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Conceptual Relevance of "Embedded Liberalism" and its Critical Social Consequences*

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Events in the last decade have brought increasing attention towards the distributive effects of globalisation and its consequences. The fear that greater openness is creating severe adjustment problems for certain countries and for particular groups within countries has been the topic of discussion both in theory and practice. Thus, we encounter slogans such as "globalisation with a human face" (Kapstein 2000; Rodrik 1997; UNDP 1999). The focus on globalisation as the critical feature of the global political economy has brought attention to its consequences; that is the increasing gap between the rich and the poor. Saskia Sassen's seminal work on international investment and labour flow reminds us that the distributive implication of globalisation will vary between social groups creating new patterns of poverty and inequality. Such an effect would suggest a possible "backlash" unless serious attention is given to the understanding and to the mitigation of its effects (Sassen 1988).

The increasing "backlash" of globalisation has paved the way to the renewed importance of the issue of economic openness and welfare policies.[1] In turn, this phenomenon has lead to a renewed attention to the Bretton Woods system as "embedded liberalism." First coined by John Ruggie (1982), the core philosophy of "embedded liberalism" is understood as a dynamic blend of international multilateralism and domestic interventionism, which has been seen by its advocates as a reference point in forging global measures to tame the global instability we encounter today. For instance, the concept of "embedded liberalism" has fuelled public debates about the "new international financial architecture," with embedded liberals utilising Bretton Woods as a source of policy inspirations.

Despite such a normative appeal, however, it will be argued that "embedded liberalism" as a historical description of the Bretton Woods system is fundamentally flawed. Contrary to the embedded liberals' argument that the Bretton Woods system was "socially embedded," historical evidence shows that this was not the case. In theory, Bretton Woods was designed to provide measures to safeguard policy autonomy for domestic social objectives. In practice, however, this was largely undermined and transformed by the political and economic dynamics of the postwar era. Yet, notwithstanding the analytical flaws inherent in the concept, "embedded liberalism" as a conceptualization of Bretton Woods is presented as a historical experience and utilised in policy debates. The purpose of this paper, therefore, will be to examine the conceptual relevance of "embedded liberalism," and uncover the limits and possibilities of the concept by putting it under critical scrutiny. This will be achieved through conceptual analysis that would highlight its normative and analytical aspects. Furthermore, the problems inherent in contemporary usage of the concept and its critical social consequences that this may entail will be uncovered.

The structure of the argument will be as follows. First, the conceptual relevance of "embedded liberalism" will be examined by distinguishing its normative and analytical dimensions. It will be argued that while it has important insights as a normative proposal, as an analytical description "embedded liberalism" has fatal flaws by overemphasising the blueprint of Bretton Woods while neglecting how it

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[1] Brian Burgoon usefully organises the literature into three categories: globalisation and welfare in tension, globalisation and welfare still in harmony, and globalisation and welfare unrelated. See Burgoon (2001).

actually unfolded in the postwar period. Second, the analytical flaws of the concept will be examined in more detail. By contrasting the difference between the blueprint of the Bretton Woods system and the actual operation, the fragile analytical foundation of "embedded liberalism" will be uncovered. Third, the paper will demonstrate the risks involved in utilising "embedded liberalism" in public policy debates. Contemporary advocates of "embedded liberalism" fail to acknowledge the analytical flaws inherent in the concept, and it will be argued that this may lead to social consequences if overlooked. Finally, a summary of the main arguments and suggestions on refining the analysis of embedded liberals and the conceptual framework of "embedded liberalism" will be proposed as a conclusion.

1. The conceptual relevance of "embedded liberalism"

In order to assess the conceptual relevance of "embedded liberalism," the paper will implement a conceptual analysis that aims not only to reconstruct its descriptive meaning but also to highlight the normative message implied by the concept.[2] The aim is to provide a better understanding of the conceptual power associated with "embedded liberalism," and of the social consequences that the concept may provoke. As such, the definition of "embedded liberalism" will be clarified, followed by an examination of its conceptual relevance.

Defining "embedded liberalism"

In his seminal article "International regimes, transactions, and change: embedded liberalism in the postwar economic order," Ruggie (1982, 393) characterized the Bretton Woods system as "embedded liberalism." He argued that "unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism." For Ruggie, the aim of defining the postwar system as "embedded liberal" was to show that, contrary to the orthodox view that emphasized the liberal character of money and trade regimes, liberalism that was restored after World War II held different features from those of the 19th century. Following this initial conceptualization, the notion of "embedded liberalism" has been widely adopted by academics and practitioners for different purposes; and partly as a result of this popularity, the concept has expanded into a rather loose term with multiple meanings.[3]

Nonetheless, it is possible to identify two key arguments advanced by the embedded liberals. First, most scholars agree that an Anglo-American consensus existed on postwar economic objectives. The story follows that in preparing for a postwar economic plan, consensus emerged within a group of British and American

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[2] In performing a conceptual analysis, Stefano Guzzini focuses on three aspects of concepts: analytical, performative and its conceptual history or genealogy. In contrast to as positivist conceptual analysis, which aims to reconstruct a "descriptive" i.e. theoretically neutral meaning of the concept, Guzzini stresses its performative effects. See Guzzini (2005).

[3] This diversity may be exemplified by the fact that "embedded liberalism" is taken up in key texts ranging from International Political Economy to Comparative Politics. For example, see Gilpin (1987) and Hall (1989).

economists and policy specialists who shared the "lessons of the thirties," thus envisaging an international economic order that occupied a middle ground between laissez faire and interventionism (Ikenberry 1993; Hall 1989). In other words, there was a broad consensus about the importance of safeguarding domestic social objectives, and about institutional machinery that the postwar economic order should include to achieve this end. As G. John Ikenberry (1993, 161) observes, "In both Britain and the United States, most of the ideas that made their way into the Bretton Woods agreement were widely shared among what could be called "liberal minded" international economists… whose views… reflected lessons learned from recent historical experience as well as the ongoing evolution in professional economic thought." These shared ideas, it is argued, provided the intellectual foundation for the postwar order, giving Bretton Woods its "embedded liberal" nature.[4]

Second, embedded liberals view the Bretton Woods system as fully embodying the "new thinking" described above: it provided member states tools to help stabilize their domestic economy. In illustrating this point, Ruggie (1982, 395) draws on Richard Cooper's notion of a "double screen." As Cooper (1975, 85) explains, under Bretton Woods "Domestic economic policies were to be protected from the strictures of the balance of payments through a double screen: *temporary* imbalances were to be financed, if necessary by drawing on lines of credit at a newly established lending institution, the International Monetary Fund (IMF); and *fundamental* imbalances were to be corrected by an alteration in the country's exchange rate." This understanding that the Bretton Woods system resolved the tension between international and domestic stability is also shared by more recent advocates of the notion of "embedded liberalism." For example, Jacqueline Best (2003, 365) argues that under the Bretton Woods system "states were to be granted the financial tools necessary to pursue their own 'favourite experiments'." This notion is highly admired by most embedded liberals as building a sustainable international economic order, and is often asserted as contributed to the "golden age" of the 1950s and 1960s.[5]

This conception of Bretton Woods as "embedded liberalism" is underpinned by two assumptions. First, embedded liberals view the Bretton Woods agreement of 1944 as a direct reflection of the Anglo-American consensus. This is most evident in the fact that the majority of studies from an embedded liberal perspective present the Bretton Woods negotiation as its main narrative (Helleiner 1994). By focusing on the technical solutions devised by the architects of Bretton Woods, embedded liberals naturally consider the agreement as a "compromise" to achieve the shared economic objectives. Second, advocates of "embedded liberalism" tend to equate Bretton Woods Agreement with the system itself. While acknowledging difficulties in the postwar reconstruction period, the general view is that the Bretton Woods agreement drawn up in 1944 was effective; and that indeed governed the global economy until its collapse. For example, this is reflected in Ikenberry's praise of the Bretton Woods

[4] The existence of an Anglo-American is contested. For instance, Robert Skidelsky (2003, 126-127) agues that "there was never enough agreement between Britain and the United States on the "rules of the game" to make the Bretton Woods Agreement any more than a form of words to paper over the cracks." Furthermore, John Williamson (1983) argues that this consensus excluded Keynes himself since his policy proposals were almost entirely rejected. The puzzle for Williamson is why Kenyes work unsparingly for an agreement that included none of the specific proposal that he favoured (Williamson 1983, 100).

[5] For instance, see Kirshner (1999) and Helliner (1994). Also see Williamson (1983).

agreement as an “unprecedented experiment in international economic constitution building” (Ikenberry 1993, 155). Together, the two assumptions discussed here produce a rather harmonious view of the Bretton Woods system, where the economic objectives and institutional mechanisms set up to achieve these goals were closely tied together and implemented smoothly in practice. As this paper argues, however, historical evidence shed questions on these assumptions.

It may also be useful to further distinguish between “domestic” and “international” variants of the embedded liberal arguments. First, domestic variant of “embedded liberalism” explains the particular form of state-society relations that developed in the postwar era.[6] While arguments vary by scholar and by country of focus, common emphasis is placed on the “social compromise” that emerged within the advanced capitalist states during this period. For example, Blyth (2002, 5 fn 5) sees “embedded liberalism” as a “distinct form of state… Such states were characterized by relatively closed capital markets, demand-side fiscal policies, a belief in an activist state, and a view of unemployment being due to a general failure of demand.” As such, domestic variants of “embedded liberalism” focus on the developments of the welfare state in the advanced capitalist states.

Second, in contrast to the focus within national boundaries, the international variant of “embedded liberalism” emphasizes the “socially embedded” nature of the Bretton Woods system, and in general, the postwar international order. Following Ruggie’s original argument, this line of thought indicates the Bretton Woods system as making particular market-reforming domestic regimes possible (Blyth 2002, 5 fn 5). Indeed, as Best (2003, 365) argues, “post-Second World War era and its Bretton Woods institutions were characterized by a new ‘embedded liberal’ social purpose… one of the strengths of [this] postwar system lay in its capacity to reconcile international and domestic pressures.” In other words, according to this argument, Bretton Woods can be characterized as “embedded liberalism” for its function to facilitate the domestic social objectives of the member states.[7]

Given these variations, the paper will focus on the international variant of “embedded liberalism.” The developments of the welfare state (specified by the domestic approach as “embedded liberal” form of state) can be historically traced among advanced capitalist states. However, it is questionable that the Bretton Woods system provided measures to help stabilize the domestic economy; and thus this argument requires closer examination. As such, it will be argued that an understanding of the Bretton Woods system as embodying the embedded liberal ideas does not square with historical evidence.

The normative and analytical dimensions of embedded liberalism

In examining the conceptual relevance of “embedded liberalism,” this paper will

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[6] On the illustration of the development of domestic “embedded liberalism” regime in the advanced capitalist states, see Mark Blyth (2002). Given its focus on domestic institutional arrangements, many of these studies are from the comparative political economy discipline.

[7] In her later article, Best shifts her stance and argues that the norms were gradually “hallowed out.” See Best (2004).

distinguish between its normative and analytical dimensions. Our aim, by doing so, is to uncover the problematic issues that arise in the way that "embedded liberal" nature of the Bretton Woods system is presented; that is, as a concrete historical fact. Through a close examination of postwar planning and the Bretton Woods agreement, embedded liberals characterize the system as "embedded liberalism." This is often followed by an analysis on how the postwar compromise is being "disembedded" in the face of unrestricted liberalization in recent decades. The concern of most embedded liberals, therefore, is how this force is undermining the commitment to domestic economic and social objectives, creating greater societal vulnerability to market forces (Ruggie 1996, 108; Kirshner 1999, 317).[8] In other words, the purpose of analyzing Bretton Woods is to understand its "embedded liberal" nature (as a historical fact) and draw implications for contemporary issues. Yet, as it will be described later, historical evidence shows that while "embedded liberal" measures were incorporated into the Bretton Woods system, they were not actually implemented. By distinguishing the two dimensions, therefore, this paper will demonstrate how embedded liberals implicitly collapse the normative and analytical aspects in their analysis, and how this approach becomes analytically problematic.

To clarify this point, it may be useful to draw on two forms of theorizing: explanatory and constitutive. As Smith (2001, 226-227) describes, explanatory theory is one that sees the world as something external to the theory itself, whereas constitutive theory is one that assumes that theories construct and are constructed by the world. Hence, where explanatory theory attempts to discover a pattern or regularities in a particular phenomenon, constitutive theory focuses on the process of theorizing, including implicit assumptions and biases of the analysts.[9] As these two approaches imply, a concept is not merely a neutral explanation of a particular phenomenon but also carries with it normative judgments. This is perhaps most visible when reach of the concept extends well beyond the boundaries of academia, in which not only its descriptive accuracy but also its normative or prescriptive message becomes important. Thus, in order to assess the full conceptual relevance of "embedded liberalism," and hence its limits and possibilities, the analysis must realize both its normative and analytical dimensions.

As a normative statement, on the one hand, "embedded liberalism" advances a particular form of economic order that embodies a distinct blend of economic liberalism and domestic interventionism. This is based on a strong belief about the need to balance international and domestic stability: an effective international economic order (and institutional machinery to underpin this order) *should* have adequate measures to sustain an open international economy but *should* also provide instruments to ensure domestic policy autonomy for social welfare objectives. Such view is derived from historical lessons of the gold standard and the interwar years (Ruggie 1996, 107-108). From this perspective, the gold standard is seen as an example of crude economic liberalism. It understands the gold standard as prioritizing international over domestic stability by placing the burden of balance of payments adjustment on deficit countries. In other words, during this period domestic social objectives were subordinated to the international equilibrium. In contrast, the interwar years are viewed as a raw expression of national interests. Internationally

[8] Thus, for embedded liberals, the "social purpose" of a given economic order becomes crucial for its understanding (Ruggie 1982, 388-392; Best 2003, 365).

[9] Also see Burchill and Linklater et. al. (2005, 15-18).

uncoordinated pursuit of domestic objectives, it is understood, triggered the mutually destructive economic spirals of the 1930s. In response to these historical experiences, embedded liberal ideas offers a middle ground between internal and external stability. Contrary to the gold standard, it would pursue domestic employment and social welfare objectives. At the same time it would recognize the importance of maintaining international cooperation. In other words, embedded liberals propose an antithesis to both laissez faire and economic nationalism.

As an analytical explanation, on the other hand, "embedded liberalism" offers a characterization of the Bretton Woods system (and more generally the postwar international economic order) as the embodiment of the "embedded liberal" principles. Based on the two assumptions described earlier, the logic of explanation will flow in three steps. First, described as a core argument, embedded liberals argue that an Anglo-American consensus existed on economic objectives which would guide the postwar order. This is often derived through the reading of the well-known Anglo-American negotiations, with particular focus on the drafts of the White and Keynes plans. Here, advocates see the principles of "embedded liberalism" being built into the emerging international order (Kirshner 1999, 326). Next, following the Anglo-American negotiations, it is explained that this set of "embedded liberal" ideas crystallized as the Bretton Woods agreement in 1944. For advocates of "embedded liberalism," therefore, Bretton Woods agreement is the "sacred document" that indicates the means of achieving an embedded liberal order. As examined earlier, for embedded liberals this involves the instruments that Bretton Woods provided to the states for the purpose of achieving domestic welfare. Finally, by implicitly or explicitly assuming that the Bretton Woods system actually operated as envisaged by its architects (or according to the original agreement), embedded liberals assert that the nature of the postwar order can be characterized as "embedded liberalism." Hence, the emphasis is often placed on its technical aspects, and particularly on how the architects resolved the tension between international and domestic stability. Thus, as a normative argument, "embedded liberalism" outlines an ideal economic order that transcends both laissez faire and economic nationalism; while as an analytical argument, it presents a neutral description of the Bretton Woods system as resolving the tension between international and domestic stability.

Despite the difference between the two dimensions outlined here, the concept of "embedded liberalism" is often used intertwined; that is, the normative and analytical arguments are collapsed into each other. This paper will therefore argue that while "embedded liberalism" as a normative statement holds important insights, as an analytical explanation, it presents major flaws which, if overlooked, will inevitably lead to serious social consequences. The next section will further examine the analytical flaws of "embedded liberalism."

2. The analytical flaws of "embedded liberalism"

By distinguishing its normative and analytical dimensions, the strength and weakness of the concept of "embedded liberalism" becomes apparent. As a proposal for an international economic order, it is still influential.[10] Yet, when approached as an

[10] For example look at the influence of embedded liberals in the new financial architecture debate. This will be examined later.

analytical description of the Bretton Woods system, there are serious doubts as to whether it was "socially embedded" in practice. This section will further examine the relevance of the concept by looking back into history, and assess if this "magnificent blueprint" was implemented as envisaged by its architects.[11] In particular, this paper will problematise the assumption that the postwar system operated according to the agreement and embedded liberal's core argument that the Bretton Woods system provided member states tools to help stabilize their domestic economy.

Problems of assumption

In the preceding section, it was argued that embedded liberals held an underlying assumption which equated the Bretton Woods system to the 1944 agreement. From this perspective, the postwar period was governed by the economic objectives enshrined in the agreement, albeit some initial difficulties from postwar reconstruction. As a result, the literature focuses on the Anglo-American negotiations which paved the way to the Bretton Woods agreement, and in particular the process of postwar economic planning by its two key architects, John Maynard Keynes and Harry Dexter White (Helleiner 1994).

While it is not completely misleading to focus on the wartime negotiations, work by economic historians has posed serious doubts to this assumption. It is generally agreed that the Bretton Woods system was largely dormant from its establishment to the general restoration of current account convertibility for major European countries in 1958 (Bordo 1993; Eichengreen 1996; Strange 1976). Indeed, problems of postwar reconstruction were solved through bilateral channels such as the Anglo-American loan agreement, the Marshall plan, and later through regional efforts such as the European Payments Union (EPU), rather than through global mechanisms such as the International Monetary Fund (IMF), International Bank of Reconstruction and Development (IBRD) and International Trade Organization (ITO) as envisaged by the architects of Bretton Woods. Accordingly, as Eichengreen (1996, 114 fn 40) argues, it was not until convertibility was restored for the major European currencies that the Bretton Woods system can be said to have come into full operation.

Furthermore, there are significant questions as to the extent that Bretton Woods operated after 1958 according to its original aims. It is often perceived that the unprecedented growth of the international economy in the 1960s may be attributable, at least in part, to the Bretton Woods system.[12] While it is certainly true that the postwar system partly contributed to such growth, the extent of this contribution should not be overestimated.[13] In addition, the fact that the system had deviated from its original design and the implication of this shift should also be taken into account.

If this is so, the empirical foundation of "embedded liberalism" seems to be in jeopardy since embedded liberals assume that the postwar period was governed by the principles enshrined in the Bretton Woods agreement. In addition, a further question

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[11] Due to limitation of space this will inevitably only be a brief account of the postwar history. For a more detailed account of the postwar economic planning, see Gardner (1956), van Dormael (1978) and Block (1977). For an overview of the economic history of Bretton Woods, see Eichengreen (1996) and Bordo (1993).

[12] For instance, see Williamson (1983). Contrast this to Skidelsky (2003).

[13] This will be examined more in depth in section 3.

about its core argument arises: did the Bretton Woods system provided member states tools to help stabilize their domestic economy? This will be examined next through a comparison of the blueprint and the actual operation of the Bretton Woods system.

Bretton Woods system: a blueprint

Following Ruggie's approach, the paper will illustrate the blueprint of the Bretton Woods system by outlining its social purpose and the institutional mechanisms established to realize these objectives (Ruggie 1982, 382-383). The Bretton Woods system envisaged by its architects was to embody three economic objectives in the realm of trade, payments and capital mobility. [14] First, the postwar economic arrangement was to promote the principle of non-discrimination in trade. Often perceived as a synonym of "multilateralism," and attached strong priority by the United States, non-discrimination in trade became the overarching objective of the postwar international economic order (Gardner 1956, 16-17; Van Dormael 1978, 21-28; Curzon and Curzon 1976, 143-144). As Gardner (1956, 13) observes, this multilateralism did not mean the elimination, but the reduction of tariffs and other trade barriers. Any trade barriers remaining after this reduction, however, must be non-discriminatory in their application.[15]

Second, with regards to payments, two principles were to be enshrined in the Bretton Woods system: exchange rate stability and currency convertibility. With the establishment of multilateral trade as the ultimate goal of the postwar international economy, the parallel objective in the realm of payments was to create a stable system of payments that would not hamper international trade (Gardner 1956; Van Dormael 1978; Strange 1976). Reflecting upon the lessons of the interwar era where uncoordinated devaluations and beggar-thy-neighbour policies had caused disorder in international trade, the promotion of exchange rate stability became one of the most important objectives by the architects of the Breton Woods (Mikesell 1954, 23-24). Furthermore, currency convertibility was considered essential for the restoration of a stable and open system of trade and payments. In resonance with the non-discrimination principle, general currency convertibility became an essential foundation for an open international economy.[16]

The third economic objective to be embodied in the Bretton Woods system was the consensus to control the flow of capital mobility. Deriving from the experience of the interwar years, it was generally accepted that speculative capital movements were one of the chief cause of foreign exchange disturbances. If a stable exchange rate system was to be maintained, therefore, measures would be needed to limit capital mobility (Helleiner 1994, 35; Block 1977, 45-46). As a result, as Helleiner (1994, 25) observes, "the 1944 Bretton Woods Agreement … set up a rather restrictive financial order in which capital controls were not only permitted but encouraged." Thus, the

[14] It includes the realm of trade because of the understanding that the architects attempt to establish a multilateral system of trade *and* payments.

[15] It should be noted that while multilateralism and non-discrimination was often seen as a synonym in postwar economic planning, there is a large gulf between the two principles. This overlap of meaning implies the idealist nature of the "economic constitution," especially when contrasted with the way Bretton Woods evolved asymmetrically in practice. Also see Curzon and Cruzon (1976, 143).

[16] While convertibility meant convertibility into gold under the gold standard, the postwar meaning centred around the removal of administrative controls and restrictions over international transaction (Triffin 1957, 235).

three economic objectives were expected to complement each other, and taken together, they were geared towards the ultimate goal of the postwar planners: to avoid the economic instability of the 1930s.

Under the Bretton Woods system, these objectives were to be achieved through institutional mechanisms that govern trade, payments and capital mobility; namely the newly established institutions of ITO, IMF and the IBRD. For trade, the central mechanism built was the collective reduction of tariffs and quotas through the ITO (and later the General Agreement on Tariffs and Trade (GATT)). In order to sustain a liberal trading system, it was acknowledged that countries (especially European countries) would have to boost their exports. To achieve this, trade barriers would have to be reduced; and this could only be done through international coordination. Hence, the ITO was to be established to provide a forum for negotiation on trade issues and to monitor its success (Eichengreen 1996, 100-101). With regards to non-discrimination, it was to be achieved through the "most favoured nation" principle, which was to bind member states to extend trading benefits equal to those accorded to any third state.

Regarding the mechanisms governing payments, Bretton Woods included two features: the "adjustable peg" and the short-term financing and surveillance by the IMF. First, departing from the orthodoxy of the Gold Standard, exchange rates became "adjustable" in Bretton Woods: fixed rates but subject to changes under special conditions (i.e. fundamental disequilibrium) (Eichengreen 1996, 97; Bordo 1993, 30-31).[17] The aim of the "adjustable peg" was to overcome both the disadvantages of fixed exchange rates which required states to subordinate domestic policy objectives to balance of payments equilibrium and the disadvantages of a fluctuating exchange rate i.e. competitive devaluation (Scammell 1975, 79). By establishing a "fixed but adjustable" exchange rate system, the architects hoped to achieve exchange rate stability. Second, payments system envisioned consisted of short-term financing and surveillance by the IMF. On the issue of currency convertibility, it was acknowledged that concerted actions were necessary to achieve general convertibility, and the IMF was given the role not only to manage and to maintain exchange rate stability, but also to oversee the move towards the restoration of convertibility (Eichengreen 1996, 99-102). Furthermore, as Eichengreen (1996, 114-115) observes, operating a system of pegged exchange rates between convertible currency required credit to finance imbalances, and the IMF was designed to provide such credit. In essence, the payments system set up in Bretton Woods was a global solution, a community of convertible symmetrical currencies managed by the IMF.

As mechanisms to govern capital mobility, the Bretton Woods system endorsed the use of capital controls. As Cooper (1968, 27) indicates that, "While the Bretton Woods Agreement does not actually encourage or require the regular use of controls over capital movements as a method for maintaining external balance, the technique [was] certainly not discouraged." This observation is supported by Helleiner (1994,

[17] Although the architects never spelled out exactly how this system was supposed to work, the adjustment process expected in the postwar arrangement consisted of three stages (Bordo 1993, 37). First, to finance short-term balance of payments, member states were to use their international reserves or draw resource from the Fund. Second, in the event of mid-term disequilibria, monetary and fiscal policies were to be utilised to alter domestic demand. And third, in the event of a fundamental disequilibrium, which was never clearly defined, countries were to alter their exchange rates with approval by the Fund. Also see Cooper (1975).

35), who points out to the consensus between Keynes and White on the endorsement of capital controls, and their belief that a liberal international financial order was not compatible with both a stable exchange rate system and a liberal international trading system. The fact that Article VI of the IMF agreement leaves each country free to regulate international capital movements and encourages other countries to help this regulation may provide further evidence to the endorsement of capital controls in Bretton Woods (Triffin 1957, 236).

In theory, these institutional mechanisms were to provide states with the necessary tools to adjust their balance of payments in ways that would not restrict its domestic social objectives. They were to become a set of global institutions, and to be operated in an automatic and technical fashion. This point is where most embedded liberals consider as the strength of the Bretton Woods system: a successful blend of multilateralism and domestic interventionism. As the historical evidence suggests, however, it did not work as smoothly as it was envisioned.

Bretton Woods system: actual operation

Dormancy of Bretton Woods: 1944-1958 Contrary to the expectations of the Bretton Woods architects, the postwar system was dormant for most of the 1940s and 1950s. This may be highlighted by assessing how the institutional mechanisms established by Bretton Woods to governed trade, payments and capital mobility operated during this period. First, largely betraying the expectations for a swift restoration of multilateral trade, there was limited progress towards its liberalization in the immediate postwar period. Above all, the failure of the United States to ratify the Havana Charter (for the establishment of the ITO) was a devastating blow to the reconstruction of multilateral trade.[18] GATT, which was the salvaged commercial provisions of the fallen ITO, also made limited progress in its early years. As Irwin (1995, 143) argues, “The impression is often given that the GATT, since its formation, has made consistent and incremental progress on trade liberalization. A re-examination of its first decade illustrates that this progress came quickly in the late 1940s and then languished for some time.” With regards to non-discrimination, the principle met considerable difficulties and was soon sidelined. This was in part due to the gap between the illusory world that was in mind when the charter was drawn up and the real world that GATT, succeeding the ITO, had to face (Curzon and Curzon 1976, 148). The former was a world in which the United States and the Soviet Union worked together to enforce the “rules of the game” in a basically hostile economic environment (as in the interwar years). Hence, great emphasis was placed on non-discrimination. This assumption was soon ruled out with the start of the Cold War, however, and eventually forced the United States to abandon its faith in an universalist solution to the postwar trade problems. As Cruzon and Cruzon (1976, 148) observes, “GATT’s first trade conference had not yet been concluded before the United States began pressing its European allies to violate their obligations under Article I of the General Agreement.” As such, it was the regional arrangements such as the EPU (which developed out of the Marshall plan) that facilitated the restoration of international trade, rather than the global mechanisms embedded in the Bretton

[18] This was due to congressional opposition on trade liberalization, which eventually led the Truman administration to abandon the Charter in 1950 (Block 1977, 119).

Woods system i.e. GATT (James 1995).

Second, the payments mechanisms set up at Bretton Woods also failed to meet its expectations in the pre-convertibility period. This is highlighted by the shift from an "adjustable peg" system to a de facto fixed exchange rate regime. A salient feature of the postwar period was not the competitive devaluations that the architects have tried to avoid, but an increasing inflexibility of exchange rates (Eichengreen 1996, 122-123; Bordo 1993, 45). By allowing changes in exchange rate only in the event of a "fundamental disequilibrium," the Bretton Woods system strongly discouraged use of exchange rate as a vehicle of adjustment. To resort to exchange rates change was seen as a failure of national economic policy creating an incentive to defer the problem; and on many occasions, by the time decision was made to in this regard, the problem have increased and the pains of adjustment has become greater.[19] In addition, the role of the IMF deviated from its initial expectation as the centre of postwar economic governance. The Fund's resources were inadequate to provide a solution to the balance of payments difficulties faced by many member countries in the immediate aftermath of the war. Most of the financial assistance was provided from outside the Bretton Woods framework through alternative arrangements such as the Marshall Plan (James 1995, 105).[20]

Third, the only functioning mechanism as envisaged by the architects of Bretton Woods was capital controls. This was in part due to the ineffectiveness of the payments system. Reluctance to change its exchange rates lead many states to depend on external methods of adjustment including capital controls (Cooper 1968, 13; Eichengreen 1996, 94). As Helleiner (1994, 51) argues, even the United States supported the use of capital controls in line with the restrictive financial order in the pre-convertibility period. This, along with the continued existence of exchange controls, has facilitated the efficacy of capital controls.

Thus, the institutional mechanisms established at Bretton Woods did not operate smoothly in the immediate aftermath of World War II. They did not supply states with the necessary assistance for postwar reconstruction, and many of the measures designed to cushion the domestic economy was ineffective. Instead, assistance was provided outside the framework of the Bretton Woods system, in the form of bilateral aids and regional arrangements.[21] In light of this evidence, the extent to which the

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[19] This absence of a feasible adjustment mechanism in Bretton Woods sharply differs from the rather rosy illusion of the adjustable peg exchange rate system. Thus, as Scammell (1975, 81-82) argues, "by attempting a compromise between the gold standard and fixed rates on the one hand and flexible rates on the other the Bretton Woods planners arrived at a condition which was not a true adjustment system at all."

[20] The so-called ERP decision on 5 April 1948, by which the Fund decided not to finance countries participating in the European Recovery Programme or the Marshall Plan, further accelerated the declining role of IMF in managing international monetary relations (James 1995, 109; Eichengreen 1996, 108).

[21] A counter argument could be that the EPU embodied the principles envisaged by the architects of Bretton Woods, and therefore could be seen as an extension of the postwar system. Indeed some scholars have suggested that the EPU was the key machine that contributed to Europe's postwar recovery. For instance, Robert Trifin (1957) argues that the EPU was the only viable way to restoring convertibility and bring normalcy to the postwar economic order。 In contrast, others argue that there were alternative solution to inconvertibility, multilateral clearing and dollar discrimination. Eichengreen (1993) argues that there were far less obstacles for European countries to restore current account convertibility than is suggested. Yet, it should be noted that this was a regional solution to the postwar problem and not a global one which was envisioned at Bretton Woods. While the unique historical context of the Cold War should be taken into account in understanding this regionalist response, it should not be confused with the original aim of the postwar system.

system can be characterized as “embedded liberalism” in this period is not without serious doubts.

Bretton Woods as envisaged by its architects?: 1958-1968 While it is accepted that in the postwar reconstruction period the Bretton Woods system was largely ineffective, with the restoration of convertibility, it is believed that the system became operational. Yet, when assessed in light of the economic objectives, one finds numerous deviations from its original design, making the nature of the system inevitably different from its ideal type. In the realm of trade, for instance, the role that regionalism played in the postwar international economy should not be overlooked. While the principle of non-discrimination in trade was thought to be the overarching goal of the postwar economic order, in practice the objective was hollowed out by the world wide emergence of regional arrangements (James 1995; Shonfield 1976). If the Bretton Woods system did come into operation in 1958, regional arrangements that emerged in the postwar reconstruction period should have declined in its importance. However, the fact that the European Economic Community took the first move towards the creation of a separate customs union in January 1959 undermines this argument (Shonfield 1976, 4).

With regards to payments, the actual operation of the system also differed sharply from its blueprint. One of the striking features of the 1960s is the instability of exchange rates, in particular for the key currencies, sterling and the dollar (Eichengreen 1996, 125-134; Bordo 1993, 49-80). Indeed, the international monetary history of this period could be summarized as an endless battle to defend the exchange rates of the key currencies. In order to do so, international cooperation was arranged on an ad-hoc basis rather than through the IMF. Here, universalist solution envisaged by the founding fathers was replaced by ad-hoc international cooperation by the major Western countries. Furthermore, while general convertibility was restored in 1958, achieving the goal of postwar reconstruction, it did not develop into a community of symmetric currencies managed by the IMF. As mentioned earlier, the role of the IMF in managing the world economy was marginal at best before the restoration of convertibility in 1958. As Raymond Mikesell (1954, 34) argues, “the forces which determined whether the free world will move toward or away from a system of multilateral trade and payments and currency convertibility lie outside the Fund and GATT.” This also implies yet another departure from the blueprint of Bretton Woods.

One of the characteristics of this period was the declining efficacy of capital controls due to the growth of international capital mobility. The concerted move to convertibility by European countries in 1958, as Strange (1976, 57-58) observes, had been followed by a major renascence of international financial and money markets: the emergence of a single market for foreign exchange and the birth of the Eurodollar market. Following the restoration of European convertibility, the international economy saw an unprecedented growth in international capital flow, making capital controls more difficult to enforce. As Triffin (1957, 235-237) confirms, the maintenance of capital controls necessitates continued supervision over current transactions which may be difficult to reconcile with market techniques of convertibility. As such, this decline in the efficacy of capital controls provides another departure from the planned Bretton Woods system.

As the development of the international political economy shows, the Bretton

Woods system evolved in a rather different way from what originally was hoped. The fact that international economic relations was governed not by the institutions established at Bretton Woods but by the governments of the most powerful countries suggest that the system, contrary to its original aim as an universalist solution to the postwar problem, operated in an asymmetrical fashion.[22] This is exemplified by the fact that economically developing countries experienced severe domestic adjustment during this period. As Eichengreen (1996, 118) points out, "Not unlike experience under the gold standard, [economically developing countries] were subject to exceptionally severe balance-of-payments shocks, which they met by devaluing more frequently than was the practice in the industrial world." In contrast to embedded liberal's arguments, therefore, for some countries the Bretton Woods system did not provide the mitigating function that it promised.

From this brief examination of international economic history, the analytical flaws of "embedded liberalism" become clear: questions remain as to the extent the Bretton Woods system provided member states tools to stabilize their domestic economy. Indeed, while measures were designed to cushion the domestic economy against the stricture of the balance of payments, it did not work smoothly in practice. In addition, the fact that international economic management was placed in the hands of governments of the major Western countries should not be overlooked. The politicized nature of international economic management does not match the neutral understanding of the postwar system put forward by the embedded liberals. Given these considerations, it could be concluded that "embedded liberalism" as an analytical description of the Bretton Woods system has serious flaws that needs to be carefully reconsidered. Despite this problem, however, embedded liberal arguments are presented as a concrete historical experience and utilised in policy debates. The next section will examine the risks involved in this by looking at the "new international financial architecture" debate as a model case.

3. "Embedded liberalism" in practice and its critical social consequences

As the conceptual analysis presented in this paper have demonstrated, "embedded liberalism" can be distinguished into two dimensions. Its normative dimension suggests an ideal international economic order that embodies a distinct blend of economic liberalism and domestic interventionism. In contrast, its analytical dimension presents a descriptive account of Bretton Woods as resolved the tension between international and domestic stability. A brief examination of the international economic history has shown, however, that its analytical foundation needs to be re-examined. Yet, contemporary advocates of the concept have often confused the two aspects. As we shall see, this fragile analytical foundation of "embedded liberalism" leads to social consequences when utilised in public policy debates.

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[22] In the economic history literature, asymmetry of Bretton Woods usually refers to the position of the United States (and the US dollar) in relation to the major countries (currencies) or to the asymmetry between debtor and creditor countries. This paper will emphasise, however, a third asymmetry in Bretton Woods; that is, between "economically" developed and developing countries. This will be examined in the next section.

New financial architecture debate and the embedded liberals

In response to the various financial crisis that shook the stability of the global economy in the 1990s, talks over a "new international financial architecture" has become a hot topic among policy makers and stake holders (Armijo 2002; Eichengreen 1999).[23] In particular, the Asian crisis from 1997 to 1999 was seen not as a "routine" cycle which the global economy regularly experiences. The extent of the crisis and the way it spread to the rest of the world has created an awareness about the risks that financial liberalization bring to the global economy's stability (Cartapanis and Herland 2002, 273). Such awareness has fuelled calls for a new international architecture.

Although mostly contested within a small circle of analysts and policy makers, especially in the United States, the debate has sparked various responses. Leslie Armijo (2002, 43-53) divides these positions into four groups. The first is what he calls "laissez faire liberalizers." For laissez faire liberalizers, free global capital markets maximize efficiency. The market is understood as autonomous and needs minimal interference. Consequently, the central tenet of this view is that regulation, even minimally, does more harm than good. Thus, a financial market without a safety net is the safest, since only then will the "reckless behaviour" effectively be deterred. The second group is the "transparency advocates." Mostly situated in the established circles of the advanced capitalist states, they are supporters of free markets and free trade. This group also recognizes the problematic nature of the financial crisis for the global economy. However, they are reluctant or pessimistic for a radical reform of the current international system. In turn, the advocates embrace a solution of greater "transparency" in financial markets that would underpin the efficiency of the market. "Financial stabilizers," the third group identified by Armijo, shares with the transparency advocates faith in free markets and free trade. They disagree, however, that the "technical" solution proposed by the transparency advocates are insufficient to tackle global financial instability. Sharing the belief that liberalised financial markets are inherently unstable, members of this group argue that global finance needs global regulation. They are more sympathetic towards stronger measures such as capital controls to tame the volatility of the global market. The fourth group is the "anti-globalizers." Although a broad group of interests, members of this group share scepticism towards free trade and are thus less optimistic than adherents of the other three positions on the effectiveness of the international financial architecture. They view existing international organisations as corrupted and compromised almost beyond redemption. As such, they question the asymmetrical nature of the international financial architecture. While heavily contested, the "official" response was that of a transparency advocate. The Finance Ministers of the G-7 agreed on a common declaration at the Cologne summit in June 1999 that encouraged new practices and improvements of transparency (Cartapanis and Herland 2002, 272). This also meant that reform was minimal, with no real changes to the status quo.

Embedded liberals (including those who look back at Keynes's legacy) also play a role in the debate. Perhaps closest to the financial stabilizers, embedded liberals similarly argue that a mere technical fix will not resolve the problem of global instability (Best 2003, 2004; Armijo 2002). Some form of global regulation will be needed if the stability of the market was to be maintained. The challenge for

[23] For a more critical view, see Soederberg (2004).

embedded liberals is, therefore, to tame the unfettered financial markets and to provide individual states means to fight this global instability on the domestic front. In order to achieve this end, embedded liberals have turned back to Bretton Woods for policy inspirations. One such implication is the argument for capital controls.[24] For instance, Jonathan Kirshner (1999, 316) draws attention to the international origins of the Asian Financial Crisis: "capital deregulation that resulted in inefficiently high levels of short-term capital flows." Drawing on Keynes, he examines how this "contemporary challenges to the compromise of embedded liberalism" is undermining the stability of the global economy. He concludes that unfettered market forces, within and between states, will lead to suboptimal economic and political outcomes; and that "it should be remembered that the triumph of capitalism in the postwar era is not the triumph of laissez-faire, it is the triumph of the middle way and embedded liberalism" (Kirshner 1999, 329). Thus, embedded liberals offer an alternative to the dominant economic liberalism, and does so by presenting historical evidence from the Bretton Woods era, the "golden age of capitalism" (Helleiner 2003).

Limits of the embedded liberals

The brief illustration of the new financial architecture debate and the embedded liberals implies two issues. First, the purpose of analysis for the embedded liberals stems from the risks involved in the contemporary global instability. The normative drive of the analysis, therefore, is to discover (or *re*discover) a global solution to this risk and to forge measures to safeguard policy autonomy to pursue domestic social objectives. Second, embedded liberals seek to achieve this by drawing on the experiences of the Bretton Woods era. For embedded liberals, the postwar system operated largely according to theory; that is, it provided a "double screen" (or safety nets) to safeguard individual states from the strictures of the balance of payments (Cooper 1975). By drawing from the lessons of Bretton Woods, therefore, embedded liberals see a possibility for taming the global instability encountered today; and this is justified on the grounds that Bretton Woods contributed to the "golden age."

Two problems can be identified from this position taken by the embedded liberals. First, there seems to be a collapse of the normative on to the analytical in the arguments advanced by the embedded liberals. While the normative end implied by "embedded liberalism" *should* be valued and indeed studied in depth in the face of contemporary instability, it is highly problematic to present it as a concrete historical experience. Yet, the normative thrust seems to outweigh the analytical accuracy and caution in many of embedded liberals' analysis. Thus, despite the normative appeal of "embedded liberalism" as an alternative world order proposal, it is undermined by its analytical weaknesses. The second problem of embedded liberals' analysis involves the rather easy conversion of "embedded liberalism" from a contested academic concept to concrete policy knowledge. By introducing "embedded liberal" ideas as a possible basis of global reform, embedded liberals are facing a risk of excluding critical features of the international political economy. The most serious of this exclusion is the fact that the safety net facility, often pointed out as the "social embeddedness" of Bretton Woods, only operated for some countries. By neglecting this aspect of Bretton Woods, it will not only undermine embedded liberals' aim to

[24] On the issue of capital controls in the international financial architecture debate, see Cohen (2002).

achieve a form of global governance mechanism, but also may ultimately lead to possible social consequences.

The critical social consequences of "embedded liberalism"

The critical social consequences that embedded liberals' analysis entail may be highlighted by examining the gap that exists between the Bretton Woods system in theory and practice. As the embedded liberals argue, it can be said that the postwar system operated smoothly for the economically developed countries, contributing to its economic growth and prosperity. Yet, for others the social piecemeal advanced under Bretton Woods was only partly realised (and is still not fully realised today). Due to the hierarchical structure of the international system that embedded liberals often overlook, individual experiences of states under Bretton Woods sharply differed, contrary to the aims of the architects and policy makers that took over its operation.[25]

The most striking example of this difference in outcome is the global debt problem. Had "embedded liberalism" operated smoothly, the problems of highly indebted countries and "heavy" debt would not have emerged in the first place (both in theoretical and practical terms). According to the theoretical piecemeal of the embedded liberals, problems of balance of payments were to be solved in the same way for both economically developed and developing countries.[26] What the international economic history witnessed, however, was unprecedented economic growth in the United States and its targeted regional spheres on the one hand, and the accumulation of heavy debts resulting from excessive liabilities and the loss of economic autonomy in countries that fell out of this sphere of influence on the other. The result was the impoverished conditions for many countries at the turn of the century.[27]

The reasons for this asymmetry are many.[28] One may point out to the unique condition of the Cold War that narrowed the target of the Bretton Woods system. Another may highlight the often criticised optimistic assumption of the architects on postwar order. Whatever its cause, however, the fact that Bretton Woods operated differently for economically developed and developing countries and the resulting gap between them constitutes a critical aspect of the social (global) fabric. Thus, we see here an overlapping negative cycle between theory and practice: first in the history of the Bretton Woods system and second in the conceptualization and policy implication of the postwar system. The resulting consequence of the first divergence between theory and practice was the asymmetrical contribution of the Bretton Woods system for economically developed and developing countries. The problems of inclusion was not an issue (at least not of high priority) making the problem largely invisible; and

[25] Karl Popper argues that social engineering is necessary for social change to occur. In doing so, Popper distinguished between "utopian engineering" and "piecemeal engineering." The former is described as achieving history at once and comprehensively according to the law of social development. However, this involves numerous confusion and adverse effects. Rejecting the existence of a law of historical development, Popper instead proposed to reform the society through a gradual trial and error process by putting the various social conditions under control. He defined this position as piecemeal engineering. See Popper (1962, 157-165).
[26] See Scholte (2002, 205-206).
[27] While it may be argued that the problem of heavy debt was caused by the neo-liberal policies that succeeded "embedded liberalism" and therefore should not be confused, it should be pointed out that the Bretton Woods system institutionalised the contemporary order and thus situated the "economically" developing countries in its place.
[28] See Held (2002, 320).

this asymmetry structured the cleavage in the international political economy.[29] Now, we are encountering the second gap between theory and practice. If the embedded liberals fail to acknowledge these fault lines and the resulting impoverishment of certain countries, they may fall into the same trap as the architects; reproducing the negative social consequences that the Bretton Woods system had for economically developing countries. In other words, we see here the consequence of "invisibalisation" that the normative aspects of a theory may generate. And it is here that the social consequences of "embedded liberalism" exist. In order to avoid this consequence and thus fully realize the potential of the concept of "embedded liberalism," therefore, embedded liberals must review its analytical foundations. It is only then, that we can truly appreciate the conceptual power of "embedded liberalism."

Conclusion

In this paper, we have assessed the conceptual relevance of "embedded liberalism" by distinguishing its normative and analytical dimensions. Through this process the strength and weakness of "embedded liberalism" became clear. It was pointed out that while "embedded liberalism" advances important normative insights as a proposal for an international economic order, as a historical description of the Bretton Woods system it has fatal analytical flaws that undermine its conceptual power. In particular, the problems involving its assumption to equate Bretton Woods in design with how it unfolded in history, and embedded liberals' core argument that the postwar system resolved the tension between international and domestic stability by facilitating domestic interventions was identified as problematic. This was empirically examined by contrasting the blue print and the actual operation of the Bretton Woods system. It was found that the theory and practice of Bretton Woods deviated greatly; and it was suggested that the analytical foundation of "embedded liberalism" should be reconsidered.

Following the conceptual analysis, attention was paid on how the concept is circulated and utilised in practice. Taking the debates on the "new international financial architecture" as a model case, it was demonstrated that embedded liberals' analysis is problematic for two reasons: 1) that it seems to collapse the normative into the analytical and 2) its rather swift conversion from a contested academic concept to concrete policy knowledge. In particular, by overlooking the asymmetrical contribution of the Bretton Woods system between economically developed and developing countries, it was argued that the analysis of the embedded liberals may provoke social consequences by reproducing the cleavage in the international political economy that the postwar system contributed to structure.

What implications can be drawn from the analysis of this paper? We will propose three suggestions to refine the analysis of embedded liberals and the conceptual framework of "embedded liberalism." First, it will be suggested that embedded liberals must realize the internal tension between the normative and analytical aspects of "embedded liberalism." While the normative drive inherent in embedded liberals' analysis is valuable, this should not be confused with the descriptive foundation of the concept. Second, the analytical underpinnings of

[29] See Sassen (1998).

"embedded liberalism" should be revised. As this paper has shown, there is a gap between Bretton Woods in theory and practice; and this difference should be carefully reconsidered by contrasting the conceptualization with international economic history. Third, and most importantly, the issue of "inclusion" should be integrated into the conceptual framework of "embedded liberalism."[30] It was previously pointed out that individual experiences under the Bretton Woods system greatly varied; and for many of the economically developing countries the postwar system did not deliver the safeguards it promised. This may have been caused by a neglect of the political/economic dynamics of the postwar period; the point, however, is that embedded liberals are risking to reproduce this social consequence by reinforcing the asymmetric nature of the international political economy and the "invisibalisation" of this effect on individual states. If "embedded liberal" ideals of global social piecemeal were to be achieved today, as the embedded liberals would envision, the issue of inclusion must be taken into account in the conceptual framework of "embedded liberalism." It is only then, that "embedded liberalism" will be a viable intellectual foundation for mitigating the negative consequences of the "backlash" of globalisation.

[30] This echoes the call for inclusion in the "new financial architecture" debate. See Germain (2001).

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