



Key Debates in

# **New Political Economy**

Edited by **Anthony Payne**

# Key Debates in New Political Economy

This book provides a short, challenging and informative overview of the major intellectual debates that presently dominate the field of contemporary political economy. Each chapter provides a state of the art review of a key area written by a distinguished expert in the field. The introduction locates these debates within the wider intellectual and political context which gave rise to them and provides some pointers to the future direction of the study of political economy. Subjects covered include:

- Models of capitalism
- Globalisation
- The environment
- Gender
- Territory and space
- Regionalism
- Development

In short, pithy, but highly original fashion *Key Debates in New Political Economy* sets out for the reader what the contemporary debate in political economy is all about, making it an essential source for all students and scholars with interests in this area.

**Anthony Payne** is Professor of Politics at the University of Sheffield. He was Managing Editor of the journal *New Political Economy* from 1995 to 2005 and remains one of its editors.

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**Edited by Anthony Payne**

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# Preface

This book is derived from the articles that appeared in Volume 10 Number 4 of the journal *New Political Economy*, which was published in December 2005. This issue marked the journal's tenth birthday and was explicitly designed by its editors to seek to establish the 'state of the debate' in new political economy after a decade of the journal's existence. We were pleased with the quality and range of the articles that we had commissioned and thought it might be useful to students and other readers interested in political economy if they were republished in book form. As outgoing Managing Editor of the journal I have written an additional short introductory chapter setting out the genealogy of new political economy and introducing the main themes of the collection.

I should therefore like to thank all of *NPE*'s other editors during its first decade of existence for all that they have done to help me to bring out the journal on time and in good shape. They are Andrew Gamble, Ankie Hoogvelt, Michael Dietrich, Michael Kenny, Graham Harrison and Nicola Phillips. We all also owe a great debt to our administrator, Sylvia McColm, who has worked tirelessly in the journal's cause over these years. I must further acknowledge the support over the same long period of Dr David Green and all the other staff with whom we have worked in the journal editorial and production departments of the Routledge Taylor and Francis Group. Finally, I must express my gratitude for the enthusiasm and speedy decision making that Craig Fowlie, publisher for Politics and International Studies within the Routledge books division, has latterly brought to this book project.

Anthony Payne  
Sheffield

# Abbreviations

APEC	Asia–Pacific Economic Cooperation
APT	ASEAN Plus Three countries
ASEAN	Association of Southeast Asian Nations
ASEM	Asia–Europe Meeting
AU	African Union
CEO	chief executive officer
CME	coordinated market economy
DfID	Department for International Development
EC	European Community
ECOWAS	Economic Community of West African States
EPZ	export processing zone
EU	European Union
GAD	gender and development
GATT	General Agreement on Tariffs and Trade
GPE	global political economy
ICT	information and communication technology
IMF	International Monetary Fund
IPE	international political economy
IR	international relations
LME	liberal market economy
NAFTA	North American Free Trade Agreement/Association
NEPP4	Netherlands Fourth National Environmental Policy Plan
NGO	non-governmental organisation
OAS	Organization of American States
OECD	Organization of Economic Co-operation and Development
SADC	Southern African Development Community
UN	United Nations
UNU	United Nations University
US	United States of America
WID	women in development
WIDER	World Institute for Development Economics Research
WTO	World Trade Organization

# 1 The genealogy of new political economy

*Anthony Payne*

Political economy is by general consent one of the oldest intellectual orientations in the history of the social sciences. So, what can sensibly be meant by seeking to introduce readers to ‘key debates’ within something called ‘new political economy’? This introductory chapter seeks to answer that question and, in so doing, to set in context the various *tours d’horizon* of key subfields of political economy contained in the remaining chapters of this collection. It does so by exploring the thinking that lay behind the foundation in 1996 of a new academic journal named *New Political Economy* and establishing the full genealogy of the intellectual project that the originators of this new publication sought to sustain, and indeed advance, by the foundation of such a journal.

The first issue opened with an editorial which declared, with what in retrospect seems extraordinary confidence, that ‘a new stage in the development of the world economic and political system has commenced, a new kind of world order’. Understanding this new world order was deemed to require ‘new modes of analysis and new theories, and a readiness to tear down intellectual barriers and bring together many approaches, methods and disciplines which for too long have been apart’. We boldly labelled the approach to analysis that we sought to promote a ‘new’ political economy and declared that the methodology we had in mind ‘rejects the old dichotomy between agency and structure, and states and markets, which fragmented classical political economy into separate disciplines’ and ‘seeks instead to build on those approaches in social science which have tried to develop an integrated analysis, by combining parsimonious theories which analyse agency in terms of rationality with contextual theories which analyse structures institutionally and historically’.<sup>1</sup> Such ambitions may have seemed somewhat overblown to many of those who read that first issue. Perhaps they still do. Yet they also give a sense that, in our minds at least, we were embarked upon a genuine intellectual adventure, that we were seeking to contribute to a rebuilding of the field of political economy and that, in that very spirit, we were asking for the support of scholars from all over the world who agreed with the general notion that a new political economy was emerging and needed to be explored in a novel way.

In setting out the project in that way in that opening editorial, the journal's editors in effect revealed that they not only subscribed to a reading of the history of political economy that emphasised its seventeenth and eighteenth century origins, but that they wanted consciously to revive the most fundamental of the classical traits of the field and restore them to prominence again in the contemporary era. In its initial form classical political economy addressed the issue of running a large family household or estate, but, as trade and commerce grew and modern state structures began to be built, it came to focus centrally upon analysis of the economic and political organisation of the emergent nation-state. Early mercantilist theories were thus distinguished by their emphasis on the need for nation-states to accumulate wealth and their expectation that the national interest would always be different from the sum of individual interests. For their part, the French physiocrats argued that agricultural production was the true foundation of economic value, whilst Scottish Enlightenment thinkers preferred to stress the central place of manufacturing and commerce in the economic affairs of states. Classical political economy eventually came of age in 1776 with the publication of Adam Smith's seminal *Inquiry into the Nature and Causes of the Wealth of Nations*. Smith famously showed how the development of a number of important market mechanisms could underpin the emergence of a more specialised division of labour in the economy and thereby bring about greater wealth and prosperity for all.

As Andrew Gamble argued in a separate publication, classical political economy always comprised three key discourses: 'a practical discourse about policy, concerning the best means of regulating and promoting the creation of wealth, and maximizing revenue for the public household; a normative discourse about the ideal form which the relationship between the state and the economy should take; and a scientific discourse about the way in which a political economy conceived as a social system actually operates'.<sup>2</sup> In his estimation Smith was pivotal less because of the originality of his theoretical insights than because the fact that he managed 'to combine all three discourses in an arresting new social vision'.<sup>3</sup> Indeed, Smith had himself defined political economy in *Wealth of Nations* as 'a branch of the science of a statesman or legislator' whose objectives were 'first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services'.<sup>4</sup> In good part as a consequence of Smith's influence, political economy continued to display this multi-faceted identity throughout its classical period, advancing further through the writings of David Ricardo and Thomas Malthus and climaxing with the publication in 1848 of John Stuart Mill's *Principles of Political Economy*.

At this point Marx enters into the genealogy of new political economy in a crucial way. It was Marx, in fact, who identified 'classical political economy' as his main intellectual target and, in so doing, coined the term. His original

project had been to use his version of Hegelian logic to write a multi-volume critique of the categories of analysis and operating principles underpinning Mill's great work. What was eventually published from 1867 onwards as the first three volumes of *Capital* only partially realised this ambition: the anticipated volumes on the state, on international trade and on the world market never appeared in fully-fledged form. In his efforts to set out the laws of motion of capitalism and the consequent political implications of such a system Marx manifestly confronted all of the discourses of classical political economy – the practical, the normative and the scientific – and there can be no doubt that he assembled over his lifetime a hugely influential new view of political economy that has not only spread all over the world but has given rise to many of the concepts that continue to sit at the centre of social analysis. But at the same time it is very important to note that, for all of his genuine radicalism of thought, Marx did not break from the classical sense of what political economy was, and should be, about. In Gamble's words again, he 'did not dispute the basic conceptualisation of the field'.<sup>5</sup>

Nevertheless, as Michael Krätke and Geoffrey Underhill have recently noted in their brief account of the history of the tradition of political economy, Marx did represent an important turning point. As they put it, 'his revolutionary critique stimulated many to intensify the search for "pure science" removed from the complexities of history and socio-political interaction, generating "Economics" as opposed to the older and discredited term, "Political Economy"'.<sup>6</sup> Feeding off the same core principles that had underpinned Jeremy Bentham's 'utilitarian calculus' in moral philosophy, the so-called 'marginalist revolution' created over the course of the second half of the nineteenth century a new paradigm in economic analysis wherein increasingly abstract, indeed algebraic, calculations were made about the marginal utility of different economic choices in conditions of presumed scarcity. Stanley Jevons in Manchester, Carl Menger in Vienna and Léon Walras in Lausanne each contributed in their different ways to the birth of neoclassical economics and the concomitant ending of the presumed unity of economics and political economy.<sup>7</sup> Economics thereafter took off in its preferred direction, leaving new disciplines like economic history and sociology, and later on political science and development studies, to pick up the historical and institutionalist modes of analysis that had hitherto always been the defining features of political economy.

How, then, was the torch of political economy kept alive in the context of the emerging hegemony of neoclassical economics? Perhaps the best way to understand the various intellectual developments of the first half of the twentieth century in this broad field is to conceive of two such torches that in the end burned brightly enough and for long enough to help spark the major revival of political economy within the academy that has taken place over the last thirty years or so. One represented a continuing institutionalist current within economics, generally functioning as a dissident movement, although enjoying passing phases of prominence as and when economic and political

conditions gave it sustenance; the other grew from revolutionary beginnings into a genuinely radical tradition that proposed in turn theories of imperialism, theories of the systemic link between development and underdevelopment, and eventually theories of the ‘world system’ as a whole. Both bodies of thought were influenced by Marx, the former in a more subtle, sometimes hesitant, way, the latter overtly and self-consciously. Although it is striking, and disappointing, that neither strand of thinking spoke much, if at all, to the other at the time they were being developed, they did at least keep political economy alive over the course of several difficult decades. They now constitute two further bodies of thought, in addition to the classical tradition, on which contemporary ‘new political economy’ has been able to trespass and build.

The resilience of the first of these two ongoing traditions can be traced back to Joseph Schumpeter. Although his own practical politics were conservative, Schumpeter read Marx and took his analysis seriously. He was also brought up in the immediate aftermath of the *Methodenstreit* – the famous clash between Menger’s Austrian school which was promoting its version of neoclassical economics and the German historical school which still remained grounded in nationalist political economy – and deliberately sought in his own early thinking to bridge that fundamental chasm.<sup>8</sup> Schumpeter’s cumulative theory of economic development has accurately been described as ‘a comprehensive attempt to formulate an integrated theoretical, statistical, institutional and historical analysis of the mechanism and contours of capitalist economic evolution’.<sup>9</sup> In other words, he was as much economic historian and economic sociologist as economist pure and simple. Yet his initial programme of reconciliation and integration was notably unsuccessful, with economics continuing to grow in confidence as a separate discipline and the two sides of the old *Methodenstreit* becoming ever more entrenched in their respective camps during the early years of the twentieth century. Schumpeter himself moved to the United States in 1932 and addressed his concerns more and more to political questions, such as the role of the capitalist state. In fact, two of Schumpeter’s contemporaries ultimately had more influence than he ever did in shaping the discourse of political economy, especially during the 1930s and 1940s when unemployment, worldwide war and the emergence of increasingly interventionist states inevitably brought forward new thinking. In these years John Maynard Keynes offered a compelling way of conceptualising *and* managing capitalism that was neither communist nor fascist in inspiration, with the result that, for a long period after the end of the Second World War, his ideas underpinned economic policy making in the advanced industrial world. Karl Polanyi also demonstrated forcefully that economic relations are always embedded in complex social relations without which market economies cannot operate. He famously detected a ‘double movement’ in this era whereby ‘markets spread all over the face of the globe’ and yet at the same time ‘a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to

labour, land and money'.<sup>10</sup> The influence of both of these strands of analysis has been particularly long lasting, with Keynesians and Polanyians continuing to contribute actively to the political economy debate to this day.

The second tradition has been characterised here as radical in the sense that it has always maintained an explicit or implicit connection to Marxism and, as such, has always taken it for granted that the political and economic domains are intertwined and need to be considered together. It has been widely charted and is generally well understood. It reappeared most strikingly after Marx in Lenin's depiction of imperialism as 'the highest stage of capitalism' in his well-known pamphlet published in 1916, itself a contribution to a passionate debate amongst Marxists of the time about the best way to theorise the new imperialism. It then ran on into the work of Paul Baran, André Gunder Frank and other dependency theorists in and out of Latin America, embraces the wide-ranging 'world system' theories of Immanuel Wallerstein and his followers, includes the French regulation school and feeds finally into the contemporary, highly fashionable embrace of Gramscian political economy in both cultural studies and international relations theory. The point about this tradition is that its contributions have often been ignored by the mainstream, not only in economics but also in other social science disciplines. It has been too easy perhaps for many to condemn this work as either potentially dangerous (in the context of the Cold War), or no longer relevant (in the context of the ending of the Cold War), or as applicable at best only to certain parts of the 'developing world'. Radical political economy of this genre has thus long been part of the intellectual tool-kit of development studies, for example, but for most of the post-1945 era it was kept at the margins of political science and international relations analysis, only being allowed in occasionally as a third, somewhat alien, voice in the latter discipline's so-called 'great debates' between realism and liberalism. However, from our perspective it constitutes a central part of the history of political economy, which again only needed to be recognised for what it was and reintegrated accordingly into the core of the subject.

In sum, as neoliberalism asserted itself across the Anglo-American world during the course of the 1980s, as the Berlin Wall was torn down and communism as a system collapsed, as something called 'globalisation' came to the fore, and, above all, as analysts struggled to make sense of these sea-changes in the world order in which they were living, there still existed a very fruitful, albeit neglected, history of political economy thinking to reach back to and draw into renewed use. It was obvious too that many of the separate disciplines of the social sciences were finding it increasingly hard to comprehend the many different facets of these changes within their conventional remits. As a result, scholars were uncertainly – but, nevertheless, with growing frequency – reaching out beyond the inherited boundaries of their particular disciplines. Economics, predictably, was initially the most hesitant in doing this (it was still generally very confident in the merits of its core methods). But political science was beginning actively to develop new research programmes in state

theory, government–industry relations and public choice.<sup>11</sup> International relations was opening up to a new and very popular subfield, dubbed ‘international political economy (IPE)’, which sought to understand the increased salience of economic issues in world politics.<sup>12</sup> Area studies were also starting to enter more fully into these kinds of debates.<sup>13</sup> In sociology both structuration theory and strategic–relational theory endeavoured to break down some of the traditional gap between structural and agential modes of analysis by viewing structure as only being capable of expression through agency. For their part too, notions of culture and discourse were in the process of being widely imbricated across all the social sciences. In the face of these many manifestations of weakening disciplinary boundaries, even economics fell prey in the end to a reassertion of its dissident other, with the appearance of new Keynesian, Austrian and institutionalist schools.

In essence, this was the moment that *New Political Economy* sought to seize. The explicit aim of the journal was described as the creation of ‘a forum for work which seeks to bridge both the empirical and conceptual divides which have characterised the field of political economy in the past’.<sup>14</sup> The core terrain that it set out to explore was defined as embracing four major subfields of political economy, each identified by reference to its key contemporary research agenda:

- 1 *Comparative political economy* – focusing on regulation and the policy regimes and institutional patterns which characterise alternative models of capitalism.
- 2 *The political economy of the environment* – focusing on sustainability and the question of which social and economic institutions are needed to reproduce existing patterns of social and economic life in the long run.
- 3 *The political economy of development* – focusing on inequality and the many structures and processes of the world system that produce distributional outcomes characterised by uneven development and wide variations in the wealth and poverty of particular regions, sectors, classes and states.
- 4 *International political economy* – focusing on the thesis of globalisation, the claim that there is a quickening pace towards the creation of a global economy and global culture, seeking to clarify both its extent and its impact, and the shape of the changing world order which is emerging through both specific events and long-term trends.

Above all, the editors concluded, ‘we want to encourage conversations and exchanges of ideas and experiences across boundaries which in the past have often been unnecessarily fixed’.<sup>15</sup>

This last point has been integral to the whole new political economy project. It was meant to apply with particular force to a dialogue between the four core areas that were picked out as the particular focus of the journal. Thus comparative political economists were implicitly criticised for not

showing sufficient awareness of the wider regional and global context within which national models of capitalism operated. Environmental political economists were encouraged to escape from the delusion that there were technical and/or market fixes to environmental problems and invited to set their work more fully within a social and political context. Development political economists were challenged to come in from the ghetto of an ever more unfashionable and declining subfield and place their traditional preoccupation with equality at the centre of a bigger stage. Finally, international political economists were invited to end their fixation with the limitations of conventional international relations theory and their conviction, understandable of course within limits, that IPE offers a 'better international relations' and enter instead an analytical world in which all political economy is by definition international in some sense, thereby rendering the reiteration implied by the prefix redundant. Many IPE scholars still remain reluctant to concede this obvious point, as Nicola Phillips has argued in a recent piece that echoes but also makes more explicit the critique of this subfield made in the editorial of the first issue of *New Political Economy*.<sup>16</sup>

Of course, it is only the journal's readers who can judge how well this admittedly ambitious project has been realised during its first decade. Its editors stand by the words of the original prospectus and can attest to the fact that several other scholars have seemed more than willing to tread the same road. For one thing, no less than 325 'new political economists' have been published in the journal over the course of its first ten volumes. We fully recognise that the field of political economy remains fragile compared to the main monodisciplinary giants of the social sciences, with their professional associations and committed readerships, but we think that it is now stronger within the academy than it was ten years ago and we hope that the journal has helped in some way to support that revival. As indicated in the preface to this book, we chose to celebrate *New Political Economy's* birthday by preparing a special issue. We selected what we thought were the major intellectual debates with which the journal has been preoccupied over the last ten years and asked a number of distinguished authors (some of whom had previously published with us and some of whom had not) to review the state of those debates as they stood at the end of 2005 – what has lately been said, what has not been said, what ought now to be said. Those seven articles are accordingly reproduced here as guides to the key current debates in new political economy.

The discussion begins with two of the foundational debates in new political economy: those addressing 'models of capitalism' and 'globalisation'. Colin Crouch reviews the former and finds that the extensive neoinstitutionalist literature on capitalist diversity has many achievements to its name, especially the counterweight it has provided to easy arguments predicting convergence amongst the world's most powerful national political economies. Yet he also criticises this literature for adopting a labelling mode that has sought a unique theoretical box to which each individual model of capitalism must be

assigned and argues powerfully for its replacement by a new analytical approach that anticipates 'recombinant capitalism' and considers to what extent traces of each of a series of models can be found within any given case. Mark Rupert addresses the study of globalisation by admitting at the outset the impossibility of reviewing this vast literature in anything like a comprehensive fashion, but then proceeds to reflect on what he personally has learnt from engagement with it, which is principally that globalisation is an intrinsically political project still integrally related to the historical process of capitalist social development. He thus prefers to talk of globalising capitalism rather than to see globalisation as a phenomenon *sui generis*. For all that, he ends his chapter by conceding the resilience of state-based forms of politics in reproducing the core structures of globalising capitalism and admitting, in particular, the new relevance of old arguments about imperial power.

As indicated earlier, the journal has always been concerned to embrace within its frame of reference research on environmental political economy and it has also in practice published quite a lot of work within gendered political economy. James Meadowcroft fully demonstrates the enormous range of issues now included within the first of these subfields and considers relevant theoretical perspectives, such as 'ecological modernisation' and 'managing the commons', before turning to address in detail the critical question within contemporary environmental political economy of whether it is possible to seek to steer socio-technological transformation along desired pathways. He concludes that this kind of 'transition management', although not without many difficulties to which he alludes, nevertheless points in the right direction, not least because it overtly engages with technological futures and assigns an active role to states in any serious attempt to come to terms with environmental pressures. V. Spike Peterson shows equally effectively the extent of the continuum of 'overlapping and ongoing' feminist interventions in political economy, revealing how these range from merely 'adding women' to the kind of analytical theory she espouses where gender is understood as a governing code that systematically shapes not only how we think but what we presume to know. On this more constructivist, indeed poststructuralist, basis she advances an extraordinarily rich 'rewriting' of many, many aspects of neoliberal globalisation, in its various productive, reproductive and virtual dimensions, which brutally exposes the impact of the cultural code of feminisation and thereby amply demonstrates the insights that can be derived from a fully-fledged gendering of political economy.

The new political economy of territory and space has been another repeated arena of debate in the journal over the last decade. Accordingly, Saskia Sassen reflects upon and develops further some of the themes of her past work on territory, authority and rights. She organises her argument around the claim that we are now seeing the incipient formation of a type of bordering capability and state practice regarding its territory that entails at least 'a partial denationalising of what has been constructed historically as national'. In particular, she suggests, and shows via a range of examples, that

global processes frequently take place at subnational levels, thereby complicating and ultimately undermining more conventional analyses that insist on the mutual exclusivity of the national and the global. For his part, Björn Hettne seeks to move beyond the existing claims of the ‘new regionalism’ literature in political economy, to which he has himself contributed so much, by emphasising continuities as much as changes in the ongoing role of the regional dimension in global transformation. In particular, he suggests that regionalism might actually shape the unfolding new world order and draws an arresting distinction between the implications for regionalism of what he sees as the current struggle between two contrasting world order models, represented by the United States (US) (at least under the Presidency of George W. Bush) and the European Union (EU). In his take, the former envisages a neo-Westphalian world order grounded in a global concert of regional powers; the latter a post-Westphalian world order built upon a concept and practice of multiregionalism.

The coverage of key debates in new political economy is brought to a conclusion in a final chapter by Adrian Leftwich who reviews in wide-ranging fashion the modern history of the study of development within political economy. He argues trenchantly that announcements of its death have been premature: indeed, that, ‘if development studies are dead, then so too is social science’. He shows how the analysis of development has, slowly but steadily, been returned to the traditions of the early, great social scientists wherein it was automatically presumed that economic, political and social institutions interacted over time and, moreover, could only be properly understood by foregrounding this very process of interaction. He is happy to see politics and political economy back ‘in command’, although fully recognising that understanding the political ideas, interests and practices which shape institutions also requires us to embrace the cultural and the ideological. Leftwich shows, in short, how the study of development, understood as a process that takes place in all societies of all types, can sit at the very heart of future work in new political economy.

## Notes

- 1 Andrew Gamble, Anthony Payne, Ankie Hoogvelt, Michael Dietrich and Michael Kenny, ‘Editorial: New Political Economy’, *New Political Economy*, Vol. 1, No. 1 (1996), p. 5.
- 2 Andrew Gamble, ‘The New Political Economy’, *Political Studies*, Vol. 43, No. 3 (1995), p. 518.
- 3 *Ibid.*
- 4 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, original edition 1776 (Allen & Unwin, 1964), p. 375.
- 5 Gamble, ‘The New Political Economy’, p. 518.
- 6 Michael R. Krätke and Geoffrey R. D. Underhill, ‘Political economy: the revival of an “interdiscipline”’, in: Richard Stubbs and Geoffrey R. D. Underhill (eds), *Political Economy and the Changing Global Order* (Oxford University Press, 2005), p. 28.

- 7 For a very good analysis of the roots of neoclassical economics, see Matthew Watson, *Foundations of International Political Economy* (Palgrave Macmillan, 2005), pp. 51–9.
- 8 See Richard Swedberg, *Joseph A. Schumpeter: His Life and Work* (Polity, 1991).
- 9 Alexander Ebner, ‘Schumpeter, Joseph Alois (1883–1950)’, in: R. J. Barry Jones (ed.), *Routledge Encyclopedia of International Political Economy*, Vol. 3 (Routledge, 2001), p. 1369.
- 10 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Beacon Press, 1944), p. 76.
- 11 See, for example, Gamble, ‘The New Political Economy’, pp. 523–30.
- 12 See, for example, Craig N. Murphy and Roger Tooze (eds), *The New International Political Economy* (Lynne Rienner, 1991).
- 13 See, for example, Anthony Payne, ‘The New Political Economy of Area Studies’, *Millennium: Journal of International Studies*, Vol. 27, No. 2 (1998), pp. 253–73.
- 14 Gamble, Payne, Hoogvelt, Dietrich and Kenny, ‘Editorial: New Political Economy’, p. 8.
- 15 *Ibid.*, p. 11.
- 16 Nicola Phillips, ‘“Globalizing” the study of International Political Economy’, in: Nicola Phillips (ed.), *Globalizing International Political Economy* (Palgrave Macmillan, 2005), pp. 1–19.

## 2 Models of capitalism

*Colin Crouch*

That capitalist economies might take diverse forms has been long recognised by some scholars. Sometimes this diversity has been seen as a matter of evolutionary development. This was true of Max Weber's ideal-type approach, that of the advocates of postwar modernisation theory, and of those who followed Antonio Gramsci's identification of a Fordist phase of capitalism that was deemed to succeed the classic free-market form. This last idea flourished particularly in the French *régulationniste* school.<sup>1</sup> These approaches, different from each other though they are, all see some forms of capitalism superseding, and as therefore in some sense superior to, earlier modes. Hence these are not theories of a true diversity in the sense of a continuing multiplicity of forms, the historical superiority of any of which might never come to an issue. Analysts willing to adopt a less historicist approach have been rarer. The modern *locus classicus* was Andrew Shonfield's work,<sup>2</sup> which examined the role of various institutions surrounding the economy – various branches of the state, banks, stock exchanges – in a number of Western European countries, the United States and Japan. Although he thought some were more efficient than others – in particular, he was impressed by those that inserted some elements of planning into otherwise free markets – he did not talk in terms of historical transcendence.

When more theoretically inclined political scientists and sociologists returned to considering economic questions in the 1980s, they resumed Shonfield's concern with national politico-economic systems and hence national varieties of capitalism. Occasionally sub-types would be recognised within a national economy (mainly with regard to Italy and Spain), but these sub-types have nearly always been geographically subdivided, so the concept of territorially based economies has been retained. This does not mean that each nation-state has been seen as embodying its own unique form of capitalism; rather, national cases are grouped together under a small number of contrasted types.

This literature has many achievements. It has provided an intellectual counterweight to easy arguments about globalisation, which predict an inevitable trend towards similarity among the world's economies. Neoinstitutionalist accounts of diversity have provided both theoretical arguments and

some empirical demonstrations to suggest that these may be great oversimplifications. However, if we are to model the diversity of economic institutions more scientifically, and particularly if we are to study institutional change and innovation, we need to deconstruct the wholes that contemporary institutionalism takes for granted and discover their constituent elements – elements which are able to survive in combinations other than those thus identified.

Acceptance of the value of taking this approach would have considerable implications for the future study of capitalist diversity. It has in particular a major methodological consequence: empirical cases should be studied, not to determine to which (singular) of a number of theoretical types they should each be allocated, but to determine which (plural) of these forms are to be found within them, in roughly what proportions, and with what change over time. This alternative is less ambitious than the current fashion, in that it does not enable us to map the economic world with a few parsimonious categories. But it is also more ambitious, partly because it corresponds more closely to the requirements of scientific analysis, but also because it is able to accommodate and account for change taking place within empirical cases. This is something which most of the neoinstitutionalist literature on capitalist diversity finds difficult to do, leading to the functionalism and determinism of much of its analysis.

The aim of this chapter is to develop this critique of the existing literature, to highlight some promising recent trends and to point towards the new approach indicated above. This last, which involves first deconstructing into constituent elements and then being ready to recombine into new shapes the aggregated forms of currently dominant analyses, is developed more fully elsewhere.<sup>3</sup>

### **Pitfalls in the formulation of types**

The smallest number of theoretical types consistent with the idea of diversity is two. For almost all writers on models of capitalism, one is always the free-market model of neoclassical economics. This constitutes the principal intellectual antagonist for neoinstitutionalists, even when they argue that it accounts for only a highly specific form of capitalism.<sup>4</sup> There must be at least one other form to make a theory of diversity: hence dichotomies. At the other extreme there is no theoretical limit to the number of forms that might be identified, but theories rarely propose more than five or six. Given the relatively small number of empirical cases of advanced capitalism for those tied to a national case approach (currently around 25), it is difficult to sustain more than a handful of types without lapsing into empiricism.

The work of Michel Albert, who made the original contribution to dualistic analysis, is typical.<sup>5</sup> He modelled two types of capitalism, which were seen in an antagonistic relationship. They are labelled in geocultural terms as Anglo-Saxon and *rhénan* (Rhenish). The former defines free-market

capitalism, considered to be embodied in the Anglophone countries.<sup>6</sup> The second takes its name from certain characteristics considered to be common to the riparian countries of the Rhine: Germany, the Netherlands, Switzerland, more problematically France. However, not only is the author uncertain whether France's institutions fully belong to this type (an anxiety which was one of his main motives in writing the book), but Japan and Scandinavia are considered to be part of it. The broad institutional range gathered together to form this second type is disconcerting. The essential idea is a capacity to make long-term decisions that maximise certain collective rather than individual goods. But this means ignoring differences among the very diverse forms of collectivism found.

It is important to note that this dualism in the identification of types of economy parallels the debate between political philosophies – neoliberalism and social democracy – which lies behind the analysis and behind most contemporary political debate.<sup>7</sup> This has created some confusion over whether neoinstitutionalism's confrontation is with neoclassical economics, and therefore at the analytical level only; or with neoliberal politics, implying an ideological confrontation; or with all political practices associated with the anti-Keynesian and pro-capitalist forces which came to prominence during the period.

One form taken by both the scientific and the ideological debate has been dispute over which kind of capitalism delivers the best economic performance. As David Coates showed in his study of models of capitalism, this has been an extraordinarily difficult issue to resolve.<sup>8</sup> He unravelled the complexities of the components of economic growth and other indicators of performance, in particular pointing out the importance for comparative studies of where national cases have stood at particular moments in relation to the overall evolution of the world capitalist system. He showed how it had been a mistake for institutionalists to seize at various times on particular national examples as proving the superiority of economies not based on pure markets: the models selected had a tendency to start to underperform. Analysts have been on stronger grounds when making either a weaker or a different claim. The former is that various kinds of institutional economy can do just as well as (not necessarily better than) a pure market one; the latter is the argument that institutional economies enabled the coexistence of high levels of economic performance alongside the pursuit of certain other social goals (for example, a relatively egalitarian incomes distribution) not readily available to purer market economies.

Neoclassical analysis considers how economic actors would behave if a world of perfect markets existed. It usually but not necessarily incorporates the normative assumption that both economy and society would be improved were institutions to take this form, but neoclassical economists are at liberty to consider that this may not always constitute a practical proposition; they are not bound by their analytical approach to any particular policy conclusions, or to consider that the world in reality takes a certain form. It is