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THEORY TALK #14

GEOFFREY UNDERHILL ON THE ECONOMIC CRISIS OF THE US, THE IMPOSSIBILITY TO UNTANGLE STATE AND MARKET, AND THE CURRENT VALUE OF ADAM SMITH

Theory Talks

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GEOFFREY UNDERHILL ON THE ECONOMIC CRISIS OF THE US, THE IMPOSSIBILITY TO UNTANGLE STATE AND MARKET, AND THE CURRENT VALUE OF ADAM SMITH



Geoffrey Underhill holds a distinct position in the field of International Political Economy, stressing the importance of the realization that states and markets, or rather, governance and the economy, are intrinsically bound together and only separable analytically. In this comprehensive *Talk*, he – amongst others – explains the implications of that realization for the principal debates in IR; explains what’s happening to the economy of the US, and shows how reading Adam Smith is still valuable – albeit for different reasons most people would think.

What is, according to you, the biggest challenge or principal debate in current IR and what is your position therein?

I think there are basically four debates central to the way we should think about international relations:

The *first* focuses on the relationship between market and governance (a classic question for a political economist). It is very important to understand the link between the way in which markets change – whether and to what extent it is a global process, or regional integration or even a national issue – and how preferences for and possibilities in terms of governance evolve. I think we don’t understand this relationship as well as we could: we observe that if markets integrate across borders, governance comes under pressure in several ways, but we still don’t know what the relationship is between cross-border economic integration and growing levels of interdependence amongst states and their societies on the one hand, and on the other hand how this relates to preferences for different forms of governance, what kind of institutions and on what levels they might function, how governance ought to or might work, what is acceptable and seen as legitimate.

Take the example of the recent Irish ‘No’ to the Lisbon Treaty. Why is it that multilevel governance is seen as legitimate in certain states, sectors and societies and not in others? The integration of policy-making on a higher level helps to manage the potential problems of economic integration faced by civil societies over time – and the EU did so especially well for the Irish people. The political class and business community were in favour of the Treaty. Yet the Irish electorate apparently does not agree (or at least they voted no), although their answer may well store up trouble for themselves in these times of financial crisis which does not respect

borders. In a period of crisis, it is extremely important to understand the relationship between market integration, institutional change, and the legitimacy of different forms/levels of governance and their effectiveness. We need to know how to adjust governance to cope with the current financial crisis and the institutional crisis in Europe, but also to do so in a way acceptable to the people affected. The benefits of globalisation will be difficult consistently to achieve if governance cannot be properly adapted.

The *second* challenge is the relationship between underlying social and economic conditions such as poverty or inequality and a lack of opportunity on the one hand, and conditions of social and political stability on the other. When do social and economic conditions lead to greater levels of conflict/stability? How do you build stable systems of governance which resolve tensions but are also able to deal effectively with those underlying problems? Intuitively we understand (and we have good empirical indications) that great deprivation or periods of rapid change are more likely to lead to conflict, but our understanding of the relationship is still limited. We also don't know how social tensions can be related to change in traditional societies, cultures or religions, or to long-term economic development – a better understanding of which would help us to understand political collapse and even terrorism. One day the major powers will discover that the transaction costs of militarized responses are very high, and we can do better.

A *third* – and related – point would be that we need to get a better idea about what 'security' actually is and its relationship to broader social, economic and political issues. Traditional IR tends to think about security as an end in itself, something states should maximize. The more states think like states in this Westphalian fashion, the less likely they are to resolve their urgent internal and external security problems, and the problems which lie underneath. Maximising hard, military forms of security leads to a 'sovereignty trap' as I put it, or what others refer to as the security dilemma: while pursuing more security, they end up with less. Force can accomplish certain things, and sometimes it is necessary, but it's also very costly – even for the so-called 'winners', and the benefits are very low. So the question is, why we consistently choose to take the militarized response route as a policy? A redefinition of the concept of security leads to a better understanding of the empirical and analytical relationship between security, the economy, and other social goals. I think the [Copenhagen School](#) has partially addressed this question, but we need to move further. We can aim at a more comprehensive redefinition of the concept of security – we forget that security is a means to protect a community and its values, and these means can differ. Security and power are not ends in themselves but a means to achieve preferable economic or social goals defined by a political community, each with an internal and external dimension. Such a reconceptualisation therefore also challenges the traditional analytical dichotomy between the internal and external, or international politics as separate dynamics. Security will depend on the goals defined, and will not be the same for all. Security is about who has it and for what purpose and how it is financed, and is therefore an integral part of political economy. Think of the goals to be achieved first, then about the means and their various costs. Force and conflict will not always be the best option to improve the situation. The successful definition of goals and developing a consensus on the means to employ will depend on the coherence and legitimacy of the political community itself.

Finally, security is closely related to the management of scarcity. The realist 'one-fits-all' model of security as the first priority of *states* is no longer adapted to our current reality and we should be thinking in broader terms about what states offer their citizens. Power may resolve problems of scarcity for some, providing the means to protection from external threat. Yet exclusionary arrangements based on power may prove insecure in the long run, open to both internal or external challenge. In other words, security is ultimately related to underlying social and economic conditions in important ways and needs to be understood on this basis.

The *fourth* and last debate is an underlying theme of the first three: if there are two theories that should talk to each other, it's the disciplines of political science and economics. The way in which they work, the types of questions they ask, and their methodologies are so often completely separate, despite the fact that they treat a lot of the same issues. Economics journals I read on institutions and governance have zero references to political science-literature, and the other way around, political science seldom touches on economic insights, there's very little overlap. This is a waste, or, in economic terms, suboptimal.

The challenge in terms of theory is a general one. A lot of policy in IR-related issues has become stuck on a particular path, backed up by intellectual paraphernalia where the premises confirm the conclusions in terms of action. There is often little or no dialogue because each 'way of seeing' works in a theoretically closed circuit and takes selected real-world events to confirm their theses. There is too much theory looking for facts; we need to turn the situation around and base the way we think about the world on the way it empirically works, and on the sorts of solutions which would actually improve the situation as opposed to those prescribed by these theories in search of facts or worse, the attempt to create situations which confirm the theory. That is what Iraq was about: if we pursue the course, others will see that we were right.

Market fundamentalism was similar: if we succeed in taking away the state, the benefits of the market will be clear to all. Each was based on a construct, a utopia, although there was plenty of historical evidence that should have made us sceptical. Now we can see that these ideas have delivered us into a very painful process, grinding war and financial crisis.

We have to stop theory and method-driven questioning (or even worse, method-driven action), and look for a question-driven method. Concepts have to relate to how things work, not to formalizations which then lead to predictions. Since reality changes – and rapidly – theory should adapt as well. If we can learn to think about problems differently, based on the complexity of experience, we will come up with better solutions. If we see differently we can break the path-dependency of the responses which get us into trouble.

How did you arrive at where you currently are in IR?

Largely based on observation, and academically: beginning with my BA (Queen's) and later my PhD from Oxford. But I discovered that good Oxford scholars are good scholars not *because* of Oxford but *despite* it: it has a great reputation, but it doesn't teach you that much, except perhaps intellectual survival skills.

I started out doing a thesis on the effects on western industrialized countries of growing levels of interdependence as represented by increased trade integration in the 70s, and the problem of industrial decline. Societies and governments were struggling with economic instability, unemployment and the likes. It seemed they should be stimulating sunrise industries, while what they were in fact doing was to subsidize and protect sunset industries. Why was that? Taking the case of the textile industry, what I saw was state and market agents acting in concert to shape the terms of competition in their own interest, acting as an increasingly transnational policy community to shape the market through governance. First they built the 'new protectionism' and eventually much of this was liberalised in the [Uruguay Round](#). I discovered that a similar process led to the liberalisation of money and finance.

As for sources of inspiration, I would have to mention the work of [Karl Polanyi](#), [Peter Gourevitch](#) (who theorized about the domestic-international divide and how to manage that

intellectually), to two specialists in money and finance, the late Susan Strange and [Jerry Cohen](#), Robert Cox, [Robert Keohane](#) and many others.

What would it take for a student to become a specialist in IR?

I have quite a traditional approach to this question, which goes something like: 'get a PhD, dedicate yourself, be critical, etc.', but I differ from traditionalists in that I think that IR students should have a broader education than many currently receive. I think this intellectually broad basis is greatly undervalued, and although I understand it might seem impossible for both students and teachers to take up this challenge (just because nowadays there is simply so much material to teach), still I think we should all strive for it. There are a lot of admissions committees that judge applicants on their devotion to a somewhat narrow definition of the field. A good IR scholar is not a technician plus method pumped full of pre-determined questions trawled out of the existing literature. This could miss a lot! I think students should have a broad historical and intellectual background: you need to be able to understand how the past worked in order to be able to interpret the present and think creatively about the future. They need to know how to ask the important questions, and that implies a good grasp of political philosophy. What are the issues which are important to the human condition?

But students should not just have historical underpinnings: they should know what they talk about in general. Scholars need to know both sides of the domestic-international divide. IR is not somehow separate from domestic politics. The two are intertwined and we need to understand domestic dynamics if we are to understand why national political communities, states, do what they do in particular circumstances. Societies and states are transnational in nature. The territorial principle is important but it is only a part. And IR scholars also need to know other disciplines: the basics of law and how it works, economics, the philosophy of knowledge and how we know what we know. A broad education in short. I mean, in order to think about institutions, you have to know how they function in practice. Students should know what they are discussing when talking about theory: if you tell me about the work of Immanuel Kant, you had better know what Kant actually said.

If we, as you've stated, should adapt to a rapidly changing reality, it might become necessary to change stripes as an IR specialist, even if one has become part of an approach or epistemic community or having formulated a 'big idea'. Do you think that's possible?

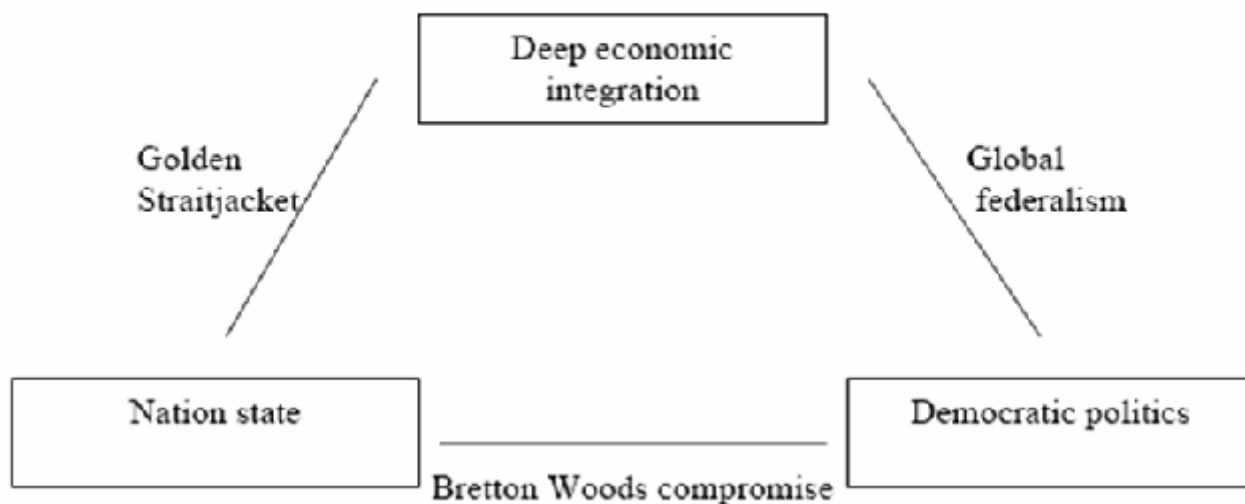
It's difficult: carefully built-up collegial relationships and a reputation are not things one gives up on easily. You really make an emotional commitment to the ideas you adopt, to your style of work: first you are influenced by mentors and work hard to become member of a certain academic 'club' — this can be very advantageous, especially at the beginning. But that process may also limit open and creative thinking. Schools of thought can undergo stagnation, become introspective and turn over and over the same sets of stones on the beach, holding on to their 'tradition' of past findings. Paradoxically, perhaps adaptation is most difficult for scholars within such a school of thought who have got hold of something with policy implications and supportive empirical material. The temptation is to spend more time looking for further confirmation, to convince oneself and others. That's what humans do, and academics are humans too — something, in my point of view at least, very difficult to overcome.

My *general* response to these dilemmas is to be as critical and sceptical as possible. By this I do *not* mean the same thing as 'critical theory' in IR. This approach is sometimes critical of everything except its own underlying assumptions, critical of established order, but in a declaratory sort of

way. I *do* mean that all academics have a duty to be sceptical. And that applies most urgently to the ideas we accept most easily, including our own, the ideas to which we are most emotionally attached. So as I always tell my PhD students, as soon as you find yourself being drawn to a particular approach, that is the moment to be most sceptical of it. And that is the reason that I have put such effort into working with economists and learning from them. I could have remained comfortable inside the IPE and IR community, but that might have bred complacency and violated the principal of genuine critical thinking. So I tried something new, and collaboration with a discipline with which I was not necessarily comfortable. This has been very fruitful.

You've formulated in your 2003 article *States, Markets, and Governance for Emerging Market Economies* as 'one the most fundamental problems: our systems of democratic accountability are nationally based, whereas our systems of production and the market are so no longer.' According to Dani Rodrik, there's simply no solution states can have but two of the following three options: a strong nation state; deep economic integration; and democracy. More and more states seem to opt for at least the 'inevitable' economic integration. But markets are faster than states in adapting to the consequences, and, like you've stated, 'we cannot go back'. So we're giving up the state?

THE POLITICAL TRILEMMA OF THE WORLD ECONOMY



I think we won't yet give up the state, it is not immutable. Deep economic integration is a decision that states take. The question is rather *how* this happens and what effects it has and for whom. And I base these questions on observation, that producer interests – capital and/or labour – can come together to form alliances with state officials so as to set the terms of competition in their favour. That's what markets as institutions are: the way in which rivals with conflicting sets of preferences compete with each other for economic opportunity and benefit. By forming these alliances, competing interests also compete (whether they like it or not) in terms of broad governance issues like inequality, the decline of traditional industrial industries, and so forth.

So markets and governance don't work as most literature shows they do: they are not two distinct dynamics but are analytical elements of the same phenomenon, what I've dubbed the 'state-market-condominium' – which implies we can't simply give up the state. So if Rodrik separates nation-state, democracy and economic integration, this is an analytical step, because empirically, these three are found together. After all, it's the big democracies that have most vigorously pursued deep integration. States have driven integration, not some 'invisible hand' of the market. But Rodrik *is* correct that traditional forms of nationally-based democracy are being made extremely difficult under conditions of deep integration, because there *are* these commercial interests which tend to move a lot faster than their governing counterparts and the constraints that the latter pose upon the former are quite serious and thus not always appreciated.

So we have to understand how preferences of democratic governance relate to preferences for economic openness: what is the right balance between those two and at which level/form of governance can we achieve them? To what degree is economic openness democratically accountable, legitimate and sustainable? The biggest problems is when the nationally-embedded, path-dependent interests of citizens consider globalization bad and the 'national' good, despite the evidence that there are many benefits to global integration and a range of governance solutions as well. How do you help them to think about things in a different way? Polanyi's ultimate argument was that the dynamic pressures of markets actively lead to democratic governance. The big question of our times is how we adapt this path-dependent national democratic system of accountability, which we so painfully and slowly developed over centuries, to fit a multi-level setting and the policy problems of deep integration? The Irish referendum points to the obstacles, but since we've already managed to move from city-state governance in for example Amsterdam or Italy to the national one, surely, it must be possible to take another step to a regional level?

You've touched on an interesting point here: the distance between scholarship and citizens. There seems to be a deep discrepancy between what citizens understand and want and what 'we' discuss and prefer.

Actually, I am quite optimistic in this sense. Before, I mentioned how constrained academics can be due to their intellectual path-dependency; citizens, luckily, are relatively free from that, and there are a lot of them, which forms one of the pillars of democracy, and there is a broad range of academic findings too: the variety of opinions that, once aggregated, ensures that the chance that all of their collective decisions are wrong, is very small. So any single, doctrinaire intellectual position on how things should be and could be done, is just not sustainable. Nobody's ever seen an 'optimality' walking around, because perfection doesn't exist; nature just 'is', and people just 'are'. Theoretical abstractions are nice looking but not terribly applicable. Instinctual politics, debates and rough coalition building still lead to well thought-out solutions. Consensus is always the basis for action; and if you look back at post-war Western Europe, even if we didn't have a 'plan', we did very well, and I think that has a lot to do with democracy. There is of course a problem when academic findings are clearly at variance with popular opinion. But there is debate and discussion and minds can be changed.

Timothy Sinclair argues in [Theory Talks #5](#) that one should distinguish between 'global governance' representing market interests, and international institutions representing those of states. But you argue that the separation of markets and institutions should be overcome in IR literature: 'the differences between markets and governance are more apparent than real, and ... the two processes are fundamentally part of the same phenomenon of economic competition'. While empirically you might be right,

normatively speaking I can already see Habermas' reaction: the perfection of the system's invasion of the living world.

If I understand correctly, I disagree with Sinclair on this point: the market is what we make of it, it's not some separate, technical arrangement out there which is separate from states and governance and the choices we make about them – I think his distinction takes away agency, the agency that lies behind the emergence of markets, and how governance is central to the phenomenon. States have been part of the process of deep integration as I said earlier, just as much as they are behind international institutions. Instead one should identify the tendency of governance the past twenty years, in which it was heading toward a technocratic, market-oriented kind of thing, but that does not mean 'governance' is something different from international organizations like the Bretton-Woods International Financial Institutions or the OECD. These member-based international institutions were fundamental to the market revolution, and states backed by powerful corporate interests are heavily embedded in those organizations that facilitate market-based governance. My research shows that powerful private interests have better access to these institutions (through the membership) than most developing country member-states. In an agent-centric approach, you have to deal with different kinds of interests, preferences and fields which are played out in all kinds of levels of political organization. One should look at the interests which are embedded in institutions, state or international, whose interests they best facilitate and what choices these institutions support in terms of market, and how politics might change the outcome.

You've asserted that failure of development in the South might be due to the fact that 'state-market condominiums of the North shape and constrain development policy options in the South' in some cases, but that in other cases the developing state functions as 'powerful and predatory MNC's [Multi-National Corporations, red]'. Where's the agency here?

You are drawing attention to a very big problem. International aid donors like the World Bank that operate with these developing states, are still mostly stuck with the sovereignty requisite: they can only give aid to official state institutions, which in Africa and elsewhere are too often these predatory groups of rent-seeking coalitions who have no interest whatsoever in wider development agendas nor in their citizens.

However, developed governments could also drop *their* more predatory, rent-seeking interests, and actually focus on development instead of their diplomatic and commercial relationships. A number of them have indeed tried hard. I realize the commercial pressure from China has curbed some of the enthusiasm for the developmental discourse, but we should keep putting pressure on both African and the Chinese governments. I do think China will slowly learn from the problems it has experienced in Africa; China does not want to see its aid going astray. This country and India are both big developers who are building their understanding of the situation African nations are in and will start trading on that knowledge, albeit slowly. For now they have been developing so fast that they have problems adapting their domestic as well as their foreign policies to their new role in global politics. But experience and international opinion will eventually have an effect.

Spanish Professor [Emilio Lamo de Espinosa](#) recently proposed that we have a problem in the social sciences, because we're still reading Aristotle and Plato as classics, while in, for example, physics, classics change every twenty or so years. He bases his point on the idea that information doubles every 3 months (at least in Google); analyzed information

is knowledge, which doubles every fifteen years (as measured in the number of scholarly journals); and knowing what is 'good' to do with this knowledge is wisdom.

This is a genuine problem, but I don't agree that the advances made in the physical sciences mean that the social sciences are going too slowly. Furthermore, most of the increase in information in either case is empirical. But I am not convinced that analysed information is 'knowledge', because knowledge implies knowing how to use it and the accelerating availability of information does not help us use it better. I think the real problem is not a lack of wisdom – and there's a lot more than just Aristotle or Plato – but the fact that we don't use it well or often. How many IR scholars really do understand Aristotle or Plato? Students should of course learn critical thinking, which means being critical of the order around you and the way it works, as in critical theory. But I think it should go further, because critical theory doesn't tell you what to do next, nor does it give you principles to find what to do; critical thinking should also be about how to find a way to make things better in the long run.

Another, yet related, problem is that so much theory is guided or shaped by our own interests and preferences, be they emotional, political or professional. Critical thinking should, for me, be pointed first and foremost at the things we feel most naturally comfortable with; of these we should be most suspicious. And wisdom for me is to overcome this self-interest in the pursuit of inquiry. So we don't need new philosophical literature to match the rate of information accumulation, but more reflective and authentic critical thinking about it. Theory is always for some purpose, for someone, Robert Cox stated two decades ago, and realizing that that applies to your own thinking as well will help you to recognize and overcome the flaws in your own thinking.

That's why I have always fought against some theoretical straightjacket and why it is still difficult, even for myself, to place me concretely in a specific approach or debate in the literature; I could easily have been another social constructivist or neo-Gramscian, but instead I recently chose to work with what I distrusted and found most difficult: the market, quantitative method and liberal economics.

Can you help us to understand what is happening to the economy of the United States?

Basically, we're talking about debt here: private indebtedness of people who borrow on everything varying from their houses to their cars to their household expenditure, something stimulated by banks and government to encourage continuing consumer growth. These banks also put themselves into debt, not only nationally but also internationally; and not only private banks, but the Federal Reserve Bank and the government as well. Low interest rates and continuing growth encouraged the notion this was sustainable. Developing country exports rely on continuing western, read US, consumption.

The result is huge international payments imbalances of debt matched by dollar reserves, much in Asian hands, which implies a rise of risk and eventually uncertainty in the system. The dynamics of growth and successful development in turn push up commodity prices (like that of oil), making countries worry about growth and impelling them to grapple for the commodities they consider vital to their national interest, which one sees in China and India. Development also propels an enormous growth in the demand for 'simple' foodstuffs such as rice, causing all kinds of political and economic adjustments in the system. The US and other rich countries can pay the price, the poor cannot. But the situation was not sustainable and has come apart in a context of financial crisis, a falling dollar and the unwinding of debt, not yet over. The adjustment could be

difficult and the full extent is not known. As the US economy slows and financial crisis bites, the economic pain begins and the politics get meaner.

Another way of looking at it is to ask what is happening to politics of distributional conflict in the United States. For some time the US had been moving in a different direction than Asia or Europe, since some time after the New Deal/Great Society episodes. Now I see a huge nation with a fragmented, federal democracy groping for something different, in a vague collective way seeking a less risky and uncertain society, in particular greater certainty in the face of illness and the cost of healthcare, better opportunities in education for the broad majority, less violent, less unequal, less emphasis on productivity through long hours, one where outcomes are not so skewed towards the wealthy and powerful as they have been since the 1980s. Any candidate to whom people are willing to listen accepts that something has to change.

On the economic side the result is that a number of iconic industrial giants like Ford, General Motors, the airlines and so on are virtually bankrupt because of their social obligations in terms of pensions and healthcare for their workers. They cannot provide anymore because these crucial elements of an efficient workforce are privately produced and not collectively; now these companies, representing the rich and powerful, are able to dump these cost on their workers and public: workers now receive about 55% of what was promised as retirement.

The biggest problem comes from the combination of the economic and the political. This is a country with an odd 18th century political system which is very far from the 'consociational' ideal of [Arend Lijphart](#) and European social democracies. The system was designed by U.S. Founding Father [James Madison](#) to allow the powerful interests to prevail even in the presence of gridlock. And it works. Any incoming Congress or president is less than free to pursue a new agenda, and the economic problems including debt and financial crisis are growing. It's a kind of protectionism: where a few segments of society benefit more from the system than others. Of course the economy still is tremendously productive and may continue to satisfy enough of the people enough of the time for quite a while, if growth is not too badly hit by the financial crisis, the housing crash not too bad (increasingly doubtful). And so the rich and powerful have a lot to hang on to, because the system benefits them most: if you have the money, you can have the best schools, service, health care and more at your disposition. Since the elites are deeply embedded in the political system, they can hang on to it as long as it gives enough people a big enough share of the cake for them not to complain too hard, and as long as no coherent alternative vision emerges. But the democratic system of the US does allow for popular opinion to seep through, and now it's all about who has the power to change the terms of competition; who gets to shape the market (which includes the tax system, health care, the collective systems of governance), in short: who has the power to decide who gets what.

So I think where we should look for change is in demands concerning labour market and working conditions. At this point, it is not well organized, with a lot of benefits for some and a lot less for others, with real wages dropping consistently for a large segment of society. You can't endlessly increase competitiveness by keeping peoples' wages down and making them work long hours. What lay behind the great boom of the 1990s? Companies invested in their workers, in new technologies and human capital etcetera.

As Churchill once said: 'The US always chooses the right policy. But only after having tried all the others'. So it could be a while before things change. I don't foresee any dramatic change after the coming elections, although the pressures are very much there.

Europe is pulling to the right in this point, with limits on working hours being pushed back: we can now legally work 65 hours a week, instead of the former 48-hour limit. Are we going towards the American labour market model?

Unionized labour (and most other) only works forty hours a week anyway, and there's not a chance that this deal will change anything about that, so the actual percentage of people affected is relatively small. The professional and managerial elite always worked long hours and are not affected. There are still many national limitations. No, the US model is not coming to Europe.

More interestingly, this deal forms a part of a bigger adjustment in Europe to the changing global market. It's looking for its position and is a matter of horse trading between the British, who want to liberalize the labour market as much as possible, and other countries like France. The question is where you place your emphasis in terms of labour and capital. In France they opted for substituting capital for labour, introducing a 35-hour working week (now apparently gone) with well-paid labourers, stable contracts and very high hourly productivity. But the down side is high unemployment and poor working conditions among the unskilled. In the UK, the emphasis is on flexible but high levels of employment with low pay, especially in low skilled jobs. In the Netherlands we have worked out a sound compromise and unemployment levels are even lower than the UK.

The price of Europe's current adjustment to the world economy gets paid one way or another: we have this paradox of a major skill shortage combined with high unemployment (of the unskilled) across much of Western Europe. So if you want Europe to stay rich, you have to avoid reliance on a large pool of low-paid unskilled labour without a job. If workers are not paid a lot, we cannot be rich. We need to continue to substitute capital for labour, raising skill levels, and that means emphasising flexible education and training of people so they stay responsive to the demands and rising skill-levels of the labour market. In Europe the big issue is to avoid the institutionalised exclusion of some groups during this process of adjustment while others enjoy access to the benefits of global integration. We must continue to help the vulnerable deal with the risks of global integration by maintaining health care and other social services. In the US, access to high quality education and health care has long been limited and in part a racially segregated benefit. In Europe, the treatment of immigrants indicates that in some places we are going the same way, and we can and should avoid that.

Last question. What is the current value of the work of Adam Smith?

Very relevant, but not for the reasons most people think. Most people think that Adam Smith is relevant because we have such a market-oriented system, so we should know how markets work, how to get benefits, and Smith tells us about this. While this is quite right, it's only part of his work. I am a reluctant admirer of his work, because I am more sceptical about the benefits markets can offer than he was – which is not surprising if you look at our respective contexts: in his time, markets were severely constrained by the King and his cronies and other powerful mercantilists, and he wanted to get rid of those constraints on entry and competition to unleash the talents of ordinary people. In the early 21st century, I see a society that is very market-oriented and I have my doubts about some of the results, especially in the financial sector.

Yet Smith understood the world in state-market-condominium terms, the state and the market as emerging from the same self-interested forms of human interaction in society, as the same dynamic. He sees the pursuit of self-interest by the King and his cronies and the protected market it yields for them as linked to the low level of prosperity for ordinary people. So he's arguing for agency to pry away the dirtier, rent-seeking side of the mercantilist market, in order to

make self-interest freer to interact in competitive circumstances to perform a very important collective good: to maximize wealth and distribute it better than the king and his cronies care to do.

I am a genuine admirer because Smith was so very sceptical of the very market behaviour which he sought to promote. He addressed the difficult questions. While he saw it as a solution to the dysfunctionality of mercantilism, he remained sceptical of the extent to which one can confide in the market to produce satisfactory collective outcomes. Let me give you a quote:

'Merchants and master manufacturers are, in this order, the two classes of people who commonly employ the largest capitals, and who by their wealth draw to themselves the greatest share of the public consideration. [...] their thoughts, however, are commonly exercised rather about the interest of their own particular branch of business, than about that of the society[. ...] The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. [...] They] ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention.'

Source: Adam Smith, *An Inquiry into the Nature And Causes of the Wealth of Nations* (1776), Book One ('Of the Causes of improvement in the Productive Powers of Labour, And of the Order according to which its Produce is Naturally Distributed among the Different Ranks of the People'), [conclusion](#)

So he raises all the right questions about the market, and his scepticism and willingness to explore problems even when that exploration casts doubt on his own conclusions, *that* is more than worth admiring.

Geoffrey Underhill is professor of International Political Economy and International Relations at the University of Amsterdam and the related Amsterdam School for Social Science Research. After having studied at the *Institut d'Etudes Politiques de Paris*, he finished his PhD degree at the University of Oxford. Since, his research has focused on the political economy of monetary relations and financial services in a context of transnational financial markets, global capital mobility, and state macroeconomic management, including regional cases such as EU and North American financial integration. He has published many articles and books, amongst which *Political Economy and the Changing Global Order* (edited with Richard Stubbs, 2000) and *The New World Order in International Finance* (1997) stand out.

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- Read Underhill and Zhang's *Introduction: global market integration, financial crises and policy imperatives* from their 2003 book *International Financial Governance under Stress: Global Structures versus National Imperatives* [here](#) (pdf)

- Read Underhill's *When will Politics End and the Market Begin? Whither free trade after Doha* (Journal of International Trade and Diplomacy, 2007) [here](#) (pdf)
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