

The Political Economy of Globalization

Week 6 — From Embedded Liberalism to Global Institutions

World-Systems, Bretton Woods, and the Transformation of Capitalism

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Session Overview

- 1 1. From National Capitalisms to the World-System
- 2 2. Wallerstein and the Epistemology of the Whole
- 3 3. The Construction of the Global Order
- 4 4. Embedded Liberalism: Ruggie's Framework
- 5 5. Helleiner and the Developmentalist Dimension
- 6 6. Crisis, Disembedding, and Global Governance
- 7 7. Synthesis: Institutions and the Whole

Continuity with Previous Sessions

- **Week 3:** Hall & Soskice (2001) — varieties of capitalism, coordination, complementarities.
- **Week 4:** Cardoso & Faletto (1979) — dependency, external constraint, and internal coalitions.
- **Today:** From national institutions to **global structures** — the institutional foundations of globalization.

How did capitalism become global — and what kind of institutions made that possible?

Why Study Capitalism as a System?

- Capitalism does not exist as a sum of national economies — it is a world system.
- Domestic institutions interact with global hierarchies and rules.
- Understanding the political economy of globalization means tracing the architecture that sustains interdependence.

Central Question

How are openness and stability institutionally reconciled at the global level?

Wallerstein's Analogy with Astronomy

- Like astronomers, world-system theorists infer systemic laws from fragmentary data.
- Two operations:
 - ① **Analogy:** micro laws extended to the macro-system.
 - ② **Reconstruction:** deducing prior states from current structures.
- The aim is to describe the evolution of structures — not isolated events.



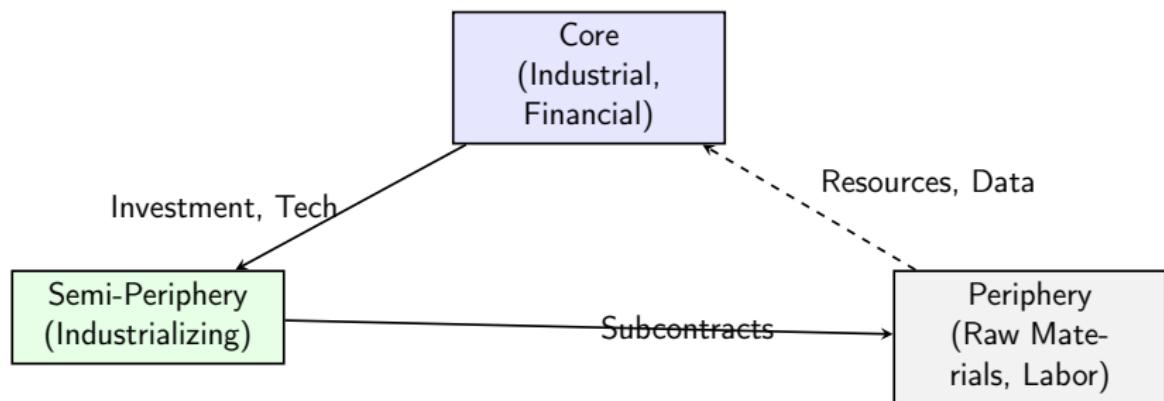
"One should not confuse totality with completeness. The whole is more than the assembled parts, but also less."

Objectivity and Commitment

- Wallerstein rejects the illusion of neutral social science.
- Objectivity = honesty within one's social commitments.
- Knowledge production reflects global power asymmetries.
- Studying the world-system is a political act — it reveals how knowledge and hierarchy intertwine.

“Man’s ability to participate intelligently in the evolution of his own system depends on his ability to perceive the whole.”

The World-System as a Historical Structure



Global capitalism connects diversity through structured asymmetry.

The Crisis of the Interwar Period

- Collapse of gold standard (1931), Great Depression, rise of protectionism.
- Economic nationalism intensified political conflict.
- The lesson: markets require political frameworks — unregulated capitalism breeds instability.

Historical Turning Point

The post-1945 order sought to embed global markets within cooperative institutions.

Bretton Woods (1944): The Founding Moment



Goal: Prevent another Great Depression by building monetary stability and shared prosperity.

Key institutions: IMF, World Bank, and later GATT (1947).

Underlying compromise: openness with domestic autonomy — what Ruggie will call *embedded liberalism*.

From Classical Liberalism to Embedded Liberalism

- Ruggie (1982) argues that the postwar order is **not** a simple return to 19th-century laissez-faire.
- Instead, it rests on a **historical compromise** that links:
 - ① International economic openness;
 - ② Domestic social and political stability.
- The key idea: markets are **re-embedded** in a dense web of social contracts, institutions, and political commitments.
- International regimes (Bretton Woods, GATT) institutionalise this compromise, rather than imposing pure market discipline.

Intuition

The postwar liberal order is “liberal” in its external orientation, but “embedded” in domestic social purposes.

Two Core Objectives of the Postwar Order

1. External Openness

- Progressive trade liberalisation and multilateralism (GATT).
- Stable but adjustable exchange rates (Bretton Woods).
- Reconstruction of Europe and Japan, integration into a U.S.-centred order.

2. Internal Autonomy

- Commitment to full employment and demand management.
- Expansion of welfare states and social insurance.
- Capacity to smooth adjustment to external shocks through domestic policy tools.

Embedded Liberalism

External liberalisation is accepted *only insofar as* states retain room to pursue domestic social and employment objectives.

Institutional Design: How the Compromise Works

- **Capital controls** limit destabilising short-term flows, preserving macroeconomic autonomy.
- **Fixed-but-adjustable** exchange rates provide a stable monetary environment without rigid gold-standard constraints.
- **Multilateral rules** (GATT) constrain beggar-thy-neighbour policies, while allowing for exceptions and safeguards.
- **Domestic intervention** (Keynesian policies, welfare state) is not a deviation from the regime, but a *constitutive feature*.

Fusion of Power and Purpose

Regimes embody both the distribution of power and a shared understanding that economic openness must be reconciled with domestic social stability.

Empirical Illustration: The “Golden Age” (1950–1973)

- **High growth** rates across advanced industrial countries.
- **Low unemployment** and rising real wages.
- **Expansion of welfare states:** health, pensions, education, unemployment insurance.
- **Institutionalised collective bargaining** and corporatist arrangements in many cases.

Legitimacy Effect

Capitalism regains political legitimacy because international openness is visibly combined with social protection and domestic security.

The Political Foundations of Stability

- The regime is stabilised by a **domestic social contract**: workers, firms and governments accept openness in exchange for security.
- **Welfare systems** and active labour-market policies act as domestic shock absorbers.
- **Fixed exchange rates** and multilateral rules act as external stabilisers, reducing uncertainty for trade and investment.
- As long as **capital remains controlled**, states preserve sufficient policy space to manage distributional conflicts internally.

Core Logic

International cooperation **requires** domestic intervention, rather than replacing it: this is the essence of embedded liberalism.

Norm-Governed Change and the 1970s

- From Ruggie's perspective, the breakdown of Bretton Woods and the rise of "new protectionism" in the 1970s do not immediately imply regime collapse.
- Hypothesis:** change is initially *norm-governed*:
 - Instruments (fixed rates, dollar-gold convertibility) are abandoned;
 - But core norms (no competitive devaluations, support for trade, concern for domestic stability) persist.
- States adapt institutional tools to new structural conditions while trying to remain within the embedded liberal framework.

Question for Later

At what point do incremental, norm-governed adjustments give way to a more fundamental transformation towards a different order (e.g. neoliberalism)?

Rethinking Bretton Woods: Helleiner's Intervention

- Eric Helleiner revisits the making of Bretton Woods and disputes the familiar portrayal of the conference as a **strictly Anglo-American liberal design**.
- He traces the intellectual roots of the 1944 settlement not only to US–UK diplomacy, but also to a broader and earlier political experiment: **the developmentalist practices of the Good Neighbor era** in US–Latin American relations (1938–42).
- This reinterpretation foregrounds the **substantive input of Global South delegations** — particularly Latin America, China, and India — whose concerns helped broaden the agenda toward issues of development, policy autonomy, and financial regulation.
- The central claim is that Bretton Woods did not aspire to enshrine financial orthodoxy. Instead, it embodied a form of **developmental multilateralism**: combining multilateral cooperation with domestic policy space, capital regulation, and long-term development finance.

The Developmentalist Logic Behind Bretton Woods

- Early American plans (White, 1942) explicitly acknowledged the challenges faced by late-industrializing economies. They envisaged:
 - Recognition of **infant-industry protection**;
 - Broad use of **capital controls** to manage volatile flows;
 - Large-scale **public lending** for industrial development;
 - **Multilateral debt arbitration** to shield states from creditor dominance.
- These ideas drew on lessons from US–Latin American cooperation: currency-stabilization agreements, technical assistance, and institutional attempts to sustain *state-led modernization* during the Good Neighbor years.
- This period thus functioned as a **conceptual laboratory** in which key elements of embedded liberalism were first tested in North–South relations.

Key Argument

Embedded liberalism emerged as a developmental project before becoming a framework for North–North economic governance.

Developmentalist Elements within Bretton Woods

Principle	Institutional Formulation	Historical Expression
Capital Controls	IMF Articles legitimized wide-ranging restrictions on capital movements	India, Brazil, Mexico preserved developmental autonomy in the 1950s
State-Led Development	World Bank mandated to finance long-term reconstruction and productive investment	Funding for Egypt's industrial complexes; India's early Five-Year Plans
Adjustment Symmetry (Keynes)	Proposed <i>Clearing Union</i> to discipline surplus countries	Blocked by US Treasury; imbalance institutionalized
Debt Resolution	Drafts envisioned impartial multilateral arbitration mechanisms	Abandoned under creditor pressure in Washington
Commodity Stabilization	Early drafts supported international commodity price schemes	Dropped due to State Department resistance

A more balanced international order was conceived — only fragments were ultimately retained.

Why the Developmentalist Vision Faded

- After 1945, US priorities shifted toward **European reconstruction** and the geopolitics of the Cold War, marginalizing Southern development concerns.
- New Deal figures associated with the developmentalist project (White, Berle, Triffin) were either sidelined or removed during the early Cold War.
- Influence gravitated back toward conservative policy circles in Washington and New York:
 - Advocacy of market-based development finance;
 - Suspicion toward import-substitution strategies;
 - Reassertion of creditor interests in debt negotiations.
- Consequently, the embedded liberal regime became increasingly **Northern-centric**. Southern demands resurfaced only later, through UNCTAD, the Prebisch agenda, and the New International Economic Order.

The Forgotten Promise of Bretton Woods

- For many postcolonial states, Bretton Woods initially embodied the hope of a system that could support:
 - development strategies tailored to national priorities,
 - industrial transformation,
 - stabilized commodity markets,
 - and fairer debt-adjustment mechanisms.
- These prospects receded as global liberalization accelerated in the 1970s–1990s, capital mobility expanded, and domestic policy space progressively narrowed.
- The erosion of the embedded liberal order highlighted a structural tension:
liberal multilateralism without developmental buffers proved difficult to sustain.

Contemporary Relevance

Debates on *policy space*, sovereign debt restructuring, and development finance revive Helleiner's key insight: a different Bretton Woods was once imaginable.

The Breakdown of Bretton Woods

- 1971: Nixon ends dollar–gold convertibility.
- 1973: Floating exchange rates — the system disembedded.
- Oil shocks + stagflation eroded Keynesian consensus.
- Capital mobility returned; autonomy vanished.

Result

From embedded to disembedded liberalism — global markets without domestic compromise.

Institutional Transformation (1970s–1990s)

Institution	Transformation	Outcome
IMF	Stabilizer → Enforcer	Structural Adjustment
World Bank	Reconstruction → Conditionality	Policy-based lending
GATT → WTO	Tariffs → Rules	Legalized liberalization

Empirical Cases: Mexico (1994), East Asia (1997), Morocco (1983). *Global institutions became vectors of discipline rather than cooperation.*

From Development to Governance

- “Globalization” came to mean liberalization and rule enforcement.
- International institutions turned into regulatory mechanisms of capital mobility.
- States adapted through privatization, deregulation, and fiscal constraint.

New Logic

Markets govern through rules; politics adapts through compliance.

Comparative Synthesis: Ruggie, Helleiner, Wallerstein

Dimension	Ruggie (1982)	Helleiner (2014)
Analytical Scale	Regime-level	Historical
Core Tension	Openness vs. Autonomy	North–South Inequality
Historical Focus	Post-1945 Compromise	Forgotten Developmentalism
Conceptual Contribution	Embedded Liberalism	Developmental Multilateralism

The Moral of the System

- Institutions embody compromises between power, knowledge, and legitimacy.
- The postwar order institutionalized moral economy; its breakdown exposed global inequality.
- Studying globalization means recognizing both its architecture and its fractures.

Final Thought

To see the system as a whole is to recover the possibility of change within it.

Thank You!

Questions or Comments?