The Political Economy of Globalization

Week 3 — Market and State

Boundaries, Complementarities, Conflicts

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October 19, 2025

From Globalization to the Market–State Nexus

Last week: We explored the major debates on globalization (Berger, 2000).

- Globalization as historical, contested, cyclical.
- State, firm, and market as distinct but interdependent.
- Theories of internationalization, regionalization, and interdependence.

This week: We turn to the **Market–State relationship**. How do markets and states co-evolve under globalization? *Transition: From the global economy to the political foundations of capitalism.*

From Firms to Institutions

Last week: we explored how firms internalize global production and reshape sovereignty.

- Berger (2000) → globalization as the reconfiguration of state–market relations.
- Hymer (1960s) → multinational corporations as hierarchical, political actors.

This week: we move from actors to the *rules of the game* — how markets and states jointly structure the global economy.

The Analytical Shift

Previous focus: who drives globalization (states, firms, capital). **Now:** how economic and political orders coexist and conflict.

- Markets $\rightarrow$ coordination through prices and competition.
- States $\rightarrow$ coordination through rules and collective authority.
- Tension $\rightarrow$ between efficiency and legitimacy, flexibility and stability.

Guiding idea: The political economy of globalization rests on this structural duality.

Globalization as a Distributional Conflict

Globalization is not merely integration — it is a **redistributional process**:

- between **social groups** (capital–labor, skilled–unskilled);
- between **territories** (core–periphery, North–South);
- between **institutions** (markets–states).

Analytical question: How do institutional architectures — the balance between markets and states — shape who wins and who loses from globalization?

Week 3 – Market State

This session explores:

1. How markets and states co-evolve as systems of coordination.
2. Theoretical foundations — Polanyi vs. Hayek on freedom, order, and knowledge.
3. Implications for globalization as an economic and political regime.

Transition: From "who globalizes" $\rightarrow$ to "how globalization governs."

Key Questions

1. What is the relationship between markets and states in capitalist development?
2. Does globalization weaken or transform the role of the state?
3. How do institutions mediate the tension between efficiency and equity?
4. Are markets self-regulating or politically constituted?

Classical Perspectives: Market vs. State

Adam Smith (1776): The market as a self-regulating mechanism — the 'invisible hand'.

Karl Polanyi (1944): The market as a politically constructed institution. *"The idea of a self-regulating market implies a stark utopia."*

John Maynard Keynes (1936): Markets require active macroeconomic management by the state.

Analytical Tension

Markets are efficient allocators but politically fragile institutions — they rely on states for regulation, legitimacy, and crisis management.

Reading: Karl Polanyi, *The Great Transformation* (1944)

Context:

- Published in 1944, the same year as Hayek's *The Road to Serfdom*.
- Written amid the collapse of liberal capitalism and the rise of fascism.
- Aimed to explain how the expansion of market society led to war, economic crisis, and authoritarianism.

Core Question: Why did the nineteenth century's faith in self-regulating markets culminate in catastrophe?

Central Thesis

The attempt to disembed the economy from society — to make markets self-regulating — generated crises that ultimately destroyed liberal civilization.

Polanyi's Intellectual and Biographical Background

- Born 1886 in the Austro-Hungarian Empire; lived through war, fascism, exile.
- Witnessed the Great Depression and rise of totalitarian regimes.
- Influenced by socialist Christianity, Red Vienna, and British social democracy.
- Sought to reconcile economic realism with moral philosophy.

"Western civilization was brought into being by a drive toward self-determination, yet that same drive tore apart economic and political life."

Structure and Argument of *The Great Transformation*

Three Parts:

1. *The International System* — peace, gold standard, liberal state.
2. *Rise and Fall of Market Economy* — creation and disintegration of market society.
3. *Transformation in Progress* — emergence of alternatives: socialism, fascism, planning.

Analytical Aim: To trace the institutional roots of the collapse of nineteenth-century civilization through the lens of economic organization.

The Self-Regulating Market: A “Stark Utopia”

“Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society.” (Polanyi, 1944)

- Markets extended to land, labor, and money — “fictitious commodities.”
- Society subordinated to market logic $\rightarrow$ dislocation and social breakdown.
- The gold standard globalized this instability.

Outcome: The very forces meant to produce order (markets) unleashed disorder.

The Double Movement

Definition: The dialectic between market expansion and social protection.

- Market liberalization disembeds economy from society.
- Society responds with counter-movements: welfare, regulation, labor rights.
- Tension produces instability and, at times, authoritarian responses.

Key Idea

Liberal capitalism generates the conditions of its own unravelling.

Historical Diagnosis

- The 19th century's "Hundred Years' Peace" (1815–1914) built on four institutions:
  1. Balance of Power
  2. Gold Standard
  3. Self-Regulating Market
  4. Liberal State
- Their interdependence made the system brittle — collapse of one triggered collapse of all.

The Gold Standard: "The fount and matrix of the system" — its fall marked the end of liberal civilization.

Reading: F. A. Hayek, *The Use of Knowledge in Society* (1945)

Context:

- Published in *AER* (1945), soon after *The Road to Serfdom*.
- Responds to debates on economic planning and socialism.
- Reframes the economic problem as one of *knowledge coordination*.

Central Question: How can society make the best use of knowledge that is never given to anyone in its totality?

The Knowledge Problem

Key Thesis:

> *"The economic problem of society is not merely a problem of allocating 'given' resources... It is a problem of utilizing knowledge not given to anyone in its totality." (Hayek, 1945)*

- Knowledge is dispersed, incomplete, and contextual.
- Central planners cannot access all local information.
- Efficient coordination requires decentralized adaptation.

Implication: Economic rationality depends on communication and adaptation, not central control.

Scientific vs. Local Knowledge

Hayek's Distinction:

- **Scientific:** general, codified, abstract.
- **Local:** tacit, experiential, contextual.

Argument:

- No authority can aggregate local knowledge efficiently.
- Markets outperform planning by mobilizing dispersed information.

Planning, Competition, and Coordination

- All economies involve planning; the issue is *who plans?*
- Central planning implies unified authority; competition = decentralized planning.

Question: Which system mobilizes dispersed knowledge more effectively?

Hayek's answer: *Markets use prices to transmit knowledge more effectively than any planner could.*

The Price System as a Communication Mechanism

"The price system acts as a kind of machinery for registering change, or a system of telecommunications."

- Prices condense information into signals.
- Agents respond without knowing causes.
- Enables spontaneous coordination.

Example: Tin price rises $\rightarrow$ users economize without central command.

The Market as a Social Order

- The price system is evolutionary, not designed.
- Civilization advances by extending automatic coordination.
- Spontaneous orders (language, law) emerge from human action, not design.

Philosophical Implication:

> *"The problem is precisely how to extend the span of our utilization of resources beyond the span of control of any one mind."*

Hayek and Polanyi: Two Visions of Order

Karl Polanyi	Friedrich Hayek
Markets disembed society; self-regulation is utopian.	Markets embed knowledge; self-regulation is efficient.
Society protects itself from market disruption.	Society depends on spontaneous market order.
Freedom = social protection.	Freedom = individual coordination.

Tension: Polanyi sees moral limits to the market; Hayek sees epistemic limits to planning.

Keynes and the Managed Economy

- The Great Depression challenged laissez-faire orthodoxy.
- State intervention became necessary to stabilize demand and employment.
- Led to the postwar **Keynesian compromise**: capitalism with social protection.
- Bretton Woods institutions institutionalized global economic management.

Lesson

Markets without governance lead to instability; governance without markets leads to stagnation.

The Neoliberal Turn (1970s–1990s)

- Crisis of Keynesianism $\rightarrow$ monetarism, deregulation.
- State seen as inefficient; markets as self-correcting.
- IMF/World Bank structural adjustment exported neoliberalism.
- Globalization reframed as market expansion beyond the nation-state.

Key Thinkers: Hayek, Friedman, Williamson.
Paradox: The neoliberal state reconfigures, not withdraws.

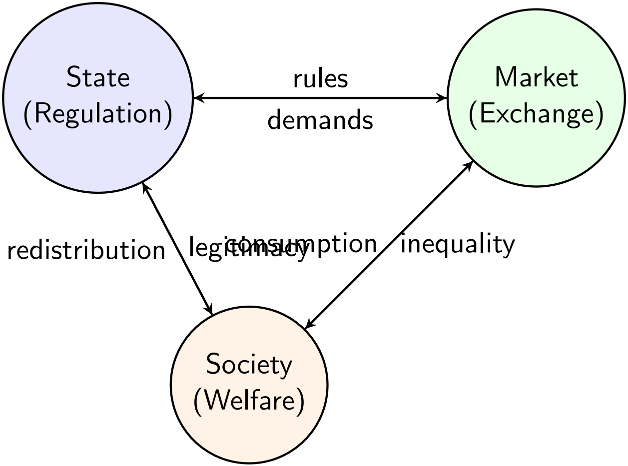
Varieties of Capitalism (Hall & Soskice, 2001)

- Market economies differ institutionally: LMEs vs. CMEs.
- Firms coordinate through markets (LMEs) or institutions (CMEs).
- Globalization pressures both but preserves diversity.

Example

US/UK: flexible labor; Germany/Japan: vocational training, coordination.

Markets and States in Capitalism



Contemporary Challenges

- **Financial globalization:** fiscal constraints, tax competition.
- **Digital economy:** regulatory gaps, data monopolies.
- **Climate transition:** green industrial policies.
- **Inequality:** welfare expansion and new protectionism.

Question: Are we witnessing the end of neoliberalism or its adaptation?

Conclusion

- The Market–State relationship is co-constitutive, not zero-sum.
- Globalization reconfigures, rather than erases, state capacity.
- Markets depend on political authority for legitimacy.
- Understanding capitalism requires attention to institutional diversity.

Discussion Questions

1. Is the global market politically constituted or self-regulating?
2. How do states shape globalization while being constrained by it?
3. Can welfare and competitiveness coexist in the global economy?
4. What new roles should states play in the 21st century?

Thank You!

Questions or Comments?