International Political Economy

PHILIP CERNY

International Political Economy, domestic politics and democracy

International Political Economy (IPE) had already achieved prominence as a field of study by the start of the 21st century, but its role has changed dramatically, with issues of democratic governance and policy-making moving to the forefront. Originally, however, the roots of IPE lay in economic aspects of relations among nation-states in the international system – foreign economic policy, trade, the spread of production systems and firms across borders, and the international monetary system, as well as a range of international economic institutions and regimes and the interaction between domestic and international policy issues – but not with domestic politics within states. In mainstream International Relations theory, states are seen as sovereign ‘unit actors’, independent decision-makers of last resort, whose domestic structures are hierarchical but whose bottom line is their very survival in an anarchical world of external danger and threat. Domestic politics, in contrast, has the luxury of being able to rise above considerations of survival and power, and can paradoxically pursue ‘higher’ values such as the common good, welfare, liberty, equality and democracy.

However, unlike most traditional analyses of foreign policy and security studies, IPE has always had the potential to cut across this levels-of-analysis distinction. As the world has become a smaller place (the idea of the ‘global village’), analysts increasingly focus on issues involving the interaction, linkages and common features of both international

and domestic politics at the same time. It is not merely boundaries between the international and the domestic that are crossed, moreover, but also those between politics on the one hand and other dimensions of globalization as well – economic, social, geographical, environmental and cultural. Observers have thus come to focus on more complex processes, primarily globalization.

Most analyses of globalization today see the international political economy as relatively unregulated and increasingly integrated across borders, mixing the anarchical and the hierarchical in new ways. The political conclusion drawn from this is that existing domestic structures, including democratic policy-making, must be adapted to deal with the imperatives of such a world. Broadly speaking, when nation-states could still be insulated to some extent from international and transnational economic trends during the period of the Long Boom after the Second World War through to the late 1960s, liberal democratic national governments could trade off a certain amount of economic inefficiency for a bit more social justice. Social policy, in particular, was seen as a relatively autonomous, inherently domestic issue area that could be debated and dealt with through a combination of ethics and voter choices. The domestic left-right spectrum, rooted in the late 19th and early 20th centuries and focused on the redistribution of resources among social groups, constituted the fundamental parameters of democratic policy choice.

Globalization has undermined these economic conditions. As international trade has increased and tariffs have been drastically reduced, much of manufacturing industry and even small businesses have had to become more import-sensitive, export-oriented, multinational and dependent on global financial markets for investment. Multinational capital looks increasingly to trade off capital-intensive, high-value-added processes in the advanced industrial (or post-industrial) countries for cheap-labour production in labour-intensive industries located in China and less developed countries. Meanwhile technological change – especially information and communications technology, the lowering of transport costs and the increasing flexibility of production methods – and the growth of service industries undermine trade unions' ability to pressurize employers and

governments to protect their members. The result is fragmentation of traditional class identities and political loyalties too. The globalization of financial markets and firms has caused interest rates to converge across borders, rewarded the purveyors of 'hot money', and made anti-inflationary policies and a new embedded financial orthodoxy the touchstones of governments' monetary policy.

In addition to these more direct effects – imposing a new embedded financial orthodoxy on the state and emulating business models of organization – globalization has two indirect political effects. In the first place, it fosters a wider ideology of the *marketization* of public policy and of the state apparatus itself. This is supplanting what social historians call 'status' by 'contract' as the dominant mode of social relations – the replacement of customary entitlement to goods and services, based on a priori social position, class or standing, with contracts negotiated on the basis of price and/or reciprocal rights and obligations. In the second place, globalization has led political actors across the party spectrum to alter their policy prescriptions to adapt to what they see as the 'realities' of a more open and globalizing world. That means not only making policy more economically 'efficient' but also reshaping their underlying political coalitions as various social groups fragment, shrink or expand in response to new global constraints and opportunities.

These changes alter some of the most fundamental elements of the way democracy works in the contemporary world. At one level, liberal democracy as we know it did not become a major mode of governance in modern times simply because of the abstract progression of ideas about the best way to achieve a better society or polity. On the contrary, its origins and dynamics sprang from the process of consolidating the nation-state and, indirectly, the international system of states. Those groups, whether elite or more popularly-based, that came to see themselves as having a stake in the emerging nation-state order consequently wished to stabilize and control the manifest and latent conflicts inherent in that order, especially with the coming of industrialization and mass politicization. They increasingly found it useful to do so through the uneven but widening inclusion into the system of individuals and groups who

might otherwise threaten that stability and control rather than continuing with the increasingly knotty and counter-productive strategy of bypassing and repressing them (Laslett 1970). Thus modern liberal democracy has from the start been inextricably intertwined with the development of the modern nation-state.

Today, however, cross-cutting and overlapping governance structures and processes increasingly take quasi-private, oligarchic forms. At the same time many of the more interventionist and redistributive instruments of public and social policy that had developed over decades in response to democratic demands are being undermined in a world of marketization and commodification. The result is the emergence of a range of often *ad hoc* public and private governance structures that constrain the democratic state from above and below, leaving an untidy jumble of overlapping and competing institutions, often only semi-formed, and increasingly lacking in democratic accountability. This uneven dispersal of authority and 'governmentality' – the effective capacity to exercise power – goes hand in hand with a fragmentation of identities, the alienation of a growing number of individuals and groups from democratic political processes and an erosion of commitment to ideas of the public interest.

Thus globalization constrains both the state's capacity to act upon traditional collectivist – interventionist and redistributive – demands and actors' ability to build coalitions around those demands. Increased structural complexity is altering the range of public goods the state can effectively supply, moving away from those that take activities out of the marketplace to those that actually reinforce and promote marketization. The former include such policies as nationalization of industry or the provision of monopoly public and social services, the latter being exemplified by privatization and regulatory reforms that include both deregulation and pro-market re-regulation. Another example is the agenda of so-called 'new public management' or 'reinventing government' (including the welfare state) along business lines.

Furthermore, however, globalization is also generating new and more complex forms of social, economic and political pluralism – not merely the benign pluralism of

mid-twentieth-century democratic theory, but rather the more unequal and disequilibrating kind called 'neo-pluralism' (Lindblom 1977). In neo-pluralism, those social, economic and political actors with the greatest access to material and social resources predominate, but are not necessarily in control. And even powerful actors are unlikely to agree with each other on every issue, even where they may have common priorities, such as the promotion of some particular version of capitalism. Moreover, there may be other distinct groups that have resources they can mobilize, and rules to appeal to, especially in liberal democratic political systems; they are able to exert leverage and punch above their weight in crucial situations. So outcomes tend to be determined not simply by coercion and/or structural power but by how coalitions and networks are built among a plurality of actors in real-time circumstances. In a globalizing world, the changing distribution of resources and balance of power between old and new actors are producing new inequalities and disparities of power and the fragmentation of traditional social classes (Murphy 2002).

Therefore individuals and groups are less drawn to promote their causes or make their demands through the formally institutionalized democratic processes. Instead, they seek out specialized niches for exercising influence, in what has become a more heterogeneous but unequal or asymmetrical transnational opportunity structure (for elaboration see Cerny 2000a) – what Hülsemeyer (2003) characterizes rather grandly as a kind of quasi-corporatism at meso and micro levels. Nevertheless globalization, although fostering this uneven pluralization of politics, does not provide effective systemic outlets, regulated by democratic processes equivalent to those found within nation-states, for those groups' demands and goals. On the contrary, it creates a world of special interests, domestic and transnational quangos (quasi non-governmental organizations), private regimes and inter- (and intra-) institutional conflict and competition, thereby frustrating any aspirations to develop a genuinely transnational or cosmopolitan democracy. It is too late to insulate and recreate the kind of nation-state that characterized Polanyi's 'Great Transformation' (Polanyi 1944). But the world order has yet to see a coherent successor structure; instead, there is more a

quasi-medieval combination of competing and overlapping institutions, authorities, jurisdictions, interests, pressures and demands.

Democracy, globalization and the nation-state

Both democracy and globalization are deeply contested concepts. Democracy has several theoretical fault lines, but there are two sets of intertwined questions that dominate traditional debates about democratic theory. The first concerns the concept of 'rule by the people' (the etymological meaning of the word 'democracy'). What or who are 'the people'? And what institutional form might (can? should?) a democratic superstructure take in pursuing what the people want, whether holistic or fragmented, centralized or decentralized? The second concerns the generic functions of states or governments. The potential range is vast, from a minimalist concern with the rule of law to the larger ambition to pursue a revolutionary restructuring of society. Possibilities for direct or indirect participation, popular sovereignty, sense of common purpose, freedom, equality and the like have all faced quite different sets of real-world opportunities and constraints, depending on whether they were applied in small groups, city-states, feudal societies, empires, nation-states, or international (inter-state) institutions or whatever.

In the last analysis, however, some form of effective centripetal sovereign authority rooted in distinct territories was arrived at by historical trial and error as being necessary (if not sufficient) for the democratic resolution of deep-seated conflicts among competing interests and values. Some minimal overall level of endogenous structural coherence and exogenous structural autonomy has been required for stability and effective governmentality. Thus what we instinctively think of as 'modern democracy' has been built on the presumption that the underlying 'society' that is to be democratically governed is a coherent *national* society, and that the democratic state by its very nature is (or should be) an expression of that society if it is to be stable, effective and legitimate.

Furthermore, the state in a globalizing context, while increasingly constrained in pursuing certain kinds of collective goods (macroeconomic management, social welfare, fiscal policy, control of the money supply and exchange rate policy, trade and industrial policy are just some possible examples) also possesses a range of roles that contribute to globalization's growth. This is partly a matter of trading new functions for old, as states search for different ways of securing national economic and political advantage. Indeed, in their search for global competitiveness states may adopt practices that actually undermine their own autonomy and policy capacity, and irretrievably so (see Cerny 2000b), especially when promoting market sectors characterized by relatively non-specific asset-based structures (Cerny 1995). And paradoxically the state may even expand certain of its roles and functions, such as that of monitoring and enforcing market-based regulatory structures – for example, strengthened policing of insider trading rules, accounting standards, corporate governance and the like – as an inherent part of the globalization process. Indeed, formal sovereignty and the rule of law at the level of the state are increasingly taking on this global 'enforcement function' (Streeck 1996).

If democracy is seen as primarily about pluralism and individual or group autonomy, then of course the complexities of globalization are such that it may foster increased diversity and possibilities for autonomy. This is the argument for 'cosmopolitan democracy' as developed most notably by Held (1995), and it may be appealing to some social movements like the feminist movement, or for transnational interest and cause associations, or for certain ethnic groups. However, the more democracy is seen to involve some collective values such as social justice achieved through redistribution, and to require the provision of those collective goods the market will not provide, then the greater the challenge that globalization with all its diversification and differentiation poses. Put differently, democratic governance must possess a significant element of collective accountability and authoritative (but not merely repressive) policy capacity (governmentality) if it is to be genuinely democratic. Globalization threatens this democratic chain of accountability.

Western nation-states only managed to achieve genuine structural cohesion after several centuries of uneven consolidation, trial-and-error and solidarizing international conflict/competition. This was done by adopting systems of election and representation and the transformation of hierarchical repressive structures into quasi-'rational' public bureaucracies subordinated to political officials and agreed rules of the game. Despite being 'sub-optimal' structures in all sorts of ways, modern states resembling Max Weber's bureaucratic model emerged as being the least relatively inefficient institutional framework for long-term contracting domestically and entering into credible commitments externally in a world of rapid and uneven economic, social and political change (Spruyt 1994). In an increasingly stalemated power balance in post-feudal Europe, proto-nation-states took on an ever-wider set of tasks, roles and activities. Standing armies, taxation systems, the promotion of economic development where it was necessary for war or brought more wealth into the coffers of the state, the search for financial backing from holders of private or quasi-private capital, and the administrative (bureaucratic and regulatory) structures necessary for overseeing and coordinating such activities all increasingly became part of the state apparatus. The apparatus may have revolved around a revered monarchy; but it became a growing imperative for states to survive the threat and often the reality of international war. The feudal system of entrenched privileges, status-based castes, fluid territorial frontiers, entailed property, competing institutions, overlapping jurisdictions and multiple loyalties was eroded, overwhelmed and co-opted into nation-state political structures and allegiances.

Such centripetal state structures also reached deeper and deeper into society, and fostered economic developments that uprooted sections of society, ranging from noble to serf, from their status-bound situations and pushed and pulled them into contractual relations with each other as well as with other individuals and groups. In contrast to feudal society, overlapping webs of negotiated (and renegotiated) contractual relationships were drawn into the orbit of the state and its legal, regulatory and developmental framework. The state claimed overall authority and responsibility for the well-being of the 'whole', while that whole became

increasingly pluralistic. Indeed, as more mass groups became uprooted from their subsumed, generally rural status and were involved in more contractual labour processes and given the promise of political citizenship, they had to be included too. Because of the international expansion of the modern capitalist world-system, expectations of growing inclusion became entrenched in both popular and elite culture (Anderson 1991). If monarchs (or their ministers) claimed to be pursuing the common good of the people and wanted the people to pay taxes and even to follow the Crown to their deaths in its name, then they faced a growing need to elicit some sort of quasi-voluntary acquiescence or consent. People had to be both inspired and bought off. To grant some sort of symbolic participatory privileges in the state itself, along with meeting growing claims for civil rights and welfare – paid for by taxes levied on capitalist economic growth – became an increasingly efficient means of controlling free-riding. Liberal democracy is thus profoundly ‘locked-in’ to the development of the nation-state – and the states system.

Globalization and corrosive pressures on the nation-state

Several factors and trends are usually seen to characterize the globalization process. First, there is the internationalization of markets. There are, of course, as many different kinds of market structures as there are industrial sectors, and some markets are more globalized than others (McMillan 2002; Fligstein 2001). Globalized markets are markets where, broadly speaking, products are substitutable and widely traded across borders. Capital is increasingly mobile, not particularly site-specific, and will move to different locations if profits there are higher (and secure). Consumption patterns in different countries are not mutually exclusive, or at least can be catered to by extending the product range; and prices are sensitive across borders and predominantly set in world (cross-border) markets. Economic globalization is also driven by new flexible, ‘post-Fordist’ production techniques, superseding the workplace organizational innovations pioneered by the Ford Motor Company in the 1920s

(Amin 1994). Recent electronics-based developments in information and communications technology are also crucial for co-ordinating these changes, transforming industrial sectors from within, shifting the balance of economic activities from manufacturing to services, and multiplying the productivity of capital. Financial services, finally, form the backbone of any international market economy by setting the price of capital and by establishing the framework within which prices for other products are determined; they too increasingly involve pure information products and processes.

In public policy terms, whereas a Keynesian approach to macroeconomic management was once the norm, any attempt to revive or return to its essentials would be extremely difficult, because of increasing vulnerability to the mobility of capital, both at home and across borders. Meso-economic and micro-economic interventions by governments are increasingly shaped by the perceived need to maintain or regain international competitiveness, not by objectives of domestic welfare goals. The regulatory power and effectiveness of the state in a range of sectors is seen as eroding through 'regulatory arbitrage' – firms choosing to locate where regulation is most favourable and/or using such a possibility to pressure governments to deregulate. And the growing complex cross-border linkages between firms, domestic socio-economic groups (and indeed between individuals as both producers and consumers) and transnational and transgovernmental interest groups and policy networks are widely seen to undermine the sense of overarching national identity and loyalty cherished by political thinkers, leaders and movements of various ideological complexions in the modern era.

Social and cultural changes are also challenging the discourse and social reality of the nation-state. The pace of information flows and the attention to image-building that characterize the modern media, along with the fragmentation of post-modern culture and the growing salience of multi-cultural identity-formation, create a disorienting disarticulation of previously embedded cultures both from above (the 'global village' combined with the 'clash of civilizations') and below (such as ethnic sub-and-cross-nationalism and alienation of ghettoized minorities). These interacting forms

of social and cultural fragmentation are undermining overarching national identities based on the reconciliation of conflict and competition among contending groups that have underpinned the widespread acceptance of the democratic rules of the game.

Finally, states themselves are deeply involved in the globalization process. State actors, in seeking to placate those domestic constituencies that can eject governments in democratically organized elections, are finding that sources of side-payments can only be expanded (or their shrinkage avoided) by promoting international competitiveness. Policy instruments are dismantled and disarmed, strategic competences broken up through liberalization and privatization, state agencies either hived off or made more independent of central control, transgovernmental policy networks expanded, and institutional gatekeepers (such as central banks) set to enforce international market discipline on their own state apparatuses. These developments are pluralizing, unbundling and disarticulating state tasks, roles and activities. The confluence of these variables creates splintered states and fragmented authority. It blurs the boundaries between both state and private sector responsibilities and capacities, on the one hand, and domestic and international decision-making networks, on the other. And it is not just the effectiveness of democratic governance that it undermines. It erodes the very confidence and trust – legitimacy or ‘system affect’ (Almond and Verba 1965) – essential for democratic systems to convince people of the value and utility of democracy, engage them in participatory processes like elections, and make them feel secure in the belief that their voices are being heard.

The impact of globalization on democratic governance

This process has knock-on effects at several levels. The first has been the ‘fiscal crisis of the state’ (O’Connor 1973), or what has recently been termed ‘fiscal degradation’. The costs not only of expanding but even of just maintaining state functions and structures began to outstrip sources of taxation and other income after only two decades of the

Long Boom itself. On both left and right, growing social and economic functions of the state were blamed. The Phillips Curve (which posits an inverse relationship between rates of inflation and of unemployment) was replaced in the public (or at least the elite) imagination by the Laffer Curve (which states a close relationship between tax rates, revenue and productivity). The second effect was that the Long Boom involved an expansion of international trade and financial flows. That at first reinforced domestic economic management and the social democratic functions of the industrial and welfare state (through 'embedded liberalism': Ruggie 1983). But it also quickly built up both political and market pressures for financial liberalization, which rendered states increasingly vulnerable to international capital mobility. In this context, the question of allotting specific rights and obligations to particular individuals (and legal 'persons' such as firms) becomes more complicated. The explicit association of democratic rights with a specific geographical entity is greatly weakened, as those rights cannot be so easily located in spatial terms. Some individuals and groups (but not others) can 'arbitrage' rights between different locations, searching out the best conditions for their own requirements, while avoiding obligations. The ability of governments equitably to provide welfare and public goods in general becomes less geographically controllable.

At another level, whereas at the beginning of the 1960s private international capital markets were highly restricted and the great majority of international capital flows were public flows, by the mid-1970s, following the breakdown of Bretton Woods, such private capital markets mushroomed. They overwhelmed both public reserves and publicly-sanctioned international capital flows. In the money and finance issue-area, for example, for governments to have both monetary policy autonomy and effective exchange rate control, capital controls must be introduced and enforced (B. J. Cohen 1996; Goodman and Pauly 1993). With the collapse of the Bretton Woods system, states abandoned continuous control of exchange rates in the name of domestic monetarism. Indeed, it increasingly seems that without capital controls neither exchange rate control *nor* autonomous monetary policy can be maintained, leading to increased emphasis on anti-inflationary policy in general, attempting

where possible to balance budgets at lower levels of taxation and expenditure. In this context the last few years have witnessed growing instability in global financial markets, creating a vicious circle. Given the increased weight and autonomy of private international financial markets, future decisions on monetary as well as fiscal policy are likely to lie beyond the effective scope of national democratic control. At the same time, international financial markets possess few autonomous enforcement mechanisms with which to punish or deter free-riders. The liberalization of market rules (often misleadingly called 'deregulation') creates knock-on effects beyond borders and impacts on not merely short-term international capital flows but longer-term investment patterns too. Consequently, a process of regulatory arbitrage has developed in which market actors pressure governments to open their markets and liberalize their regulatory systems.

Even state legal systems – the core framework of national sovereignty – are increasingly being bypassed, especially by the most internationally-linked firms and market actors. The changing nature of public-private relationships, accelerated and deepened by the crystallization of private sector interconnections across borders, is leading to the development of new legal approaches and procedures that are replacing what Held (1995) has called 'democratic public law' with negotiated private law. At the level of the nation-state, this is leading to the emergence of a 'new administrative law' embodying and embedding transnational and global dynamics at the heart of the state (Aman 1999). And at the transnational level, private arbitration procedures involving multinational corporations and other private market actors are not simply shoring up but often substituting for national-level dispute resolution and, indirectly, regulatory rulemaking processes (Cutler, forthcoming 2003).

A further impact of globalization on states involves a host of *ad hoc* international and transnational institutions and regimes that have been appearing for some time now. While these regimes have traditionally been set up and/or backed by the authority of states, analysts in recent years have noticed a trend towards the emergence of an increasing number of private regimes, or regimes where the balance of authority and decision-making influence is shifting towards

private actors. These developments are sometimes presented as a quasi-democratization of the international system, by international and transnational co-operative mechanisms that are supposedly replacing realist anarchy with multi-lateral co-operation. However, they can also be seen as the extension at international level of a kind of oligarchic societal corporatism. Although in the past 'private interest governments' have usually been seen to derive their effectiveness and authority from direct or indirect delegation of state authority (Streeck and Schmitter 1985), now there is an increasingly dense web of transnational private interest governments crystallizing.

Finally, globalization erodes the capacity of the state to provide physical security. The end of the Cold War, far from ushering in a more stable peaceful world, has instead seen an increase in new theatres and forms of violent conflict. Violence today is less and less the province of national governments and more and more the domain of ethnic groups, drugs cartels and mafias, mercenaries and paramilitaries linked to firms and other sub-state or cross-national organizations. This is true not only in the Second and Third Worlds, but in the First World too, as private security firms increasingly supplement or replace public police forces, prisons, and so on. Anarchy in the international system is no longer confined to conflicts between states, and at home the state no longer holds an effective monopoly of legitimate violence. There are strong grounds for arguing that the fundamental bond of physical security and protection, which has legitimated nation-state structures in general and provided a bottom line for democratic legitimacy too, is continually eroding (Cerny 2000c).

Concluding thoughts: what next for democratic governance?

States today are increasingly bad at certain key tasks that are important for democratic responsiveness, accountability and effectiveness. These underperformed tasks include redistribution, regulation and the delivery of public services. Social neoliberals, for example the 'reinventing government'

school, try to make a virtue out of this: 'Governments should steer but not row', say Osborne and Gaebler (1992). However, the power and capacity of the state is being eroded most rapidly and most thoroughly where more mobile factors of capital can most easily 'exit' state jurisdiction in one way or another.

Nevertheless, states still remain relatively good at certain tasks, and some of those tasks may indeed be expanded and reinforced. Governmentality remains strongest or is being most effectively reconstituted where more immobile factors of capital are concerned. Labour, particularly low skilled labour, is one of these; such people have fewer of the resources necessary for exercising the 'exit' option. Minimal welfare states will therefore have to be maintained and restructured (Clayton and Pontusson 1998), unless societies are prepared to risk the unrest and political destabilization that could arise where there is no public safety net. Furthermore, the state is still relatively good at prudential regulation and *ex post facto* enforcement of contracts, as well as the promotion of certain forms of competitive advantage in a more open world through limited industrial and trade policy measures.

In fact, however, what the state is best at – indeed, some would say, what the state has always been best at – is enforcing the norms generated and decisions made at the international and transnational levels. As long as market outcomes, the transformation of production processes, technological innovation, socio-cultural globalization, and the marketization of the competition state combine to transform nation-state structures and processes, state capacity in terms of enforcement will continue to grow and state functions expand along pro-market lines. This of course presumes the continuing absence of effective direct international 'police powers' and judicial/legal systems. However, the processes of enforcement will increasingly involve norms, rules and decisions that will *not* in the first place have been arrived at by democratic procedures. Indeed, in structural terms the world may come to look somewhat more like the Middle Ages again. The relevant characteristics can be summarized as: (a) competing institutions with overlapping jurisdictions (states, regimes, transgovernmental networks, private interest governments); (b) more fluid

territorial boundaries, both within and across states; (c) contested property rights and legal boundaries; (d) a growing alienation between global innovation, communication and resource nodes (global cities) and disfavoured, fragmented hinterlands; (e) increased inequalities and isolation of permanent sub-castes (the underclass); (f) multiple and/or fragmented loyalties (ethnic conflict and multiculturalism); and (g) the spread of what Alain Minc (1993) has called '*zones grises*', or geographical areas and social contexts where the rule of law does not run (both localized ghettos and international criminal activities) (Cerny 1998).

We now live in an era of increasing expectations, events that assume global dimensions, and extremely rapid diffusion of information, together with relentless technological innovation. Against this background further changes may either accentuate post-modernistic fragmentation, producing the breakdown of nations and states, or alternatively lead towards the imposition of increasingly hierarchical 'global governance'. Contemporary debates on democracy and democratization in International Political Economy tend to pit the kind of neomedievalist, fragmentation-of-governance thesis presented above against what is often seen to be the more idealist 'cosmopolitan democracy' thesis (Archibugi and Held 1995). There is also a third position – that the ability of states to reconstruct governmentality is still strong and that social democracy can be reconstituted along more familiar statist lines by incorporating some neoliberal features (Hirst and Thompson 1999; Giddens 1998). Nevertheless, the task of globalizing the democratic chain – recreating effective governmentality and establishing the capacity of authoritative international agents to make the kind of side-payments and engage in the kind of monitoring necessary to control free-riding and assimilate a huge range of alienated groups into such a society – is daunting. 'Really existing democracy' as we have known it during the evolution of the nation-state and the states system is likely to function much less effectively in this emerging world of fragmented globalization.