmonizing content) in a number of ways. One of the best is simply to look at the number of laws. All three RTAs have foundational treaties that foresee the extensive use of secondary legislation for the purpose of market building. There are tens of thousands of pages of directives and regulations in the EU. In the case of Mercosur, there exist more than five hundred decisions and more than one thousand resolutions. In CAN, we see around seven hundred decisions and eleven hundred fifty resolutions. The vast majority provide standardizing definitions and normative judgments for countless objects, activities, and actors related to a huge array of goods, services, investments, and labor issues.

For a more precise assessment, we can estimate how many definitional (i.e., spelling out the essential characteristics of an object, activity, or agent) and normative (i.e., stating the desirability of something) passages exist in these legal systems. This can be done by selecting key policy areas and, within them, a

Table 4.2. Dominant National Traditions and the Design of RTAs

Dominant National Traditions	Minimalist	Mixed	Interventionist
Common Law Dominance	NAFTA (ad hoc panels) EFTA (ad hoc panels)		
Mixed Traditions		ASEAN (ad hoc panels) COMESA (Court of Justice)	
Civil Law Dominance			EU (Court of Justice) Mercosur (Permanent Review Court) CAN (Court of Justice)

random and statistically meaningful number of laws for coding. We need not do this for all three RTAs. A focus on the EU, the most important, and either Mercosur or CAN will suffice to give us a sense of what has been happening. Table 4.3 reports the findings for the EU (1959–2000) and Mercosur (1991–2000)[2] in the areas of economics, the environment, and public health.[3] The numbers speak for themselves. RTA officials in both the EU and Mercosur have been very busy answering the challenges presented by integration. A closer look at these passages would reveal the targeting of countless aspects of reality.

As we would expect, we then see that this intensive legal production has been accompanied by the establishment of permanent courts in all three RTAs. CAN set up its Court of Justice from 1979 to 1984. The EU did the same much earlier, in the 1950s. Mercosur officials did not immediately create a permanent institution. But in 2002 with the Olivos Protocol they established a permanent court—the Tribunal Permanente de Revisión—to handle disputes.

The situation in NAFTA is quite different. The United States and Canada both have federal common law systems. All the states and provinces, with the exception of Louisiana and Quebec, have common law systems. Only Mexico, the poorest and weakest member state at the bargaining table, has a civil law tradition—though, interestingly, at the federal level it exhibits elements of common law as well. Mexico, we should note, joined Canada and the United States

2. The size of the sample for each policy area was based on a margin of error of ±10 percent, a confidence level of 95 percent, and a p value of .5. I controlled for time (decades for the EU, years for Mercosur), given that RTA officials tend to produce different sorts of laws as integration progresses.

3. The EU classifies its laws by policy area, and I used that classification to identify the relevant laws. Mercosur officials do not classify laws in the same way; I therefore assigned a policy area to them depending on their content. Laws related to economic life were those concerned with the production and exchange of goods, labor, capital, and services. For the environment, they were those related to the preservation of natural habitats, animal life, ecosystems, and natural resources. For public health, they were laws related to the well-being of human populations.

Table 4.3. Standardizing Passages in EU and Mercosur Law in Selected Policy Areas

		Economics	Environment	Public Health	Total
EU	No. with definitional content	2,137	283	84	2,504
	No. with normative content	13,217	687	561	14,465
Mercosur	No. with definitional content	6,638	56	1,550	8,244
	No. with normative content	11,813	140	8,739	20,746

Source: Duina (2006).

late: NAFTA in fact builds on CUSFTA, a free trade agreement between the United States and Canada signed in 1988.

What choices did NAFTA officials make regarding law? They did not envision the production of an extensive system of secondary law. Instead, the only legal texts are the foundational agreement itself and two side agreements, the NAALC on labor and the NAAEC on the environment. If we code the content of these agreements for passages that have definitional and normative content, we quickly realize the absence of any serious efforts to standardize reality. There are only 282 definitional passages and 628 normative ones (Duina 2006). Most cluster around a few policy areas, such as the national treatment of and market access to goods (Chapter 3), agriculture (Chapter 7), and government procurements (Chapter 10). These numbers obviously represent a tiny fraction of those we saw in the EU and Mercosur in only three policy areas.

In line with our expectations, NAFTA relies solely on ad hoc dispute resolution panels that do little to strengthen, from an institutional perspective, the legal system or NAFTA as a whole. The panels' composition and functions are spelled out in different chapters of the treaty (Chapter 11 for investments, 14 for financial services, 19 for antidumping and countervailing duty matters, and 20 for most trade issues). For labor-related matters, the NAALC has its own provisions, while the NAAEC does the same for the environment. All are similar, however, in being temporary and in issuing rulings that do not set precedents.

EFTA resembles NAFTA. It has no secondary system of law, and its founding 1960 convention is very brief. A few annexes to the original convention added very little by way of harmonization. Revisions to the convention in 2001 and the adoption of several other, short annexes changed little in terms of the basic approach to regulation. Simply put, the main preoccupation of the original member states was with tariff removal. Wide use is made of the principle of mutual recognition. As for adjudication, EFTA relies on ad hoc arbitration panels. There is an EFTA court, but crucially for our analysis, it has the responsibility of dealing with claims related to the incorporation of EU law in the three member states (Norway, Iceland, and Liechtenstein), which, starting in 1993, decided to adopt most EU law as it is produced (for purposes of easing trade with the EU).

What, then, are the national legal traditions of the EFTA member states? Membership has varied greatly over the years. For our purposes, we should consider

the founding members. Here we find a dominant common law country, the United Kingdom, accompanied by a series of smaller and politically uncoordinated countries with primarily civil law traditions, namely, Denmark, Norway, Sweden, Austria, Switzerland, and Portugal. For all intents and purposes, EFTA was the brainchild of the United Kingdom, as it moved to take an explicit stance against the interventionist model of integration found in the EU model. The United Kingdom finally left EFTA in 1973, but by then the legal and judicial architecture had been set.

ASEAN and COMESA provide us with yet a third picture of integration. Both are RTAs with a great variety of national legal traditions. Of the five founding countries of ASEAN, two—Malaysia and Singapore—have common law systems. But the other three—Thailand, the Philippines, and Indonesia—have civil law traditions. In COMESA, Egypt, Ethiopia, and Congo (among others) have civil law traditions. But Kenya, Zambia, and Zimbabwe have (among all others) common law traditions. The strong presence of religious law in Libya and Sudan adds a further dimension of difference.

What legal frameworks can we observe in ASEAN and COMESA? We can see mixed systems characterized by a combination of mutual recognition and standardization. In ASEAN, for example, the member states issued in 1998 the *Framework Agreement on Mutual Recognition Arrangements*. This was deployed in a variety of industries, ranging from electronics to cosmetics. At the same time, by August 2003, the same member states had also developed very detailed harmonized standards for twenty priority products groups, including items such as motors, engines, condoms, and medical rubber gloves. A large number of procedural and safety standards were also developed for the medical and drug industries. The adoption of ASEAN's *Policy Guideline on Standard and Conformance* in 2005 provided further impetus for harmonization. Without question, then, ASEAN's legal system displays a rather mixed response to the challenges of standardization.

COMESA officials followed a similar path. The foundational treaty foresees the production of harmonizing secondary law, but only in certain policy areas, such as economic and social development. In other areas, such as pharmaceuticals and certain aspects of quality standards for all kinds of products, member states are asked to respect the principle of mutual recognition. In practice, this has meant extensive standardization in certain policy areas and not others. In 2004, for instance, the member states agreed to a wide range of standardizing principles in the area of competition (anticompetitive behaviors, mergers and acquisitions, and consumer protection). But in other areas, such as energy, mutual acceptance of standards and practices is expected. As is the case for ASEAN, then, we observe a mixed legal approach in COMESA.

As for judicial arbitration, officials in ASEAN have chosen to rely on ad hoc dispute resolution mechanisms, while their counterparts in COMESA depend on a permanent court of justice, established in 1994. Given the mixed legal system of each RTA, either system of adjudication would have been in line with the framework for integration set out in this chapter.

Borrowing

On numerous and important occasions, RTA officials have borrowed extensively from each other. The faithful, sometimes verbatim, adoption of texts and directions for the functioning of RTAs suggests that expediency and a desire to look legitimate by resembling another, successful, RTA—rather than a careful exploration of what might serve an RTA best—have driven officials in their efforts to liberalize trade. I focus here on some of the most telling instances: how officials from COMESA, CAN, and Mercosur copied directly from the EU to set up their RTAs' legal and judicial systems.

Let us turn to COMESA first. There, despite operating in dramatically different conditions, officials have directly copied the EU when it comes to both law and adjudication. Article 10 of the COMESA founding treaty establishes three types of secondary laws. Exactly as it happens in the EU, these are "regulations," "directives," and "decisions" (Article 249 of the Treaty of the European Union [TEU]). The characteristics of each are, in turn, identical to those of the EU. More specifically, regulations are binding in their entirety on all member states, effective on the date of their publication in the *Official Gazette of the Common Market* (in the EU, the equivalent is the *Official Journal of the EU*). Directives are binding as to their results but not their means. The member states can choose how to implement them. And decisions are binding on the entities being addressed. These are very specific types of legal instruments. COMESA officials could certainly have opted for different legal instruments. Instead, they turned without hesitation to the EU.

The direct borrowing continued with the court of justice. The jurisdiction and function of the COMESA court are laid out in Articles 23–30 of the founding treaty. In most respects, they are the same as for the European Court of Justice (ECJ). Both courts have the overall function of ensuring adherence to law in the interpretation and application of the founding treaties (COMESA Article 23 and TEU Article 220). To that end, both courts have the power to hear references *from member states* against one another or the regulatory/executive institutions of each RTA in case of suspected legal infringements (COMESA Article 24 and TEU Articles 227 and 230). Both courts can hear a *reference from the executive institutions* of their RTA against a member state believed not to be observing its obligations as concerns the treaty or secondary law (COMESA Article 25 and TEU Article 226). Both courts also have the power to hear a reference *from a person* who is a resident of a member state concerning the legality of a national law (in light of RTA law) or an RTA law (COMESA Article 26 and TEU Article 230). And the decisions of both courts are superior to those of national courts.[4]

Officials from CAN have followed a similar path. They have devised a secondary legal system akin to that of the EU. Like EU regulations, resolutions "will be directly applicable in Member Countries as of the date they are published in the

4. This is explicitly stated in COMESA, Article 29. In the case of the EU, this has been established not by treaty but by way of several court cases (the most important being *Costa vs. ENEL,* 1964).

Official Gazette of the Agreement, unless they indicate a later date." And as is the case with EU directives, in CAN there are decisions that (when stipulated) require incorporation into national law (Article 3 of the Treaty Creating the Court of Justice of the Cartagena Agreement [TCJ]).

CAN officials then set up a court of justice that, in terms of jurisdiction, is almost a carbon copy of the ECJ. Article 17 of the TCJ gives the court the power to hear grievances from the member states about community law. Article 23 gives the court the power to hear claims from the General Secretariat about noncompliance by a member state. Article 24 grants the court the power to hear grievances from a member state about another member state's failure to comply with community law. Article 25 recognizes the court's power to hear claims from individual citizens of the member state as they relate to community law. And Article 35 states that national courts must adopt the court's interpretations of community law in their sentencing. This is not an inactive court, we might add. It is the third most active international court, after the ECJ and the European Court of Human Rights. It is also a very effective court, at least in the realm of intellectual property, with more than twelve hundred consequential rulings (Helfer, Alter, and Guerzovich 2008:1–2).

As it happened, Mercosur officials did not transpose the EU's judicial model to their RTA. For instance, individuals cannot bring their claims to Mercosur's tribunal. Nor did they lay out a system of secondary laws that faithfully resembles that of the EU. For example, according to Article 40 of the Treaty of Ouro Preto, both decisions and resolutions require incorporation in the legal systems of the member states. But emulation has nonetheless happened. It has taken a more specific sort of form: the verbatim copying of sections, or the entire text, of EU directives and regulations.

An illustrative example is Mercosur Resolution 54/92 of 1992, which lays out in great detail the safety requirements of toys. The resolution covers every possible aspect related to safety, including physical, chemical, and electrical risks. It lists exceptions (such as Christmas decorations). In every regard—specific language and words, number and order of articles and subarticles in the relevant annex, section titles, quantitative restrictions and guidelines (for instance, about lead or mercury), requirements for warning labels, and so on—it is an exact replica of EU Directive 88/378 of 1988. Of course, borrowing is often done best when done discreetly. Hence, the resolution makes no reference whatsoever to the EU directive.

Statements

Have RTA officials revealed, in their statements, something about the frames and scripts guiding them in their choices of law and adjudication mechanisms? If active in influencing officials in other RTAs, have they openly described their initiatives?

Let us consider frames first. Canadian and American officials certainly made it clear from the outset that they would approach the problem of misalignment

in worldviews in NAFTA with only one possible solution in mind: mutual recognition (Fried 1994). They were open, vocal, and matter-of-fact about the impossibility of following the European example (Baer 1991:148). Some politicians and activists pushed for uniformity in health, safety, and environmental regulations. But "officials in all three countries" working on drafts of the texts were "insist[ent] on the limited nature of NAFTA" (Baer 1991:148). Standardization was simply not an option. When asked directly about this mindset, an attorney working in the United State Trade Representative Office during the NAFTA negotiations answered:

> It would have been unrealistic for us to achieve anything like the EU legal structure in North America . . . we did not think about it much because it was not a possibility in North America . . . it wasn't in the cards; it wasn't even a choice. . . . The non-interventionist nature of the NAFTA text made it a lot easier for the U.S. government to proceed—it implied that the U.S. did not have to make too many legal changes . . . that was a positive thing: that NAFTA did not require much changing of U.S. law.[5]

This limited perspective, we should note, did not escape the attention of journalists and academics alike. As H. Patrick Glenn, a legal scholar of trade law, observed, most of North America "adheres to the common law tradition . . . there would be no need, because of North American circumstances, for a central policy of uniformization or harmonization of laws . . . the design principle of NAFTA would really be that of subsidiarity." In NAFTA, Glenn continued, it was therefore "necessary" for officials to ensure that the law would allow for a "dynamic between the general and the particular" (Glenn 2001:1791–1792).

We can contrast the assertions of the USTR attorney with the words of Manuel Olarreaga, a central player in the evolution of law in Mercosur. When asked why he thought an interventionist approach was needed, he replied with slight annoyance at having to address such an obvious matter:

> It was necessary for us to have laws at the Mercosur level. It was not a question. If you have a single economic market, you need to introduce *uniformity,* to *harmonize,* you must have laws to coordinate and regulate the action of participants . . . otherwise there is chaos, and the will of the stronger prevails. It would be absurd not to have laws for us, simply absurd. [Italics added][6]

The passage could not capture better the mindset of the civil law legislator, whose distinctive preoccupation is to bring order to society. This is a special kind of order, of course, one that is necessitated by the conflicts that arise when thick national legal traditions are brought together in a single geographic

5. Telephone interview with the author, February 2004. The attorney requested that his name not be used.

6. Manuel Olarreaga, director of the Dipartimento de Normativa (Law Department), Secretaría del Mercosur, interviewed by the author in Montevideo, Uruguay, July 2003.

space. Olarreaga's perspective was echoed by María Juana Rivera, who played an important role in shaping Mercosur laws in a large number of industrial and agricultural sectors. In her view, integration has highlighted differences in quality, safety, health, environmental, and other standards across the four member states, with Argentina typically displaying the most stringent approaches. "Those differences have posed problems; they have acted as obstacles to commerce among the member states," she noted, "and we must continue to work towards their elimination."[7]

We can find no clearer evidence of the civil law mindset of the Mercosur official, however, than in the very opening of the founding Treaty of Asunción. In Article 1, in a passage that we could not possibly locate in the NAFTA text, we read that "the Member States commit themselves to the harmonization of their laws in the pertinent areas, so as to strengthen the process of integration."

We find very similar language in the EU and CAN founding documents. How did EU officials understand the problem before them? Article 10 of the original version of the Treaty of the European Economic Community (TEEC) of 1957 gives legislative powers to the Commission on the following bases: it can propose laws whenever "it finds that a difference between the provisions laid down by law, regulation, or administrative action in the Member States is distorting the conditions of competition in the common markets and that the resultant distortion needs to be eliminated" (Article 101 of the TEEC). Differences, then, between national legal systems are problematic and must be addressed through "the approximation of the laws of Member States to the extent required for the proper functioning of the common market" (Article 3 of the TEEC).

The term "harmonization" appears, in turn, throughout CAN's Cartagena Agreement. In a document that is approximately thirty-six pages, we find seventeen direct references to the term or its derivative, "harmonizing." An entire chapter is titled "Harmonization of Economic Policies." A number of passages resemble Article 54, where we read that "the Member Countries shall coordinate their development plans in specific sectors and shall gradually harmonize their economic and social policies, with a view to achieving the integrated development of the area through planned actions." Indeed, CAN's parliament is established with a clear, primary mission: "to promote the harmonization of Member Country legislation" (Article 42[f]). There is no doubt that CAN officials brought their civil law frames of mind with them as they set out to build a single market across their countries.

What about scripts? RTA officials have been understandably hesitant to acknowledge borrowing from other RTAs. But on occasion they have revealed their reliance on readily available instructions and models. EU officials, in turn,

7. María Juana Rivera, national coordinator for Argentina for Mercosur's Subgrupo de Trabajo No. 3 (Technical Regulation and Evaluation of Conformity), interviewed by the author in Buenos Aires, Argentina, August 2003. Mercosur's various subgroups aid the Grupo Mercado Común in drafting resolutions.

have openly discussed their efforts to encourage adoption of their standards abroad. We consider here a few representative examples.

Recall COMESA's court of justice. As we saw, despite the enormous differences between the African and the European settings, it was made nearly identical in jurisdictional terms to the ECJ. Did COMESA officials ever acknowledge their extensive reliance on the EU model? Not in 1994, when the basic design of the court was set. But they did so in 1997, when COMESA acting secretary Erastus Mwencha informed the public that the member states' ministers of legal affairs and attorneys would be meeting later in the week to finally decide on the day-to-day operations of the court. As he stressed, the delegates would not be starting from scratch. A ministerial "task force" (led by the chairman of the COMESA Council of Ministers of Justice and several national attorney generals) had already visited the EU to "study" how its court operated (*Africa News* 1997). The president and the members of the ECJ actually hosted the task force.[8] Their report, Mwencha added, would be examined closely before deliberations later in the week. It is of course important to see exchanges such as these as part of a broader relationship between the EU and COMESA, a relationship in which the former has regularly contributed money and technical expertise to the latter for what it calls "institutional strengthening."[9]

Officials in CAN have also openly recognized their reliance on the EU for guidelines and instructions. In 2004, for instance, Andean Community secretary general Allan Wagner Tizón emphasized in a speech given at the opening of a workshop on integration sponsored by the European Commission his hope that CAN "can continue to count on very important European collaboration in the deepening of our integration movement and the perfecting of our institutions."[10] Indeed, following the adoption of the 1993 Regional Framework Agreement for Cooperation, CAN officials described on many occasions the EU's willingness to provide them with "technical assistance to the Andean regional construction process" (BBC Summary of World Broadcasts 1997). EU officials themselves have been forthcoming about their efforts to shape things in CAN. The EU is the leading donor in the region (pouring in almost half a billion euros during 2002–2006 alone). Some of those funds have gone directly into influencing legislation. For instance, as the EU Commission's External Affairs Web site reports, in 2004 €4 million of aid to CAN was approved for the "the setting up of a common agricultural policy, harmonisation of legislation and of statistical information instruments, and the implementation of convergent standards."[11]

8. EU Press Release No. 67/97, http://curia.europa.eu/en/actu/communiques/cp97/cp9767en.htm (accessed April 9, 2008).

9. See, for instance, the EU Commission's report on external assistance for 2004 (Commission of the European Communities 2005:22–23).

10. For the text of the speech, see CAN's Web site: http://www.comunidadandina.org/ingles/press/speeches/wagner7-6-05.htm (accessed April 9, 2008).

11. See http://ec.europa.eu/external_relations/la/news/ip04_63.htm (accessed April 9, 2008).

Mercosur officials have in turn quite openly welcomed the EU's input into standardization. In 2004, like their CAN counterparts, they accepted €4 million as part of the EU program Harmonisation of Technical Standards, Technical Regulations and Conformity Assessment Procedures. In 2003, they accepted €2 million to help them develop appropriate statistical tools. EU officials themselves have been open about their policy to pressure Mercosur officials to copy EU law. Consider this passage from a recent report by the EU Commission's Latin America Directorate (Mercosur Desk) strategy for increasing EU-Mercosur trade during the period 2002–2006:

> In the area of competition the EU is stimulating Mercosur to adopt legislation on competition which is basically inspired by the EU competition policy. Mercosur will create the Competition Authority and in our negotiation for the Association Agreement a co-operation will be established between the two authorities. A [*sic*] technical assistance could be provided to Mercosur. (Commission of the European Communities 2002:24)

And Mercosur officials have also admitted to taking advantage of far simpler tools to learn and borrow from the EU as well as elsewhere. Thus, when asked about Mercosur legal passages that fully replicate EU passages, María Juana Rivera recognized her and her colleagues' strong interest in what is available in world society. As she put it, "yes, we look around, especially with the Internet, and study different regulatory approaches in different parts of the world; we then borrow from the EU but also other international organizations, adapt them to our own circumstances, and then use them."[12] This approach may be seen by some as the most efficient way of crafting the best legislation to build a common market. When it translates into direct replication, however, it more likely signals preference for expediency over what may be optimal for the RTA in question.

Reflections

Regional integration presents formidable challenges. No guidebook exists for how they should be met. This is especially the case for the problem of misalignment in the worldviews of market participants. RTA officials have accordingly responded in dramatically different ways. Some have engaged in extensive legal standardization and have established permanent courts for judicial arbitration. Others have adopted a far more minimalist approach, in terms of both law and adjudication mechanisms. A third group shows a more mixed approach. These differences have real and far-reaching consequences for life in those RTAs.

I have offered a sociological account, one that is very much in line with cognitive variants of constructivism in IPE, for the observable differences in the

12. María Juana Rivera, interviewed by the author in Buenos Aires, Argentina, August 2003.

legal and judicial architectures of RTAs. I paid special attention to frames—specifically, the existing legal traditions in the member states of an RTA, which shape and limit officials' views of what should be done to address disparate worldviews—and the borrowing of scripts from other RTAs.

This chapter, then, is a rebuttal of rationalist interpretations of RTAs emphasizing calculation, bargaining, and the clairvoyant pursuit of self-interest. RTAs offer continuity with what is in place in a specific region and remind us of the powerful human tendency to mimic what others are doing. RTAs are like trees with deep roots in the ground. And they are social products, designed by people who receive their inspiration from, and are influenced by, what surrounds them.

Any nonrationalist interpretation of integration efforts is bound to raise questions about their raison d'être. If they are not instrumental in maximizing their creators' interests, why should they exist? Institutionalist and neofunctionalist arguments about the EU and other international organizations have already tackled this question. Their insights apply to most RTAs. First, we must question the presumed presence of coherent and well-articulated national interests. What if there are multiple, conflicting, and unclear interests in any given member state? There might not be a set of preferences that, in the first place, need satisfaction. Second, organizations almost always take on a life of their own after their establishment. In the process, they start fulfilling new needs and objectives—ones that are often not aligned with the interests of their creators. They unquestionably serve a function, therefore, though not the one envisioned by rationalists. And third, let us recall that most institutions in society amount to compromises between logic and the complexities of social life. No institution exists in a vacuum. RTAs are no exception. We should therefore not question their existence on the basis of their "irrational" qualities.

5

Imagined Economies

Constructivist Political Economy, Nationalism, and Economic-based Sovereignty Movements in Russia

Yoshiko M. Herrera

What is the economic basis of nationalism? If we consider historical experience we see that nationalist sovereignty movements have occurred in both rich and poor regions—for example, Catalonia in Spain, and Chechnya in Russia. Despite a large comparative literature and a wealth of case studies, to date there is no definitive explanation of how economic factors affect movements for greater sovereignty. In other words, regions with comparable material conditions have not systematically made similar demands for greater sovereignty. We therefore face the question of how sovereignty movements are related to objective material conditions, or how similar material conditions could produce different economic-based interests in greater sovereignty. In this chapter I suggest an answer to this question with a constructivist approach to regional economic interests, one that centers on the process of cognition of economic facts and the multiple, legitimate understandings of the economy that may arise from a given set of material conditions.

The chapter begins with a discussion of economic interests and the cognitive basis of constructivist political economy. Next I consider the economic basis of nationalism, and I link constructed economic interests with the development of nationalist mobilization in an *imagined economies* framework. I then illustrate this framework using the case of regionalism in the Sverdlovsk region of the Russian Federation, where economic-based interests in sovereignty were constructed in the context of ideas and an evolving institutional context. The case study demonstrates how material conditions might be interpreted in different ways, giving regional actors specific understandings of the economy, which in turn can become the basis of politicized economic interests in greater sovereignty. Rather than take the meaning of economic data for granted, this analysis begins instead with what we know about how political actors come to understand the material world, that is, the process of cognition.

Cognition, the Material World, and Economic Interests

In studies of political economy, cognition addresses the issue of how economic actors understand their surroundings. The classic view of cognition is of rule-based manipulation of symbols (D'Andrade 1995:136). In this view, the brain functions like a calculator, receiving information about the outside world and processing that data according to a set of rules or preferences. This mind-as-calculator model is the foundation of the concept of utility maximization, in which individuals make choices that maximize utility by calculating the value of alternatives based on information and an ordered set of preferences. In this formulation, uncertainty in economic interests, or uncertainty about what is the best choice, comes only from a lack of information about the external environment, and can be resolved by more information. This understanding of economic cognition is *objectivist* insofar as individual understanding of economic reality directly reflects external material conditions.

Objectivist approaches to the economy have been criticized from a number of perspectives. One of the most influential critiques concerning the role of information in economic decision making came from Kahneman and Tversky (1973), who found that actors did not revise initial information when presented with subsequent information, and in some cases actors responded to the most recently received information without adequately considering prior information. In addition, Herbert Simon cited mounting empirical evidence that actual behavior did not match the utility maximization formulation (Simon 1978). Simon and others following his lead went on to address the problem of *too much* information, arguing that the real problem, as indicated by these empirical studies, was how to filter the mass of information and sort out what kind is necessary to solve a given problem. Turning the traditional search problem on its head, Simon argued that it may be the computational capacity of the human mind, as opposed to information, which is insufficiently available. Simon developed these issues more fully in the highly influential concept of *bounded rationality* (Jones 1999).

Bounded rationality and related empirical work draws attention to a lack of fit between external economic conditions and stated individual-level economic interests, thus problematizing the relationship between economic conditions, interests, and behavior. The relevance of *mediation* via social context, power, and institutions in shaping economic interests—all elements missing from objectivist models—is therefore brought into the equation. These approaches include arguments regarding elite and media influence (Mutz et al. 1996), "framing" (Nelson et al. 1997; Druckman 2001), and "heuristics" (Lupia et al. 2000). Institutions such as political parties, as well as social context, including the views of others, are background for many of these mechanisms that mediate between external reality, interests, and behavior (Markus 1988; Mutz 1998). Even culture, via institutions, can be the mechanism for mediating between alternative choices (Elster 1988; Greif 1994; Denzau and North 1994). Finally,

these various mechanisms may be working together, that is, informational effects, elite influence, framing, heuristics, and institutional context may be operating simultaneously (Duch et al. 2000). Taken together, these analyses suggest that the underlying cognitive model that supported the assertion of objectivity—the unmediated relationship between interests and the external environment—has been increasingly undermined (Druckman and Lupia 2000).

These critiques nevertheless can be termed *orthodox* in the sense that although they posit mediation, they do not question the existence of a "true" set of material conditions. In contrast, constructivist approaches go further in that they reject the underlying objective economic reality in favor of the idea that economic reality is itself a social construction, that is, does not exist absent human interaction, and the cognitive basis of constructivism departs significantly from the mind-as-calculator model.

The development of "connectionist" neural models of cognition, based on the idea that repeated experience affects the way information is processed by the brain, provided a major breakthrough in the conceptualization of mental processing of information, and social psychologists have expanded on and extended these insights in the field of social cognition (Fiske and Taylor 1991; Tajfel and Turner 2001; Ellemers et al. 1999). Schema theory is one area of research that provides a number of important insights. Schemas interpret information about the outside world by using experience-derived patterns. Schemas are developed through interaction with material conditions and hence can be considered *products* of experience, but it is the act of *processing* information that distinguishes schemas from being simply "pictures" in the mind (D'Andrade 1995). In other words, schemas are processors, developed through experience, used by individuals to understand information about the world. Through the conceptualization of an interactive relationship between the experience of material conditions and understanding, schema theory challenges objectivism while also rejecting the notion of subjectivity as mental representations distinct from reality.

Schema theory provides a cognitive basis for constructivism. First, it suggests the possibility for multiple *legitimate* interpretations of economic conditions that could vary across individuals and groups, who have shared experience. Second, by basing understanding on experiential processing, schema theory creates an opening for the role of values, institutions, and norms in the social construction of reality—all key tenets of constructivist political economy. For example, on values, Max Weber rejected the universal meaning of information and argued instead not only that evaluative ideas are present in scientific analysis, but that it is only through the use of evaluative ideas that scientists can make sense of empirical reality (Weber 1949).

Similarly, historical institutionalists call into question the boundary between the social and the economic (Granovetter and Swedberg 1992; Smelser and Swedberg 1994). Rather than conceive of political actors as separate from, or acting within, an exogenously given institutional context, historical intuitionalists emphasize the way that actors both create conditions—ideational, material, and institutional—and are shaped by those conditions. In this way, economic

interests and institutions are products of the mutually constituting interaction of actors and the social, political, and economic conditions in which they exist. In addition to emphasizing the interaction between actors and institutional development, constructivist approaches to the economy consider the role of norms, ideas, and ideology in shaping economic interests, rejecting the idea of economic interests as a direct reflection of economic conditions (Herrigel 1996; Katzenstein 1996; Hall 1997; McNamara 1998; Blyth 2002; Segal 2003).

The Economic Basis of Nationalism

Constructivist approaches to *ethnicity* in the nationalism literature have by now become hegemonic in Western social science. From Anderson (1991) to Gellner (1983) to Suny (1993), the denaturalization of ethnicity and the nation has been firmly established in the literature. Nevertheless, relatively few of the insights of social cognition or constructivist political economy have worked their way into studies of nationalism, and the literature has not incorporated constructivist understandings of the economy and economic interests into the study of nationalism, separatism, and regionalism. And yet the nationalism literature has had a difficult time explaining the relationship between the economy and sovereignty movements.

The most influential theory linking economic conditions and nationalist mobilization is modernization theory, but economic development turns out to have an ambiguous relationship to nationalism. Early work argued that development would lead to a weakening of distinctive ethnic ties and strengthening of centralized state building, thereby reducing the probability of regional separatism (Haas 1966; Lipset and Rokkan 1967; Gellner 1983). However, by the 1970s, nationalist movements in some of the most industrialized countries in Europe appeared to challenge this argument (Hueglin 1986; Keating 1988; Tarrow et al. 1978; Rokkan and Urwin 1982; Tirvakian and Rogowski 1985). It turned out that the same processes of state building and economic development associated with modernization could lead not only to the development of national-state consciousness and assimilation, but also to within-state, group-based national consciousness, and hence to a greater level of internal nationalist or separatist movements (Gellner 1983; Roeder 1991).

In light of the limited ability of actual development to explain the economic basis of nationalism, the concept of relative deprivation (Gurr 1970) suggested that it was a sense of perceived, rather than real, disadvantage in economic circumstances that explains mobilization (Gourevitch 1979; Meadwell 1991). Similarly, some have argued that real economic conditions may be mediated by the institutions and institutional resources of groups, including group skill sets and mobility prospects (Horowitz 1985; Laitin 1991, 1998; Brass 1992).

Taken together, these arguments regarding the role of expectations and institutions all address, to some extent, why there might be variance in nationalism given similar economic conditions. However, they all nonetheless posit an

objective reality on which institutions are based and from which local perceptions may differ. In this sense, the economy itself remains real and objective, even if ethnicity is constructed, and hence these approaches can largely be understood in terms of the orthodox critique of objectivity discussed above.

The work that has come closest to combining an appreciation of constructivist political economy with the nationalism literature is Rawi Abdelal's (2001) analysis of the trade orientation of some of the states of the former Soviet Union after perestroika. Abdelal argued that national identities best explain the choice of trade partners and the pattern of trade among former Soviet states. While this important work addresses the construction of state economic interests, instead of problematizing economic interests per se, Abdelal considers identity in opposition to the economic interests that follow from structural economic conditions. Building on this approach, I argue that we should integrate constructivist political economy approaches more directly into the study of the development of economic interests.

An Imagined Economies Framework

The imagined economies framework allows us to examine multiple legitimate understandings of the economy in nationalist mobilization. It brings previously established insights regarding the constructed nature of the economy and economic interests to the literature on movements for greater sovereignty, including nationalism, regionalism, and separatism. The argument is not that economic factors do not matter or that understandings of the economy are just perceptions, unconnected to reality, but rather that the meaning of the economy is socially constructed by actors and their social and institutional contexts.

In Table 5.1, I summarize the state of the literature regarding approaches to the economy in the social sciences and studies of nationalism. The first column identifies the shorthand labels for each approach to the economy. The second column identifies approaches to the economy consistent with the position on objectivity, and the third column identifies the basis of economic rationality and interests on which each approach is based. The imagined economies framework suggests, first of all, that economic structural variables alone are not determinative of economic interests; second, that economic facts are subject to multiple legitimate understandings; and third, that interests and external conditions are mutually constituting. On the first point, there is some agreement with both orthodox and constructivist critiques of economic objectivity, but the second and third points are a departure from most orthodox critiques and are firmly in the constructivist camp.

Toward understanding the development of economic interests in nationalist mobilization, the imagined economies framework is outlined in Table 5.2. The starting point of the analysis is the infinity of bits of data that constitute external material reality. The process of cognitive interpretation that produces heterogeneous interpretations of the economy begins the next step in the process, which leads to the development of a set of intersubjective, regional understandings of

Table 5.1. Approaches to the Economy in Studies of Nationalism

	Approach to the Economy	Basis of Economic Rationality
Objectivist	• Unmediated, objective economic conditions, indicated by structural economic variables	Subjective Expected Utility (SEU) model
Orthodox critiques	• Mediation of "true" economic conditions via elite influence, framing, heuristics, institutions, social context	Critiques of SEU and bounded rationality
Constructivist political economy	• No "true" economic conditions; all economic data subject to social construction • Intersubjective, historically specific understandings of economic conditions	Alternative model of cognition, e.g., connectionist models and schema theory

Note: For concision, in this table I refer to nationalism, but I mean the term broadly to include studies of movements for greater sovereignty including regionalism and separatism.

the economy; these interpretations and understandings are also subject to mediation based on the social and institutional context in which they are based. The final result is the development of specific economic interests in greater sovereignty, or the economic basis of sovereignty movements.

The imagined economies framework is a theoretical apparatus that can accommodate individual-level processing of information, at the same time remaining attentive to the institutional context and the set of socially shared categories through which external reality is understood and interests are developed. I argue that objective economic conditions do not produce unmediated understanding, and like the nation, the economy is an imagined entity based on data that are subject to historical experience, institutional context, and local interpretation. The analytical framework suggests a theoretical basis for how economic understandings might diverge from objective economic conditions, that is, a way to analyze heterogeneous interpretations of the economy.

To illustrate this model, I now turn to a brief discussion of the development of an economic-based sovereignty movement in Russia in the early 1990s, the case of Sverdlovsk Oblast and the movement for a Urals Republic. Sverdlovsk is a fairly large, populous, well-educated, industrial province located in the Ural Mountains region of Russia. In comparison with other Russian regions in the early 1990s, Sverdlovsk was above average in terms of economic prospects, and it also had a high degree of regional activism. The regional movement in Sverdlovsk, however, cannot be sufficiently explained by Sverdlovsk's objective economic conditions because various other Russian regions with better economic prospects had lower levels of regional activism.[1]

1. For a systematic analysis of regionalism in Russia and characteristics of Russian regions in the early 1990s, see Herrera 2005:chap. 1.

Table 5.2. Imagined Economies Framework

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Regionalism in Russia: Sverdlovsk and the Movement for a Urals Republic

Regional Economic Conditions after the End of the Soviet Union

The end of the USSR brought with it a revolution in economic information in Russia. Not only did the structure of the economy itself change from central planning to a weak capitalist and later corporatist model, but economic statistics in the country were also transformed. These changes in the economy and publicly available data about material conditions might themselves constitute evidence for an orthodox approach to regional economic conditions in that as the economy changed, or as information about the economy changed, regional actors updated their views on the economy. However, a brief look into the data demonstrates that rather than provide a tidy, updated view of regional economic conditions, the changes in the Russian economy itself and the changes in the collection and publication of information about the economy offered fertile ground for multiple interpretations of regional economies; indeed, this investigation highlights the importance of the process of cognition in making sense of economic facts. Moreover, as I discuss in later sections, these regionally specific interpretations of material conditions turned out to be critical to the development of sovereignty movements.

Russian state statistics transitioned from the Soviet Material Product System to the United Nations' System of National Accounts (SNA) in the 1990s; this allowed for the use of the SNA's primary aggregate indicator, Gross Domestic Product (GDP) in assessments of the Russian economy overall.[2] The first estimates of GDP at the regional level, or Gross Regional Product (GRP), began in 1994, but were published officially only in 1998.[3] For the 1990–1993 period, the primary period of sovereignty movements in the Russian Federation, there are no officially published estimates of GRP. And even with the newer GRP estimates, the understanding of regional contributions to overall Soviet or Russian GDP remains very complicated, largely due to the difficulty of assessing the relevant prices (Erikson 1999). The effect of these price differences was

2. For more on the transformation of Soviet and Russian statistics, see Herrera 2010.

3. For official sources, see Goskomstat, *Rossiiskii statisticheskii ezhegodnik,* 1998. For an early unofficial source, see Chistiakov and Teplukhina 1996:16–18.

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likely to be an overvaluation of an industrial region like Sverdlovsk's contribution to overall GDP, because such regions had been receiving subsidized energy inputs. Moreover, even when using the partially liberalized energy prices of the post-1992 era, the construction of GRP (and GDP) during the inflationary 1990s remains very complicated because small differences in price deflators have large effects.

Another indicator that would seem very important to regional activism, which was also available officially only after 1994, was federal transfers (and thus net tax payments). During Soviet times, it was impossible for any region to calculate how much it paid into the federal center and how much it received back because regional and federal obligations and responsibilities were not sufficiently disaggregated.

Yet, GRP and calculations of net taxes were only the tip of the iceberg in terms of the range of opportunities for actors' reconceptualization of regional economic conditions and their economic interests in the post-Soviet period. In the USSR, because central planners set prices, there was not much variation in official regional prices (the variation was in terms of supply and availability of goods and black market prices). However, after 1992 with price liberalization, the variance in all regional prices steeply increased. Similarly, wages differed during Soviet times, but due to the relative uniformity of prices, higher wages generally meant higher real income. As both wages and costs of living began to vary across regions, calculation of real income became much more complicated (Nemova 1993:39; Hanson 1997:17). For example, if we compare Sverdlovsk with an economically similar region, Samara, we find that wages in Sverdlovsk were higher than in Samara for 1990, 1991, and 1992 but were lower in 1993 (Goskomstat Rossii 1995a:610–611). At the same time, food prices in Sverdlovsk were higher than in Samara in 1992 but lower in 1993 (Goskomstat Rossii 1995b:33). Between 1992 and 1993, prices in Samara rose by 10.6 times whereas prices in Sverdlovsk rose by only 8.5 times.[4] It is therefore difficult to know which region was better off in terms of real income during 1990–1993.

Beyond the matter of the complexity of price-based indicators, the post-Soviet period brought into focus the need for conceptualization of new categories of economic indicators. Unemployment, for example, was not a category of analysis during Soviet times. As with other indicators discussed above, measurement error is a serious issue. However, the debate over unemployment and especially the definition of "job seekers" highlights a deeper question of the meaning of unemployment in the post-Soviet context. For instance, in the early 1990s context of massive nonpayment of wages, what does it mean to be "unemployed"? There are also issues of classifying reduced-time workers. The Russian State Statistical Committee (Goskomstat) provided two measures of unemployment, one according to those economically active members of the population who were

4. Calculated from data given by Goskomstat Rossii 1995b:24 and 33. The index of prices in the entire Russian Federation during the same period rose by 9.4 times.

seeking work (the International Labour Organization definition) and one of official, registered unemployment. However, neither Goskomstat measure took into account the issues of reduced-time work or nonpayments.[5] Given differences in nonpayments and reduced-time work across regions, it is possible to see how regional comparisons of unemployment in the early 1990s might not have converged on a single understanding of the term.

A final conceptual issue from the point of view of assessing regional understandings of the economy is to recognize that the data that regional actors had available to them at the time of their decision to pursue greater sovereignty—that is, the data available in 1990–1993—were much more limited than the data available here. Official national-level published sources came to a halt in 1990, stopping with Soviet data from 1989. Russian statistical yearbooks with what comparative data existed for 1990–1993 were published only in 1994, although regional statistical offices had their own, mostly unpublished, records of regional statistics for the 1990–1993 period.

The point of this discussion of the uncertainty surrounding data on regional economic conditions in Russia is not to suggest that Russia is a special case. Rather, it demonstrates what one finds when one looks into the meaning of economic data, namely, that there is nearly always measurement error as well as room for multiple legitimate interpretations of economic conditions. Hence the process of cognition of material conditions is central to the analysis of why regionally specific understandings of the economy might develop in certain regions at particular times. These regional understandings in turn are critical to the development of regional economic interests, including interests in greater sovereignty, that is, the economic basis of nationalism.

The Macrolevel Institutional Context after the End of the USSR

In *Imagined Communities,* Benedict Anderson posits certain necessary conditions, in the sense of "conceptual events," for the imagination of nations (Anderson 1996). I argue that glasnost, perestroika, and the breakup of the Soviet Union produced analogous conceptual events necessary for the imagination of regional identities and intersubjective regional economic understandings in Russia.[6] First and foremost, Russia experienced a massive institutional breakdown. The end of the Soviet Union brought about an absolute change in rules (both formal and informal institutions), which destroyed Soviet authority and allowed for serious questioning of Moscow-based rule. What the breakdown in the belief in the divine right of kings was to the French or American Revolution, the collapse of the authority of the Communist Party of the Soviet Union was to the regions of Russia. The career paths of regional elites were thoroughly upset

5. Michael Bradshaw developed a measure of regional unemployment for 1993 that combines official unemployment with reduced-time working. See Hanson 1994:Appendix Table 1.

6. Glasnost refers to "openness," mainly in the press, and perestroika refers to restructuring of political and economic institutions.

by the institutional demise of the Communist Party. Russian regional leaders could still look to Moscow as the center, but it was unclear how long that would last. This disruption in career trajectories made regional elites aware of their new location as leaders of regions within the Russian Federation, but ordinary people also became acutely aware of their territorial location because the place they happened to be living in 1991 signified a new basis for future citizenship. Moreover, local councils, called "soviets," were the first democratically elected institutions, and these councils gave political voice to regional concerns.

Another key component allowing for the imagination of regional identity was glasnost. This process entailed a decentralization of information and the emergence of real regional presses, that is, the regional production of knowledge. Scores of new newspapers and journals appeared, but regional actors also created new maps and planned and collected statistics in areas ranging from demography to the environment.[7] Throughout perestroika and after, the regional press was instrumental in articulating problems specific to particular regions; this articulation of issues created *regional* political agendas fundamentally different from those that had existed in Soviet times. One result of these post-perestroika processes was a context in which political and economic categories became sufficiently fluid so as to allow for novel types of interaction between regional actors and the center.

Finally, the new Russian Federation that emerged after the end of the USSR did not have a stable federal structure in place—instead, it was an amalgam of different types of territorial units left over from the Soviet model (21 republics, 49 oblasts, 6 krais, 10 autonomous okrugs, and 1 autonomous oblast), each with different levels of institutionalized power and autonomy. Because the federal institutional structure of the USSR turned out to be the basis on which internationally recognized statehood was conferred (i.e., all 15 Union-level republics became independent states, regardless of other factors, such as extent of nationalism or political or economic development), the issue of formal institutional status in the new Russian Federation was not a trivial concern for regions.

Regional Economic Understandings: Sverdlovsk Oblast

In order to illustrate the process by which economic understandings were constructed, and how they diverged from "objective" accounts of regional economic conditions, I considered local economic discourse as reported in regional newspapers in the 1990–1993 period. Using quantitative content analysis on 386 local newspaper articles, I documented interpretations of the economy in Sverdlovsk in four economic issue areas—fiscal policy, production, prices, and trade—and I compared those understandings with objective accounts. Using objective indicators, Sverdlovsk outperformed most other regions, in the sense

7. In almost every region of Russia, glasnost began a boom in local historiography. Museums once dedicated to international socialism became sites for the reconstruction of local events. Historical preservation societies were some of the first and most active of the perestroika-era groups.

of higher production or value, or lower costs. Nevertheless, systematic content analysis of the discussion of economic issues in Sverdlovsk Oblast shows that local interpretations of economic conditions were quite negative across issue areas. Cognition, I show, matters.

In this analysis, I separated articles in terms of the event that took place, for example, an increase in prices or decrease in production; this resulted in the "issue area" coding. Next, given a particular event, such as a price increase, I coded whether the action was positive or negative for Sverdlovsk Oblast, that is, whether the article suggested that Sverdlovsk was made better off or worse off. Finally, I coded who was the "source" of the action; in the case of price increases I noted whether the article listed Sverdlovsk actors, such as local store owners, as the source, or Moscow actors, such as federal authorities. The point of considering source location was to see whether the attribution for a given action to a regional source, as opposed to an outside source, makes a difference in the evaluation of the benefit of the action to the region. The expectation was that regional interpretations of economic events are more likely to be negative when an outside source is the cause of the action.

Table 5.3 lists positive vs. negative evaluations of benefit to the Sverdlovsk region for all economic issue areas, by source location, either Sverdlovsk or Moscow. "Sverdlovsk Source" means that the actor or organization responsible for the action described in the article was based in Sverdlovsk. "Moscow Source" means that Moscow was specified or directly implied as the source location. The "Benefit" evaluations, "negative" and "positive," are listed in the rows as numbers of articles as well as percentages of the total articles.

Table 5.3 shows that in Sverdlovsk the interpretation of the benefit to the region of a range of economic issues is generally negative, 70 percent. Moreover, when "Moscow" is the source of an action, the assessment of benefit to the region is even more negative: 81 percent. A few examples from the articles themselves illustrate what a negative assessment of economic conditions means. In describing the way regional production was organized by the central government, for instance, one journalist noted, "The oblast until perestroika worked according to the necessities of the economy of the former USSR. This is shown in the structure of its industry, which was patently not oriented to the needs of the population" (Karelova 1993; all translations by the author). Another article is suggestive of the extremely negative tone toward Soviet central industrialization policy in Sverdlovsk: "Under the dictatorship, the Urals was a colony. Bolshevik Moscow sucked dry the juices of the outlying areas, tightening around itself material and intellectual resources, leaving us harmful manufacturing with radiation, with artificial, choleric, bacteria. Offense here is huge. Debt unpaid. And it is understandable the wish of the outlying areas now to straighten themselves out" (Shcherbinina 1993). This negative interpretation of Soviet industrialization policies affected the way regional actors in Sverdlovsk evaluated the economic conditions of the 1990s, and in particular declining production. In other words, these interpretations, subject to larger historical and social understandings, mediated the meaning of regional economic conditions.

Table 5.3. Regional Understandings of the Economy in Sverdlovsk: Content Analysis of All Four Economic Issue Areas, by Source Location

	Affected Location Is Sverdlovsk		
Benefit Evaluation	Sverdlovsk Source	Moscow Source	Total
Negative	147 63%	125 81%	272 70%
Positive	85 37%	29 19%	114 30%
Total	232 100%	154 100%	386 100%

Note: Pearson chi^2 (3) = 36.5582, Pr = 0.000.

In addition to studying regional understandings of the economy, I investigated how those regional economic understandings were related to the region's movement for greater sovereignty, that is, the movement for a Urals Republic. I considered fifty-six articles from eight newspapers published in Sverdlovsk Oblast which contained explicit arguments either for or against the movement for a Urals Republic.[8]

A key finding from this analysis is that the movement for a Urals Republic was largely based on regional actors' belief that Sverdlovsk Oblast was subject to constitutional and economic inequality. That is, that Sverdlovsk Oblast was treated unfairly (not just poorly, but unjustly) by the central government: economic and constitutional inequities are most often cited as the reasons necessitating a Urals Republic, by both proponents and opponents alike. Of the 56 articles related to the causes of the Urals Republic movement, 42 represented views of Sverdlovsk actors and 14 represented views of Moscow or other Russian Federation actors. Of the 42 Sverdlovsk actors, 33 were in favor and 9 were against the movement, whereas for non-Sverdlovsk actors, 4 were in favor and 10 were against. Moreover, more than half the Sverdlovsk actors in favor of the movement cited economic inequality as the main reason for supporting greater sovereignty, and about two-thirds of those opposed to the movement also cited economic inequality as the main reason for the movement's support. Thus, whether Sverdlovsk actors supported or opposed the Urals Republic movement, they widely cited economic inequality as the basis for the movement. In contrast, for non-Sverdlovsk actors, of those in favor, none acknowledged economic grievances as the cause of the movement, and of those opposed, only one-fifth (2) cited constitutional and economic inequality.

These results suggest two other conclusions. First, economic inequality was not merely a concept invented by regional elites in Sverdlovsk in order to gain more power. Presumably, those who opposed the Urals Republic would

8. The eight newspapers from which the articles are drawn include the major newspapers of the oblast.

not have had incentives to construct explanations of the causes of the movement which were similar to the explanations offered by proponents. Thus, it is significant that Sverdlovsk actors arguing against the Urals Republic did not dispute the pro–Urals Republic claims of economic inequality. Second, among the explanations presented in Sverdlovsk newspapers regarding the causes of the movement for a Urals Republic, there were significant differences between the arguments of Sverdlovsk and non-Sverdlovsk actors; the most important was that the issue of economic inequality was particularly salient among Sverdlovsk actors only. Sverdlovsk actors opposing the Urals Republic referenced economic inequality as the cause of the movement whereas non-Sverdlovsk actors opposed to the Urals Republic largely attributed other causes to the movement.

Further evidence of the relationship between economic understandings and support for greater sovereignty appears in an article that reported on an opinion poll taken in August 1993. The poll was based on the answers of 163 randomly selected residents of Sverdlovsk Oblast. In addition to showing support for the July decision by the Oblast Soviet (legislature) to change the status of Sverdlovsk Oblast (55 percent of respondents—up from 40 percent in July), the poll reported that 46 percent of respondents "were hoping that the vote for the Urals Republic [by the Oblast Soviet on July 2, 1993] would change the economic position of the oblast for the better," and 23 percent hoped the vote would "secure equality of all subjects of the Russian Federation." The poll also found that among those who voted yes on the referendum on April 25, 1993, 72 percent supported the July decision of the Oblast Soviet ("Storonnikov vse bol'she" 1993). While the numbers in the poll are not especially remarkable, the fact that the questions regarding support for the Urals Republic focused on the economic position of the oblast and equality of subjects of the federation provides some evidence that those issues were salient factors in support for the Urals Republic.

A clear example of an argument based on economic inequality is given by Eduard Rossel', the head of the Sverdlovsk administration (and later governor of the region). In an interview in late July 1993, Rossel' declared, "My basic argument of its advantage [the founding of a Urals Republic]—is the necessity of equal economic rights of regions. Tax assessment of the territories should be equal. Nothing else is worth the idea of the Urals Republic" (Rossel' 1993).

An example of opposition to the Urals Republic which nonetheless acknowledges inequality can be found in the statement of a deputy in the Ekaterinburg City Soviet and chairman of the Glasnost committee, Stanislav Iachevskii, who said in an interview, "I do not deny itself the idea of more economic independence of the region." However, Iachevskii argued, "the step by the Oblast Soviet is of a provocational character. Following behind it will be an escalation of tensions within Russia" ("Respublika rezoniruet" 1993). Similarly, in an article explaining his opposition to the Urals Republic, Iurii Samarin, the chairman of the Ekaterinburg City Soviet, wrote, "I, of course, am for social-economic equality." But then he explained, "in the referendum I said 'No' to equal rights for Sverdlovsk Oblast with republics. And it is not because these rights somehow

bother me. Something else bothers me. What bothers me is anxiety, based on the fact that now, similar declarations can split Russia. And after that there will be no talk about equal rights" (Samarin 1993).

The principal difference between the arguments made by non-Sverdlovsk actors against the Urals Republic and those made by Sverdlovsk actors is that actors in Moscow and the Russian Federation were far less likely to cite constitutional and economic inequality as a cause of the movement for the Urals Republic. Although this finding seems intuitively obvious, it underscores the claim that the movement for the Urals Republic was related to a particular understanding of inequality, especially regarding the regional economy, which had developed in Sverdlovsk and which was not shared by those outside the region, especially Moscow actors.

Constructing Economic Interests in Sovereignty

As part of my explanation of the relationship between particular understandings of the regional economy, institutional context, and political action, in this section I provide an account of the events surrounding the movement for greater sovereignty in Sverdlovsk Oblast within the context of institutional politics in the Russian Federation. Here I return to the question posed at the beginning of this chapter regarding the formation of economic interests and the economic basis of movements for greater sovereignty. My analysis suggests that there was no set of fixed economic interests that resulted in the movement for the Urals Republic. Rather, I suggest that the existence of wide possibilities for rethinking political and economic categories and the activation of the idea of inequality through the experience of attempting constitutional reform created economic interests in support of the Urals Republic. The discussion in this section is arranged chronologically according to the major steps in the creation and dissolution of the Urals Republic.

The Spring 1993 Referendum

The initial step toward mobilization based on these differential interpretations of the economy—the idea of changing the status of Sverdlovsk Oblast in order to address certain political and economic inequities—first came alive during discussions concerning the formation of Sverdlovsk's charter in early 1993, a process that had its roots in the 1992 Federal Treaty. According to the Federal Treaty, the oblast and the central government were supposed to "'build' on the basis of common principles, budget and tax assessment systems" (Timofeev 1993a). The Sverdlovsk Oblast Soviet prepared a charter in early 1993 and sent it to the Russian Supreme Soviet (the national-level legislature), twice, but never received a response (Levin 1993a).

At the same time that regions were attempting to work out their economic and political relationships with the federal government, serious tension between the executive and the legislature at the federal level was escalating. In order

to use the popular mandate as a means of shoring up institutional legitimacy, both sides agreed to hastily schedule a federal referendum for April 25, 1993. When the federal referendum was announced, the deputies of the Sverdlovsk Oblast Soviet decided to use the opportunity to bring attention to their demands regarding inequality. On April 15, only ten days before the referendum, the deputies voted to add a fifth question to the four national questions on the referendum ballots: "Do you agree that Sverdlovsk Oblast in its authority should have rights equal to republics of the Russian Federation?" (Timofeev 1993a).

In explaining why the oblast needed to add this question, Rossel' said that other avenues for addressing the issues of economic and political responsibilities had been exhausted. He mentioned the two Oblast charters sent, without reply, to the Supreme Soviet, and he noted that he had taken Sverdlovsk's project to eighteen ministers in Moscow and they had all refused to work with Sverdlovsk (Timofeev 1993b).

In the referendum, Sverdlovsk voters generally supported President Boris Yeltsin vis-à-vis the Supreme Soviet in the four national questions, and to Sverdlovsk's question, 83.36 percent of the voters in Sverdlovsk Oblast voted yes in support of equal rights with republics.[9] The interpretation of this result among the leaders of Sverdlovsk Oblast was that the referendum constituted the first legal step toward changing the oblast's status. The next step would be a vote by the Oblast Soviet to send an initiative to the Supreme Soviet.

The Constitutional Conference

It was supposed by various parties that a new Russian constitution might help solve the numerous governance disputes that had plagued Russia since its founding after the breakup of the USSR. To this end, President Yeltsin convened an ad hoc Constitutional Conference, which was held June 5–26, 1993, in the Kremlin. According to Anatolii Grebenkin, chairman of the Oblast Soviet, the Sverdlovsk representatives went to the Constitutional Conference with the intention of securing "the equality of all subjects of the Federation in terms of social-economic and political rights" (Grebenkin 1993).

On June 26, the participants of the conference were given a draft of the constitution for discussion (Grebenkin 1993).[10] The draft constitution did not grant republics their main demand, the right to secede, but it supported asymmetrical regional relations by granting numerous special rights to republics as opposed to oblasts and krais. Only four days after the announcement of the draft constitution, on July 1, 1993, in a speech before the Oblast Soviet, Grebenkin said that there were two ways to solve the problem of equal rights: either give all subjects exactly the same rights or settle for the existing system but raise the status of Sverdlovsk to that of republic. Grebenkin pointed out that republics, federal

9. Results given by the Sverdlovsk District Commission of the All-Russian referendum, cited in Timofeev 1993c and "Referendum v Rossii sostoialsia" 1993.

10. See *Izvestiia* 1993 for the full text of the draft constitution.

authorities, and other oblasts that were receiving subsidies were opposed to giving all subjects equal rights, and for that reason Sverdlovsk was forced to consider the latter choice of unilaterally raising its status to republic (Grebenkin 1993). At the end of the session, 162 out of 189 Sverdlovsk deputies voted to support changing the legal status of Sverdlovsk from oblast to republic (Ponomareva 1993).[11] The next day, the Sverdlovsk Oblast Soviet proclaimed a decision to form a Urals Republic. Sverdlovsk also invited the other four oblasts in the Urals region (Cheliabinsk, Kurgan, Orenburg, and Perm') to join in the "republic" (Usachev 1993).

The actions of the Sverdlovsk Oblast Soviet were initially met with silence by central authorities. However, a week later, on July 9, Vycheslav Kostikov, Yeltsin's press secretary, finally issued a statement claiming that the formation of a Urals Republic was to be suspended. Grebenkin told *Izvestiia* that there was nothing to suspend (*FBIS Daily Report* 1993a). According to Grebenkin, in order to legally change the status of an oblast to a republic there were three requirements: the people's will, a decision of the Oblast Soviet, and a decision of the Russian Supreme Soviet. The referendum of April 25, 1993, was the first step; the July 1, 1993, vote by the Oblast Soviet was the second; and further action was in the hands of the Supreme Soviet.

Federal Instability and the Creation of the Urals Republic

By September 1993, a draft of the Urals Republic constitution had been completed and was being circulated in the Oblast for revisions. At the same time, Sverdlovsk was moving forward in discussions with the other oblasts of the Urals regarding unification into a common Urals Republic (Levin 1993b). At this time, Rossel' gave an interview to *Izvestiia* in which he stressed that the formation of a republic is not simply a short-term or stopgap measure aimed at gaining unjustifiable advantages over other regions, but rather a solution to the historically inadequate representation and consideration of regional interests (Pashkov 1993).

In the midst of regional machinations, the tension in Moscow between President Yeltsin and the Supreme Soviet, had finally erupted into an all-out power struggle. Yeltsin reacted decisively on September 21, 1993, by calling for new parliamentary elections to be held on December 11 and 12 and issuing a decree immediately disbanding the parliament (Remington 1994). The standoff in Moscow turned violent on the weekend of October 3 and 4. The reaction in the regions to the violent episode in Moscow was mixed, but in Sverdlovsk, Eduard Rossel' and Anatolii Grebenkin sent a public telegram to Yeltsin on October 5 saying, "[We] support your resolute actions concerning the reform of the state structures. From our side we guarantee order and stability in the oblast and the support of the Urals people in carrying out this reform" (*Ural'skii rabochii*

11. See *Ural'skii rabochii* 1993a for the full text of these documents.

1993b). The support for Yeltsin in Sverdlovsk makes it clear that the Urals Republic was not simply an anti-Moscow or anti-Yeltsin movement.[12]

On October 9, Yeltsin issued a decree liquidating the existing system of local soviets (legislative bodies) at the city and district level and transferring their powers to the heads of administration, regional executives who would all be appointed by the president (Teague 1996). At the oblast level, Yeltsin subordinated oblast soviets to his heads of administration, and he also called for new elections to entirely replace the existing system of oblast soviets with weakened but elected regional legislatures.

Sverdlovsk elites were undeterred by these events. In fact, Yeltsin's decision to disband and bomb the Supreme Soviet actually bolstered the creation of a Urals Republic because in so doing, Yeltsin removed the last constitutional obstacle to the republic's formation. The third step in the process of creating a Urals Republic was obtaining Supreme Soviet approval, first, for the change in the Russian constitution allowing for the upgrading of Sverdlovsk's status and, second, for the constitution of the Urals Republic. With the Supreme Soviet no longer in existence and the new constitution not yet in effect, Sverdlovsk actors thought they had gained new freedom to act unilaterally.

On October 27, 1993, 171 out of 189 Sverdlovsk Oblast Soviet deputies voted to adopt the constitution of the Urals Republic, which was to go into effect on October 31, 1993 (Bozhenko 1993). The deputies also decided to hold a referendum on the constitution, to take place concomitantly with the Russian elections on December 12. In addition, the Oblast Soviet established that the Urals Republic was to have a directly elected governor and a two-chamber legislature; these positions were also to be elected on December 12. In the interim, Rossel' would serve as governor and the Sverdlovsk Oblast Soviet would serve as the lower house of the legislature. Finally, October 27 was declared "the day of the Urals Republic" (Sidorov 1993).

Disbanding the Urals Republic

On November 9, the Sverdlovsk Oblast Soviet held an extraordinary session in order to discuss the negative reaction of key central officials to the creation of the Urals Republic (Timofeev 1993d). The Sverdlovsk leaders correctly assumed Yeltsin's approval was the main factor that would allow for further acceptance of the Urals Republic, but they turned out to be seriously mistaken in their assessment of what Yeltsin's position would be.

Unknown to the deputies at the time, on the morning of the same day as their meeting, Yeltsin had signed a decree (no. 1874) titled "On Terminating the Activity of the Sverdlovsk Oblast Soviet of People's Deputies." In it Yeltsin decreed that the decisions of the Sverdlovsk Oblast Soviet of July 1, 1993 ("On

12. In addition, Yeltsin was himself a native of Sverdlovsk Oblast and hence had fairly close ties with the leadership there.

the Status of Sverdlovsk Oblast within the Russian Federation"), and October 27, 1993 ("On the Urals Republic Constitution"), "are to be considered as having no juridical force from the moment they were adopted." Moreover, Yeltsin decreed that the activities of the Sverdlovsk Oblast Soviet were to be terminated as of November 9, that the Administration of Sverdlovsk Oblast was to oversee all functions and responsibilities of the former Sverdlovsk Oblast Soviet, and that elections for a new representative organ were to be held in early 1994 ("Ukaz Prezidenta Rossiiskoi Federatsii" 1993; Levin 1993a). The next day, November 10, 1993, by another decree signed by Yeltsin, Rossel' was relieved of his post as head of the Administration of Sverdlovsk Oblast, for "failing to carry out the presidential decrees and for considerably exceeding his powers" (*FBIS Daily Report* 1993b).

Post–Urals Republic Developments

The new Russian constitution that was put to a vote in the December 12 referendum turned out to be substantially different from the draft constitution that had been distributed to regional leaders in June. Whereas the June draft preserved significant political and economic disparities among regions, the new constitution declared that all subjects of the Russian Federation, without distinction, were to be equal members in all rights. This critical constitutional development cannot be understood outside the context of movements for greater sovereignty among the oblasts, such as Sverdlovsk. Although the implementation of the constitutional provisions is a separate issue, the changes to the constitution effectively took the wind out of the sails of any regional movements aiming to achieve constitutional equality. Indeed, the era of regional sovereignty movements in Russia which had threatened to dismantle the new Russian Federation since its inception in December 1991, largely ended in December 1993 (with the exception of Chechnya) with the new constitution, which remains in place today despite the enormous political changes since then.

The movement for a Urals Republic did not, thankfully, result in any deaths or destruction and hence has not garnered many headlines outside Russia; it also never turned into a full-fledged separatist movement. Nevertheless, it is an analytically important case because the focus on economic grievances allows us to see the construction of economic interests in sovereignty movements. The starting point was the mass of data about the regional economy in the aftermath of the end of the USSR. These data, however, did not have objective meaning in themselves. Rather, cognition, or the experientially based processing of information by Sverdlovsk actors, on the basis of their historical experience with the political economy of federalism in the Soviet period, informed the interpretation of those data and gave them meaning, creating an intersubjectively held, regional understanding of Sverdlovsk's material conditions, that is, the imagined regional economy. This regional understanding of the economy, largely summarized by a narrative of economic neglect and exploitation of the region by the center, was mediated further in the institutional context of the

time, in which the central executive-legislature power struggle and lack of a constitution and the fluidity of federal relations resulted in the development of an economic-based interest in greater sovereignty in Sverdlovsk. Via process tracing we see that this economic interest in sovereignty was not objectively given, but a result first of the cognition of material conditions and in turn of the development of shared understandings and institutional mediation.

Conclusion

The fundamental argument that I advance in this chapter is that objective economic structure and economic conditions are underdetermining of political and economic interests. To put it in the language of other contemporary debates, economic advantage and disadvantage are as imagined as nations. In the literature on nationalism and separatism, which looks primarily at ethnicity-based movements, when economic factors are acknowledged, the relative economic situation comes in as a deus ex machina to explain the variation. Most scholars of nationalism assume that ethnicity is fluid but that economic interests are definite and real. I argue that economic interests may well be as fluid as ethnicity and that the regional economy may be as imagined as the nation. Just as imagined communities are the relevant reality for nationalist movements, the imagination of the regional economy is the reality for economic-based separatist movements.

The approach to the analysis of the economy in this chapter offers an alternative to the treatment of regional economic claims as simply the direct, mistaken, or purposefully manipulated representation of objective economic conditions. The imagined regional economy does not necessarily correspond to objective economic estimates because, like the imagined nation, it is based on data that are subject to historical experience, institutional context, and local interpretation. In sum, I argue that the economic claims involved in separatist movements share with nationalist claims a non-essentialist nature, subject to multiple legitimate interpretations. Hence, to understand the development of political and economic interests, we must learn why certain understandings of the economy become salient in particular times and places.

In contrast to those who would continue to debate whether regionalism is more likely to occur in economically advanced regions or less developed regions, my analysis suggests that economic conditions do not seamlessly produce economic interests and the expression of political demands based on those interests. In particular, the movement for the Urals Republic shows that economic conditions alone are insufficient indicators of the kinds of economic demands that regions may advance. The case of the Urals Republic bids scholars to consider how regional economic interests may be constructed and formed into a basis for political action.

Moreover, my analysis suggests that we can better comprehend the development of interests if we consider the nature of economic data that political actors have to work with, local interpretations of those data, and the activating institutional context that influences the development of economic understandings into particular political and economic interests. In this sense, we enlarge the ongoing study of the imagination of political communities to embrace the non-objectivist generation of economic interests as part of the conception of regional identities.

Finally, while the case at hand has focused on the development of economic interests in sovereignty and nationalism, the role of cognition in the interpretation of economic data is more broadly applicable. Constructivist approaches to the economy fundamentally reject the objectivity of material conditions, and the analysis in this chapter highlights the important role of cognition in the interpretation of material conditions, thereby providing a mechanism for analyzing how masses of data are transformed into specific understandings. Hence, by bringing actors and their experientially based processing of information to the fore, that is, by highlighting the process of cognition in explaining the origins of economic interests, this analysis builds on and strengthens our understanding of constructivist political economy.

PART III

UNCERTAINTY

An emphasis on uncertainty can set up empirical constructivist arguments in two ways. One model is to show that certain actors were uncertain about what to do until they invented or were provided with social constructs to resolve uncertainty into a new framework for action. The other is to observe counterfactually that in the terms of nonconstructivist theories, actors *should have been* uncertain about what to do but were not—and then to highlight the social constructs that reduced their uncertainty.

Cornelia Woll's chapter displays the first model. She takes issue with scholarship that traces liberalization to the ostensible interests of business in a simple way: by providing evidence that businesses often—and perhaps usually—are uncertain about their interests in liberalization. In studies of American and European telecoms and airlines, she finds a common pattern. Firms are initially unsure about what to do about proposals for liberalization. They rarely mobilize early on. Instead, they tend to lie low and watch their competitors and government actors to acquire information. Gradually, some mobilize for or against the proposal. In Woll's cases, however, it was not until *after* governments moved to introduce competition in local markets that most businesses adopted proliberalization stances. Once protectionist strategies were precluded, firms bandwagoned for liberalization. Especially in the later phase of this process, however, she sees little relationship between businesses' ostensible objective interests and mobilization. Some firms took up particularly strong ideological support for free trade, but not necessarily the most competitively placed ones who stood to benefit the most. Regardless of their positioning, today firms in both sectors tend to regard past liberalization as clearly in their interests.

Wesley Widmaier's chapter showcases the more counterfactual model. Patterns of economic and political action that actors and other scholars have taken as the straightforward responses to objective conditions, they argue, have actually depended on socially constructed leaps over uncertainty. Widmaier considers two widely accepted arguments about economic trade-offs: the Phillips Curve (which posits a trade-off between inflation and unemployment) and the Impossible Trinity (which suggests that governments face trade-offs between openness, monetary stability, and full employment). He observes that both arguments rest on expectations that people will be unable to cooperate because

they prioritize narrow individual interests over broader public concerns. We get the Phillips Curve because workers will not show wage restraint if they do not have to; the Impossible Trinity follows from the same observation under conditions of openness (since full employment means wage-driven inflation, but monetary-policy responses are ostensibly ineffective given capital mobility). Widmaier then shows in a study of postwar U.S. economic policies that perceptions of these trade-offs—among economists, among actors, and in economic effects—have varied over time. Economic expectations about individual interest, inevitable trade-offs, and unavoidable austerity were not the simple lessons of U.S. experience after the material "failure" of Keynesianism in the 1970s. To the contrary, such expectations developed first in theory, with a neoclassical Keynesianism in the 1950s, and contributed to recasting the economic arena in their own image.

6

Firm Interests in Uncertain Times

Business Lobbying in Multilateral Service Liberalization

Cornelia Woll

Uncertainty is one of the most constant facts of life, and all social sciences have dedicated entire libraries to the subject. Yet treatments of what is uncertain and how and whether this uncertainty can be resolved vary widely, even if we consider only economic activity. Uncertainty can refer to our lack of knowledge or difficulties in categorizing, the ambiguities of social settings, the risks we face, or, more fundamentally, our inability to foresee the future. In its broadest sense, uncertainty can be used to speak about all the different paths to constructivist scholarship presented in this book. For the scholars interested in meaning, uncertainty refers to the multiple interpretations people can develop about the world that surrounds them; for those working on cognition, uncertainty results from our limited information processing capacities; for critical constructivists, uncertainty comes from the epistemological position which holds that the world is not knowable in an objective way.[1]

Distinguishing constructivist scholarship that concentrates on uncertainty therefore necessarily leads to overlaps. Working on uncertainty implies that the author accepts at least one if not several of the sources highlighted by the other three pathways. However, studies following the uncertainty pathway are united by the desire to understand how individuals or organizations try to overcome these difficulties in order to engage in economic activity despite—or because of—their lack of knowledge about the future. The emphasis in this category is on action and time. Most simply put, scholars in this perspective are interested in understanding why and how political economies function even though we have only limited capacities to estimate the probabilities of future outcomes.

1. Rathbun (2007) includes materialist-rationalist scholarship and argues that schools in international relations can be distinguished by the way uncertainty is understood in each paradigm: realism deals with uncertainty as fear, rationalism focuses on lack of information and ignorance, cognitivism highlights confusion, and constructivism concentrates on indeterminacy.

When economic activity becomes routine, it is difficult to get a sense of the ever-present shadow of the future and the fundamental role it plays in everyday decisions. We have seen that people adjust expectations in times of crisis, but the same also happens in situations of change that are less cataclysmic (Streeck and Thelen 2005; Genieys and Smyrl 2008). Indeed, all economic actions rely constantly on imagination (Bronk 2009).

This chapter shows that uncertainty about the future is crucial to understanding firms' decisions about their political activities in global trade. It focuses on service trade, a new issue that emerged in the 1980s, and asks why U.S. and European firms invested time and effort into lobbying on an issue from which they were not sure to benefit. Instead of defending monopoly rents, many service companies turned to support the multilateral liberalization of their home markets. This surprising support is difficult to explain with regard to the payoff structure of the changed regulatory regime (Crystal 2003b), as rational choice models would suggest. Rather than simply accumulate information to find out whether they would win or lose from liberalization, firms spent a considerable amount of time determining *what kind* of information was relevant. In interaction with potential competitors and their governments, firms reevaluated their beliefs and their self-understanding and were able to process relevant information only once these categories were in place. The chapter thus shows that gaining certainty about economic interests necessitates the intersubjective construction and testing of relevant categories of action and not simply the accumulation of information. The nature, timing, and content of these categories, in turn, depends on the regulatory and political contexts in which they have to act.

The Inability to Foresee the Future

Economic sociology has criticized the reductionist perception of rationality employed in neoclassical economics, which tends to portray all decisions as the result of logical calculations. In projections of the future, uncertainty becomes merely a case of risk, in which probabilities can be assigned, either to the likelihood of the event or to the most likely reaction of everybody else to an event (Beckert 1996, 2003). This neoclassical model is the basis of materialist-rationalist political science and informs the literature's understanding of stability and social change (Blyth 2006). In particular, it has been fundamental to theories in international political economy about business-government relations on trade (Woll 2008). In an attempt to distance themselves from functionalist and structuralist approaches, both neoclassical economics and political economy theories in political science on trade focused on the material self-interests of economic actors as a convenient entry point to a more general analysis of collective decision making and social order. Interests are thus used to do the explaining; they are not what needs to be explained. With its reliance on neoclassical assumptions, the field of international political economy has not been very affected by other currents in economics that focus on fundamental uncertainties, such as behavioral economics, search theory, signaling theory, models of herd behavior,

or the heterodox schools such as the French économie des conventions or the théorie de la regulation. The parsimonious assumptions employed in international political economy are also in striking contrast to many of the great classics in political economy, from Adam Smith's *Theory of Moral Sentiments* to the writings of John Maynard Keynes and Friedrich von Hayek.

Concerning uncertainty, Keynes's and Hayek's perspectives are particularly insightful and have much in common with the perspectives adopted in economic sociology. Like Frank Knight, both writers made the role of radical uncertainty explicit and addressed the related questions of epistemology.[2] Both agreed that we have no way of knowing the future: values and probabilities assigned to future outcomes need to be explained with reference to the person who assigns them, not an apparently objective reality, an approach that has been labeled "economic subjectivism" (see Butos and Koppl 1997). Keynes, who shared a Cartesian vision of knowledge as justified beliefs derived from experience and argument, insists that it is impossible to establish a list of every possible future outcome, so "our existing knowledge does not provide a sufficient basis for a calculated mathematical expectation" (Keynes 1973:152).[3] In *The Sensory Order* Hayek argues that "experience" has to be categorized to be understood, but that our categories are in turn influenced by experience. This endogenous theory of knowledge, in which we constantly update our mental categories and experiences, implies that all knowledge is subject to revision and therefore fallible. Individuals live "as much in a world of expectations as in a world of facts" (Hayek 1952:121). Hayek (1989) therefore argued vigorously in his 1974 Nobel lecture against "the pretence of knowledge" in both politics and economics.

As a result of these divergent epistemologies, Keynes and Hayek differ in their explanations for economic action under uncertainty. For Keynes, entrepreneurs "embarked on business as a way of life," not just calculation (Keynes 1973:150). However, the advent of the stock market separated ownership from management, creating room for speculation, and so exacerbated the instabilities created by our inability to "defeat the dark forces of time and ignorance" (Keynes 1973:157). To account for the waves of optimism and pessimism observed in stock markets, Keynes notably points to the likelihood of spontaneous and uncalculated group behavior, which he termed "animal spirits" (Keynes 1973:161–162).[4] But even in all other settings, he suggests, people tend to align with the behavior of the majority because they know that their "own judgment

2. Many other economists have done so as well, in particular G. L. S. Shackle and Ludwig Lachman, but they have arguably been less influential on the evolution of economic theory and perspectives on political economies. For a history and discussion, see Schmidt 1996 and Bronk 2009.

3. Moreover, Keynes accuses those who espouse mathematical calculations of falling pray to "market place idols." Classic economic theory, to him, is "one of these pretty, polite techniques which tries to deal with the present by abstracting from the fact that we know very little about the future" (1937:215).

4. "Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits—a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities" (Keynes 1973:161–162). For a recent discussion, see Akerlof and Shiller 2009.

(Drake and Nicolaïdis 1992). Despite considerable difficulties, the negotiations led to the General Agreement on the Trade of Services (GATS), which entered into force as one of agreements governed by the newly created World Trade Organization (WTO) in January 1995. To determine how to go about implementing the agreement, officials began sectoral negotiations at the same time (see Mattoo and Sauvé 2003). Some sectors were excluded from the reach of the GATS, but in international air transport, liberalization nonetheless advanced through bilateral and plurislateral agreements called "open skies."

Making services a matter of trade between nations was a quantum leap in the ways in which government and firms thought about their activities: a "revolution in social ontology," according to Drake and Nicolaidïs (1992:38), who underline that "services had been regulated heavily for centuries and state institutions and organized constitutions opposed to open competition were embedded deeply in domestic politics." Within a decade, the easing of capital flows, the entry and operation of foreign firms, the interconnection of transport and communication networks, and the recognition of diplomas and licenses of foreigners were discussed under the broad label of service trade, leading to new sectoral categories such as "financial services," "professional services," "communication services," and "transport services."

Within each sectoral negotiation that ensued during the 1990s, the stakes were considerable. I concentrate on two sectors to compare the evolution of business lobbying: telecommunication services negotiated under the GATS from 1994 to 1997 and international air transport, where liberalization was pursued bilaterally. In telecommunication services, international exchanges were traditionally governed by interfirm agreements under the technical oversight of the International Telecommunications Union (ITU) (Cowhey 1990). Within national boundaries, the most common model of telecom provision was through a monopoly provider, often in the hands of the government, to ensure the maintenance of the network and universal services to even the most remote regions (Noam 1992; Guerrieri and Scharrer 2002). For technical standards and defense reasons, international air transport was traditionally regulated through an extensive network of bilateral agreements, which specified every aspect of business operations, such as the company, the size of the fleet, the frequency of operations, and the number of stops (Richards 1999).

The liberalization of services was therefore a matter not just of international negotiation but first and foremost of domestic regulation, and it advanced simultaneously at the national and the international level, albeit at very different speeds and to different extents according to sectors of activity and countries (Mattoo and Sauvé 2003). The most important reforms toward less government intervention and consumer-oriented politics of deregulation occurred in the United States in the 1970s and 1980s (Derthick and Quirk 1985). In the United Kingdom, Margaret Thatcher's government undertook similar reforms of privatization and marketization of public services. At the regional level, the turn toward market-based forms of governance inspired those who sought to integrate the European Communities through the completion of a common market in

the mid-1980s (Jabko 2006). Liberalizing service markets became an essential element of the European market project, which the European Commission and liberal member states pursued through a mix of judicial instruments, intergovernmental negotiations, and national reforms (Schmidt 1998; Thatcher 2007; Nicolaïdis and Schmidt 2007).

The driver behind regulatory reform was a network of actors that defined and redefined their objectives as they went along. At the domestic level, policy advisers and economists, user companies and consumer lobbies pushed for change and forged alliances with parts of the government interested in reform. At the international level, public officials within supranational institutions saw an opportunity to further their organizations' objectives through service liberalization. Multilateral service liberalization through global trade negotiations was put forward by multinational companies and governments that hoped to advance their negotiation objectives by introducing a new issue to the Uruguay Round (Sell 2000). However, with the exception of the select group of multinational companies such as Citigroup and American Express, which spoke as both service providers and user companies, most companies concerned by service liberalization did not immediately turn their attention to the multilateral negotiations. In fact, even halfway through the sectoral negotiations that were launched after the conclusion of the Uruguay Round in the 1990s, many of the service providers did not engage in trade policy lobbying. But during the mid-1990s, things changed. Not only financial service companies and user groups but also telecommunication companies and even network providers spoke out in support of the multilateral liberalization. Independently of the WTO talks, European airlines began to lobby for more liberal bilateral and transatlantic agreements in the late 1990s.

How did this shift in business policy stances arise, even though many of the companies concerned previously benefited from privileged positions in their home markets and even monopoly rents? To be sure, service firms did not all have the same motives or engage in the same amount of lobbying activities. Determined and aggressive first movers such as American Express, Citigroup, Time Warner, and MCI saw important opportunities in foreign market access. More ambiguous activists included the U.S. regional bell operator NYNEX, which supported liberalization but insisted simultaneously on the need to protect the home market investment of incumbents threatened by new competition. Similarly, many airlines advocated liberalization, but only if it came with certain control mechanisms to protect their interests. Still, why did these companies decide to lobby in favor of liberalization? Since lobbying in support of liberalization has far-reaching consequences, even if it is just lip service, it is important to understand what motivated these policy stances.

"We had to change our thinking": Adjusting Beliefs and Identities

A comparison of the evolution of policy stances of telecommunication companies with those of airlines that were not directly affected by the GATS negotiations

reveals a very similar pattern. The political activities of firms happened in close interaction with competitors and governments. In evaluating the best plan for action, firms constantly reviewed the strategies of their competitors. When immediate competition became a reality at the national or European level, they adjusted the categories with which they thought about their international business activities and their own corporate identity. This adjustment in turn paved the way for a more liberal multilateral agreement, which crucially hinged on firm support. Put differently, when firms got strong signals that competition might become increasingly important, they began employing new categories that helped them to evaluate their activities with respect to potential competitors. The categories were supplied through governmental contacts or emulation of foreigners. Once the categories were in place, firms behaved quite rationally, but we can understand and study that rationality only once we know the categories they employed.

Next we see how and when firms decided that they had to "change their thinking" in order to survive in an uncertain future. On the one hand, firms adjusted the categories with which they thought about their international activities from service provision to trade. On the other hand, and at a more fundamental level, the turn toward trade came with a new corporate identity: over time, firms started to conceive of themselves no longer as national champions but as competitive players in a global market.

Beliefs: From Reciprocity and Interconnection to Trade

Even though international activities were crucial for many service providers, few thought about them as "trade" before the 1990s. For most network providers, financial advantage was tied to home market dominance, and they had spent considerable effort protecting their privileged position and demanding government subsidies. International operations were a matter of connecting national networks, through joint provision of services or reciprocal service agreements. The logic of these government-sponsored and negotiated regimes was tightly linked to national boundaries, which many companies defended firmly, even if they simultaneously sought to invest abroad.

The logic of trade and the negotiation of more general rules for foreign market access were not immediately clear or appealing to firms operating within the traditional regimes. Even private and competitive service companies knew little about trade, which was a long and highly legalistic process. One of the pioneers of service trade lobbying recalls first coming in contact with trade issues in the early 1980s: "I went home and got this book called *The GATT* to learn anything there was about this."[7] The lack of knowledge was striking on both sides, remembers a U.S. business representative from the telecom industry: "Most trade representatives had never worked on telecommunications, and most telecom

7. Interview in Washington, D.C., 8 April 2003.

people had never worked on trade."[8] One or the other aspect of the issues was new to each of the participants, whether governments or companies. Defining a policy stance in a context with so many unknowns was a challenge and initially led to hesitation and reservations on almost all sides.

Among U.S. companies that had chosen to follow the early developments, there was a sense that the ambitions of the trade agenda were ill-matched with the realities of their industries. The abandonment of previous agreements and the ideas enshrined in the most-favored-nation principle seemed quite threatening. When reading a draft of the GATS, most company representatives felt "that our entire business could be traded off against bananas."[9] Even after the establishment of the WTO and its dispute settlement system, companies remained skeptical of the trade system as a commercial tool. A U.S. business representative remembers hearing that bringing a case would take about eighteen months: "I started imagining explaining this to my CEO. Eighteen months, how many financial quarters is that?"[10]

In international air transport, airlines rejected the intersectoral bargaining associated with trade negotiations altogether and were suspicious when their governments began negotiating consumer-oriented open skies agreements that opened up traffic rights to all carriers between two countries. U.S. carriers were worried that their government was offering new market access to U.S. gateways in return for liberal treatments of fares or capacity only. Airlines were used to reciprocal exchanges and had a hard time understanding the benefits of these new negotiations. At the time, the rallying cry of the U.S. industry became "hard rights for hard rights" (Yergin et al. 2000:46). The government's open skies policy, which carriers would later come to hail as the most salutary development for their international expansion, was experienced as something very harmful, in outright contradiction to their economic interests. Carriers protested that the government was "giving away real, hard, intrinsic, measurable values—our geography, if you will—for value that is only nominal at worst and short term at best."[11] Reciprocity, not the potential for scale economies, was the most important objective for carriers at the time, and the government clearly worked to erode this principle in the early 1990s.

Despite these examples of hesitation and opposition to liberalization attempts among airlines, in the telecom sector some U.S. companies, such as AT&T, MCI, and Sprint, were active even during the late phase of the Uruguay Round. A representative of the European Commission confirms: "They were following it pretty closely. I am not sure how well they followed it, but they certainly followed it closely . . . but without necessarily understanding all of the implications of what they were doing."[12]

8. Interview in Washington, D.C., 2 July 2003.
9. Interviews in Washington, D.C., and Brussels, 13 November 2002 and 24 April and 2 July 2003.
10. Interview in Washington, D.C., 25 June 2003.
11. Former Pan Am executive Willis Player, cited in Jönsson 1987.
12. Interview with a representative of the European Commission, Brussels, 3 September 2003.

European companies, by contrast, remained "remarkably uninterested in the whole process."[13] At the time, international telephony was discussed through negotiation of interconnection modalities in the ITU. For many providers, the WTO entered the picture only once it examined an issue traditionally dealt with by the ITU: accounting rates. Overall, European companies started organizing only in the mid-1990s. At that point, "there was such an empowerment of the WTO that many companies discovered its importance."[14] The same is true for U.S. companies. Instead of focusing on settlement rates or interconnection costs, firms began to think about foreign investment and market access. The changing policy stances therefore correspond not to updated information but to a more fundamental change that affected *what* information they concentrated on. The ensuing political involvement then followed quickly: within only two to three years, the stakes had become clear and salient to almost everybody.

The reframing of the international telecommunication business in terms of trade was a collective process. Each participating company studied the behavior of other actors in order to best anticipate what the most useful behavior might be. For some companies, the rationale for supporting liberalization was ideological. It was tied to a larger reflection about competition and access, at least at a rhetorical level. A company representative explains, "MCI would like to think that it created competition . . . in the world of telecommunication services. So the view was always: competition is good and incumbents should be denied to prevent competitors from entry."[15]

However, U.S. carriers were not even sure about the monetary benefits of a WTO agreement. It is true that under the accounting rate system, the net settlement payments U.S. carriers made to other countries continued to rise, to $5.4 billion in 1995 and to $6 billion in 1996. However, the costs of these payments were borne by the telephone users, not the companies. In fact, the biggest profits for U.S. carriers still came from providing international telephone services under the traditional framework, in spite of the U.S. deficit (Yoffie and Bergenstein 1985).[16] "A [company like] AT&T wanted to expand globally if it could win effective competitive opportunities in the domestic market of foreign countries, but it was not sure that it had an interest in changing the basic rules for providing international telephone services between countries" (Cowhey and Richards 2000:156).

What, then, explains the eventual rally of broad support from the telecom companies for the WTO liberalization project? To some degree, their mobilization has to be understood as an attempt to jump on a train that had visibly started moving. User groups and financial service companies had advanced the issue of service trade liberalization to a point where telecom companies started perceiving it as inevitable. Other companies joined despite the fact that

13. Ibid.
14. Interview with the representative of a European network provider, Bonn, 3 July 2003.
15. Interview with a U.S. business representative, Washington, D.C., June 2003.
16. For a detailed discussion of the politics of settlement rates, see Cowhey and Richards 2000.

extraordinary: the carriers were making a lot of money and providing a good service. So other carriers said: 'We have got to go do this!'"[20]

Carriers that had initially opposed the KLM/Northwest alliance because they did not have the same opportunity realized that there was no use resisting this development: "We had to change our thinking. We had to realize that it does not matter that there is a very precise exchange as long as we can create this environment where we are allowed to create global entities in strategic positions."[21]

The obvious success of the early alliances set off "a race for everybody to find a suitable alliance partner," explains an airline representative. The maxim of these years was "Go get a partner and get their government to open their market."[22] Eventually, all international carriers developed "bad cases of alliance envy."[23] This motivation explains the overall airline support the open skies policy enjoys today. The U.S. open skies policy forced American and European airlines alike to stop thinking in terms of reciprocity and to start concentrating on economies of scale that airlines could exploit in a more global aviation market. This cognitive shift, in turn, made European airlines acutely aware of the limitations of the existing system for their own expansion and led them to propose more liberal agreements such as a common transatlantic framework, which eventually led to a multilateral open skies agreement in 2008 (Woll 2006).

All international carriers agree today that the open skies approach has served their interests well,[24] even though they had complained initially that the government was working against their interests. Explanations that point simply to changing constraints and the updating of information fail to understand that carriers were not even looking for profits in international trade until governments prodded them.

Identities: From National Champions to Global Players

A more fundamental transformation behind the new policy demands was the changing self-conception of the firms. Some firms, such as financial service providers, long-distance telecom companies, and U.S. airlines, were competitive service providers from the beginning. A study of European and American monopolists reveals, however, that variation between companies depended on the degree to which they embraced their new corporate identity or insisted on their often public incumbent status.

For European monopolists, part of the transformation happened through national reforms that separated service provision from government administration.

20. Interview with a U.S. government representative, Washington, D.C., 10 April 2003.
21. Interview with a U.S. airline representative, Washington, D.C., 25 April 2003.
22. Ibid.
23. Interviews with U.S. airline and government representatives, Washington, D.C., 24 and 25 April 2003.
24. Interviews with U.S. government and airline representatives, Washington, D.C., 10, 24, and 25 April 2003.

agreement, Cowhey and Richards (2002:104) argue, was likely to expand the number of competitors in those markets and reduce their profitability.

According to this calculation, the regional bells should simply have been opposed to the WTO negotiations. However, this was not the case. Especially NYNEX, which had the most extensive network of foreign investment, but also SBC (formerly Southwestern Bell) and Bell South actively supported multilateral liberalization.[28] However, reservations about liberalization became attached to the ways in which liberalization was pursued. In this context, the domestic regulatory negotiations turned out to be crucial for explaining the international expectations of U.S. companies. In particular, regional bells insisted on a regulatory framework within the WTO that mirrored the Telecom Act of 1996. The position of the U.S. operators was shaped by their desire to move into international markets, but also by their interests as incumbent operators in the domestic market in the United States. As for European network operators, the transformation of the regulatory context and consequent changes in the nature of these economic actors profoundly affected their policy stance on multilateral liberalization. Understanding these positions thus requires understanding the deep ambivalence that came from the dual identity of being both an incumbent and a global competitor in mid-1990s. From a rational choice perspective, we might have assumed that incumbent operators would choose protectionist internationalization strategies based on investment in foreign incumbents. Yet the constant exchanges over the nature of future regulation—which they were able to influence only if they did not reject it entirely—led some network operators to abandon a complete opposition to liberalization and to support increasing competition.

Similarly, European airlines moved from being "flag carriers" to licensed European carriers competing within and outside the European market. Until the 1990s, most European flag carriers were difficult to separate from their governments and naturally accompanied their countries' representatives in all negotiations. Heavily subsidized, airlines were public service providers, and profitability was not a real concern, as a quick look into their balance sheets in the early 1990s can attest. During European negotiations concerning the internal aviation market and international air transport, they argued vigorously for government subsidies and emergency aid (Dobson 1995; Young 2002). At the same time, a coalition of liberal-minded member states, airlines, and officials from the European Commission pushed for the integration of the European market. Once liberalization was agreed on in three packages in 1987, 1990, and 1992, all airlines realized that they would be on equal footing within Europe by 1997. Internal liberalization was thus a key turning point in the mobilization of European carriers, which began pushing for transatlantic liberalization in the late 1990s with reference to their competitive opportunities and the necessity

28. Interview with a business representative, Washington, D.C., June 2003.

European airlines were faced with internal liberalization just as in telecommunications. Once the date—1 April 1997—for a fully integrated European market was known, airlines had to develop new strategies for competing internally and externally. The proposals for a transatlantic agreement which they developed in the late 1990s were therefore much more extensive than the demands of their U.S. counterparts and pushed for further liberalization. Some of the companies that risked being "consolidated away" in the ensuing reorganization of the European market supported transatlantic liberalization actively, in particular the Dutch carrier KLM, but also TAP Portugal. In order to further their political objectives, European airlines ended up working with European institutions rather than their national governments, despite the fact that this meant losing the privileged relationships that they had enjoyed at the domestic level. New political opportunities and institutional change are thus crucial for understanding the evolution of policy stances of service firms, especially changing competition rules, even if they do not apply directly to the political jurisdiction on which negotiations actually center.

Conclusion

To summarize, across sectors and countries, the sequence of policy stances of service firms seems to be quite similar. When faced with new stakes, firms are initially confused and need to learn about their nature and functioning. During this phase, they mobilize little but watch their competitors and interact with government representatives to acquire information and signals about the most likely consequences and the most adequate strategies. During a second phase, they need to decide on a plan of action. Some mobilize, either because they can identify clear benefits or because they are afraid to be left behind. Others prefer to adopt a more conservative perspective and remain silent or lobby against the policy proposal. During this phase, a crucial change happens in all our cases at different moments in time, which explains why we observe such a great convergence and widespread support for multilateral liberalization: the introduction of competition in local markets. This event precludes conservative protectionist strategies and pushes firms to engage in multilateral negotiations in order to contribute to defining the content of liberalization. Firms do not just convert to an ideological support for market liberalization but accept that competition is going to be part of their daily routine, which means that they need to devise strategies for succeeding beyond their traditional markets as well. This story, in which categories for the search for information are adjusted, tested, and readjusted, is very different from the updating model that underlies arguments about incomplete information. Firms do not just "not know" how they will fare in liberal markets; they also have to determine what they need to know in order to evaluate how they can succeed.

Ironically, it is because firms anticipated competition and positioned themselves as generally supportive of negotiations at the multilateral level that

governments were able to negotiate agreements against the opposition of more conservative forces, such as hesitant member states in the EU or members of the U.S. Congress. Within the political game, the fact that even the firms that would be affected by international competition spoke out in favor of it gave an important political momentum to the reformers. To simplify somewhat, multilateral trade in service became a reality because firms widely supported it, but many of the firms supported it because they had accepted that it was to become a reality. In essence, one could argue that this is a political performance effect of lobbying, comparable to the performance effects of mathematical models used for predicting the economy (MacKenzie 2006). This reflexiveness contradicts rational choice accounts that assume economic interests of firms to be the main drivers of globalization. Rather than start with assumptions about economic actors, this chapter has illustrated that we need to pay attention to ways in which they determine their self-interest.

The question of uncertainty is evident in contexts where institutional rules become fundamentally redefined. We do observe some uncalculated mass behavior, as Keynes suggested, but pure emulation can tell us only a small part of the story. The majority of firms were continuously trying to figure out where their interests lay; they calculated the potential benefits and tried to act in pursuit of them. Yet the benefits were anticipated and difficult to estimate because firms faced many unknowns and had no comparisons with past experiences.

The evolution of policy stances over time indicates that firms constantly adjusted the way they thought about their international activities and themselves and categorized new facts and experiences accordingly. This corresponds to Hayek's understanding of knowledge as practice, which is crucially shaped by institutional orders such as competition. Moreover, since they knew the importance of new institutional orders, firms became active contributors in shaping the regulatory details of the different agreements. Indeed, Neil Fligstein (2001) has emphasized that the interaction between firms and governments is crucial for market making, and in particular for the shaping of control mechanisms, which are necessary to stabilize markets and therefore contribute to firm survival. In the end, many of the sometimes surprising political activities occurred because firms wanted to contribute to the reduction of uncertainty, if only for a limited period of time.

7

Trade-offs and Trinities

Social Forces and Monetary Cooperation

Wesley W. Widmaier

What explains variation in interests in monetary cooperation? More specifically, what explains key post–World War II shifts, such as the rise and demise of the use of incomes policies to minimize uncertainty regarding wage, price, and currency trends?[1] In recent decades, support for varied forms of wage, price, or currency cooperation has been undermined by self-reinforcing beliefs that policymakers face inevitable trade-offs between either full employment or monetary stability. These beliefs in the inevitable nature of such trade-offs are premised on assumptions that appeals to private restraint are incapable of containing fundamental macroeconomic pressures, as agents will reject such calls as merely inviting relative wage, price, or investment losses to others. Consider the notion of a domestic Phillips Curve trade-off between unemployment and inflation.[2] Debate over the intensity of this trade-off has long been premised on the assumption that workers, firms, or investors will exercise *no* private restraint in seeking wage, price, or currency gains. Although this may be a realistic view in the contemporary context, I suggest in this chapter that it remains socially contingent. Through earlier postwar decades, when agents more readily accepted the need for private restraint to advance a larger public good, full employment less immediately "spilled over" into inflation or currency instability.

For their comments and criticisms, I thank Rawi Abdelal, Jacqueline Best, Mark Blyth, James K. Galbraith, Peter Hall, Rodney Bruce Hall, Craig Parsons, Leonard Seabrooke, Mira Sucharov, and Alexander Wendt. The usual disclaimers apply.

1. Incomes policies encompass the use of exhortation, guidelines, and controls for purposes of shaping aggregate wage-price expectations. To be sure, not every control is an example of an incomes policy. For example, the minimum wage is set to advance concerns for equity rather than influence aggregate prices.

2. The Phillips Curve has provided an enduring focus of debate, with a number of alternative constructions reflecting different views of market efficiency. In this chapter, unless I refer to specific critiques, I take the curve to describe the notion of a short-run trade-off between inflation and unemployment.

increases—other things being equal—so must wages and prices. Repressing such pressures simply courts distortions and inefficiencies. To be sure, these critiques possess some merit where perfect competition prevails. However, they lose force where *imperfect* competition enables firms to restrict output and raise prices, or where wage-price expectations might acquire a self-fulfilling momentum. In such settings, incomes policies may not only help to limit monopolistic or oligopolistic abuses, but also provide key contributions to the policy mix, as alternatives to monetary or fiscal restraint. Indeed, in empirical terms, to the extent that the 1940–1979 period saw U.S. policymakers make frequent recourse to incomes policies, while also experiencing rapid growth and reasonable price stability, arguments regarding the negative consequences of incomes policies would seem to have been overstated.[6]

Yet even if incomes policies *may* have abstract policy merit, one must still explain shifts in support for their use. In addressing their demise, a range of materialist approaches have emphasized the importance of coalitional shifts encompassing the rise of capital relative to labor (Gourevitch 1986) and the emergence of the 1970s "stagflation," or inexplicably rising inflation and unemployment (Hall 1989; McNamara 1998). Nevertheless, such arguments remain wanting to the extent that they obscure possibilities for variation in interests in wage-price restraint or interpretations of macroeconomic trends. Representatives of labor and capital can use their market power for varying purposes, to advance private interests in wage and profit gains or common interests in macroeconomic stabilization. In fact, during the early postwar era, while capital often supported incomes policies, labor often opposed their use, fearing that wages would be controlled more aggressively than prices. Likewise, even interpretations of macroeconomic trends can vary: in the 1950s, Keynesian economists interpreted an early stagflation as a "New Inflation" caused by abuses of market power, justifying the strengthening of incomes policies. In contrast, by the 1970s, classical economists would interpret a materially similar stagflation as partly caused by incomes policies, justifying their dismantling. Such interpretive variation necessitates a more explicit focus on the social forces that give meaning to material changes.

In recent decades, recognizing the limits of these materialist approaches, a range of constructivist scholars have stressed the influence of intersubjective forces in shaping interests and driving change. Of particular importance has been the work of Emanuel Adler and Peter Haas (1992) and Martha Finnemore and Kathryn Sikkink (1998), who emphasized the role of agents in elite "epistemic communities" and the efforts of "norm entrepreneurs" to

6. More specifically, the United States over the period 1940–1979, which was characterized by the ongoing possibility of support for incomes policies, witnessed average 4.0 percent annual growth rates and moderate 4.4 percent inflation rates. In contrast, the period 1980–2005 witnessed a reduction in growth to 3.0 percent and an only slightly lessened 3.7 percent inflation rate. On growth from 1940 to 1979, see Council of Economic Advisers 1991:293; on 1980 to 2005, see Council of Economic Advisers 2006:285). On inflation, see Council of Economic Advisers 2006:356.

Table 7.1. Intersubjective Stability, Dissonance, and Change

Position 1. Mass-elite stability: Varieties of liberalism and policy paradigms together shape interests in cooperation.	**Position 2.** Mass-elite dissonance: Unequal rates of change in mass and elite views can engender mass-elite dissonance.	**Position 3.** Construction of crises by norm mediators legitimate stability ("back to stage 1") or change ("move on from stage 2").

these matters there is *no scientific basis on which to form any calculable probability whatever*" (1937:214; emphasis added). Constrained by uncertainty, Keynes argued, agents would have to rely on socially constructed "conventions" to make sense of events. In this sense, he advanced a *conventional expectations hypothesis*, one premised on the assumption that a deep uncertainty prevents agents from making efficient use of information. To the extent that such conventions might themselves be shaped by public officials, Keynesian views accordingly constitute interests in the official use of incomes policies to stabilize wage and price expectations.

Further, with respect to constructions of crises, Keynesian frameworks suggest that self-reinforcing downward spirals or inflationary wage-price spirals might overwhelm any self-correcting market tendencies. From this vantage, because investment might be driven by self-fulfilling speculation, or "the activity of forecasting the psychology of the market," rather than enterprise, or "the activity of forecasting the prospective yield of assets over their whole life," a larger role exists for state agents in stabilizing market expectations and countering economic instability (Keynes 1936b:156–158). Finally, and most broadly, Keynesian arguments accord with an egalitarian variety of liberalism that stresses the existence of a uniquely common good and the need for trust in government to define guidelines that might advance that good. As Keynes himself noted, "wage policy raises far-reaching psychological and political issues [that]...can only be handled by a simple, trustful and imaginative policy which covers a wider field than technical finance" (1940b:223). The Keynesian egalitarian synthesis thereby casts the interests of the whole of society as transcending those of the individual parts.

The Technocratic-Neoclassical Synthesis

In contrast to this Keynesian skepticism, neoclassical approaches cast markets as efficient in the long term but *not* the short run. As Gregory Mankiw (1992:446) put it, neoclassicals accept "that classical economics is right in the long run." However, because they often see expectations as *adaptive* (and so recognize that agents may draw unsound inferences from developments), neoclassical economists concede the existence of short-run market errors, whether defined in terms of sticky wages, price rigidity, or exchange rate overshooting.[8] In this light,

8. On neoclassical views, see Samuelson and Solow 1960; Friedman 1968a; Dornbusch 1976.

while casting the permanent use of incomes policies as unnecessary, the neoclassical view admits policy interests in technocratic fine tuning, or the use of fiscal or monetary policy to "lean against the wind" and sustain growth while minimizing inflation.[9] While incomes policies have no permanent role given these assumptions, neoclassical economists acknowledge that they may have a short-term merit in softening the effects of fiscal or monetary restraint by enabling officials to convey their intentions to the public. Even Milton Friedman conceded that incomes policies could have a "temporary" utility in breaking inflationary expectations (Rockoff 1984:5).

Furthermore, with respect to constructions of crises, neoclassical narratives stress the destabilizing effects of short-run missteps by either market or state agents, as either can form mistaken adaptive expectations. For example, in explaining the 1970s stagflation, Johnson administration Council of Economic Advisers chairman Arthur Okun emphasized the impact of political abuses, attributing it to a "defeat of the New Economics by the old politics" (Greider 1987:333). Such constructions reaffirm the need for enhanced policy skill and the insulation of policymakers from mass pressures. Finally, in the broadest sense, the neoclassical view accords with technocratic variants of liberalism, tending to resist ideological missions of enhancing uniquely public or private interests. As Kennedy Council chairman Walter Heller (1966:6) put it, "the political economist typically thinks in terms of trade-offs...rather than all-or-nothing thinking," prizing a utilitarian ethic that overrides concerns for either private rights or the uniquely public good.

The Classical-Libertarian Synthesis

From a third vantage, classical arguments offer no qualifications regarding market efficiency, embodying a *rational expectations hypothesis* that economic systems employ all available information in determining prices, rendering incomes policies unnecessary.[10] Given this competitive efficiency, the potential emergence of rivals and substitutes curtails any scope for the abuse of market power. Incomes policies will therefore be condemned as repressive attempts at maintaining "cover" for policymakers who may wish to overstimulate the economy, spurring anticipatory wage-price increases and so potentially *causing* inflation. Indeed, with respect to crises—and in light of this skepticism regarding market failures—classical narratives emphasize the destabilizing effects of discretionary policy initiatives, as incomes policies may themselves contribute to the later reemergence of inflation. Even where policymakers may wish to employ incomes policies "appropriately," to communicate their intentions, societal distrust may run the risk of spurring anticipatory wage-price increases. Finally, speaking to their broader cultural resonance, classical views accord with

9. Federal Reserve Chairman William McChesney Martin also argued that the purpose of monetary policy was "to take away the punch bowl" when the party got going (Greider 1987:328).

10. On classical perspectives, see Muth 1961; Lucas and Sargent 1978.

Keynesianism Egalitarianism: "Common Effort for Our Common Cause"

Emerging in the 1930s, Keynesianism as an economic theory stressed the importance of uncertainty as a constraint on state and market agents, justifying a new role for the state in stabilizing market expectations. However, such insights would have mattered little had they not accorded with a broader egalitarian variety of liberalism and been further sustained, into the late 1950s, through a series of market failure constructions of crises. One might in fact argue that Roosevelt's crisis rhetoric itself anticipated Keynesian insights. Roosevelt even used his very first "fireside chat" to appeal to a public interest in private restraint, seeking to calm what Keynes (1936b:161) would later term "animal spirits." Condemning private "hoarding" as "exceedingly unfashionable," Roosevelt argued that "when the people find that they can get their money—that they can get it when they want it for all legitimate purposes—the phantom of fear will soon be laid." In the absence of such a public spirit, Roosevelt warned that markets would be "stampeded by rumors or guesses."[12] This rhetoric anticipated Keynes's (1936b:158–161) claims that "speculation," or "the activity of forecasting the psychology of the market," might not result in an efficient allocation of goods and services, but rather would contribute to self-reinforcing crises. Socially driven instability required, from the Rooseveltian-Keynesian vantage, uniquely public responses.

Moreover, with the approach of wartime mobilization, Keynes and Roosevelt would each "invert" their rhetoric to highlight the self-fulfilling nature of *inflationary* expectations. In his pamphlet *How to Pay for the War,* Keynes (1940a:409) maintained that fiscal restraint would be inadequate to contain wartime inflation, and so argued that "some measure of rationing and price control should play a part in our scheme." In the United States such notions were applied at the Office of Price Administration (OPA) by Price Division Director John Kenneth Galbraith. However, Galbraith initially adopted a system of selective controls that proved wanting and was overwhelmed by the complexity of the U.S. economy. By March 1942, Galbraith (1981:164) had accepted that the piecemeal approach "had been very wrong. We needed, somehow, to move on all prices at once—place a general ceiling over all." In response, Roosevelt issued in April 1942 the General Maximum Price Regulation, or "General Max" ruling, freezing all U.S. prices at their March levels. Announcing this measure, Roosevelt stressed the need for a sense of public responsibility, urging "common effort for our common cause." In effect, Roosevelt reframed his market failure criticisms of hoarding from 1933, casting private wage-price restraint as in accord with "the democratic ideal" itself.[13] The Consumer Division of the OPA—which drew on a force of more than 400,000 volunteers in promoting local compliance—

12. Franklin D. Roosevelt, "First Fireside Chat," 12 March 1933, http://www.presidency.ucsb.edu/ws/index.php?pid=14540.

13. Roosevelt, "Message to Congress on an Economic Stabilization Program," April 27, 1942.

further reinforced these appeals at the mass-oriented, grassroots level (Jacobs 2005:203–204). Taken together, these efforts subsequently proved quite successful in reconciling unemployment, which averaged less than 2 percent for the remainder of the war, with low inflation, which remained at or below 3 percent.[14]

These successes would in turn reshape postwar debates, as economists came to appreciate ways in which the state might play an explicit role in coordinating not only wage and price but also *currency* expectations. Keynes himself recognized that wage and price guidelines could—in keeping with purchasing power parity models of exchange rate determination—facilitate currency stability, and that cumulative experience with wage, price, and currency cooperation might further sustain norms of trust and cooperation. Writ large, Keynes's (1936b:501) argument was that monetary stability would require "(i) measures to control capital movements and (ii) the existence of a tendency for broad wage movements to be similar in the different countries concerned." In this light, incomes policies can be viewed as systemic instruments themselves, contributing to the credibility of fixed exchange rates and easing tensions among openness, monetary stability, and growth.[15]

Such connections would be reinforced in postwar U.S. discourses, as presidential appeals to wage-price restraint were linked to full employment and the dollar basis of the Bretton Woods system, against a broader backdrop of Keynesian market failure interpretations of crises. These views were most explicit in the Eisenhower administration's crisis constructions of a paradoxical New Inflation—marked by simultaneously rising prices and falling output—as caused by monopolistic abuses and self-reinforcing expectations. In this setting, Eisenhower conceded the merit of Keynesian insights, warning that business and labor leaders had a "responsibility to the American people" to exercise private restraint.[16] The 1957 *Economic Report of the President* urged that "wage increases and benefits should be consistent with productivity prospects and with the maintenance of a stable dollar."[17] Such exhortative efforts peaked in 1959, as Eisenhower pressed labor and management to end a 116-day steel strike, emphasizing its implications for inflation and the balance of payments. In the aftermath of these experiences, Eisenhower himself would endorse the ongoing use of guidelines to define a public interest in private choices, and his Council

14. Council of Economic Advisers 1997:352; 2007:272.

15. Incomes policies would play a particularly important role in the absence of sufficient capital controls. Although Keynes urged the establishment of capital controls, they were never made mandatory, and current account transactions were kept unregulated. In this light, the systemic importance of incomes policies would be recognized in a Organization for European Economic Cooperation (OEEC) report on the "problem of rising prices," which suggested that incomes policies might reduce the need for "recourse to short-term borrowing abroad" and lessen "the need to consider a change in exchange rates" (Fellner et al. 1961:73–74).

16. Dwight Eisenhower, "State of the Union Address," 1 January 1957, http://www.janda.org/politxts/State%20of%20Union%20Addresses/1953-1961%20Eisenhower/DDE57.html.

17. Council of Economic Advisers 1957:3.

of Economic Advisers would link wage and price stability to the balance of payments, affirming the importance of "appropriate action by management and labor to insure the competitiveness of United States goods."[18]

These Keynesian egalitarian appeals were further supported in varied societal and institutional settings, including the pronouncements of the pro-business Committee for Economic Development and at the Federal Reserve. They also resonated with public opinion trends, as 73 percent of Americans affirmed in 1958 that they believed they could trust the government either "just about always" or "most of the time."[19] This trust was paralleled by a mass skepticism in market efficiency, as 56 percent of the public blamed labor or business for inflation in 1959 while only 14 percent blamed the government (Gallup 1978). To be sure, competing varieties of liberalism remained relevant, as McCarthy-styled libertarianism combined with the technocratic liberalism of the 1950s to represent a source of opposition to incomes policies. McCarthyite pressures were in fact felt by elite economists themselves, as Samuelson (1997) later conceded that he had resorted to a technocratic formalism partly to ward off politically motivated criticisms. However, neoclassical resistance to Keynesianism was not simply a product of intimidation but also reflected principled concerns. Postwar liberal intellectuals like Arthur Schlesinger and Daniel Bell sought to treat the political as more technical in order to contain what they saw as destabilizing popular influences. Where Schlesinger (1949)—later a key adviser to Kennedy—argued for the need to govern from a "vital center," Bell (1960) heralded an approaching "end of ideology." Perhaps most vividly, Walter Heller would later express concerns that the public "may not distinguish clearly between the 'creeping admonitionism' of the guideposts and the hobnailed boot of direct controls" (1966:45–46). Such objections would over the next decade spur the ascendance of a neoclassically technocratic approach, limiting the use of incomes policies to the short run.

Neoclassically Technocratic Economics: "Sophisticated and Technical Questions"

Despite the mounting inflationary pressures of the 1960s, the Kennedy and Johnson administrations oversaw a sustained weakening of incomes policies, fed by a wider mass-oriented erosion of trust in authority. To be sure, as noted above, objections to incomes policies existed *within* the Kennedy administration, reflecting divisions between egalitarian Keynesians like Galbraith and technocratic neoclassical economists such as Samuelson and Solow. In these debates, the neoclassical Phillips Curve—which Samuelson and Solow (1960) had just publicized in their influential article—provided a technocratic alternative

18. Council of Economic Advisers 1961:39.

19. Trust the Federal Government, 1958–2004, *The American National Election Survey Guide to Public Opinion and Electoral Behavior*, http://www.electionstudies.org/nesguide/text/tab5a_1.txt.

increase—well above the 3.2 percent guidepost. IAM president Roy Siemiller, whom Secretary of Labor Willard Wirtz termed "one of the two or three most bitter public critics of the guideposts," would later declare that the increase "destroys all existing wage and price guidelines now in existence" (Cochrane 1975:259, 262). Similarly, with respect to consumer groups, Ralph Nader questioned the Johnson administration's aversion to deliberation, noting in a 1968 letter to Council chairman Okun that "General Motors has been reviewing prices in strict secrecy with the Council of Economic Advisers since 1964....Such a government policy, contrary to its usual justification, does not, in my judgment, maximize the government's leverage nor does it serve the public by keeping it in the dark" (Cochrane 1975:292). While consumer groups had been incorporated into the OPA system of the 1940s, in the more neoclassical 1960s they found themselves on the outside looking in.

Despite this aversion to the guideposts, subsequent neoclassical crisis narratives would emphasize Johnson's purported fiscal irresponsibility in causing the inflation, as he had purportedly failed to raise taxes in a timely fashion.[22] Such accounts are misleading to the extent that Council economists themselves *opposed* a tax increase in early 1967, fearing an economic slowdown.[23] Indeed, when pressure for fiscal restraint reemerged in the fall of 1967, it reflected a concern less for domestic inflation than for international stability following the November 1967 sterling devaluation. Nevertheless, in contrast to Eisenhower- and Kennedy-era reliance on incomes policies as a "first line of defense" for the dollar, the Johnson administration continued to oppose their use. This reluctance contrasted with the Council's contemporary rhetoric, in which the failure to tighten fiscal policy was seen as having potentially dire consequences. Such fiscal crisis constructions ultimately succeeded in securing congressional support, and when Johnson signed the resulting tax increase, he stressed technocratic justifications, juxtaposing the Kennedy tax cuts, which had spurred "88 months of sustained prosperity," with an inflation that now required pressing "the fiscal brakes" to enable continued reliance on "free markets, unfettered by damaging Government controls."[24]

Once the tax increase had been secured, Okun conceded that the administration's fiscal focus had led to a "lull in our efforts to get business and labor cooperation on wage-price restraint." However, Okun also justified this prior inaction on the policy failure grounds that "when the government [had been] the main source of inflation, it was hard to ask business and labor to stem the tide" (Cochrane 1975:285). Given this reluctance, the 1969 *Economic Report*—like its predecessor—failed to provide any specific quantitative guidepost figure. Instead, it stressed the need for microlevel measures such as deregulation,

22. David Halberstam (1972:602) provides the seminal version of this argument.

23. The 1968 deficit came to barely more than the Eisenhower deficit of 1959, which had been only 2.6 percent of GDP (Council of Economic Advisers 2007:324).

24. Lyndon B. Johnson, "Statement by the President upon Signing the Tax Bill," *Public Papers of the President,* 28 June 1968, http://www.presidency.ucsb.edu/ws/index.php?pid=28964&st=&st1=.

in recurring attempts at employing incomes policies as supplemental devices, such efforts would often be resisted in light of a broader public distrust in authority and skepticism in government's ability to contain inflation. Consider that whereas 73 percentage of the public had affirmed in 1958 that they could trust the government "just about always" or "most of the time," only 25 percent would hold that view by 1980.[29] Perhaps more significantly, the percentage of the public blaming government for inflation would rise from 14 percent in 1959 to 51 percent in 1978 (Gallup 1978). Given this skepticism, and following a failed July 1979 attempt to construct a "crisis of confidence" to justify renewed cooperation, Carter himself would recast a revived stagflation as demonstrating the need for austerity, supporting Volcker's efforts at the Federal Reserve and anticipating Reagan's inaugural claim that "in this present crisis, government is not the solution to our problem; government is the problem."[30] More broadly, the absence of an institutional alternative to austerity left the manipulation of aggregate demand the sole means of reconciling the Phillips Curve objectives of growth or monetary stability. Given societal distrust, even had they subjectively desired it, Reagan and Volcker would have encountered considerable difficulty in reestablishing incomes policies, whether to limit inflation or restore dollar stability. This new social context, as it facilitated the perception of tight links between labor market trends and wage, price, and currency trends, thereby obscured interests in domestic or systemic cooperation to advance a public interest in private wage, price, or investment restraint.

Conclusion

This chapter has argued that the interrelated, contemporary notions of the Phillips Curve and Impossible Trinity obscure the full range of state and societal interests in monetary cooperation. Each holds that unavoidable tensions exist between growth and monetary stability: if policymakers exercise fiscal and monetary autonomy to raise employment, then inflation and currency instability *must* follow. In more formal terms, the Phillips Curve framework presumes that as labor markets tighten, workers *must* seek higher wages, and that as demand increases, businesses *must* raise prices, undermining price stability. Similarly, the Impossible Trinity framework suggests that to the extent that state agents pursue a macroeconomic expansion in the context of capital mobility, investors *must* respond by engaging in speculative flight, compromising currency stability. While economists may differ over the relative intensity of these constraints—and how efficient workers, firms, and investors are in seeking wage, price, or investment gains—the Phillips Curve dilemma and Impossible Trinity trilemma are each widely seen as imposing exogenous limits on policymakers and as unaffected by

29. Trust the Federal Government, 1958–2004, *American National Election Survey Guide.*

30. Ronald Reagan, "Inaugural Address," January 20, 1981 <http://www.presidency.ucsb.edu/ws/?pid=43130>.

PART IV

SUBJECTIVITY

As the introductory chapter noted, the final pathway to constructivism, subjectivity, takes a different track from the others. That is, rather than begin with already constituted *agents* who seek meaning, who want to decode their environment, or who attempt to reduce uncertainty via processes of social construction, these scholars hold a different view of agency and construction. For such scholars, the agents—*qua subjects*—and their powers of agency are made possible by the particular discourse in which actors place themselves or are placed within. That is, when they position themselves within a particular discourse, a "subject position" is produced that allows for certain forms of agency while other forms are denied, where certain norms are privileged while others are repressed. Moreover, these subjects can be, but need not be, human subjects. As we shall see, entities as diverse as whales, states, and even geographical regions can be constituted as particular subjects, with the result that they can be attributed powers of agency that are not reducible to their materiality. Indeed, critical here is how power is brought to the fore in these analyses, but power is not seen as something held "over" other agents or as a quality of material capability per se. Rather, power is seen as a social phenomenon constituted through actors via the world they construct, in the discourses they produce, to make sense of the world.

This section opens with Charlotte Epstein's chapter on the impossibility of whaling in the modern world. Rather than focus on the moral or scientific logics for and against hunting whales, Epstein points out how a practice that was once ordinary and accepted became constituted as being beyond the pale of acceptable behavior for "civilized states." What made this shift possible, she argues, was not the material depletion of stocks but the discursive constitution of whales as subjects uniquely worthy of protection. Her chapter provides an especially useful tool kit that shows the analytic and empirical purchase of this approach. By contrasting her discursive approach to both materialist and other constructivist approaches, Epstein takes the reader through the key elements of this approach: what is meant by discourse, the co-constitution of the material and the immaterial, the importance of norms as impositions of power, and the importance of identity.

Discourse thus shifts the focus from the social constructs agents use to the speaking actors. Or rather, to the speaking *subjects* and the subject positions they speak from. Such a shift enables the study of "the social construction of" all the way down, without needing to draw an artificial line at the actors themselves, thereby marking them as somehow off limits for an analysis of social dynamics. If we start from the speaking subjects and their discourses, it no longer becomes necessary to assume at least some level of materially determined, preconstituted identity for the actors under examination (as in Wendt 1999). The discourse approach thus offers a mode of analysis that unravels in full the implications of taking seriously constructivism's own founding insight, that the social world is constructed, without having to uphold an "outside" to these processes of social construction where actors' identities are seen to reside, unmoved.

In the first part of the chapter, I examine the shift from a whaling to an anti-whaling world from a materialist standpoint by reference to two sets of factors: the levels of endangerment of whale populations and the play of economic interests. This engagement with materialist accounts serves to draw out exactly where their limitations lie and thus to open up the space for appraising the precise role played by discourse in this change. The second part of the chapter then presents the approach that enables us to do so. After defining the concept of "discourse," I articulate the distinctness of the discourse approach around three conceptual axes. First, the discourse approach requires in fact revisiting the very distinction which has come to be taken for granted in constructivist analyses, and which I somewhat artificially maintained in my own earlier engagement with materialist accounts, between "material" and "ideational" factors. The distinctions between "ideas" and "discourse," second, and between "norms" and "normalizing effects," third, further draw out how the discourse approach differs from other constructivist approaches. In the third part I then show how the discourse approach speaks directly to the founding constructivist concern with finding ways to appraise the dynamics of social construction. I argue that it continues where other approaches have stopped short, embracing the "social construction of" all the way down to the actors' identities; and I show how such a perspective is necessary if we wish to understand the types of deep behavioral changes observable in the politics of whaling. To do so, the discourse approach shifts the focus to subjects rather than actors, and contingency rather than uncertainty. Finally, what discourse centrally foregrounds are the power relations undergirding processes of social construction.

The End of Whaling: Two Materialist Accounts

The materialist account of the shift from a whaling to an anti-whaling world typically takes the following form. Whaling stopped because whale populations had become so endangered that the actors finally realized that if it continued any longer, there would simply be no more whales left in the sea. The decision to halt whaling was thus a function of increased knowledge, which stemmed in turn from progress in whale science (cetology) and thus a better understanding

of the degree to which whales were actually endangered, combined with the consolidation of the science's institutional role within the whaling regime. M. J. Peterson (1992) and Ronald Mitchell (1998), for example, contend that the turn occurred when "causal ideas" derived from increased scientific knowledge were finally able to prevail over the preexisting "instrumental discourse" (Mitchell 1998); which was in turn made possible by the formation of a proper "epistemic community" of cetologists, and thus by the gradual empowerment of this new set of actors within the IWC (Peterson 1992; see also Caron 1995). Because it relies centrally on the role of knowledge and causal beliefs, this type of account appears to foreground nonmaterial factors. However, it remains materialist at its core because ultimately the driving cause is the changing material circumstances (declining whale stocks). Knowledge is reduced to a mediating factor that enabled better-informed actors to respond more appropriately.

The problem with such an account is that, historically, the decline of whale stocks, and the knowledge thereof, was quite disconnected from the actors' responses to it and from the decision to end whaling. Indeed, the knowledge that certain species, notably the blue whale, were critically endangered dates back to the 1930s; nor had the cetologists been quiet about it.[1] Moreover, after the first extensive revision of the IWC's management procedures, which was undertaken precisely on the basis of new knowledge of whale populations and which led to the adoption in 1974 of a new management scheme (the so-called New Management Procedure), the IWC's own Scientific Committee had *rejected* the idea of a complete whaling ban on all species. The blanket moratorium proposal, which presumed that all whales were endangered, was seen to inaccurately reflect the far more varied levels of abundance for the different species and was thus deemed, from a scientific point of view, an inadequate management tool. In sum, the actual levels of endangerment of whales, and the knowledge thereof, falls short of explaining the shift from a whaling to an anti-whaling world.

Market Magic

Yet the materialist focus is not exhausted by this first account. There is a second materialist explanation that tries to account for the fact that the actors may indeed have been rather indifferent to how endangered they knew whales to be, an explanation that focuses squarely on the actors' selfish interests. This account argues that, although we would like to think that knowing that whales were endangered was enough to bring whaling to a halt, realistically the world stopped whaling quite simply because, by the 1960s, it no longer needed to. Other forms of cheaper, more accessible fuels and oils (rapeseed, soybean) increasingly came to replace the whaling products that had been so central to industrialization well into the mid-twentieth century. The demise of whaling therefore appears

1. In 1929 American scientists concerned about these levels of endangerment came together to form the Council for the Preservation of Whales (composed of six major zoological associations), and they petitioned whaling countries to halt the decline of whale stocks (Tonnessen and Johnsen 1982:401).

After decades of uncooperative behavior, the International Whaling Commission (IWC) came into being following several failed attempts at setting up an international whaling organization. However, its purpose was not to curb whaling so much as it was to ensure the sustainability of whale stocks and thereby to secure the future of the trade. It was, in the words of the Preamble to the 1946 International Convention for the Regulation of Whaling "to provide for the proper conservation of whale stocks and thus make possible the orderly development of the whaling industry."

In the subsequent two decades, even while an increasing number of states were withdrawing from the trade, they were intent on continuing to secure their whaling options at the table of the IWC. The United States, for one, had largely ceased to whale since the late nineteenth century (Davis and Gallman 1993), to the extent that by the time Nixon banned whaling by executive order in 1971 there was only one remaining whaling station, in Richmond, California. After the Second World War, the United States had largely taken stalled whaling negotiations out of the hands of European states and steered the establishment of the postwar whaling regime (Peterson 1992; Caron 1995). And yet, despite this apparent lack of any ostensible material interest in whaling, the United States sought to ensure that it could return to whaling and that, should it choose to do so, it would not be limited by the measures taken by the international body that it had been so instrumental in setting up in the first place. Thus, and against the advice of its own whaling scientists (and notably that of the Convention's drafter, Remington Kellog), it had opposed the introduction of national quotas to curb whaling at the country level, effectively delaying by almost two decades the adoption of the only measure that would effectively contain whaling and thereby accomplish the Convention's own conservation objective.[4]

Second, in the anti-whaling world of post-1982, a focus on material interests cannot explain why states continue to remain so involved in whale matters today. In 1946 twelve whaling states set up the IWC to endeavor to protect a ruthless and self-destructive trade from itself. As whaling slowly petered out, states should have lost interest in the international organization created to regulate it; at least those who no longer whaled should have. Yet states stayed. In fact, since the commercial whaling ban was adopted by the IWC in 1982, many more states have joined. And more continue to do so today, including many who have never had anything to do with whaling, such that the IWC membership today is more than six times larger than it was in the heyday of whaling and covers almost half the roster of the United Nations.[5]

In short, if material interests were the driving factor in accounting for state behavior, why would states consistently continue to flock to an international

4. Similarly, although whaling had petered out in the United Kingdom by 1963, in 1966 the British government was still furiously defending its right, on the floor of the IWC, to resume whaling (Tonnessen and Johnsen 1982:629).

5. In 2008 IWC membership counted seventy-nine states, with six new accessions in 2005, five in 2006, and seven in 2007.

organization whose main purpose now is to *prevent* the industry it was set up to regulate, an industry that many of them never had to begin with? While the growth of the whale-watching industry, which by the late 1990s had outpaced the whaling industry (US$1 billion compared with US$60 million, the value of what was left of the whaling industry; Hoyt 2000), provides some measure of explanation, economic incentives can hardly explain the sustained interest of landlocked states such as Switzerland, Luxembourg, and Austria, which continue to renew their membership every year.

The Discourse Lens

This imperfect fit between material interests and the interest in whaling matters that regularly crops up throughout the account of the shift from a whaling to an anti-whaling world is what opens up the space for looking beyond material interests. Two developments in the politics of whaling point to the importance of discourse in orienting the actors' behavior. First, in the whaling world, the actors' interests in whaling outlived their material whaling interests because it was framed within, and sustained by, a pervasive *whaling discourse,* a specific set of unquestioned assumptions about the economic and strategic importance of whaling, steeped in particular varieties of "whaling nationalisms," which became increasingly disconnected from the material reality of whale stocks (Epstein 2008). Second, in today's world, where the dominant global discourse about whales is largely an *anti*-whaling discourse, discourse continues to remain a key explanatory factor in the international politics of whaling.

Thus new states continue to flock to the IWC, not because of how much they know about the actual level of endangerment of whales or about how direly they require protection, but because helping to uphold the ban is the right thing to be seen to be doing. For example, Croatia couched its adherence to the IWC in 2007 in terms of the needs of endangered *dolphins* (Black 2007), for which its move would accomplish nothing since they are beyond the remit of the IWC. This suggests a behavior driven primarily by the desire to be seen as observing the prescriptions of the anti-whaling discourse, not one motivated by any substantive (cetological or legal) knowledge about the issue.

What the currently dominant anti-whaling discourse precludes is the possibility of resuming whaling *even if* the stocks of whales recover from exploitation. For example, by 2007 the once highly endangered humpback whale was found to have satisfactorily rebounded in most waters of the world, such that the International Union for the Conservation of Nature (IUCN) changed the listing of several humpback populations from the category of "vulnerable" species to those of "least concern."[6] Despite scientifically established evidence of this recovery, resuming the hunt of humpbacks remains simply inconceivable

6. With the exception of the Arabian Sea and Oceania populations, for which the data remained insufficient. Nor does this mean that they are endangered, since, in the absence of data, the IUCN opts for a precautionary approach.

and mutually constitutive (see also Pouillot 2007; Hansen 2006). A discursive study is concerned not with words or "text" per se but rather with any kind of practice implicated in the making of meaning. In the case of the anti-whaling discourse, these typically include images as well as a wide range of very material, consumptive practices. In this case, the discourse's framing of whales as marvelous creatures has enabled a whole range of commercial practices revolving around the sale of, for example, whale memorabilia (images, toys) or whale-watching expeditions (whale safaris). Conversely, these commercialized whale objects serve to actualize, and indeed reproduce, the specific sets of meanings ascribed to whales by the anti-whaling discourse.

This is also to say that my earlier move, by which I sought to open up the focus beyond material factors, was a heuristic device that, while strategic and a common constructivist mode of engagement with nonconstructivist literature, was artificial in the context of the discursive focus developed here, insofar as it presumed a neat demarcation between material and nonmaterial factors, engaging with the former in order to make room for the latter. In fact, the starting point for a discursive approach is exactly the opposite, namely, the ontological impossibility of splitting material from nonmaterial, or discursive, interests. Discursive approaches do not admit a dualism where there are "ideas" as things and "interests" as altogether "other things." Material interests are never given to actors as evident, uncontestable raw facts; they are invariably mediated by a specific discourse the actors hold about their interests. Conversely, as Speech-Act Theory (Austin 1962; Searle 1969) has perhaps best brought to the fore, these discourses actors hold have very real, material effects (for example, pronouncing "I do" at a marriage ceremony decisively changes an actor's material circumstances).

From a discourse perspective it makes little analytical sense to continue to hold discourses as separate from material factors. Thus my earlier argument is not that the anti-whaling discourse emerged *in spite of* material conditions aligned against it. Indeed, this would amount to separating the two types of interests all over again. What I am saying, rather, is that it is precisely because discursive and material interests are so deeply entwined that the anti-whaling discourse could not flourish without the appropriate material conditions, namely, the end of whaling in the West. The emphasis on discourse does not evacuate material factors. Instead, it takes the co-constitution of discursive and material factors as its starting point. Nor should this, however, amount to making discourse secondary to material factors in the explanation, which constitutes a main point of critique leveled at materialist explanations, as this simply reduces the explanatory scope and misses out on a wide range of actor behavior. Thus a discursive analysis of the international politics of whaling does not eschew the analysis of material factors but rather embraces them within a wider framework tailored to capture the broad range of factors that, at a particular point in time, conjoined to usher in a substantial change.[7]

7. What constitutes a significant factor need not be decided a priori by which side of the "material"/"immaterial" divide it falls on but rather is yielded by the empirics of case. See Epstein 2008 for an extensive development of these methodological points.

More than Ideas

From a discourse perspective, the distinction between material and ideational factors thus appears to be a false dichotomy. Nonetheless, given that discourse forms part of the broader ideational turn that has sought to cast the focus away from the overwhelming concern with material factors in order to make room for the nonmaterial, it is important to clarify the relation between discourse and ideas, not least in order to dispel some of the misunderstandings it has garnered within the ideational literature itself.

Because the stuff of discourses is what circulates between social actors, the words they exchange, "discourse" has been taken to refer to the intersubjective situation itself, while "ideas" properly constitute the content of such exchanges. Yet this distinction is untenable insofar as ideas are inseparable from the discourses that convey them. Discourses are not reducible to merely the "containers" or "transmitters" of preconstituted ideas (as in Schmidt 2008). Rather, they constitute the locus where ideas take shape in the first place. Ideas do not exist outside discourses, and discourses are constitutive of ideas. This does not mean that since all ideas have to take shape within preexisting discourse, no new idea can ever develop. New discourses do emerge, such as, indeed, the anti-whaling discourse. It does, however, say something about the conditions under which new ideas can arise, drawing out that, as with ideas, not anything goes. New ideas take root within preconstituted discursive terrains, and so they have to nod to at least some recognizable references and to the boundaries of what can and cannot be said, even when they aim to challenge these boundaries. Recognizing this is helpful in explaining why some ideas successfully take hold and others do not.

The anti-whaling discourse, for one, rose to prevalence not "out of the blue" but because it was able to connect two prior dominant discourses: the cold war discourse on capitalism and democracy and an emerging global environmental discourse. It successfully reframed a hitherto unquestioned practice by casting the struggle against whaling as one between heroic rugged individuals (the anti-whaling activists) and "the dehumanized technological juggernaut of Soviet communism" (DeLuca 1999:98). The whale, in turn, became the symbol of the blue planet as a whole, such that saving the whale became synonymous with doing something for our endangered world.

Another important reason for moving beyond the traditional separation of "ideas" and "discourse" is that such a distinction misses out on the key analytical purchase of the discourse approach, which is to show *how* ideas actually matter. That ideas matter is beyond dispute. The discourse focus, however, captures how ideas actually orient behavior on the ground. Analytically, "discourse" provides the third term between ideas held and the behavior that ensues. Methodologically, focusing on the discourses spoken by the actors reveals both the ideas they hold and the behavior they observe. These discourses thus become the empirical material for the analysis,. This avoids the intractable problem of "getting into actors' heads" in order to discover what ideas they hold. What matters

in a discursive approach is not so much the ideas actors have but the discourse they speak.

Discourse thus offers a more fine-grained lens for honing in on the ways actors act on the ideas they hold. To be completely clear, the discourse focus bears no assumption of a perfect fit between the discourse spoken and the ideas held, or that actors always believe what they say. It does not deny that actors are sometimes inconsistent or duplicitous, quite the contrary. Actors may say one thing in public for strategic reasons and hold completely different private beliefs. However, what matters in terms of political outcomes is the discourse the actor holds in public; this is what achieves things political. Moreover, those private beliefs in turn can be accounted for by reference to another set of discourses within which they took form. An actor can speak different discourses according to the situation it finds itself in and what it is seeking to accomplish. Hence the situation itself, and the discourse spoken by the actors within that situation, become paramount to the analysis.[8]

A discourse approach captures a broad range of actor behavior that appears to elude a focus cast at the level of ideas. These include, on the one hand, the kinds of routinized, un-thought-through gestures pertaining to mundane practices—the stuff of everyday life—for which "ideas" may appear a rather lofty concept; for example, the flensing, slicing up, and boiling of the carcass to extract whale oil.[9] On the other hand are the types of behavior that are more straightforwardly bound up with emotions and affects, such as those featured in the numerous anti-whaling campaigns, in which "caring" is the explicit driver of actor behavior. In both instances, it is not that ideas are absent; ultimately, both types of behavior involve particular, mirror-opposite, ideas about what whales are—a strategic resource or an endangered species. It is simply that the link between the ideas and the behavior may be so attenuated that the category of "ideas" becomes relatively nonpertinent. Moreover, the process of tracing back the behavior to the idea would be encumbered by a whole host of questions involving what can be considered an idea or not (does an idea have to be rational? true?).

The discourse focus steers clear of these questions altogether, precisely because it does not try to get into the actor's "head" (nor, indeed, its "heart"). The key factor determining the likelihood of a person's taking to the street to

8. Even in cases in which political actors may be systematically lying (situations of systematic discursive falsehood imposed under dictatorship, for example), the political stage, and thus the opportunities for acting on it, is still structured by particular discourses and not others. Hence even in these cases, focusing exclusively on the play of material interests and ignoring the actors' discourses would miss out on a whole level of political action. Instead, bringing their discourses into focus serves to reveal the ways in which actions in particular issue areas are structured, why certain courses of action were taken while others were not. In such instances, in fact, the lack of fit between the discourses spoken and the material interests presumed should be taken as an object of inquiry rather than a reason to dismiss the discursive level a priori. Centrally, veracity is not a precondition for deploying the discourse approach.

9. Which is not to say that the ideational literature necessarily assumes that the ideas actors act on have been thoroughly thought through (for example, Blyth 2002).

end point to the socialization process (complete internalization). This array of normalizing effects, largely overlooked by the standard constructivist focus on norms, is what takes center stage in the discourse approach.

Social Construction All the Way Down

The discourse approach unravels in full the implications of taking seriously constructivism's own founding insight, that the world is socially constructed. Or rather, it is not merely that the world is socially constructed, but that the actors constructing it are socially constructed too. At face value, this would seem to be no different from the classic structurationist statement about the mutual constitution of structures and agency ushered into constructivist scholarship by Alexander Wendt (1987,1999). The problem, from a discourse perspective, is that Wendt also draws a line at a presocial identity, a core self that would be ultimately removed from these social dynamics and thus their analysis, notably when he elaborates his concept of "essential state" as a key pillar of his theoretical framework (Wendt 1999:198–214; see Zehfuss 2001 and Epstein, forthcoming, for an extensive critique). In addition, some of the early constructivist scholarship at large, in casting the initial focus on the socially constructed world—whether on the rules and norms underpinning it (Kratochwil 1989; Onuf 1989) or on specific social constructs such as anarchy, sovereignty, or territory (Wendt 1992, 1999; Ruggie 1993)—has tended to assume a presocial agent to "do the constructing," and whose own construction effectively eluded the analysis of processes of social construction.

In this perspective, the only way that changes in the actors' interests and the identities they are bound up with can be explained is by devising a hierarchy of core and peripheral identities, some more or less essential layers of the self. In this topography of selfhood the core is fixed or given as if by nature, just like a person's body. It constitutes "the site or platform" supporting the other layers, which are properly where the social construction of identity and interests take place (Wendt 1999:225). The whaling issue presents a case in which the very same actors (the United Kingdom, New Zealand, Australia, and the United States, to name a few) shifted dramatically and very suddenly (under a decade) from wanting to kill whales at all costs (including that of destroying their own whaling industries) to wanting to save them no matter what. Explaining this shift within this model of selfhood would therefore require somehow separating a core self from peripheral selves to which the changes in interests and identities can be ascribed. Even if we put aside the empirical difficulties involved in trying to locate these states' essential selves, given the jarringly incompatible sets of interests and identities successively cast off and cast on by the same states that suddenly went from being whale killers to whale savers, this explanatory route seems hardly satisfactory.

One possible objection would be to claim that identity is not the relevant concept in the whaling case. Yet at the empirical level, the centrality of whaling to core national security interests of certain states, such as the United States,

the United Kingdom, the USSR, and Norway, which was revealed particularly acutely during the wars of the twentieth century and throughout the cold war, suggests otherwise;[12] so do the various expressions of whaling nationalisms by which some of these same states protected their whaling industries in the past or Japan today shores up a largely uneconomical trade on cultural grounds (Epstein 2008).[13] Moreover, at the theoretical level, to eschew the identity question would be simply to return to the narrow focus on interests that constituted the target of the constructivists' critique in the first place. Changes in what we perceive to be in our interest occur because of changes in how we perceive our selves. If there is one key insight that has been foregrounded by constructivism, it is the extent to which interests and identities are entwined.

What is remarkable in the whaling case is that until the 1960s, being a modern, advanced industrialized state was coextensive with, and signified by, maintaining a whaling presence on the waters of the world—that is, by being a whaling state.[14] Today, being a modern, advanced, civilized—that is, environmentally responsible—state is marked by being an anti-whaling state, as evidenced by the recurrent trope of "barbarianism" used by officials of anti-whaling states to describe those states that continue to whale (Epstein 2008:207–208). More interesting still, the identity angle explains the behavior vis-à-vis the IWC of even those states that have never whaled, such as Croatia today or developing countries in the 1980s (Egypt and Kenya, for example; Birnie 1985), whose interest lies less in whaling matters than in casting themselves as modern, environmentally mindful states that have rightfully earned their place as "members of the club" (in the case of Croatia, the largely anti-whaling European Union).[15] The whaling issue thus illustrates the deep ways in which overarching discourses can reconfigure not just the actions and self-understandings of the actors, but their identities. This is what enables changes like the rapid shift from killing whales to saving them.

The discourse approach remains agnostic as to the existence of a presocial self; and these instances of radical transformations of actors' identities (to the point that the prior whaling identity is actively forgotten), while no doubt rare, lend weight to this position. However, putting aside the debate around differing

12. Thus the U.S. government continued stockpiling whale oil after whaling was outlawed in the United States (Epstein 2008:46).

13. For example, in the whaling world, when the rise of the American whaling industry began to threaten the predominance of British whaling, the British state reacted by heavily taxing American whale oil (Morton 1982).

14. All naval powers had been, at one stage or another, important whaling nations—Holland, the United Kingdom, France, Spain, Portugal, and the United States (Tonnessen and Johnsen 1982).

15. Because the IWC was founded prior to the EU, the EU does not hold a single vote in the IWC. However, all western European states are IWC members, and all, barring Denmark (in view of its indigenous whaling communities in Greenland), are anti-whaling states. Thus Europe can be largely considered an anti-whaling bloc. Indeed, this was revealed as a point of difference with Norway during the latter's accession negotiations in the early 1990s, which were rapidly cut short by the rejection of EU membership by Norwegian voters in 1994.

and the actors conform their behavior to them, do not effectively define the actors. What *actually* defines, what shows that they recognize themselves in that norm, are the discourses they speak. These properly mark who they are, both to themselves and to social others. Discourse is moved to the heart of the analysis because it constitutes all at once the site where things are done (at the level of action), where meaning is created, and where identities are produced.

To see why, consider that in a very profound way, saying and doing are not separate things. "To say" is also "to do" since in social or institutional settings most of what is done is achieved by way of words pronounced or written. With regard to meaning, if the meaning things hold for us are not given but emerge from intersubjective interactions, then speaking goes to very heart of the process of social construction. In terms of identity, then, this intersubjective situation is in fact where the actors' identities take shape. Speaking is the means by which actors say who they are and position themselves in relation to social others, that is, make their identities. Crucially, the discourse approach foregrounds the central function of *repetition* to the making of identity, which has been underplayed in other varieties of constructivism's understanding of identity. It is not just that identities are not given; it is that *identities are always in the making*. The mistake that underlies the presumption of fixed, essential identities is to apprehend the actors (and thus their identities) as finished entities. The discourse approach better captures that identity, as David Campbell (1998:10) puts it, as "achieved, not through a founding act, but rather a regulated process of repetition." The constant iteration of particular discourses by the speaking subject serves to regularly re-act, and reconfirm, an identity-constantly-in-the-making, as has been amply documented with regard to the discourses of national security (Weber 1995; Campbell 1998; Weldes, Laffey, Duvall, and Gusterson 1999; Hansen 2006).[17]

Appraising Contingency and Power

A discourse approach foregrounds the fundamental contingency underlying processes of social construction. This is a form of uncertainty that lies not in the

17. It is important to underline that adopting the discourse lens does not condemn one to look solely at identity questions. Agency is just as central here as it is in other varieties of constructivism. What the discourse approach draws out more clearly, however, is the connection between agency and identity: what the actors do is often prescribed by how the actor sees itself and how it wants others to see it. Focusing on what actors say (as well as their actions) is therefore a more comprehensive way of apprehending the dynamics of agency and thus questions of change. In addition, an advantage of the discourse approach is the way it handles the levels-of-analysis problem that underlies the study of international politics (see also Epstein forthcoming). Because the discourse approach does not start from an already constituted actor, it eschews the criticism addressed to analyses founded on an a priori decision that states constitutes the relevant actors in international politics. The discourse approach, because it starts from the discourse actors speak, instead asks, what discourse has made a difference in this particular issue area? From there, it proceeds to determine empirically who speaks the significant discourse, and then decides who constitutes the significant actors.

meaning were sealed in and others left out. A *naturalized* discourse is one whose statements are experienced as "obvious," "true," and even "necessary"; for example, that whaling must be stopped, the necessity here being the presumption that all whales are endangered. In other words, their historical contingency is evacuated, that is, the fact that alternative meanings were ruled out, and that, at one point, other significations could have obtained—and indeed in the whaling case *did* obtain. At the outset of this process, "the evident" is powerful because it is unquestioned. Hence securing the domain of the taken-for-granted seals the moment of victory, the point at which a discourse becomes dominant, when its frames of thought and action become entrenched as the only possible ones. Thus routinized, these frames become modalities of social regulation.

This final point speaks to the methodological question of how to frame a discourse study (see also Milliken 1999; Hansen 2006). The relationship between a dominant and dominated discourse is central to the research design. An important issue in setting up the inquiry concerns how to choose a discourse: how does one know that a discourse is relevant or worthy of analysis? One rule of thumb is to identify whether it constitutes a discourse that has made a difference, or rather, since that can only be empirically adjudicated, whether it is one that can be linked to a significant historical change. At that point, the dynamics between the dominant discourse and those that have been evacuated in the process of its becoming dominant become key.

One major difficulty, however, is that precisely because they have been excluded, these discourses are difficult to tease out. However, this does not mean they dwell in some remote and inaccessible realm of the counterfactual. More often than not a few points of friction are discernible, moments of crisis or resistance, where the normally taken-for-granted discourse is suddenly being questioned, and from there these alternative discourses can be traced back to the actors that speak them. Alternatively, the analysis can work back to a time when another discourse was spoken. In the whaling case, both paths conjoined, since the past dominant discourse about whales was a whaling discourse, and some people still whale today. Indeed, the long-drawn-out discord that characterizes the contemporary politics of whaling has recently offered one such moment of crisis, bringing to the surface a new pro-whaling discourse of resistance that has taken shape against the dominant anti-whaling discourse (as an anti-anti-whaling discourse) and generated an unusual alliance of pro-whaling states and substate actors (certain indigenous peoples) (see Epstein 2008).

Conclusion

This chapter has used the case of whaling as a template for drawing out the analytical purchase of the discourse approach. "Discourse" captures both a methodological lens and a theoretical commitment to "denaturalizing the taken-for-granted" (Weldes et al. 1999), and attempts to operationalize the fundamental contingency underlying processes of social construction into an

actions, thus creating a new grammar of economic communication, highlighting the role of *meaning* in international economic relations.

These two pathways to constructivism, through uncertainty and meaning, do not, however, fully capture the politics of the IMF's strategy. The development and implementation of the standards and codes initiative has been marked by significant asymmetries, as the standards place a disproportionate burden on state rather than market actors, and on developing states in particular. For this reason, it has also been both contested and resisted by various emerging and developing governments. At the same time, and in spite of appeals to a consensus-based process, the Fund has clearly excluded several alternative economic strategies from the outset. As such, the IMF's new standards initiative has as much to do with power as with stability. However, rather than a simple exercise of power, the constructivist aspects of the initiative—the role of norms and the constitutive nature of the new rules and practices—are the central means through which these power relations have been articulated and enforced. As a strategy, these standards and codes are designed not only to alter market actors' behavior, but more profoundly to redefine what it means for developing governments to be good economic *subjects* both domestically and globally.

This chapter develops a constructivism that uses some critical sociological theory to bring power back in as a central force in its analysis. In doing so, it relies on the work of several contemporary critical scholars to flesh out some of the insights into meaning, uncertainty, and subjectivity developed in the introduction to this book. In many ways, the actions of the IMF over the past decade can be understood using the analysis of Michael Barnett and Martha Finnemore, who have examined the ways in which international organizations (IOs) exercise authority by actively developing and spreading norms—about what constitutes "a refugee," "development," or "sound economics" (Barnett and Finnemore 1999:13–14; 2004:58–60). They suggest that IOs exercise this power through a series of microlevel processes: by defining and classifying the objects of their efforts, they not only diffuse norms but actively create new ways of naming and therefore acting on the things of this world (Barnett and Finnemore 2004:31–32). The standards and codes are a perfect example of this kind of effort not only to develop new norms of good practice, but to do so by codifying normal economic behavior. Following Barnett and Raymond Duvall (2005), we can think of this as a kind of productive power that does not simply seek to make certain actors change their behavior but also actively works to constitute them in new ways.

If we move beyond this international relations literature and turn to some relevant critical sociological scholarship, we can gain an even clearer understanding of just how international organizations like the IMF work to constitute particular kinds of political and economic subjects. Drawing on the work of Bruno Latour (1986) and Nikolas Rose and Peter Miller (1992), William Walters (2002) points to the usefulness of the concept of inscription for understanding governance processes. Unlike the concepts of construction and deconstruction, which tend to emphasize the role of ideas and discourse, respectively,

inscription focuses on the ways in which concrete institutional practices—forms, procedures, policies—can have significant constitutive effects. The standards and codes initiative includes a range of very specific practices, such as the preparation and publication of reports indicating countries' degree of compliance with the standards, which have been designed not only to encourage changes in countries' behavior but also to increase their awareness of the norm and of their position in relation to it.

How do these practices seek to constitute a new kind of economic subject? Here the work of cultural economists, such as Michel Callon (1998), can provide some clues.[2] Callon suggests that markets, as a particular kind of social institution, require a specific kind of rationality or capacity to calculate. To make something subject to a market logic, one must first transform it by making it calculable in particular ways. Through the standards and codes initiative, the IMF has sought to make best practices in economic governance calculable in the sense of becoming measurable and monitorable. As I discuss below, the IMF has tried to make these standards into a new kind of economic data—information they hope market actors will incorporate into their assessments of investment risk—in order to create a market-based incentive for governments to comply with these new norms. The standards and codes thus work as what Mitchell Dean has called a "technology of performance," creating a new metric of economic governance and enabling not just market but also state actors to assess their conformity with it, thus fostering an ever more reflexive and self-disciplining government (Dean 1999:179).

All these scholars in their different ways point to the close connection between political power and institutional expertise, and suggest that the power of international organizations is linked to their technical capacities and their expertise. While I draw on these insights in this chapter, I also raise some initial questions about this literature, particularly its emphasis on the omnipresence of technical approaches to governance.[3] By focusing on the explicitly normative character of IMF policy after the Asian crisis, my analysis suggests that these other authors underplay a key aspect of institutional strategy by focusing too narrowly on the logics of expertise, calculation, and objectivity. Moreover, my analysis, by emphasizing the various forms of resistance and the tensions the Fund's efforts have encountered, identifies some of the limits of institutions' efforts to govern technocratically.

We are now a decade away from the creation of the first standards and codes, and are currently undergoing another, even more devastating, financial crisis. What have the intervening years taught us about the IMF's efforts to build a new

2. For a more complete overview of the cultural economy literature and an examination of the cultural constitution of the political economy, see Best and Paterson 2009. See also MacKenzie 2004, 2006; Thrift 2000, 2001.

3. I raise these questions in a rather brief and preliminary form in this chapter. I have provided further elaboration of the possibilities and limits of some of this literature in Best 2008 and will develop this analysis further in *Governing the Margins*.

> growth, which is essential for reducing poverty in member countries, and greater stability in international financial markets. They are an integral part of the Fund's work on crisis prevention. But they are also crucial for our efforts to help member countries strengthen their financial systems and take advantage of the opportunities of global capital markets. (Köhler 2001)

This passage reveals the different dimensions of the IMF's new governance strategy. Köhler's mention of the goal of reducing poverty underlines the Fund's belated recognition of poverty reduction as part of its mandate in the aftermath of the Asian crisis. The Fund's second major objective, stabilizing international financial markets, is not new, yet the scope of its actions is novel. By working to bring diverse economies into conformity with a single set of international standards, this new initiative seeks to achieve international stability by reforming domestic institutions (Best 2003). Finally, Köhler's last phrase speaks of the IMF's continued belief in financial liberalization as the ultimate means of achieving all its objectives: economic growth, poverty reduction, and financial stability. The economic logic underlying the Fund's standards and codes thus remains an Anglo-American laissez-faire prescription for sound economic practice.

Given this, it is through the development of new international standards and codes that the Fund sought to internationalize and institutionalize not only a particular set of practices but also a specific vision of economic order. It is the second aspect of this project, its normative and discursive side, that has been the most crucial and the most difficult. This is because the Fund's vision for financial governance has been contested. The conference at which Köhler made the remarks cited above was organized specifically to address some of the criticisms of developing countries, a forum set up, as Köhler suggests in his comments to the representatives of these economies, "to hear your concerns and learn how we can help to make standards work for you" (Köhler 2001). In this contested context, the Fund's strategy must be understood not simply as a technical process but also as a political and normative strategy designed to establish legitimacy for a particular form of international financial governance by, in part, constituting states as responsibility-bearing subjects (Dean 1999:chap. 8). In short, it has adopted a constructivist strategy in its efforts to reform international financial governance. In the following sections, I examine first the normative and then the political dimensions of this constructivist strategy.

The IMF's Normative Strategy: Constructing a Rule-Governed System

One of the most striking aspects of the statements made by Fund representatives in the aftermath of the Asian crisis was their attention to the issue of legitimacy.[8]

8. On the role of legitimacy in financial governance, see Seabrooke 2006. On the IMF's legitimacy, see Best 2007.

Their speeches not only were explicitly normative, relying on the concepts of solidarity, responsibility, citizenship, and ethics, but also drew heavily on the language of deliberation and consensus building.[9] This turn to an explicitly normative discourse is evident in statements of successive IMF managing directors: for example, in Michel Camdessus's focus on "solidarity and responsibility" (IMF 1997), in Horst Köhler's discussion of the need for a "global ethics" (Köhler 2002; 2003a), and in Rodrigo de Rato's claim that a reformed trading system is "not only morally right but makes economic sense" (Rato 2004a).[10] Normative discourse also became common in staff documents, particularly those relating to the Poverty Reduction Strategy Papers (PRSPs) and the revised guidelines on conditionality, as well as those reflecting on long-term Fund priorities (IMF 2001a, 2002a, 2002b, 2005).[11] As one such document states, "The greatest asset that the Bretton Woods Institutions have in fulfilling [their] objectives is their culture of consensus-building" (IMF 2002a). At the same time, some senior staff have noted that a shift in global norms has enabled the Fund to take a stronger stance on certain politically and morally charged issues such as corruption, and has led the institution to broaden its mandate to include poverty reduction as a central goal.[12]

Your Loan, Our Rules, Your Problem

One of the forms that such changes have taken is a new emphasis on "country ownership." After facing persistent resistance to IMF conditionality and World Bank structural adjustment policies over the past few decades, both organizations have sought to change their strategy. Research undertaken by staff at the IMF, the World Bank, and the British Department for International Development (DFID) showed in each case that excessive conditionality was having perverse consequences (Ahmed 2001; World Bank 1998; DFID 1997): "If conditionality is excessive, it leads to unnecessary political fights that are to the detriment of the programs."[13] Or as one IMF representative noted, "we have learned that good policies are unlikely to succeed if they are simply imposed from outside" (Flemming 2002). Yet this was precisely how the standards and

9. I have discussed the explicitly moral nature of Fund representatives' statements and staff documents in much greater detail in Best 2005.

10. See also Boorman 2003; Camdessus 2000, 2001; Krueger 2004; Rato 2004b.

11. This explicitly normative language can be found in a wide range of Fund documents, ranging from reports on Poverty Reduction Strategy Papers and Article IV consultations to Public Information Notices on board decisions and research papers. In fact, "Globalization: A Framework for IMF Involvement," prepared by IMF staff (IMF 2002a), is one of the most explicitly normative of the documents I have found, providing a kind of a normative vision to guide Fund work on "making globalization work better." Nonetheless, this moral turn is most evident in the speeches made by the Fund's leadership.

12. Interviews with two senior IMF staff members, 25 and 29 August 2005.

13. Interview with senior IMF official, August 2005, and interview with former IMF executive director, September 2006.

codes were viewed by many developing-country governments: as an imposition. Köhler admitted as much in his opening remarks at the conference on standards when he suggested that "our members will not fully own this process unless they feel that standards are relevant to them" (Köhler 2001). In the face of this resistance, the IMF undertook efforts to convince member states of the benefits of international standards by working to build a new set of international financial norms.[14] In doing so, the IMF leadership both recognized the importance of shared understandings and sought to construct a new social purpose in which these international standards would be accepted not only as efficient but also as good by the world's economies.

A central part of Fund representatives' norm-building strategy has been their emphasis on the importance of creating a rule-governed international financial system. Part of the value of the new standards and codes, they argued, lies in their capacity to make "the rules of the game" in international finance clear and explicit (Köhler 2002). The goal here was not simply to recognize preexisting rules but rather to create new ones through the development and diffusion of new practices. Thus, after noting that the international financial system lacked the kinds of formal and explicit rules governing economic behavior that existed at the domestic level, Managing Director Camdessus argued for "the need to establish at the international level the discipline that has progressively come to prevail in domestic markets" (Camdessus 1999b).

One of the central aims of these new rules was to reduce economic uncertainty. Many of the most influential interpretations of the Asian financial crisis focused on uncertainty as a key culprit: because of structural defects in the Asian economies, it was argued, there was insufficient information available to markets about their strengths and weaknesses, leading them to assume the worst once the crisis struck. As an IMF issues brief on standards and codes noted, "For developing countries to be more fully integrated into the global financial and economic system, ways must be found to reduce the risk and uncertainty, and to assure investors that their investments in these countries are as they seem" (IMF 2001b). All the standards work on the assumption that greater transparency in economic policymaking, accounting, and banking practices will produce more stable economic outcomes by providing markets with necessary information (Camdessus 1999a; IMF 1998). In constructivist terms, the IMF sought to develop new formal rules and informal norms to better coordinate market actors' actions in the face of significant global uncertainty.

These rules do more than create clarity for preexisting agents, however. They are intended to constitute new state interests and identities, to create a particular kind of "normal state" that is defined in large measure by its support for a particular kind of free-market economy. These standards and codes were thus designed not only to provide a *standard* against which to measure the performance of different economies, but also to encourage the *standardization* of states' financial

14. For an interesting discussion of the role of persuasion in global governance, see Widmaier, Blyth, and Seabrooke 2007.

institutions and practices. This transformation, moreover, is to be achieved by changing the shared understandings through which economic actors interpret one another's behavior—standards that are to be used both by the IMF in its evaluation of state behavior and by private creditors in their development of country risk assessments (IMF and World Bank 2003:4; Köhler 2001).

In the terms of meaning-oriented constructivism, these rules therefore provide market actors with guideposts for interpreting economic actions. They not only regulate state behavior; they also constitute a new grammar through which their actions can be understood. Some of the standards may simply codify and elaborate existing economic norms, while others introduce new norms, making corporate governance and fiscal transparency, for example, new watchwords for economic soundness (Barnett and Finnemore 1999). The ultimate goal, Köhler suggested, was to create a "culture of credibility" in order to attract investment to developing economies (Köhler 2003a). In other words, the Fund's strategy involved changing both practice and perception by redefining the terms of sound economic behavior.

The policy was also designed to change domestic economic practices, ensuring that member states "conduct their economic and financial affairs in prudent and transparent ways" for the sake of global financial stability (IMF 2001b). These changes were to take place not through the usual, more coercive IMF practice of imposing conditions in return for financing, but through two indirect routes. First, markets' new attention to the ROSCs should lead them to discipline errant states and reward compliant ones. Second, governments' own attention to their performance with respect to the new norms should make them more reflexive about economic governance, leading them ultimately to discipline themselves (Dean 1999:chap. 9).

This is a constructivist strategy in at least three different senses. First, Fund leaders recognized the pervasive and complex *uncertainties* of the global economy and sought to manage them through the development of stabilizing norms. Second, in order to do so, they worked to constitute a new set of economic *meanings* through which market actors were encouraged to interpret one another's actions. And third, the ultimate goal of this strategy was to transform developing states and other economic *subjects* by encouraging a particular kind of self-discipline and by normalizing certain forms of economic identity and practice and excluding others.

The Politics of the IMF's Constructivist Strategy

Why did the IMF develop this new regime of financial governance? And why has it engaged in a constructivist politics in order to do so? As Köhler noted in the statement cited above, the Fund has argued that its goals are to foster growth and to increase international financial stability. I do not contest this claim, but I suggest that the politics of doing so are not fully captured by this statement. The standards were indeed designed to increase financial stability, but on certain very narrow terms and at a significant cost to certain states.

of acceptable economic ideas and excluded all others as not just heterodox but illegitimate.

Asymmetry, Uncertainty, and Creating Economic Subjectivities

The Fund's choice of a particular reform strategy, moreover, had certain political costs attached to it, particularly for poorer economies. Both World Bank and Fund representatives described international financial stability as a global public good for which all financial actors are economically, and morally, responsible (World Bank 2004; Köhler 2003c; Krueger 2003). A closer look at the logic behind these standards, however, reveals the asymmetrical nature of this responsibility. This asymmetry works on two different levels, placing the burden of reform on domestic rather than international institutions and on developing rather than developed economies. International standards were supposed to achieve financial stability by working at both international and national levels (World Bank 2004). Yet the tactics used at each level were very different.

Domestically, this initiative was designed to achieve stability "by encouraging sound regulation and supervision, greater transparency, and more efficient and robust institutions, markets and infrastructure" (IMF and World Bank 2003:6). The ultimate goal of the standards initiative is to bring financial institutions and practices into line with these new international norms. This may not appear to be a radical strategy, but it is in fact unprecedented in the scope of influence it has granted the IMF. In the past the Fund has been content to focus on encouraging changes in economic policy; now it is interested in changing the institutions themselves.[17] Even though the standards and codes are ostensibly voluntary, in the end the objective of the strategy is profound and permanent institutional change.

At the international level, the standards are presumed to foster stability "by facilitating better-informed lending and investment decisions, greater transparency, improved market integrity, accountability and policy credibility, and by reducing vulnerability to crises" (IMF and World Bank 2003:6). While this appears at first glance to be an ambitious strategy, those elements that are actually international are quite minimal: market integrity, accountability, and policy credibility are all to be achieved at the domestic level. Internationally, the strategy is almost entirely about increasing information in order to reduce uncertainty: by providing the markets with better data, in the form of the ROSCs, the Fund hopes investors will make better decisions, both entering and exiting domestic markets without excessive exuberance or panic.

17. Rodrigo de Rato, for example, the managing director from 2004 to 2007, has suggested, "The gains achieved in macroeconomic stability need to be *entrenched in policy-making processes and institutions,* such as medium-term fiscal frameworks and independent central banks" (Rato 2004a). See also IMF 2002c; IMF and World Bank 2003:13–14.

This is not a bad idea, but it is a rather limited one. It places enormous faith in the markets' capacity to use information efficiently and intelligently and provides few new international tools for responding in cases where they do not. It also assumes that the complex and lengthy process of implementing standards and then assessing compliance can be adequately grasped and used by financial markets. Yet during the Asian financial crisis, investors actually ignored some crucial information that contradicted their optimistic expectations.[18] Moreover, as I discuss below, the IMF and World Bank's own internal evaluation of the standards and codes initiative indicates that market actors have not in fact made much use of the ROSCs (IMF and World Bank 2005a).

The Fund's strategy for increasing international financial stability was also clearly asymmetrical at a further level, as it sought to place much of the burden of reform on developing and emerging economies. The standards were consciously modeled on the practices of what Camdessus has called the "most advanced economies," and therefore often diverge significantly from the practices of many non-Western countries (Camdessus 1999a). The costs of compliance are therefore much higher for developing and emerging economies than for industrialized ones (Mosely 2009, 2008).[19]

There were therefore not only two pillars to the IMF's plans for a new international financial architecture, one oriented to international markets and the other to domestic institutions, but also two different kinds of constructivist strategy at work. The logic underpinning the international dimension of the standards and codes initiative has been primarily concerned with international stability and the problem of uncertainty; it has sought to manage market uncertainties through the provision of further information and the development of new economic norms in the hopes that this will enhance global stability. On the other hand, the domestic dimension of the initiative has sought to redefine not just norms but the "normal state," and in so doing to transform developing states' institutions and ultimately their identity and subjectivity: who they are and thus what responsibilities they have in the global order.

This second strategy has sought not only to develop new economic norms through the ROSCs but also to exclude other kinds of economic knowledge as unreliable. Alternative proposals for a global financial architecture, which might have achieved global stability more readily, all the while retaining a greater measure of domestic autonomy, were excluded as viable options. While a focus on uncertainty-based constructivism can help us to unpack some of the assumptions

18. The Bank for International Settlements noted in its report on the Asian financial crisis: "In spite of the ready availability of BIS data showing the increasing vulnerability of some of these countries to a sudden withdrawal of short-term international bank loans, the volume of these loans simply kept on rising. Other evident problems, such as growing current account deficits and declining rates of return of investments, were similarly ignored" (BIS 1998:8). I provide a more thorough analysis of the implications of this failure in the context of the current subprime market crisis in Best 2009b.

19. There is of course an additional irony in the fact that it is these same "advanced economies" that are at the heart of the current financial crisis—a point that has no doubt not been lost on emerging-market leaders.

for the unevenness of compliance is the lack of fit between the standards (based on Western economies) and emerging and developing economies. Another is domestic politics: in the face of significant costs of implementing the sometimes ill-suited standards, some governments have resisted (Mosely 2008:6–7). Both explanations suggest that in spite of IMF efforts to represent the standards and codes initiative as universal and necessary, emerging and developing countries recognize the political costs of the policy and have been resisting them.

Conclusion

How is it that a financial governance strategy based on constructivism, with its emphasis on ideas, norms, cooperation, and consensus building, could be the vehicle of such unequal power politics and provoke such resistance? In fact, it is no coincidence. Power plays a central, if generally undertheorized, role in constructivist theory and practice.[21] In this case, power and norms have come together in a very potent combination.

The Fund's constructivist strategy is itself the vehicle through which power relations have been articulated. The definition of key ideas and norms, the standards themselves, together with such concepts as ownership, public goods, level playing fields, and responsibility was itself a power-laden process (Barnett and Finnemore 1999). So was the definition of the rules of the game. It is no accident that the standards have been developed almost exclusively by industrialized states and modeled on their own economic practices. Nor should we be surprised when emerging-market countries exhibit some resistance to these standardizing efforts.

Moreover, to push Barnett and Finnemore's insights a little further, it is not simply in the definition of key norms and rules but also in the identification of what is ideal and what is real that the power lies. Alexander Wendt has famously resisted the suggestion that it is "ideas all the way down," arguing instead that there exists a "material substrate" or a "rump materialism" derived from the individual's and the state's need for basic survival, which precedes such social interaction and interpretation (Wendt 1992:402; 1999:chap. 3). Yet in this case, it is precisely how key figures have defined certain things as part of the "material substrate" that has established the limits of debate. IMF staff and leaders have defined financial markets and the processes of globalization as material primitives beyond the scope of ideas. While Köhler and Camdessus suggested that it is possible to introduce new rules of the game to influence their course, they did not treat these processes as themselves inherently rule-governed and therefore social and mutable.[22] They

21. Some notable exceptions to this neglect of power include Barnett and Duvall 2005; Guzzini 2005, 2006.

22. For example, Köhler (2003b) prefaced his defense of the value of "internationally recognized ground rules for participation in globalization" by suggesting that they are necessary because "market forces alone do not suffice," treating these same forces as real in a way that the rules are not.

thus excluded from consideration as unrealistic those alternative policy courses that have sought to redefine the rules of the market processes themselves, like the heterodox alternatives proposed by Grabel.[23]

It is in the constitutive nature of the standards, however, that the power relations implicit in the IMF's constructivist strategy become most evident. These standards were designed not only to regulate but also to constitute state and market actors' identities, creating a particular kind of normal politics and economics. The very imposition of standardization on developing and emerging economies is clearly an expression of power. That power takes some very straightforward forms, as when these standards were integrated into the conditions of standby arrangements in spite of their putative voluntary nature.[24] The power to standardize also takes subtler forms, however. As constitutive rules, the standards were intended to shape a new grammar of economic perception, by providing market actors with new definitions of economic soundness and by making government compliance with those norms calculable in new ways. By persuading states to publish ever rising volumes of information on their adherence to these standards, the Fund created one more incentive for governments to discipline themselves, and granted financial markets one more potential tool for disciplining errant states.

Yet the results to date suggest that this particular constructivist strategy has been facing an uphill battle, in the form of active resistance and non-interest from some of the key market and government players the IMF has sought to govern. In fact, all three of the pathways to constructivism have encountered some sort of obstacle. The market participants whose role was vital to ensuring the standards help to manage *uncertainty* have not paid much attention to the ROSCs. Governments have both explicitly and implicitly challenged the legitimacy of the Fund's efforts to redefine sound economics, thus undermining its attempts to govern through *meaning*. Through their passive and active resistance, both market and government actors have also blunted some of the strategy's effectiveness in constituting a different kind of economic *subject*. Such obstacles do not throw into doubt the constructivist character of the IMF's strategy; they do, however, raise interesting questions about its effectiveness. In doing so, moreover, such forms of resistance also suggest that those scholars interested in charting the role of technical practices and bureaucratic expertise in enabling institutional authority—like many of those I have drawn on in this chapter—should also pay careful attention to the limits of such strategies.

Finally, it is important to remember that although the IMF's efforts to build a new international financial architecture may not have met their intended objectives, they have nonetheless had some significant unintended effects—as the

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23. They are therefore not as radical in their constructivism as John Maynard Keynes, who saw the possibility of reconstituting patterns of consumer and investor activity through the creation of public norms of economic behavior (Best 2008).

24. Negotiations for standby agreements with Ecuador, Ghana, and Brazil have included references to ROSCs (Schneider 2003).

current financial crisis has demonstrated. A complete accounting of the links between the standards and codes initiative and the current financial crisis would require another full essay.[25] It is nonetheless worth sketching a few interesting implications in the conclusion to this one.

The standards and codes initiative was a key part of a broad strategy to manage the financial system by stabilizing emerging-market economies. By focusing on these economies rather than those of industrialized countries, and by focusing on government transparency at the expense of market transparency, the IMF effectively missed the warning signs of the current financial crisis. Although the Fund tried to gain legitimacy for its post–Asian crisis strategy, the asymmetry of the policies undermined these efforts and did little to counter a broad-based rejection of the IMF by emerging-market states (Best 2007). One of the major expressions of this rejection was the decision by many emerging-market states to build up huge reserves to avoid having to rely on the institution, the same reserves that helped to fuel the consumption-driven excesses of the West and to precipitate the current crisis. Moreover, by excluding certain alternative proposals as unthinkable—because they would include more government role in the economy, would slow liberalization too much, and would hamper growth—the IMF and other financial agencies also missed the opportunity to prevent or at least mitigate the current economic collapse. It is only after facing the catastrophic losses of the current crisis that it has become possible to regard some of these same alternatives as thinkable.

The battle is already raging over what new global norms are needed to sustain a more stable international financial system. Financial and political leaders are once again framing the debate in normative as well as technical terms (AP 2009; Barroso 2009), and they are beginning to recognize the importance of gaining more legitimacy for their proposals if they are to obtain the support of the all-important emerging-market economies (G-20 2009). While there may be a little more reflection and debate about what constitutes a sound economy, efforts are already under way to define the new "normal" in financial governance. Moreover, whether we look at statements from the April 2009 G20 Summit (G-20 2009), the Obama administration (2009), or the IMF itself—which has called for a "binding code of conduct across nations" (Davis 2009)—it is clear that some kind of global standards will play a major part in efforts to normalize global financial practices. However, it is not yet clear what role the existing standards and codes initiative will play in the global financial governance system that is developed in the aftermath of this financial crisis. Nor is it clear to what extent this or any other IMF strategy will retain its indirect character or rely on the blunter forms of international power. What is clear, however, is that the construction of power and knowledge as a distinct politics will continue to play a vital part in any future global economic governance system.

25. And is in fact the basis of Best 2009b.

exploring the ways in which the shift from saving to investment in its various forms has fueled the growth of mutual fund investment.

A focus on the ethical investor also has implications for IPE that extend far beyond simply suggesting a new and important empirical remit in the study of contemporary finance. As it is typically elaborated, IPE is conceptually ill-equipped for the study of the ethical investor and everyday investors more broadly. IPE inquiry almost always begins, implicitly or otherwise, from the assumption that economic agents are preexisting and that their individual and/or collective interests are fixed and cohesive. Consider, for example, Gourevitch and Shinn's (2005) analysis of the politics of corporate governance and how it is related to the rise of SRI. They argue that the shareholder activism of multiemployer and public pension funds has an efficacy that has had a significant impact on U.S. corporate governance. Starting from the premise that the politics of competing utility-maximizing interests and the institutional aggregation of preferences shapes the contours of corporate governance, Gourevitch and Shinn identify "owners," "managers," and "workers" as the three key sets of economic agents and competing interests. The contending interests of owners and managers have long been asserted in economic and legal analyses of corporate governance, the former as wanting control and protection, the latter as wanting autonomy and discretion. For Gourevitch and Shinn, recognizing the operation of a workers' interest in corporate governance is crucial to understanding why U.S. arrangements have changed in recent decades, becoming the best fit with "an external, diffuse *shareholder* model," which they contrast with the "internal concentrated *blockholder* model" (2005:4; emphasis in original).

The move toward the shareholder model of corporate governance in the United States is thus understood as a consequence of a new "coalitional alignment" between "workers and owners [who] combine to contain managerial agency costs and preserve the security of their investments and pensions" (Gourevitch and Shinn 2005:8). This "transparency coalition" focuses in particular on furthering the authority of the Securities and Exchange Commission (SEC) to ensure that adequate and reliable information is available on management practices and corporate performance, and was particularly influential, for example, in framing the Sarbanes-Oxley legislation.

On the one hand, Gourevitch and Shinn's research is a radical departure from IPE analyses that typically assume that the interests of "workers" and other economic agents are predetermined and fixed. Workers are not, always and everywhere, simply opposed to both managers and owners by virtue of their allocated status as workers. Context is significant, and interests and agency are contingent. On the other hand, however, for Gourevitch and Shinn, workers' newfound support for transparency and minority shareholder protections is explained by the ways in which the position of some as pension fund investors changes their rational preferences. Rationality, as the apparently crucial feature of what it means to be an economic agent in general and an investor in particular, is assumed and taken for granted by Gourevitch and Shinn. How workers who contribute to pension funds may come to understand themselves as investors is not explored, and how they may come to understand their own practices

and preferences as rational is thus ignored. Even in Gourevitch and Shinn's illuminating analysis, questions of economic subjectivity, subject positions, and processes of identification are largely omitted from IPE inquiry.

A concern with the ethical investor raises, then, significant conceptual questions for IPE and entails that these questions are brought to the fore in analyses of economies and economic change. To this end, I propose the notion of "embodied economies" to signal that the construction of economic subjectivities and subject positions is integral to, not separable from, the construction of economies. To get there I elaborate a post-structural route to constructivist IPE that develops a reading of the Foucauldian-inspired literature on "governmentality." A key theme across Foucault's work, derived largely from his reading of Nietzsche, is to challenge the assumption that human beings are by their nature marked by autonomy and transparent self-consciousness (Peters 2001). Power, as a set of forces featuring various regimes of knowledge that claim truth, is beyond the individual for Foucault. Power and processes of subjectification are not, therefore, about the making of people as historical subjects. Rather, power-knowledge relations continuously call forth and summon up particular subject positions that individuals may consciously or unconsciously perform. To talk of embodied economies is to recognize that the discursive construction of an economy will inherently contain the demarcation of specific subject positions and necessarily incomplete processes of identification.

Moreover, the notion of embodied economies also draws on a particular understanding of "economy" derived from Foucault. For Foucault (2007), what is significant about "economy" is its emergence and demarcation as a particular domain and scientific problematic in modern liberal society beginning in the nineteenth century. From Adam Smith and through the neoclassical revolution in the study of economics, "economy" is discursively separated from the reason of state at home and abroad, becoming a realm for the correct and rational management of goods and wealth by the household (see Walter 2008). The apparent rationality and calculability of economy, and of the various subject positions grounded in *homo oeconomicus,* are thus crucial to the operation of power and the government of the population in liberal societies.

In the second section below, therefore, I discuss how the subject position of the investor is called forth within the constitution of the embodied economy of everyday investment. These processes of identification are situated in contemporary liberal governmental power relations, and in the ways in which the performance of investment is cast as the key to individual freedom and security as collective insurance and thrifty saving wane. To borrow terms from Foucault, investment has become a "technology of the self" and important to the "care of the self" in a period of neoliberal government. That is, as self-improvement and security increasingly appear to turn on individually earned material wealth, so this involves the calling up of subjects who cultivate a portfolio of financial market assets that, carefully selected by the individual through the calculated engagement with risk, holds out the prospect of welfare and security through returns.

The third and final section of the chapter moves to consider the ways in which the ethical investor draws attention to the presence of contingency and contestation in the neoliberal making of investor subjects, and thereby begins to draw out further some of the analytical and political implications that a concern with the constitution of embodied economies has for IPE. A post-structural route to IPE should not simply discover and document various subject positions in order to produce embodied accounts of the construction of market economies, but consider the ways in which the performance of those subject positions is necessarily precarious. The uncertainties and oppositions present in processes of identification are significant not only for IPE scholars' understandings of the necessarily partial and incomplete characteristics of embodied economies, but also for questions of dissent and the possibilities for alternatives. I argue, then, that while ethical investment may well prompt, cultivate, and embody an alternative approach to investment, the ethical investor remains an ambiguous and comprised subject of financial dissent. Reliance on screening devices in ethical mutual funds provokes a questioning of the prevailing calculative performances of everyday investment but, at the same time, constrains the scope for disagreement and dissent by reducing confrontations with everyday investment to a technical and calculative matter. Similarly, although the ethical investor embodies an intimate ethics of cosmopolitanism that challenge prevailing representations of investment as the entrepreneurial care of the self, he or she reconciles the personal and the political from within mutual fund networks and through individual value choices alone.

From Saving to Investment

The pathway to constructivism in international political economy set out by the editors in their introduction to this book has perhaps gained most traction when scholars have sought to apprehend transformations in contemporary finance (e.g., Abdelal 2007; Aitken 2007; Best 2005; de Goede 2005a; Langley 2008; Porter 2005; Seabrooke 2006). For several contributors to this literature, and indeed for others pursuing different approaches in IPE (Harmes 2001; Watson 2007), a key concern has been to reveal the place of everyday practices in the constitution of these transformations. Attention has focused, in particular, on the emergence of mass financial investment in the Anglo-American world, thereby building on a wider body of interdisciplinary social scientific work that emphasizes the restructuring of occupational and personal pensions (Blackburn 2002, 2006; Clark 2000; Minns 2001), the development of financial consumption and the financial services industry (Burton 1994, 2008; Knights and Tinker 1997; Leyshon and Thrift 1997), and the "financialization" of household savings (Froud et al. 2002; Martin 2002).

The signature financial market product and device that has marked this change has been the rise of stock market mutual funds. Mutual funds are investment trust companies that pool individuals' savings, investing those savings in a portfolio of securities according to the objectives stated in their prospectuses.

Investors own a tradable share or "unit" in the fund—hence the common name of "unit trusts" in the United Kingdom—but have no ownership claims on its assets. A fund's prospectus and the class of assets that it holds, along with previous performance (and possibly the leadership of its star fund manager), provide the basis for its differentiation, branding, and marketing. The result is a massive and somewhat bewildering array of mutual funds that seemingly cater to all manner of wants, tastes, and so-called risk appetites.

Stock market investment through mutual funds became increasingly routine for "the fortunate 40 per cent" (Froud et al. 2001) of the population in Anglo-America from the late 1970s, initially taking hold in the United States in the face of relatively poor returns from deposit accounts during a period of high inflation (Nocera 1994). The marketing tactics of the newly deregulated financial services industry promoted a steady increase in mutual fund investment during the 1980s on both sides of the Atlantic, while the "new economy" boom of the 1990s produced further stepwise growth (Frank 2000). Across these decades, mutual fund investment was also propelled by supportive tax breaks from government. For example, in the United Kingdom, successive rounds of legislation have created personal equity plans (PEPs), tax-exempt savings schemes (TESSAs), and, most recently, individual saving accounts (ISAs). Changes in pension provision, most notably the development of individual retirement accounts (IRAs) in the United States from the 1980s and the shift from defined-benefit (DB) or "final salary" to defined-contribution (DC) or "money purchase" occupational schemes that gathered pace from the 1990s, have also dramatically accelerated the rise of the mutual fund. While investors in a DC pension plan defer day-to-day financial management to the expert asset managers of mutual funds, their investment decisions within a scheme, for instance, the choice of buying into, holding, or selling a "blue chip" or "emerging-market" mutual fund, are based on a calculative engagement with risk/reward.

Research into everyday investment and mutual funds stands in contrast to the vast majority of scholarship in IPE. To date, IPE scholars have typically addressed the emergence of what is known as global finance, that is, the growth of cross-border capital market flows. A focus on everyday investment suggests, then, that contemporary financial markets can be thought of as historically distinct not only because of the extent of cross-border integration and volatility, but also because of the degree to which they have become socialized and normalized in the Anglo-American economies.

As a matter of routine, large sections of the population in the United States and United Kingdom now hold a stake in the stock market, however meager. Taking such unparalleled and often neglected developments seriously in IPE leads, at minimum, to a series of new empirical research questions about contemporary finance. For Len Seabrooke, for example, what he calls "the ideal-typical pocketbook-to-global finance scenario" raises significant questions about states' "international financial capability," that is, "the capacity to draw credit from and increase the generation of credit to the international financial order, as well as influencing this order's regulatory and normative structure" (2006:17, 2).

hand, then, liberal government respects the formal freedom and autonomy of subjects. On the other hand, however, it governs within and through those independent actions by promoting the very disciplinary technologies and tools deemed necessary for an autonomous and secure life.

When viewed from this perspective, qualitative change in everyday saving practices in the Anglo-American economies is broadly characterized by the partial decline of collective insurance and thrifty saving, on the one hand, and the rise of individualized investment and risk taking, on the other (Langley 2008). The viewpoint that investment has become routine and mundane as the consequence of the grip of a popular psychology of irrational exuberance, propounded most influentially by Robert J. Shiller (2001), is turned on its head. Everyday investment has been made possible precisely because, in relative and emphatic terms, investment has come to appear as the most rational form of saving. Key in this regard is a discursive reworking of risk that, at once, partially displaces the predominant place of technologies of insurance and thrift in everyday saving with those of investment, and summons up an embodied economy of risk-embracing investors as opposed to risk-averse savers.

Risk, Insurance, and Thrift

Within the governmentality literature, the financial government of the self by the self and the making of embodied financial economies turn primarily on insurance understood as a calculative risk technology. "Risk" is regarded here as a category of understanding, not an intuition or sensibility. It is not, furthermore, a condition of our times in a realist sense, what Beck (1992) famously characterized as the uninsurable "risk society." Rather, as Mitchell Dean (1999:177) puts it, "There is no such thing as risk in reality. . . . Risk is a way—or rather, a set of different ways—of ordering reality, of rendering it into a calculable form. It is a way of representing events in a certain form so that they might be made governable in particular ways, with particular techniques and for particular goals." Informing this view of risk is a critical reading of Frank Knight's (1921) classic investigation of indeterminacy. Thus, the category of risk can be seen as distinct from uncertainty, the former as the statistical and predictive calculation of the future, and the latter as noncalculable future volatilities that are beyond prediction (Reddy 1996). Tools, devices, and techniques of risk, such as insurance, which developed throughout the nineteenth and twentieth centuries across friendly societies, state, and market institutions, thereby provide a means of calculating and feigning control over an uncertain future (Defert 1991; Ewald 1991; Knights and Vurdubakis 1993).

Insurance creates a diverse range of possible future individual misfortunes and experiences (e.g., industrial accidents, unemployment, sickness, poverty, old age, premature death) as risks. Via statistical and probability-based actuarialism, insurance pools such risks as capital, at once spreading them across time and collective populations and promising to protect the individual through

Company Institute (ICI), an industry association representing U.S. mutual fund providers and asset managers, "demand for equity investments has risen . . . as more households have increased their risk tolerance and recognized the return potential of these securities" (Holden et al. 2005:17). Indeed, financial advisers and financial guides and planners of all kinds often begin by asking would-be investors to consider their so-called attitudes, aptitudes, or appetites for risk. The assertion that risk premiums are present assumes that most savers are risk-averse, and the implication is always that those investors who are willing to take greater risks will be those who, on average, receive the greater rewards.

Insurance, like thrift, is also poles apart from investment in terms of the manner in which risk is represented. This is not to deny that there are also important similarities between insurance and investment networks. Both hold out the prospect of individual security by constructing the uncertain future as a set of calculable and manageable risks. Both also rely on expertise, that is, "the social authority ascribed to particular agents" and "forms of judgment on the basis of their claims to possess specialized truths and rare powers" (Miller and Rose 1990:2). Yet whereas risk is cast as a possible hindrance, danger, or loss to be shared collectively and therefore minimized in insurance networks, in networks of investment risk appears as an incentive to be calculated and grasped by the individual. To be clear, the challenge posed to insurance by investment is not simply a rediscovery and celebration of uncertainty as the necessary context for entrepreneurial activity (see Bernstein 1996; Knight 1921). Rather, *actuarial technologies of risk tame collective chances, while investment technologies of risk actually license the calculative taking of chance by the individual.*

The calculative technologies present in mutual fund networks call up a subject who embraces financial market risk, deploys various calculative measures of risk/reward in relation to different equities and mutual funds, and manages risk through portfolio diversification. By way of illustration, "realized rates of return" expressed as a percentage provide an important calculative starting point that facilitates an assessment of fund performance by the everyday investor. The variance of the realized rates of return from a mutual fund across time is, as with the volatility of an individual stock or bond, measured through standard deviation. This calculates how much a fund's short-term rate of return varies against a longer-term average, such that a higher standard deviation is an indication of a more volatile and risky fund. Similarly, alongside realized rates of return and standard deviation, a key calculation which is constitutive in mutual fund networks and which summons up the mutual fund investor is net asset value (NAV) per share. NAV, often featured in the listings of mutual funds carried in the newspapers, is the current market value of a fund's portfolio of assets divided by the number of shares. In turn, "success" as an investor is represented in calculative terms as resting on purchasing, holding, and trading assets that provide returns that are greater than their relative level of risk.

This understanding of success draws on the prominent place of the idea of portfolio diversification within the management of investment risk more broadly. A portfolio of assets is a more or less diversified set of investments that

can be weighted across a range of financial instruments. Once held in a portfolio, the risk of an asset is a function of not only its own variance but also its degree of dependency or correlation with the other assets in the portfolio. Risk in a diversified portfolio of assets is less than the average risk of the separate assets, the simple calculative lesson at work in networks of everyday investment that is taken from Harry Markowitz's (1959) modern portfolio theory. It is the drive for diversified portfolios that implicitly or explicitly informs much of the appeal of mutual funds. Mutual funds provide investors with an apparent opportunity to diversify their investments in a manner that echoes, and indeed takes advantage of, the portfolio strategies of the professional investors. Such diversification operates both within a single fund and across funds, and creates the impression that mutual fund investment is safe, sound, and secure.

In addition to the summoning up of the mutual fund investor through particular calculative tools and techniques of risk, this subject position is authorized and legitimated in a broader neoliberal moral and political discourse. Insightful in this respect is Foucault's (1984) analysis of "technologies of the self" that permit willing individuals to work on an ethics of the self by regulating their bodies, their thoughts, and conduct. So, to paraphrase from Foucault and transposed to contemporary neoliberal government, the mutual fund investor is not called up through "a demand for intervention on the part of public authority" but is hailed with more subtlety through discourses that call for care of the self and emphasize "an intensification of the relation to oneself by which one constituted oneself as the subject of one's acts" (Foucault 1984:39–41).

Amid neoliberal governmental discourses in which the ethics of self-improvement privilege the material enhancement of individual autonomy and security in the name of a free market society, taking care of the self increasingly involves a portfolio of financial market assets that, carefully selected by the individual through the calculated engagement with risk, holds out the prospect of welfare and security through returns. Those who rely on the state and collective insurance to provide for their retirement are, for example, condemned on moral grounds as investment comes to be seen as the optimal technology of the self.

The Ethical Investor and Processes of Identification

The concept of governmentality and Foucault's writings more broadly hold considerable analytical potential, then, for furthering our understanding of the emergence of the embodied economy of everyday investment. However, the emergence in recent decades of the subject position of the ethical investor perhaps most starkly illustrates the degree to which the embodied economy of everyday investment is highly contingent and contested. As Stuart Hall (1996:10) has put it more broadly, subject positions such as that of the investor are not "*a priori* categories which individuals seem to occupy in an unproblematic fashion." Rather, "identification is a construction, a process never completed," and

we need to pay "attention to what might in any way interrupt, prevent or disturb the smooth insertion of individuals into . . . subject positions" (Hall 1996:2, 11). In somewhat bald terms, then, ethical investment provides an unconventional discourse that scripts and embodies an alternative approach to investment. With ethical investment, an explicitly moral and ethical investor is summoned up who pursues his or her own individual values within a broad-based cosmopolitanism. The mutual fund investor who embraces the risk/reward of the financial markets in order to further his or her own individual freedom and security becomes an economic-political subject able to perform in a "socially responsible" manner in the name of the collective.

Yet a focus on the ethical investor raises questions about the political significance of contingency and contestation in processes of identification. It is important to remember that although it is grounded in a particular concern with questions of power-knowledge, the post-structural route to IPE is not reducible to a concern with subjectivity (Langley 2009). Post-structuralism challenges "those binary divisions that have structured our political thinking and our theorizing about the political for so long: domination and emancipation; power and resistance; strategy and tactics. . . . Each such binary suggests a principle of division between those political, technical and ethical strategies that have made up our present and those that have opposed them" (Rose 1999:277). Once such binaries are refused, power and resistance become dyadic and cannot be completely separated or autonomous in the construction of economies.

Given this, on the one hand, while webs of power in (neo)liberal government can never be escaped, power relations are incomplete, fragile, vulnerable, and contradictory. On the other hand, given that power has to be exercised and realized in resistance itself, resistance is also ambiguous and is always, at least in part, compromised in one way or another (Foucault 1980; Amoore 2006). It follows, then, that just as the contingent and precarious position of everyday investors is not simply the outcome of the constraining "power over," wielded by firms, states, or capitalists, so ethical investors are not unambiguously resisters or dissenters against mainstream investment per se. Amid the promises and possibilities of ethical investment as a form of financial dissent are certain ambiguities that ensure that it does not provide a coherent, indisputable, and untainted alternative to mainstream everyday investment. To be fair, ethical investors often do not seek an unequivocally oppositional mode of dissent. But the oppositional claims of ethical investors are more problematic than tends to be acknowledged by advocates and activists.

Screening Out Politics

The ethical investor is, then, ultimately, an ambiguous and comprised subject of financial dissent in two crucial respects. First, consider the manner in which ethical investment materializes in large part through the inclusion of screening devices into the portfolio selection models of mutual fund providers and

asset managers. It is, after all, the use or otherwise of such screens that marks an ethical from a "non-ethical" mutual fund investor. As ethical mutual fund investment has really taken hold in the last decade or so, it is notable that it has borrowed from and built on the technologies and marketing strategies of mainstream mutual fund networks. The principal specialist providers of ethical mutual funds—such as Calvert Group, Citizens Advisors, Domini Social Investment, Dreyfus Corp., MMA Praxis, New Covenant, Parnassus, and Pax World Funds in the United States—have been joined by mainstream providers who may offer ethical options within their "family of funds." Today's ethical investor is typically cast as choosing from a menu of mutual funds that have been screened and branded according to various negative or positive criteria.

Negative screening clearly has it roots in the long-standing avoidance of "sin stocks" by certain investors. For example, the first U.S. investment fund to develop and adopt what might be called "sin stock screening," in 1950, was Pioneer Fund, which was originally opened in 1928 to meet the needs of Christian investors (Social Investment Forum 2006:3). Similarly, the proliferation of ethical mutual funds in the United States in the early 1970s was a reaction to the Vietnam War, as the Pax World Fund and the Dreyfus Third Century Fund broadened the sin stocks that investors could avoid by adding the stocks of the nuclear industry and military and defense contractors. Meanwhile, campaigns of divestment from South Africa's apartheid regime in the 1970s and 1980s also generated support for ethical mutual funds on both sides of the Atlantic. The negative screening out of traditional sin stocks remains the most common feature of U.S. ethical mutual funds, with tobacco and alcohol far and away the main concerns of ethical investors (Wander and Malone 2007). That said, the majority of U.S. ethical mutual funds incorporate five or more social and environmental screens (Social Investment Forum 2006:8–9).

Positive screening, on the other hand, has recently become closely associated with investments in companies in all sectors of economies that show evidence of corporate social responsibility (CSR), that is, companies that have reported and audited procedures, standards, and codes for dealing with issues of environmental sustainability, health and safety, employer-employee relations, human rights, and so on (Hill et al. 2007; Scholtens 2006). As the Social Investment Forum (2006:4) puts it, positive screening is "based on the principle that investors actively seek to support companies whose social and environmental records are consistent with good corporate citizenship."

The association between ethical investment and CSR is reflected in, and constituted through, the emergence of indexes of the shares of firms that are deemed to be taking CSR standards seriously. In the United States, the Domini 400 Social Index, launched in 1990, combines negative and positive screening techniques to exclude the stocks of 250 firms listed on the mainstream Standard & Poors Ratings Group (S&P) 500 index, and adds a further 150 positively screened firms. The Dow Jones Sustainability Indexes include the stocks of what are considered the top 10 percent of CSR performers across a range of economic sectors. In the United Kingdom, the FTSE4Good indexes, which were launched in July 2001, include only companies that are found by FTSE to

reach CSR standards. Overall, such indexes provide a two-dimensional graphical visualization of the returns available over time from what are calculated to be "ethical stocks" (Aitken 2007). Returns from these stocks can thus be easily compared, or "benchmarked," against the returns available from mainstream, or "non-ethical," stocks, and the returns from ethical mutual funds can be tracked and judged against a market average by the ethical investor. Indexes also make possible index tracker mutual funds, whereby the so-called passive investment of computerized trading programs reduces the management costs associated with ethical investment. For instance, Co-operative Financial Services in the United Kingdom currently provides the CIS FTSE4Good Tracker Fund.

The significant place of screening devices in ethical mutual funds ensures that the first set of ambiguities present in ethical investment as a mode of financial dissent are rooted in the elusive power and politics of calculation. On the one hand, as Andrew Barry (2002:272) observes, the legacy of Max Weber's work on rationality has been the awareness among sociologists that calculation and measurement in all its forms is "an essentially anti-political instrument." Calculation recasts political questions as economic and technical issues to be solved, and is therefore "thought to reduce the space of the political and to limit the possibility for disagreement" (272). The political, social, and moral questions about whether we should save and how we might go about saving are, for instance, cut down to size by calculative devices. They are resituated in the domain of the market economy, and in the context of neoliberal programs of government in particular, such questions become a matter of which mutual fund investments will best provide for individual freedom and security. On the other hand, however, as Barry puts it: "Measurement and calculation do not only have anti-political effects. They do not just have the effect of restricting political controversy in the economic field. They also, at the same time, provide the basis for an opening up of new objects and sites of disagreement" (274).

Calculation can be (re)politicizing in everyday investment precisely because, as we have already noted, it is constituted through fallible, contradictory, and dynamic calculative tools of risk. In Barry's terms, measurement and calculation are "fragile" and "inventive" (2002:274–279). The inventive development of screening devices may highlight weaknesses in fragile calculations of risk/reward that, for example, disregard the uncertainties created by poor CSR standards. Poor CSR standards may come to have a negative impact on the corporate brand, which, in turn, results in declining consumer sales and threatens shareholder value. Debate ensues that potentially focuses not only on appropriate investment techniques and the relationships between sustainability and shareholder value, but on the social and environmental consequences of corporate economies more broadly. The use of screening devices ensures, then, that ethical investment simultaneously closes down and opens up the routines and rhythms of everyday investment to disagreement and dissent. It may provoke a questioning of the prevailing calculative performances of everyday investment but, at the same time, also constrains the scope for disagreement and dissent by reducing confrontations with everyday investment to a technical and calculative matter.

actually look like. Diversity is to be celebrated, but only within the clear and settled boundaries of cosmopolitanism. Ethical investment envisages a society of active citizens who provide for themselves and their others by fully exercising their rights and responsibilities as property owners in a shareholding democracy (e.g., Hancock 2005).But as suggested in the work of William Connolly (2002), the relational securing of the identity of the "ethical investor" can be seen to actually reinforce processes of identification in everyday investment more broadly, wherein "the investor" is differentiated from thrifty savers and those irresponsible individuals who continue to rely on state insurance. If "to act ethically is often to call some comforts of identity into question," as Connolly (2002:xiv) contends, then ethical investment as a mode of financial dissent would actually seem to be quite "unethical." Ethical investors do not, in short, need to question their subjectivity as investors. There is thus little scope within a shareholder democracy, where only ethical investors can express their values, for what Connolly terms "agonistic respect" between investors, savers, and those who rely on state pensions, for example. Ethical investment does not recognize the contestability of identity of the investor from the perspectives of savers or welfare recipients. It closes down the space that might otherwise "cultivate reciprocal respect across difference" and "negotiate larger assemblages to set general policies" (Connolly 2002:xxvi).

That the cosmopolitan ethical investor is compromised as a subject of dissent should not be taken to imply, however, that ethical investment should simply be condemned as an insignificant or unproductive form of democratic political contestation. What is at issue here, as Butler, Laclau, and Zizek (2000:1) note at the outset of their rereading of Laclau and Mouffe (1985), is that "new social movements often rely on identity-claims, but 'identity' itself is never fully constituted; in fact,...identification is not reducible to identity." There is indeed an antagonism or incommensurability between identification and identity. But as they also stress, "it does not follow that the failure of identity to achieve complete determination undermines the social movements at issue" (Butler, Laclau, and Zizek 2000:1–2). Contrary to the vast majority of research which creates the impression that "nothing short of broad-based and internally consistent global movements seem to be able to challenge the power of financial institutions" (de Goede 2005b:379), the "failures" of the ethical investor should not be feared but actually valued "as a condition of democratic contestation itself" (Butler, Laclau, and Zizek 2000:2).

Conclusion

This chapter has sought to respond to the editors' call for a post-structural pathway to be taken seriously as part of the wider drive to bring constructivism to bear in IPE analyses of the economy. My focus on the ethical investor subject reinforces their suggestion that a concern with subjectivity as opposed to presumed and preexisting agents, or what I have termed embodied economies

collective contingency of investment expectations (Keynes 1936b:141–142, 145–146) are exactly the types of dynamics with which we concern ourselves in this book.

Our revisiting of Keynes's core insights into capitalism comes at a curious time for Keynesianism, which the financial crisis of 2008 made fashionable again. Washington's rediscovery of Keynesianism still fails, alas, to do justice to those insights, for the Keynesianism of the post-subprime era resembles overmuch the mechanistic, rationalist framework that Joan Robinson (in Turner 1989) once labeled "Bastard Keynesianism." Keynes has reappeared not as a subtle student of complex social interaction but as a mechanic who figured out the machine: he just coupled the proposition that wages are downwardly rigid to the notion that fiscal deficits per se can cure an economic depression through a simple, estimable, and predictable multiplier. The word from Washington was that President Obama's economic team had settled on a spending multiplier of around 1.5 with an output gap of around $1 trillion, and so the spending package needed to be $700 billion or so. This, as though the individual psychologies and social conventions had not been transformed by a crisis of staggering proportions, and as if the fallen orthodoxies of the past quarter-century were not littering the sidewalks between 1500 and 1600 Pennsylvania Avenue. That is not to predict that Obama's interventions will fail—but if they succeed it will not be because many policymakers understood more than a "hollowed out" version of Keynesianism (Best 2005). They often seem to be "performing" a mechanistic model of Keynesianism more than understanding his analysis.

This particular moment provides a theme for our conclusion that is, oddly, symmetrical to the premise of our introduction. Just as mainstream materialist modes of political economy in the academy miss the importance of constructivist insights in their understanding of political economy, hence this book, so too do contemporary understandings of the current crisis in the world of policy making. In the mainstream analysis of the current crisis the constructivist Keynes has been forgotten, replaced by the "bastard" Keynesianism wherein spending and stimulus matter as fuel or lubricants for a concrete machine, not as constructions of future states of the world designed to influence something *essentially* constructivist: the investment expectations of agents (Keynes 1936:135–164).

Our conclusion begins with a short and thoroughly materialist rendition of the current financial crisis as a backdrop against which we reconsider our contributions. We do not reiterate what our chapters have already said; that makes, after all, for a dull conclusion. Instead, we generalize the insights developed in the book's contributions to the analysis of the current crisis as a way of extending the reach of the general mode of analysis they offer. We ask broadly what this type of theorizing can contribute to our understanding of the crisis of the moment. Second, in doing so, just as we note different pathways to constructivism in our introduction and throughout the book, we show how each of these different pathways (meaning, cognition, uncertainty, and subjectivity) offers compelling insights into the current crisis. We end by connecting these insights back to our opening call for broad scholarly engagement.

can create endogenous instabilities in markets either by blinding their users to "tail risks" (Taleb 2007), causing a tunneling of risk into common portfolios across asset classes (everyone hedges the same way) (Persaud 2000), or by linking assets together in a search for liquidity as positions are unwound (Blyth 2003b). In short, what is rational for one bank can create systemic risk for all banks as asset positions become serially correlated. Once the entire banking system had loaded up on mortgage derivatives and credit default swaps, the accident was just waiting to happen. It came when losses at several major U.S. banks triggered the fall of Lehman Brothers, which in turn caused massive nonlinear and unpredictable losses in systemically linked markets, particularly the huge credit default swaps market. The crisis had begun.

So What Can Constructivists Usefully Say about This Crisis?

If this is taken to be a reasonable story of the crisis—and we maintain that it is, and that something like this account is widely believed—the room for a constructivist alternative may, at first glance, appear to be limited at best. What we seem to have is a story of agents with simple material interests pursuing ends in a nonlinear complex adaptive system that exploded, in part, because the degree of control assumed by those supposedly in control was grotesquely exaggerated. So why bother with constructivism? After all, today's constructivists did not predict the crisis any more than most economists did. And even those who observed that U.S. current account deficits and the accumulation of dollar-denominated financial claims had created an unsustainable imbalance in the global economy have been surprised by how quickly the rest of the world fell into crisis too, and by how, amazingly, the U.S. dollar *appreciated* during the first stages of the financial crisis created by the U.S. banking and housing sectors. Just about everyone was surprised by the timing of the crisis, its rapid spread, and how it has played out. But if everyone's predictions failed—and across the social sciences they tend to fail rather predictably—we argue that constructivism provides an organized way to think about this sort of unpredictable event (and our failure to predict more generally).

Indeed, if our claim is that the economy is riddled with complex constellations of conventions, norms, ideas, and identities, it is useful to think about how economic outcomes can become rapidly unhinged from a largely unchanged landscape of resources and motivations. As the preceding section suggests, that is not to say that constructivism offers the only plausible way to make apparent sense of the international economy and its crises. As propitious as the current climate might seem to some constructivists, we are not interested in proclaiming a new and obviously correct constructivist hegemony. Accordingly, our chapters have not showcased "the best way" to make a constructivist argument. Nor were they selected to strike a tight series of blows to hammer home the overwhelming power of constructivism. They illustrate instead these different pathways, vocabularies, and methods in ways that we think scholars of

political economy can and should take seriously despite enduring and legitimate differences across them.

How, then, do the positions taken by our authors offer something distinctive from the putatively complete and materialist account we describe? We think that they do more than just add to a materialist core argument, akin to a bastard Keynesianism addition of a feedback loop in which government spending just smooths out cycles of rational expectations in a mechanistic economy. We suggest that they can go deeper than such a materialist account allows by tapping into the mechanisms of social construction that underlie such causal and constitutive processes. Constructivism is neither a "helper application" for "incomplete" material processes nor a fully separate "alternative to" such accounts that operates on an entirely distinct terrain of ideas and norms. Rather, we see it as a position that illuminates what is hidden in such accounts and suggests a qualitatively more grounded rendition of events.

A Crisis of What?

The first question that our analyses raise is "a crisis of what?" That we are in the midst of a financial crisis is not in doubt, but what that crisis is, and how it comes to be known as a crisis of "X" as opposed to "Y" is not a self-evident proposition. As *uncertainty constructivists* such as Woll and Widmaier are quick to point out, how a crisis is defined is itself a powerful political intervention. When the current financial crisis was triggered in the U.S. subprime market, the original diagnosis offered by the Bush administration was that it confronted a crisis of liquidity, hence the $700 billion Troubled Asset Relief Program (TARP). Around the same time, however, British chancellor Alisdair Darling diagnosed the crisis as one of capitalization, which required a different set of interventions. In Germany, meanwhile, the crisis was originally seen as one of "Anglo-Saxon" capitalism, since it was presumed that in the absence of a domestic housing bubble German banks were safe from such self-inflicted wounds. In Japan, which experienced a housing bubble and debt deflation in the early 1990s, it was similarly assumed that the economy was insulated against any ensuing turbulence. Fast-forward a few months, and the diagnoses had changed quite radically. As of summer 2009, the Americans see the crisis as one of capitalization (although some now openly see it as a crisis of insolvency, as do the British). The Germans have found out that their banks can indeed get into the same mess as the Americans' (albeit with other people's mortgages), and as in Japan (and China), the crisis is for them one of exports rather than banking per se. Much of the rest of the world has found that it is also a crisis of deleveraging, as investors unwind foreign positions in order to meet their obligations to creditors. Meanwhile, if you ask bank regulators what the crisis is, they tend to see it as a crisis of rating agencies' credibility and accountancy rules (Persaud 2007).

Uncertainty constructivists would, we suggest, focus our attention on how the crisis is not "given" by its material conditions but differentially experienced by

agents (Widmaier, Blyth, and Seabrooke 2007) as it evolves over time and as it manifests itself in new and unexpected directions. As such, a crisis is not simply "an event" that is obvious to the agents involved. Rather, it is an act of "intervention" (Hay 2001): the diagnosis that sticks not only shapes the response but designates some further institutional responses and distributions as possible and others as impossible.

Woll's chapter is most important here insofar as it demonstrates how much of the foundation of nonconstructivist analyses—the idea of an agent's materially derived interests—is actually far more problematic than is normally assumed. Woll shows that even in times of relative stability, the assumption that interests are clear and obvious to the agents themselves may be empirically hard to sustain. In times of crisis, it is probably reasonable to assume that agents may be even more unsure about what their interests should be, since following what they thought were their interests leads to suboptimal outcomes (Blyth 2007b). Such agents may then be more open to processes of social construction than they have been theretofore, as the attempt to define what the crisis is, and thus what other agents' interests should be in such a moment, comes to the fore. A constructivist politics of crisis making emerges in such moments as the uncertainty generated by the failure of existing institutions, and the concomitant failure to coordinate expectations that comes with this, makes the politics of interest construction something to explain rather than something with which to do the explaining.

Widmaier's chapter focuses our concerns still further by demonstrating how economic ideas, the governing conventions of economic institutions, and thus the types of appropriate policy they presume vary over time. The prevailing economic theory of the day prevails in part because in periods of stability it becomes part of the normative structure of the world (Abdelal 2007). For example, open financial accounts were seen as preferable, even optimal by some cheerleaders, because the period in which they have been open correlates with periods of growth. What happens, then, when present circumstances undermine such claims, or at least the correlations? Such periods, uncertainty constructivists suggest, not only open up agents' definitions of what their interest are. They also open up the range of admissible statements about the world and how it works. If the governing convention of the day is that government spending is wasteful and consumption-spending stimuli will not work, then agents are most likely to take actions that reinforce the tenets of the theory (MacKenzie 2006). However, as Widmaier shows, such moments of crisis can throw these causal interdependencies into doubt and open up the possibility of new interpretations and thus new collective actions. Every boom produces shared lessons, and so too does each bust. Collectively, we learn, forget, and relearn, struggling to cultivate economic growth and stability and enduring policy stances.

Most broadly, then, a renewed emphasis on uncertainty also informs what agents themselves are likely to believe about the world in the coming years, as well as what scholars will think they believe. The financial innovations of the past decades were based on the premise that risk was knowable, calculable, and

possible to manipulate. Whereas some scholars and practitioners had come to believe that we really did live in a world of risk, as opposed to the uncertainty theorized by Frank Knight and John Maynard Keynes, the crisis of 2008–2009 clarifies once again that we do not have the "scientific basis," in Keynes's words, "to form a calculable probability." Perhaps one central lesson of the crisis for the academy and the private investment community is that though we may occasionally come to believe that we "know," in fact we simply do not.

A Crisis for Whom?

"Qui bono?" (who benefits?) is in many ways the classic question for IPE, and it is a far from unreasonable place to start any analysis. But given the foregoing, the ability to shake loose particular conceptions of interest in moments of crisis, "qui bono?" can be usefully supplemented by "qui termino?" (who defines?) or "qui dicto?" (who speaks?). The "definition as intervention" model favored by uncertainty constructivists has a counterpart in the work of *meaning-oriented constructivists,* which illuminates still other aspects of the current crisis.

Consider Chwieroth's essay on the greater Chicago consensus and its effects on policy in Latin America. Chwieroth's insights in this regard can be usefully extended to the current situation. How the crisis influences policymakers and market participants depends, as materialist analyses rightly insist, on the asset baskets, preferences, and relative power of the agents involved. But it also depends on who gets to speak with authority in the crisis. Chwieroth's analysis demonstrates how particular models, and adherence to them, define problems in particular ways. That is, they bring meaning to an object, and it is this meaning, rather than the brute fact, to which agents react. Who gets to interpret the crisis, to speak what it is, and to specify what models can legitimately be brought to bear to tame it is worth attending to. Indeed, far from competing with a materialist analysis, Chwieroth's analysis usefully extends it by suggesting how a crisis can delegitimate particular modes of thought (that markets are self-correcting, for example) while bringing others to the fore (that a little inflation may be a good thing after all, for example). Such practices are exercises of power.

Weaver's analysis builds on Chwieroth's by explaining how such ideational changes are essentially contested processes. Far from being "cheap talk" or ex post rationalizations for preexisting interests, Weaver shows how ideas about governance can transform the project and practice of governance—but she stresses how such transformations are themselves essentially political and socially constructing processes. In the light of the current moment, then, what is true of the World Bank is surely true of the international financial community. Rather than massive and catastrophic failure that brings about new common understandings through a smooth uptake of new information about what the outcomes of the crisis (obviously) mean given agents' asset baskets, what we should expect is a struggle over the possible range of meanings themselves. This is why, for example, early in the crisis the policy of nationalization of the

financial sector was so controversial. Rather than a rational policy response to the perceived insolvency of critical institutions, what nationalization *means* to the U.S. financial community, in particular, expands beyond what it means for shareholder equity. It means something as a policy ("socialism," the end of liberty, and the road, as Friedrich Hayek might have warned, to serfdom?) that it does not mean in, for example, Belgium or France.[7] As such, U.S. policy responses are limited by much more than the facts of the balance sheets. They are also limited by who gets to define what the balance sheets mean and the range of normatively acceptable and meaningful statements about policy that can be made in a particular meaning-rich environment.

Bukovansky's work on hypocrisy takes these analyses one step further. She shows how developed-country agricultural politics are at base hypocritical, though not, perhaps, in the standard deceptive or dysfunctional sense. The mixed nature of the discourse around agriculture allows agents to live a contradiction that, if they had to resolve it, would be more costly than being a hypocrite. If, for example, the common agricultural policy were to be seen by the French as preventing the depopulation of rural France, but full engagement or recognition in this direction would clearly contradict WTO standards for market access, then it is far from surprising that France plays the hypocrite. The deeper point Bukovansky brings out, however, is that this is not about balancing interests as much as it is about balancing contradictory, but equally held, normative frameworks. The financial crisis offers especially salient examples of such Bukovanskian hypocrisy.

Consider the issue of bankers' bonuses being paid out in the midst of a collapse or the resistance to nationalization-as-policy noted above. One could tell a strong interest-based story that is essentially correct about bankers' realizing that this is the last feeding at the trough and that therefore "going for it" before the trough is taken away by the state is the rational thing to do. Likewise, if nationalization does mean socializing the losses by bankrupting the shareholders, one can understand why shareholders may get nervous when the state arrives. But behind both claims lie Bukovansky's contradictory normative frameworks. Norms such as "governments make bad managers" and "risk deserves reward" are the normative impediments to the type of change in ideas that Weaver investigates. Indeed, such norms are constitutive of the very identities of financial agents, an issue that *subjective constructivists* shed light on very well. Such identities, and the claims to authority and power they engender, are "sticky" by their nature and are not easy to shed since they speak to who agents are on an ontological level as well as an authoritative level. This is why there is never a simple "crisis leading to reevaluation leading to new policy" response model of change in complex systems. The politics of distribution is certainly central, but so is the politics of hypocrisy (and identity) that lies behind it and makes it possible in the first place.

7. One could say much the same about the U.S. health care "debate" of summer 2009.

A Crisis by What Measure?

Cognitive constructivists such as Duina and Herrera add yet another dimension to our analysis. Rather than problematize agents' understanding of the crisis, their interests, or what specific policies mean to them, these constructivists focus on the microlevel of how different cognitive frames, heuristics, and biases inform agents' responses. Duina, for example, notes how the cognitive standardization that takes place among lawyers from different legal traditions affects the final form of trade agreements in quite significant, and systematic, ways. We would expect, then, to see the same thing among financial regulators in the run-up to the crisis and in the ongoing responses. In the approach to the crisis, regulation and regulators were generally seen as ineffective and unnecessary holdovers from an older era. They had been superseded by the self-regulatory capacities of banks and other financial actors themselves, each minding their own risks, which stabilized the system as a whole. As noted earlier, such an approach ignored how systemic risk could emerge from the use of individually rational risk management techniques. But as Weaver notes, new ideas, especially difficult ones such as "conventional risk management may have just blown up the world," are hard to accept. Equally true is that old ideas—"with enough information, even systemic risk can be measured and managed," for example—are difficult to abandon. Given this, cognitive constructivists would not be surprised to see future regulations embodying past fallacies despite evidence to the contrary due to different, and causally important, regulatory traditions.

Herrera's chapter reminds us that not only are moments of crisis especially open to processes of social construction, but once uncertainty is reduced and meanings are ascribed, policy can take off in directions quite apart from the material circumstances the agents in question inhabit. In her story the crisis shock was the collapse of the Soviet Union and the collective reimagining of the economy that took place in disparate and desperate oblasts. But such dynamics also occur both during and after financial crises. Iceland, for example, reimagined itself as a large financial services corporation: a cross between a hedge fund and an undifferentiated superportfolio of everyone else's housing. After the fact, such choices seem cavalier at best, but in the moment of the upswing, they were seen as proper specialization in the global financial order. What Iceland imagines itself to be now, or how China reimagines itself as something other than an export workshop for the rest of the world, will be critically important parts of any new financial and trading order. Although microlevel in some respects, the concerns of cognitive constructivists filter all the way up to the most macro aspects of policy.

A Crisis of Identity?

Finally, *subjective constructivists* place all these considerations in a broader frame. Like meaning constructivists, they are concerned with who gets to speak

authoritatively and ascribe meaning to objects, but they take this one step further to analyze how such discursive practices constitute particular subjects who can act in the international economy in the first place. The example of nationalization as taboo policy is again illustrative here. Within the American discourse on globalization, neoliberalism, and the nature of the political economy, it was almost impossible, until recently, even to argue that market mechanisms delivered anything other than efficient, if not optimal, outcomes. The current crisis has thrown this into doubt, but it has not overthrown the idea itself and the discursive practices that constitute the identities that are themselves part of the global financial order. Epstein's whales, in this regard, could easily be turned into Epstein's bankers. The past twenty years have witnessed a discursive politics wherein such agents are discursively constituted as unique individuals worthy of financial rewards that deviated sharply from almost the entire history of modern capitalism. They were seen as supermanagers with unique skills and insights who deserved much more—of everything—than everyone else. Now that the markets these agents constructed have exploded, such identities are hard to shed but are also still hard to contest. It is not easy for either an individual or a society to alter the subjectivity that they have inhabited for two decades. Speaking outside the terms of the still-current neoliberal discourse is to attack these identities and the interests that they make possible. Thus, we should recognize that adhering to the norms embedded within any dominant discourse is an important power resource for agents under threat.

Langley's ethical investors make a useful counterpoint here. Today the "superstar banker" has been increasingly juxtaposed to the "greedy banker" even if the contested discursive field still supports both identities (hence bankers' claims that if they don't get such extreme rewards they will take their unique talents to other industries). Langley's ethical investor faces different challenges. The obvious one is the possibility of being an ethical investor in a devastated market. But the deeper challenge is that if Langley is right that different types of markets give rise to different investor identities, perhaps the disappearance of those markets necessarily implies the end of such "ethical" investors. If so, then the ethics of investment, often seen as exogenous to the markets themselves, become endogenous to them in very significant ways.

Finally, Best suggests that the IMF in fact practices a quite conscious constructivist politics through its standard-setting initiatives. By defining the world in a particular way that stresses particular role identities for states and the responsibilities that go with them, the IMF is able to structure the financial system through constitutive as well as regulative norms. Placing this observation in the context of the current crisis suggests how state and nonstate actors are likely to respond. Just as the IMF reacted to the East Asian crisis of the late 1990s with formulaic responses, so too the initial responses to this crisis were quite orthodox. As it progressed and its severity became apparent, however, the role identities of states came increasingly into question. Germany's desire not to consume more, China's desire to do the opposite, Iceland's implosion, and so on all suggest that states' and international organizations' responses to the crisis will

Index

Page numbers followed by the letter *t* refer to tables.

Abdelal, Rawi, 118, 194
Actor-network theory, 14
Adler, Emanuel, 158
Africa
  and good governance agenda, 53, 55–56
  See also COMESA
Agricultural trade
  bilateralism in, 89
  GATT/WTO and, 71, 72, 80–83
  liberalization of, 79–80, 82–83, 86
  protectionism in, 68, 69, 77–79, 81, 82–83, 87
Agriculture, meaning(s) of, 84–86
Airlines
  European, 150–51, 153
  evolution of policy stances on liberalization, 143–44, 145, 147–48, 150–52
  U.S., 151, 152
American Express, 143
Andean Community (CAN), 96*t*
  conflict resolution mechanism in, 104
  EU model and, 107–8, 111
  founding document of, 110
  legal standardization in, 103–4
Anderson, Benedict, 122
Anticorruption agenda
  IMF and, 201
  World Bank and, 59, 62–63, 66
Anti-whaling discourse, 14, 180–81
  context of, 182, 183
ASEAN, 96*t*, 106
Asian financial crisis of 1997–1998
  IMF in aftermath of, 195, 198–99, 202, 204
  information ignored in, 206, 206n18
  possible responses to, 204
AT&T, 145, 146, 149, 152
Australia
  agricultural policies of, 83, 86
  telecom investment in, 149
  and whaling issue, 187
Austria
  in EU, 96*t*, 106
  and whaling issue, 180

Bangemann, Martin, 149
Barnett, Michael, 10, 51, 196, 208
Barry, Andrew, 223
Bates, Robert, 27
Behavioral economics, 138
Bell, Daniel, 165
Bell South, 150
Bhagwati, Jagdish, 78–79
Bias-efficiency trade-off, 33
Black-Scholes options pricing model, 15
Blyth, Mark, 12, 86, 194
Bounded rationality, 115
Bradshaw, Michael, 122n5
Branson, Richard, 151
Brazil
  good governance agenda and, 55
  IMF and, 209n24
  WTO and, 71
Brock, Philip, 42
Brunsson, Nils, 73
Burns, Arthur, 169
Bush, George W., 232

Cairns Group, 86
Callon, Michel, 197, 199
Calvert Group, 222
Camdessus, Michel, 201, 202, 206, 208
Cameron, Maxwell, 97
Campbell, David, 190
CAN. *See* Andean Community
Canada
  in CUSFTA, 105
  legal tradition of, 104
  in NAFTA, 96*t*, 104
  and whaling issue, 191
Carter, Jimmy, 169–70

Copyrighted material

Castro, Sergio de, 42
Causality
  vs. constitutiveness, 17–18
  constructivism and, 6, 15–19
  vs. understanding, 16–17
Caus, Jorge, 42
Chicago Boys, 41–43, 41n13
Chicago consensus, 21, 34, 34n8
Chile
  neoliberal economists in, 41–43, 41n13
  reforms during Pinochet regime, 40–43
  telecom investment in, 149
China
  global financial crisis and, 230n6, 232, 236, 237
  good governance agenda and, 55
  WTO and, 71, 89
Citigroup, 143
Citizens Advisors, 222
Civil law tradition, and RTAs, 100–101, 103–4, 104*t*, 110
Classical libertarianism
  and incomes policies, 157, 161–62, 162*t*, 168–70
  and Phillips Curve, 171
Coase, Ronald, 52
Cognition
  "connectionist" neural models of, 116
  constructivist path of, 10–11, 91–92, 116–17
  and economic-based sovereignty movements, 131–32
  economic, objectivist understanding of, 115
  global financial crisis from perspective of, 236
  and interpretation of economic data, 122, 133
  politics of, 238
  and uncertainty, 137
Cognitivism, on uncertainty, 137n1
Coherence
  of Chilean neoliberal economists, 41–43
  and policymaking, 24, 31–32, 45
Cold war, and anti-whaling discourse, 183
Cold war, end of
  inability of materialist theories to predict, 7
  new alliances following, 93
  uncertainty-oriented constructivism on, 12
Collective identities, 9
Columbia University, 34
COMESA, 96*t*
  dispute resolution mechanism in, 106, 107, 111
  EU model and, 107, 111
  legal system in, 106
Common law tradition
  frames based on, 100
  and RTAs, 101, 104–5
Common Market for Eastern and Southern Africa. *See* COMESA
Competition
  and evolution of policy stances, 151–54
  Hayek on, 140, 149
  and incomes policies, 158
Conable, Barber, 55
Conditionality
  alternatives to, 203
  perverse consequences of, 201
Conflict resolution, RTAs and, 99, 101, 104, 105, 106
Connolly, William, 225
Constitutive explanations, 17–19
Constructivism
  causal-explanatory schemas and, 6, 15–19
  cognition-oriented, 10–11, 91–92, 116–17
  core insights of, 2, 67, 227, 238
  criticism of, 8
  discourse approach in, 13, 14, 175–76, 192–93
  diversity within, 5
  on economic interests, 114, 118, 132–33
  on economic reality, 116
  on global financial crisis, 231–38
  on good governance, 48, 51–52
  on hypocrisy, 68, 70, 75–77, 84–87
  on international organizations, 50–51, 67
  on international political economy, xi, 3, 4–5
  on legitimacy, 87
  on market imperatives, 45
  meaning-oriented, 8–10, 21–22
  on monetary interests, 158–59
  paths to, 6, 8–15, 194
  and political science, 2–3
  post-modern, 13–15
  post-structural pathway and, 221, 225–26
  and rational-materialist theorizing, 6, 16–17, 19, 238–39
  research methodology in, 25, 32–40
  subjectivity-oriented, 13–15, 173–74
  uncertainty-oriented, 11–13, 135–36, 137
  on welfare state retrenchment, 24, 27–32
Co-operative Financial Services, 223
Corporate social responsibility (CSR), 222, 223
Corruption. *See* Anticorruption agenda
Cosmopolitanism, ethical investment and, 224–25
Crawford, Neta, 74
Crisis constructions
  classical narratives on, 161, 162*t*
  constructivist perspective on, 233

Copyrighted material

Keynesian framework on, 160, 162*t*
market-failure interpretation of, 163, 164
neoclassical narratives on, 161, 162*t*, 167
See also Financial crises
Critical constructivists, on uncertainty, 137
Croatia, 180, 188
Cultural economics, 2
Cultural sociology, 10
CUSFTA, 105

Darling, Alisdair, 232
Dean, Mitchell, 197, 217
Debt, Latin American, 26, 41, 54
and public spending, 25, 37–40
Defined-benefit (DB) pension plans, 215
Defined-contribution (DC) pension plans, 215
Denmark
in EU, 96*t*, 106
whaling policies of, 188n15
Denzau, Arthur, 11
Deutsche Telekom, 149
Developing countries
efficiency vs. compensation logic of market imperatives in, 45
embedded liberalism and, 85
IMF standards and codes initiative and, 195, 196, 200, 202, 206, 208, 209
protectionism of wealthy countries and, 77–79, 81
welfare state retrenchment in, 23–24, 46
WTO and, 71
Development
debate over ideas and resources in, 48
See also Good governance
Diao, Xinshen, 78
Discourse
and actor behavior, 175, 184–85, 190
constructivist focus on, 13, 14, 175–76, 192–93
definition of, 181
dominant, 192
and ideas, 181, 183–84
and identity, 187–90
and investor subject, 220, 221
and material practices, 181–82
methodology of study, 192
naturalized, 192
and normalizing effects, 186–87
and norms, 181, 185
and whaling delegitimization, 14, 180–81
Doha Round, 68, 69, 70, 71–72, 89
constructivist account of impasse at, 72, 77
Dollar, David, 60
Domini Social Investment, 222
Dow Jones Sustainability Index, 222
Dreyfus Corp., 222
Duvall, Raymond, 196

Economic conditions
and anti-whaling discourse, 182
constructivist approaches to, 116
vs. economic interests, 115–16
multiple legitimate interpretations of, 122, 133
and policy preferences, 26
regionally specific interpretations of, 120, 125–27
and sovereignty movements, 114, 117–18
Economic interests
constructivist approaches to, 114, 118, 132–33
fluidity of, 132
mediation in shaping of, 115–16
neoclassical economics on, 138
sovereignty movements and construction of, 131–32
uncertainty and, 135, 138, 154
Economic sociology
criticism of neoclassical economics, 138
on uncertainty, 139–40
Economic subjectivism, 139
Économie des conventions, 139
EFTA, 96*t*, 102, 105–6
Egalitarianism. *See* Keynesian egalitarianism
Eisenhower, Dwight D., 164–65
Embedded liberalism, 80–81, 83, 85
Embodied economies, 213
of investment, 216–17, 220, 224
Employment-monetary stability trade-off, 29, 135–36, 155
See also Phillips Curve
Epistemic communities, 27
and policy decisions, 24, 27–28, 158
and whaling ban, 177
Epstein, Charlotte, 14
EStandards Forum, 207
Ethical investment, 211
ambiguities present in, 221, 223, 224, 226
challenges for, 237
and corporate social responsibility, 222–23
and cosmopolitanism, 224–25
and processes of identification, 220–21
and screening devices, 221–23
European Court of Justice (ECJ), 107
European Free Trade Association (EFTA), 96*t*, 102, 105–6
European Union, 96*t*
agricultural protection policies in, 78, 80, 81, 82–83
airlines in, 150–51, 153
and bilateral trade deals, 89

Copyrighted material

European Union *(cont.)*
conflict resolution mechanism in, 104, 107
at Doha Round of WTO, 71
founding document of, 110
and IWC, 188n15
late entrants and legal system of, 102, 103
legal standardization in, 103–4, 105*t*
on meaning of agriculture, 84, 85
NAFTA contrasted with, 109
perspectives on international political economy, 3, 6
rationalist perspective on, 95–96, 97
RTAs borrowing elements from, 107–8, 111–12
service liberalization in, 143, 148–53
telecommunication services in, 148–49, 150, 152
Explanation(s)
constitutive, 17–19
vs. understanding, 16–17

Ferejohn, John, 16
Financial crises
IMF efforts to prevent, 198–99
uncertainty-oriented constructivism on, 12
See also Asian financial crisis; Global financial crisis
Financial markets, performativity in, 14–15
Financial Stability Forum, 199
Finger, J. Michael, 69
Finnemore, Martha, 10, 51, 158, 196, 208
Fixed exchange rates, breakdown of, 168, 169
Fligstein, Neil, 154
Food prices, surge in, 79, 80, 230
Foucault, Michel, 213, 216, 220, 224
Foxley, Aejandro, 42
Frames, 100
and RTAs, 94, 100–101, 102, 108–10
France Télécom, 149
Frieden, Jeffry, 3, 43
Friedman, Milton, 156, 161, 169
FTSE4Good indexes, 222–23

G-22, 71
Galbraith, John Kenneth, 163, 165, 166, 168
Garcia, Alan, 43–45, 45n21
Garrett, Geoffrey, 46
General Agreement on Tariffs and Trade (GATT)
and agricultural policies, 80–81
and services, 141–42
Uruguay Round of, 80–81, 141–42, 145
See also World Trade Organization
General Agreement on the Trade of Services (GATS), 142, 145
Germany
global financial crisis and, 232, 237
unification of, 7
Gibson-Graham, J. K., 226
Gilpin, Robert, 6
Glasnost, 123
Glenn, H. Patrick, 109
Global financial crisis of 2008
cognition-oriented perspective on, 236
constructivist perspectives on, 231–38
different experiences of, 227, 232–33
IMF standards and codes initiative and, 197–98, 210
lessons of, 67, 228
limits in U.S. policy responses to, 235
materialist analysis of, 229–31, 234
meaning-oriented perspective on, 234–35
and neoliberal agenda, challenges to, 87, 239
and protectionism, 71
response to Asian financial crisis and, 204
states' and international organizations' responses to, 237–38
subjectivity-oriented perspective on, 235, 236–37
uncertainty-oriented perspective on, 233–34
Globalization
mainstream IPE on, 7
and welfare state retrenchment, 46
Goede, Marieke de, 14
Goldstein, Judith, 69n4, 80
Good governance
constructivist approach to evolution of, 48, 51–52
contested meanings of, 61–62
donor vs. borrower positions on, 63
early advocates within World Bank, 53–55
early diagnostic tools for, 65
initial resistance to, 56–57, 59
intellectual origins of, 52–53
and international aid, 47, 60
mainstreaming in World Bank work, 62–66
neoliberal framework and, 61–62
organizational culture and constraints on, 61, 63, 64
principal-agent (PA) approach to, 50
quantitative measures of, 60, 62
reactive stance toward, 58
social scientists and, 64–65
Sub-Saharan Africa report and, 55–56
taboo against open discussion of, 65
technocratic vs. political view of, 57–58, 62, 64
Governance Indicators, 62
Governmentality, 213, 216–17, 220, 226

Copyrighted material

Government intervention
neoliberal perspectives on, 29–30
See also Incomes policies
Grabel, Ilene, 9, 204
Grebenkin, Anatolii, 128–29
Greenspan, Alan, 156, 169, 229
Gross Regional Product (GRP), 120
Guzzini, Stefano, 204

Haas, Peter, 27, 28, 158
Haggard, Stephan, 26, 27, 97
Hall, Stuart, 220
Hayek, Friedrich von, 42n16, 235
on competition, 140, 149
on knowledge as practice, 154
on uncertainty, 139–40
Hegemonic stability theory, 6–7
Heller, Walter, 161, 165, 166
Herrera, Yoshiko, 11, 94
Historical institutionalism, 116–17
Hollis, Martin, 16
Huber, Evelyne, 26
Human rights, hypocritical use of arguments based on, 74–75
Hume, David, 16
Hypocrisy
accusations of, 73, 75–76
agricultural trade and, 77–79
constructivist perspective on, 68, 70, 75–77, 84–87
and contested legitimacy, 69–70, 73, 88
definitions of, 69, 72
embedded liberalism and generator of, 80–81
global financial crisis and, 235
as homage of vice to virtue, 74, 83
institutional/organizational, 73, 87–88
liberal perspective on, 74–75, 83–84
limits to effectiveness of, 70
and moral knowledge, 74, 75
mutual incomprehension and, 76–77, 84, 85
and norms, 89
princely, justification of, 74
realist perspective on, 74, 83
and shame, 75
WTO and, 68, 83–84, 87–88

Iachevskii, Stanislav, 126
Iceland
global financial crisis and, 236, 237
whaling policies of, 185–86, 186n11
Ideas
constructivism on, 2
discourse and, 181, 183–84
influential carriers of, 24, 27–28, 31–32, 45
measuring of, 34
shared, impact on policy, 24, 25
Identity
agency and, 190n17
collective/societal, 9
discourses and, 187–90
interests and, 188
politics of, 238
post-modern constructivists on, 13
presocial, 187, 188
regional, glasnost and, 123
social, and cognitive processes, 11
Imagined economies framework, 118–19, 120*t*, 132
Import-substitution industrialization, 28
Impossible Trinity trade-off, 135, 136, 156, 170
socialized perspective on, 171
Incomes policies, 155n1
classical libertarianism and, 157, 161–62, 162*t*, 168–70
critiques of, 157–58
discrediting in 1960s and 1970s, 156, 168, 170
Keynesian egalitarianism and, 157, 160, 162*t*, 163–65
materialist approaches to, 158
neoclassically technocratic economics and, 157, 160–61, 162*t*, 165–68
post-World War II shifts in, 157, 158, 163–70
and trade-offs, 135–36, 155
India
good governance agenda and, 55
WTO and, 71
Individual retirement accounts (IRAs), 215
Individual savings accounts (ISAs), 215
Inflation
cognitive constructions and interpretation of, 11
incomes policies and, 168, 170
monetarists on, 29
public choice theorists on, 30
as social phenomenon, 156
structuralists on, 29
See also Employment-monetary stability trade-off
Influential carriers of ideas, and policy decisions, 24, 27–28, 31–32, 45
Information
breakup of Soviet Union and, 120–22
repeated experience and processing of, 116
role in economic decisions, 115
standards and codes initiative and, 197, 199
uncertainty and processing of, 138
and whaling ban, 177

Copyrighted material

Inscription, concept of, 196–97
Institutionalism
  historical, 116–17
  liberal, 84n14
  neoliberal, 70, 194
  rationalist, 194
  sociological, 140
Insurance, 217–18
  vs. investment, 219
Interests
  agents' uncertainty about, 233
  construction of, 238
  and identities, 188
  national, questioning of, 113
  norms and, 73
  See also Economic interests
International aid, good governance and, 47, 60
International Association of Machinists (IAM), 166–67
International Monetary Fund (IMF)
  Asian financial crisis and, 195, 198–99, 202, 204
  and conditionality, 201, 203
  constructivist strategy of, 195–96, 198, 200, 203–4, 206–7, 208–9, 237
  and domestic institutional reform, 203, 205
  global financial crisis and, 197–98, 210
  normative discourse of, 200–201
  standards and codes initiative of, 195–200, 202–10
International organizations (IOs)
  ambiguity in, 69n4
  constructivist approach to, 50–51, 67
  global financial crisis and, 237–38
  legitimacy of, hypocrisy and, 69–70, 73, 75
  norms and authority exercised by, 196, 197
  principal-agent (PA) approach to, 49–50
  role in fixing meaning, 10, 67
  See also specific organizations
International political economy (IPE)
  constructivist perspective on, xi, 3, 4–5
  ethical investment and, 211–12
  everyday investment and, 215–16
  geographical segregation in study of, 3, 6
  mainstream study of, xi, 3, 4–5, 7
  neoclassical assumptions about, 138
  neoliberal agenda in, 86–87
  origins of field of, 6–7
  post-structural route to, 221
  rationalist-materialist perspective on, 1–2, 7, 12
International relations
  constructivist approach to, 2–3
  materialist approach to, 3–4
International Telecommunications Union (ITU), 142, 146
International Union for the Conservation of Nature (IUCN), 180
International Whaling Commission (IWC), 175, 177, 179, 180, 188n15
Intersubjective convention, 227
Investment
  embodied economy of, 216–17, 220, 224
  Foucault on, 213
  portfolio diversification in, 219–20
  shift from saving to, 212, 214–16, 217
  uncertainty and, 218, 219
  See also Ethical investment
Investment Company Institute (ICI), 218–19
Israel, Arturo, 54

Japan
  and bilateral trade deals, 89
  end of cold war and, 7
  global financial crisis and, 232
  on meaning of agriculture, 85
  whaling in, 178, 181, 186, 188, 191
  WTO and, 71
JetBlue Airways, 151
Johnson, Lyndon B., 165, 167
Johnson-Sirleaf, Ellen, 55n10
Journal of Political Economy (JPE), 34n8

Kahn, Victoria, 76
Kaltenthaler, Karl, 97
Katzenstein, Peter, 5
Kauffman, Stuart, 229n2
Kaufmann, Daniel, 62
Kaufman, Robert, 26, 27
Kellog, Remington, 179
Kennedy, John F., 165, 166
Keynesian egalitarianism
  global financial crisis and, 228
  and incomes policies, 157, 160, 162*t*, 163–65
  neoclassical resistance to, 165
  and Phillips Curve, 171
Keynes, John Maynard, 239
  and constructivism, 227–28
  on monetary stability, 164
  on norms of economic behavior, 209n23
  on uncertainty, 1, 11, 12, 139–40, 154, 159–60, 163
Kirshner, Jonathan, 9
KLM, 147, 148, 153
Knight, Frank, 12, 139, 217
Knowledge
  endogenous theory of, 139
  moral, hypocrisy and, 74, 75
Köhler, Horst, 199–200, 201, 203, 208
Kostikov, Vycheslav, 129
Kraay, Art, 60

Copyrighted material

Krasner, Stephen, 74, 75, 88
Krueger, Anne, 27, 55

Lachman, Ludwig, 139n2
Laitin, David, 49, 66
Landell-Mills, Pierre, 54
Latin America
  debt crisis of 1980s, 26, 54
  existing explanations of social spending in, 23–24, 25–27
  meaning-oriented explanation of social spending in, 24, 27–32
  neoliberal economists and social spending in, 24–25, 29–30, 39–40
  public sector debt and social spending in, 25, 37–40
  structuralist economists and social spending in, 28–29, 43–45
  World Bank structural adjustment lending in, 52
  See also Andean Community; Mercosur
Latour, Bruno, 196
Legal systems, RTAs and, 98–99, 100–106, 104*t*
Legitimacy
  constructivist perspective on, 87
  hypocrisy and contestation of, 69–70, 73, 88
  realist perspective on, 70
  WTO crisis in, 69, 77, 86, 88–89
Lehman Brothers, 231
Leigh, Gustavo, 40
Liberal institutionalism, 84n14
Liberalism, 3
  egalitarian, 160, 163
  embedded, 80–81, 83, 85
  on hypocrisy, 74–75, 83–84
  technocratic, 161, 165
Liberalization
  of agricultural trade, 79–80, 82–83, 86
  IMF's continued belief in, 200
  RTAs and, 93, 95, 98
  of services, 142–54
Libertarianism. *See* Classical libertarianism
List, Friedrich, 79
Lucas, Robert, 156

Machiavelli, Niccolò, 74
MacKenzie, Donald, 14–15
Mallaby, Sebastian, 59
Mankiw, Gregory, 160
Market(s)
  beliefs and, 227
  financial economics' impact on, 15
  and international political economy, 4
Market forces
  constructivist view of, 45
  and end of whaling, 177–78
  and welfare state retrenchment, 23, 25–26
Markowitz, Harry, 220
Martin, Lisa, 3, 69n4
Martin, William McChesney, 161n9
Materialist theories, 1–2, 3–4
  and constructivism, 6, 16–17, 19, 238–39
  on global financial crisis, 229–31, 234
  on incomes policies, 158
  on international political economy, 1–2, 7, 12
  on international relations, 3–4
  limitations of, 2, 7
  neoclassical economics and, 138
  risk according to, 11
  vs. uncertainty-oriented constructivism, 11–12
  on welfare state retrenchment, 23, 26
  on whaling ban, 176–78, 182
Material trends. *See* Economic conditions
Mayer, Robert, 152n30
MCI, 143, 145, 146
McNamara, Robert, 54
Meaning
  of agriculture, 84–86
  constructivist path of, 8–10, 21–22
  global financial crisis from perspective of, 234–35
  of good governance, contestation of, 61–62
  IMF standards and codes initiative and, 195–96, 203, 209
  international organizations and fixing of, 10, 67
  material trends and fixing of, 26
  neoliberal economists and fixing of, 24
  politics of, 238
  power and fixing of, 191–92
  and uncertainty, 137
  and welfare state retrenchment, 24, 27–32
Mercosur, 96*t*
  conflict resolution mechanism in, 104
  EU model and, 108, 112
  founding document of, 110
  interventionist approach of, 109–10
  legal standardization in, 103–4, 105*t*
  rationalist perspective on, 97
Mercurio, Brian, 89
Mexico
  in NAFTA, 96*t*, 102, 104
  telecom investment in, 149
Miller, Peter, 196
Milner, Helen, 96–97
Mimetism, 140
Mitchell, Ronald, 177
MMA Praxis, 222
Modernization theory, 117
Monetarism, 29, 34

Copyrighted material

Monetary interests, constructivist theory of, 158–59
Mora, Frank, 97
Moral knowledge, hypocrisy and, 74, 75
Moravcsik, Andrew, 95–96
Mosely, Layna, 207–8
Mutual funds, 214–15, 219, 220
  and embodied economy, 216
  ethical, screening devices and, 221–22
Mutual incomprehension, and hypocrisy, 76–77, 84, 85
Mwencha, Erastus, 111

NAAEC, 105
NAALC, 105
Nader, Ralph, 167
NAFTA, 96*t*
  challenge of disparate worldviews in, 102, 108–9
  dispute resolution mechanism in, 105
  legal system in, 104–5
  rationalist perspective on, 97
National interests, questioning of, 113
Nationalism
  approaches to economy in studies of, 118, 119*t*
  economic basis of, 114, 117–18, 132
  whaling, 180
Nationalization, as taboo policy in U.S., 234–35, 237
Neoclassical economists
  on crises construction, 161, 162*t*
  reductionist perception of, 138
  in World Bank, 53, 54n7
Neoclassically technocratic economics, and incomes policies, 157, 160–61, 162*t*, 165–68
Neoliberal economists, 28
  Chilean, 41–42, 41n13
  coherent policymaking team of, 24
  professional training of, 34
  on social spending, 29–30, 32
  and welfare state retrenchment, 24–25, 29–30, 39–40
Neoliberal institutionalism, 70, 194
Neoliberal policies
  fitting good governance in, 61–62
  global financial crisis and challenges to, 87, 239
  U.S. and, 86–87
  World Bank and, 51, 61
Neorealist theory, 194
New Classical economics, 29, 34
New Covenant, 222
New Inflation of 1950s, 162, 164
New Keynesians, 34n8
New Zealand
  agricultural policies of, 86
  telecom investment in, 149
  and whaling issue, 187
Nietzsche, Friedrich, 213
Nixon, Richard, 169, 179
Nongovernmental organizations (NGOs)
  on agriculture and food security, 79
  and good governance agenda, 63
Normative isomorphism, 24, 28
Norm entrepreneurs/carriers, 51, 158
Norms
  constructivist view of, 13, 70
  discourse and, 181, 185
  hypocrisy and, 89
  IMF standards and codes initiative and, 195, 196, 202, 203, 206
  interests and, 73
  international, influence on policies, 9–10
  negotiated and resisted, 186–87
  and power, 13, 173–74, 196
  realist perspective on, 70
  shifts in, 186
  of sovereignty, 18
  strategic use of, 70
North American Free Trade Agreement. *See* NAFTA
North, Douglas, 11, 52, 64
Northwest Airlines, 147, 148
Norway
  in EU, 96*t*, 106
  and whaling issue, 188n15, 191
NYNEX, 143, 150

Obama, Barack, 228
Objectivist approaches to economy, 115, 118, 119*t*
  schema theory and challenge to, 116
Okun, Arthur, 161, 167
Olarreaga, Manuel, 109
O'Malley, Pat, 218
Onuf, Nicolas, 8
Open skies policy, 145, 147–48, 152
Organizational culture, 51
  and constraints on good governance agenda, 61, 63, 64
Organizational hypocrisy, 73, 87–88
Ortiz Mena, Antonio, 97
Oxfam International, 69, 77, 79

Pareto-frontier, 96
Parnassus, 222
Parsons, Craig, 32, 194
Pax World Funds, 222
Performativity in financial markets, 14–15
Personal equity plans (PEPs), 215

Copyrighted material

Peru, 43–45
Peterson, M. J., 177
Phillips Curve trade-off, 135, 136, 155, 165, 170
  social contingency of, 155, 156, 171
Pinera, José, 43
Pinochet, Augusto, 40
  neoliberal economists and, 41–42
Pioneer Fund, 222
Polanyi, Karl, 81
Policymaking
  fixing of meaning to material trends and, 26
  influential carriers of ideas and, 24, 27–28, 31–32, 45
  institutionalist model of, 45
  international norms and, 9–10
  pluralist model of, 23–24, 27, 45
Political science
  constructivist theory in, 2–3
  materialist theories in, 3–4, 11
Pollack, Mark, 49–50
Post-modern constructivists, 13–15, 32
Post-structuralism, 221, 225–26
Poverty reduction
  IMF and, 200, 201
  World Bank and, 60, 62
Poverty Reduction Strategy Papers (PRSPs), 62, 201
Power
  Foucault on, 213
  governmentality as, 216
  IMF standards and codes initiative and, 196, 204, 208–9
  and meaning, fixing of, 191–92
  norms as expressions of, 13, 173–74, 196
  and resistance, 221
  role in constructivist theory and practice, 208
  subjectivity-oriented constructivism on, 173
Preston, Lewis, 59
Principal-agent (PA) approach
  to good governance in World Bank work, 63
  to international organizations, 49–50
Protectionism
  in agricultural trade, 68, 69, 77–79, 81, 82–83, 87
  global financial crisis and, 71
  vs. neoliberal agenda, 87
  URAA and, 82–83, 85
Public choice theorists, 30

Quantitative measures
  in constructivism, 32–40
  of good governance, 60, 62

Rational Expectations theory, 29, 30
Rationalist institutionalism, 194
Rationalist perspective
  on RTAs, 93–97, 99–100
  on uncertainty, 137n1
  See also Materialist theories
Rationality, bounded, 115
Rato, Rodrigo de, 201, 205n17
Reagan, Ronald, 170
Realism, 3
  constructivist critique of, 198
  on hypocrisy, 74, 83
  on uncertainty, 137n1
Regional economic interests. *See* Economic interests
Regional trade areas (RTAs), 93
  challenge of disparate worldviews and, 98–99, 108–9
  conflict resolution mechanisms of, 99, 101, 104, 105, 106
  frames for, 94, 100–101, 102, 108–10
  interventionist model of, 98, 99, 109–10
  legal traditions and, 100–106, 104*t*
  minimalist model of, 98, 99
  objectives of, 94–95, 98
  rationalist perspective on, 93–97, 99–100, 113
  scripts for, 94, 101, 102, 107–8, 110–12
  sociological perspective on, 97–98, 100–102, 112–13
Relative deprivation, concept of, 117
Reports on the Observance of Standards and Codes (ROSCs), 199, 206
  lack of market interest in, 207, 209
Risk
  governmentality literature on, 217
  in investment vs. insurance, 218, 219
  materialist theories on, 11
  portfolio diversification and management of, 219–20
  systemic, in banking system, 230–31, 236
  "technologies of," 14
  tolerance for, 219
  vs. uncertainty, 12, 217
Rivera, María Juana, 110, 112
Robinson, Joan, 228
Roosevelt, Franklin D., 163
ROSCs. *See* Reports on the Observance of Standards and Codes
Rose, Nikolas, 196
Rossel', Eduard, 126, 128, 129, 130, 131
RTAs. *See* Regional trade areas
Rude, James, 86
Ruggie, John, 80
Russia
  Constitutional Conference in, 128
  constitution of 1993, 131

Copyrighted material

Russia *(cont.)*
data on regional economic conditions in, 120–22
executive-legislative power struggle in, 129–30
federal structure of, 123
legal and judicial reform project in, 60n20
sovereignty movements in, 114, 119, 120, 125–27, 131–32
See also Sverdlovsk Oblast
Samarin, Iurii, 126–27
Samuelson, Paul, 156, 165, 166
Sánchez, Rafael, 97
Sargent, Thomas, 156
Saving, shift to investment from, 212, 214–16, 217
SBC (Southwestern Bell), 150
Schema theory, 116
Schlesinger, Arthur, 165
Scripts, 100
and RTAs, 94, 101, 102, 107–8, 110–12
Seabrooke, Len, 215
Search theory, 138
Securities and Exchange Commission (SEC), 212
Security studies, 4, 5
Separatism. *See* Sovereignty movements
Services
GATT/WTO and, 141–42
liberalization of, 142–54
reframing as trade, 141, 142, 144–45, 146, 147
Shackle, G. L. S., 139n2
Shihata, Ibrahim, 57, 58, 59
Shiller, Robert J., 217
Shklar, Judith, 75–76
Siemiller, Roy, 167
Signaling theory, 138
Sikkink, Kathryn, 158
Simon, Herbert, 115
Smith, Adam, 139, 213
Smith, Steve, 16
Social constructivism. *See* Constructivism
Social Investment Forum, 211, 222, 224
Socially responsible investment (SRI), 211
Social scientists, in World Bank, 64–65
Social security system, first private, 42
Social spending
neoliberal perspective on, 29–30, 32
structuralist perspective on, 29, 32, 44
See also Welfare state
Sociological institutionalism, 140
Sociology
cultural, 10
economic, 138–40
perspective on RTAs, 97–98, 100–102, 112–13
Solow, Robert, 156, 165, 166
South Korea
and bilateral trade deals, 89
on meaning of agriculture, 85
Southwest Airlines, 151
Sovereignty
norms of, 18
as organized hypocrisy, 87
Sovereignty movements
approaches to economy in studies of, 118, 119*t*
construction of economic interests in, 131–32
economic-based, 114, 117–18, 125–27
imagined economies framework and, 118–19, 120*t*, 132
and Russian constitution of 1993, 131
Soviet Union, breakup of
governance disputes after, 128
institutional breakdown after, 122–23
regional economic conditions after, 120–22
shock therapy in transition economies after, 52
Speech-Act Theory, 182
Sprint, 145
Stagflation of 1970s, 11, 158, 161, 162, 168
Stallings, Barbara, 42
Standards and codes initiative, 195–200, 202–10
asymmetrical nature of, 205–7
constitutive nature of, 209
costs of compliance with, 206, 208
domestic dimension of, 203–5, 206, 207
international dimension of, 205–6, 207
limits of, 206, 207, 209
and meaning, 195–96, 203, 209
and power, 196, 204, 208–9
and subjectivity, 196, 207, 209
unintended effects of, 209–10
Stanford University, 34
Steinberg, Richard, 69, 87
Stern, Nicholas, 78
Stiglitz, Joseph, 59–60
Structuralist economists, 28–29
Peruvian, 43–45
on social spending, 29, 32, 44
Subjectivity
constructivist path of, 13–15, 173–74
contingency and contestation in making of, 225, 226
and embodied economies, 213
ethical investor and, 211, 220–21
global financial crisis from perspective of, 235, 236–37

Copyrighted material

IMF standards and codes initiative and, 196, 207, 209
Summers, Lawrence, 53n4, 156n3
Sverdlovsk Oblast, Russia
economic-based sovereignty movement in, 119, 125–27, 131–32
federal instability and, 129–30
regional interpretation of economic events in, 123–24, 125*t*
spring 1993 referendum in, 128
Switzerland
agricultural policies of, 83
in EU, 96*t*, 106
in IWC, 180

Taleb, Nassim, 12, 229
TAP Portugal, 153
Tax-exempt savings schemes (TES-SAs), 215
Teichman, Judith, 41–42
Telecom Act of 1996 (U.S.), 149, 150, 152
Telecommunication companies/services
European, 148–49, 150, 152
evolution of policy stances of, 143, 146–47, 150, 152
home market dominance of, 144
liberalization of, 142
reframing as trade, 146, 147
U.S., 149–50
WTO negotiations and, 145, 146, 150, 152
Thatcher, Margaret, 142
Théorie de la regulation, 139
Thorp, Rosemary, 44
Time Warner, 143
Tizón, Allan Wagner, 111
Tobin, James, 166
Tomlin, Brian, 97
Trade
services as, 141, 142, 144–45, 146, 147
See also Agricultural trade; Regional trade areas; World Trade Organization
Treaty of the European Economic Community (TEEC), 110
Troubled Asset Relief Program (TARP), 232

Uncertainty
Asian financial crisis and, 202
constructivist path of, 11–13, 135–36, 137
corporate social responsibility and, 223
definitions of, 137
and economic interests, 135, 138, 154, 233
economic sociologists on, 140
global financial crisis from perspective of, 233–34
Hayek on, 139–40
IMF efforts to manage, 195, 202, 203, 209
incomes policies to minimize, 155
and investment, 218, 219
Keynes on, 1, 11, 12, 139–40, 154, 159–60, 163
neoclassical economics on, 138
politics of, 238
of regional economic data in Russia, 120–22
vs. risk, 12, 217
social construction processes and, 190–91
Unemployment
and inflation (*See* Phillips curve)
in post-Soviet context, 121–22
United Auto Workers, 11
United Kingdom
and EFTA, 106
ethical investment in, 222–23
global financial crisis and, 232
mutual funds in, 215
service liberalization in, 142
and whaling issue, 187, 188
United Nations
Millennium Project Report, 47n1
System of National Accounts (SNA), 120
United States
agricultural policy of, 77, 80, 81, 83, 86
airlines in, 151, 152
and bilateral trade deals, 89
corporate governance in, 212
current account deficits in, 230
in CUSFTA, 105
decline of, 1970s-1980s concern over, 6–7
end of cold war and, 7
global financial crisis and, 232, 235
incomes policies in, 157, 158, 163–70
inflation in, cognitive constructions and interpretation of, 11
investment in, 215, 222
legal tradition in, 104
on meaning of agriculture, 84–85
and neoliberal agenda, 86–87
open skies policy of, 145, 147–48, 152
service liberalization in, 142
stagflation of 1970s in, 158, 161, 162, 168
study of international political economy in, 3, 6
telecommunication services in, 149–50
and whaling issue, 179, 187, 188n12
and WTO, 71
United States Millennium Challenge Corporation, 47n1
University of Chicago
Chilean economists trained at, 41–43, 41n13
and neoliberal beliefs on social spending, 21, 34, 34n8
URAA. *See* Uruguay Round Agreement on Agriculture

Материал, защитен с авторско право

Urals Republic, 125–31
Uruguay Round, 80–81
  services included in, 141–42, 145
Uruguay Round Agreement on Agriculture (URAA), 71, 81–82, 88
  deficiencies of, 86
  and protectionism, 82–83, 85
Utility maximization concept, 115

Virgin America, 151
Volcker, Paul, 169, 170

Wade, Robert, 79
Walters, William, 196
Walzer, Michael, 74, 75
Wapenhans, Willi, 56
Washington Consensus, 52
Weber, Max, 8, 10, 223
  on evaluative ideas, 116
  on explanation vs. understanding, 15–16
Welfare state retrenchment
  in developing countries, 23–24, 46
  market-constraints explanation for, 23, 25–26
  materialist scholarship on, 7
  meaning-oriented explanation for, 24, 27–32
  neoliberal economists and, 24–25, 29–30, 39–40
  pluralist model of decision making and, 23–24, 27, 45
Wendt, Alexander, 8, 17–18, 187, 208
Whale-watching industry, 180
Whaling
  ban on, 175
  as "commons' tragedy," 178, 178n2
  discursive delegitimization of, 14, 180–81, 182
  materialist accounts of end of, 176–78, 182
  and naval power, 188n14
  persisting interest in, 178–80
Williamson, Oliver, 52
Wirtz, Willard, 167
Wise, Timothy, 78
Wolfensohn, James D., 59
Wolfe, Robert, 80–81, 85
Wolfowitz, Paul, 63, 66
World Bank
  on agricultural policies of developed countries, 78, 79
  aid effectiveness of, 56
  and anticorruption agenda, 59, 62–63, 66
  evolution of governance agenda in, 48, 51–61
  ideological battles within, 58, 61–62
  mainstreaming of good governance in work of, 62–66
  neoclassical economists in, 53, 54n7
  neoliberal policies and, 51, 61
  organizational culture of, and constraints on good governance, 61, 63, 64
  public sector management work in, 54–55
  social scientists in, 64–65
  and standards and codes initiative, 199
  structural adjustment policies of, 201
World Bank Institute, 62
World Trade Organization (WTO)
  crisis in legitimacy, 69, 77, 86, 88–89
  Doha Round of, 68, 69, 70, 71–72, 77, 89
  hypocrisy of, 68, 83–84, 87–88
  multilateral aspects of, weakening of, 89
  power asymmetries in, 69
  on services, 141–42
  telecommunication companies and, 145, 146, 150, 152
  tensions within, 83, 88
  See also General Agreement on Tariffs and Trade

Yeltsin, Boris, 128, 129–31

Материал, защитен с авторско право