

# **The Shifting Political Economy of Emerging and Mature Markets: Introducing the Theory of Interconnectedness<sup>†</sup>**

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**Abstract:** This paper introduces an additional element in the interplay between social structure and action, taking on board the effects of the physical environment and environmental constraints. This forms the basis of the emerging theory of interconnectedness, the key dimensions of this are mapped out. The relevance of this theory for understanding the political economy of emerging and mature markets is mapped out.

**Keywords:** Comparative capitalism, Institutional maturity, Interconnectedness, Economic crisis, Energy transitions, Environment, Social structures and action

**JEL Classification Numbers:** B25, B55, E02, G30

## **1. Introduction**

In my past talks at Kyoto, I have mapped out the relationship between economic crisis and long energy transitions; this has translated into a much broader research agenda, linking the relatively alacrity in moving towards renewables is linked to specific varieties of capitalism (Wood, 2019). Encouragingly, subsequent empirical studies have begun to confirm these trends (see Allen et al., 2019). More challenging is that there are a very much larger range of discreet phenomena which characterize our present age: those which represent familiar, if unsettling phenomena; events which challenge existing frameworks of understanding; and those where potential solutions are visible, and those where the prospect of an endgame seems more remote. This paper proposes the Theory of Interconnectedness as a way of understanding how these phenomena fit together and what really constitutes the defining features of our age.

## **2. Social structure, action and the environment - Three planes of interconnectedness**

There is a very wide body of literature which seeks to link together social structure and action, encompassing Elias, Giddens, and more recently Bourdieu, and how the one remoulds and is remoulded by the other (Lok and Willmott, 2019). The literature on comparative capitalism implicitly recognizes such a duality, in that institutions are depicted as efforts to resolve coordination problems, that, in turn, encourage actors to engage in specific patterns of behaviour. When institutions are incapable of resolving such problems, they will come under question, face efforts at redesign, and are associated with greater fluidity.

Critics have charged that the social action side of the picture is somewhat neglected, in that much more attention is devoted to continuity than change (Roos, 2019). However, a more serious limitation might be that the bulk of efforts to understand the duality of structure and action focus purely on the human environment; it is assumed that people are free to change the basis on which their economic and social life is ordered and, in turn, economies and societies can through periodic rewriting or updating of the rules, be assured of continued prosperity, and, indeed, growth.

Such assumptions neglect not only material resources, but also the physical environment. This is perhaps surprising given that almost all known past civilizations collapsed in the face of physical resource and environmental constraints. In reality, one is faced with a trinity of human action, structurally embedded rules and patterns of behaviour, and the physical environment; each impact profoundly on each other, and in turn, the responses ricochet back. Natural resources of some sort or another make complex societies possible, yet the latter, over time, place ever greater demands on the physical environment. Individuals and collectives react to environmental constraints through a combination of denial and wishful thinking, opportunism, and less commonly, far sighted action. Although the trinity of action, structure and the environment is at play in all societies, in the past, the consequences of environmental collapse were local or regional. Although the latter may have triggered waves of refugees, the immediate site of collapse coincided with centres of institutional concentration. In contrast, global heating's effects are shared across the world; whilst some regions may be affected more severely than others, all are affected to a greater or lesser extent; again, the flows of refugees from environmental disaster are no longer confined to regions or continents, but are truly global. This makes the challenges all the greater; it is much easier to devise solutions, or at least ways of coping, with local environmental disasters than global ones. Again, the larger the scale, the greater the potential for tragedies of the commons. Moreover, the extent to which a small number of economies - the largest developed economies, and a small number of large emerging markets - can make a material difference in worsening or alleviating the environmental crisis means that it is much easier for vested interests to disrupt meaningful action. Such vested interests do not need to prevent meaningful action to mitigate the environment worldwide; all they have to do is capture the political agenda in a single large national economy.

Let us turn now to exploring the interplay between structure, action and the environment in more detail.

### **3. The theory of interconnectedness**

But, what observable phenomena are worth taking particular account of under the rubric of the Theory of Interconnectedness?

There is also the implicit assumption that the mature liberal market models represent the gold standard for institutional stability, to which all other models must inevitably drift, an assumption that became fashionable in the late 2000s (Busemeyer and Kemmerling, 2019). The latter was not without irony, as the early theories of comparative capitalism sought to explain why none liberal market models were equally

viable (Hay, 2019). In any event, the open ended political and constitutional crisis in the two largest liberal markets has challenged this view. This raises the question as to whether this crisis was one of structure (for example, institutions no longer being able to cope so well with structural changes in the global economy) or of action (insurgent oligarchs seeking to re-write the rules in their favour).

Both the latter explanations are not unproblematic. The former would suggest that institutions have some or other shelf life. Long economic waves can certainly be traced back until at least the Middle Ages, but invariably long downturns differ on complex sets of causes (Malm, 2019). The most recent two coincided with long energy transitions, the first, in the early twentieth century from coal to oil and gas, and the second from the early 1970s was marked by rising oil and gas prices and, more recently, a move to renewables (Wood, 2017). It would be difficult to make definitive judgements on the material causes of each long down turn over the past millennium, but there is some evidence to suggest a linkage to broader access to resources and shifts in pricing and availability, whether due to technology or physical access (be it by conquest or discovery). Again, although they do not necessarily coincide, periods of market dominance and statism are least partially due to the benefits and the constraints conferred by context and events in the global economy. Hence, many events may contribute to the conditions associated with economic turnarounds and their immediate fallout. However, it is evident that material elements play a strong role, that, without any causal primacy, events may snowball, owing to the opportunities nascent crises open for actors, intensifying earlier pressures; one might talk of a constellation of forces, rather than a primacy of a single one (even if some are much more important than others).

In turn, this leads us back to the question of agency. It could be argued that agents dislike having to compromise their own interests for those of others, and, hence, always have an interest in re-writing things in their own favour and will opportunistically seize any opportunity that should arise (Wood, 2017). However, not all agents are equal, and different elite and insurgent segments may be better equipped to seize the advantage over others at particular historical moments. This may reflect a wide range of factors from political institutions through to the relative availability of technology. Priestland (2012) argues that capitalist and militarists are relatively well equipped to the political commanding heights in times of crisis, and only when they are completely discredited will the third major elite segment, the intellectual classes, have sufficient space and opportunity forge wide ranging social compromises.

This argument mirrors the inherently less actor centred schools of historical institutionalism; broad based social compromises are forged when every single alternative has been exhausted (Sorge and Streeck, 1987). In each case, the possibility of actor oppotunism is acknowledged. However, where these schools of thought differ is that historical institutionalizes are ultimately concerned with order and continuity, and institutional embeddedness; elite theories tend to assume that elites have much more room to remake the system to their own liking (Priestland, 2012). In practice, the historical evidence of this is very uneven. For example, in some instances, it has proven possible to systematically dismantle an existing order in order to loot it, but this is relatively unusual: normally, the tendency has been rather to magnify existing tendencies, episodes of pathological rule invariably incorporate both continuities and change. Again, elites

are rarely in a position to sustain themselves indefinitely when they run out of ideas, and, indeed when confronted with economic ruin; military and military-oligarchic complexes may be very effective in sustaining power, and, indeed, the latter in winning or fixing elections. However, when their capacity for self enrichment declines, invariably seemingly impregnable ruling blocs fissure, with more pragmatic elements seeking to reach out to other parts of society. This would suggest material and structural impediments may erode the sphere of elite action, and, indeed internal coherence; elites are socially and environmentally embedded.

#### **4. The changing global political economy**

This brings us back to the present global political economy. In many emerging markets (e.g. Brazil, Bolivia), old elites have managed to reassert their power, deposing more socially broad based movements. In others, coalitions of actors from emerging or growing economic spheres (eg. Internet, financial services) have formed coalitions with old elite segments to challenge the existing order, or to amend it to their own liking, the most obvious examples being the UK and the USA. In each instance, this has represented the result of not only indigenous material factors and balances of forces, but also of the more predatory elite segments to forge transnational coalitions, sharing ideas, practices, and resources, and, indeed, new technologies for political mobilization and reordering. Where they are vulnerable are when democratic institutions are still sufficiently robust to oust them in the case of excess (e.g. Italy, Chile) and in the realm of ideas.

On the one hand, the most powerful mobilization tool of predatory elite groupings is fear; presenting the downwardly socially mobile with simple solutions whilst seeking to heighten fears through monochromatic scare mongering around complex social problems and challenges (e.g. migration), presenting simple solutions that involve penalizing or marginalizing competitors (eg female workers, young job seekers, foreigners). Fear shuts out rational thinking, and relieves the need to develop positive policy options. Where this fails is that such strategies become difficult to sustain; as they become less credible, or, simply tired, authoritarianism represents the only viable alternative. Authoritarian governments can, of course, sustain themselves for many years, but at the same time, raise the stakes; it makes it harder to retire into the night with credibility and regroup and recaptured the political commanding heights, although there have been some notable recent exceptions (e.g. Brazil). More often, this results in complete discrediting and a more extended period of more broad based rule.

#### **5. The interplay between physical environment, structures and action**

As noted earlier, there is a three way interplay between social action, structure, and the physical environment and associated material resources. There are three broad issues here. The first is the experiential one. There are three broad patterns of events, an issue I alluded to in my previous Kyoto talk.

The first are foreseen events which are easily to prepare for, such as everyday events in organizational, social and economic life, such as repeated acts of exchange on established patterns. The latter are underpinned by complex formal and informal rules, imparting a high degree of predictability with limited room for autonomous action, characteristic of the impersonal nature of modern life (Wood, 2017). The second are unexpected events, but within the broad realm of human experience. The latter would include recessions and even depressions; such events have been known for at least 1000 years, and it is possible to devise firm level and broad policy responses based on the relative success and transferability of past ways of coping. The third are high probability events, but where possible responses are beyond the present human realm of understanding. The latter would include a host of phenomena associated with global warming, not the least being the likely climate driven relocation of one or more megacities, and the associated physical economic and environmental infrastructures. Such challenges may necessitate rethinking on the specific relevance of existing national institutional orderings. For example, it may be much easier for a state capitalist system such as China to perform such a feat than a liberal market economy such as the US, and yet, the future viability of Los Angeles is in as much doubt as that of Beijing.

Another such event would be around the rapidly diminishing efficiency of antibiotics (Yelin and Kishony, 2019). The present structures of drug patenting and envisaged rates of return disincentive pharmaceutical companies from investing too much in devising solutions. Again, state action in the liberal market economies, the epicentre of pharmaceutical innovation, has been uneven, and so far of limited effect (Gallini, 2017). The decline of antibiotics will not only challenge the viability of modern factory farming (which may not be a great loss), and also of internet retailers who centralize their distribution in warehouses filled with poorly paid workers, who may rapidly spread epidemics on the many parcels they touch. Again, this may make local production and distribution networks much more viable. Once more this challenges how we see the relative competitive advantages of national varieties of capitalism and their broader sustainability.

In considering material resources, the second issue is that there may be dramatic shifts in the relative value of certain commodities vis and vis others. At the onset of the long energy transition away from oil and gas, historically significant increases in prices helped stoke interest in renewables. More recently, as the oil and gas industry has become highly financialised. An increasing proportion of the production ecosystem - most notably fracking - has relied on operating on a borrowing and distribute model, rather than viable material returns (Wood, 2017). In addition, growing concerns as to the consequences of global warming has led to ethical investors shunning oil and gas stocks. In turn, this has led to growing concern as to 'stranded assets', the possibility that investments in oil and gas may become increasingly unsaleable (Rozenberg et al., 2017). Not only does this impart volatility into commodities markets, but it may result in rapid shifts in the relative competitiveness of nations on a much more accelerated pace than hitherto.

The third dimension of this interplay between the material and human worlds (be they of action or embedded structure) is in terms of the manner in which material resources are acquired, which in turn may be in the form of purchase or natural endowment on existing contiguous territories, conquest (such as the

American West or the British Empire), or technology (such as modern wind power). Although the revenue that may flow from the capture or exploitation of natural resource may in each case be of material significance, the mode of acquisition has long term consequences for capital formation. Conquest, for example, capital less concerned or committed to specific industries and process, and more with legitimization and reallocation (Wood, 2017). Again, capital with long ties to physical places and processes tends to be more patient. In cases where primitive exploitation was particularly brutal, but where this was not matched by the near complete genocide of indigenous peoples (such as was the case in the Australia and the US), this lead to particularly predatory elites and the long persistence of caste and clan based rule, as encountered in large parts of Latin America and creole African societies, such as Angola. This leads us to the question as to whether societies might shed the long historical consequences of this particular dimension of materiality.

## **6. Historical legacies and institutional entrepreneurship**

The issue of long historical legacies is a complex one. Periodically, societies can certainly reinvent themselves, with only useful or purely decorative aspects of past institutional orders persisting. However, this is quite unusual and normally only in response to great historical traumas. What is often underestimated are the effects of counter-movements. For example, many Latin American countries, there was hope in the 1990s and 2000s that the previously dominant predatory elites would be gradually marginalized in the face of democratization, or, even in some instances, the revival of socialism. More recently, a wave of coups, from Brazil to Honduras, led to some of the worst elements of the past regaining power, seemingly learning or forgetting nothing from previous periods of supremacy. Even in the highly developed US and the UK, the rise of Johnson and Trump has reflected a reconfiguration of forces and the return of the kind of unrestrained buccaneering rentiers last encountered en masse in the 1920s, exhibiting the same levels of confidence and recklessness as hitherto (see Cumming et al., 2019). This does suggest that periods of institutional calm and compromise are not necessarily the norm, and that insurgent agents (or so called institutional entrepreneurs) are not always seeking to seek new configurations that better serve their interests, but hearken back to past periods of supremacy by those whom they identify with the most.

## **7. Monopolies and markets**

In both the 1920s and more recently, socio-economic thinkers, ranging from Simmel to the postmodernists, highlighted the phenomena of the increasing intrusion of markets - and the marketization - of everyday life (Ozgun et al, 2017). It was argued that markets increasingly colonized spheres of social life previously the sphere of personalized social relations (ibid.). Indeed, this could be seen as taking capitalism to its logical conclusion, most recently in the manner in which social media have become commodified and personal movements (both online and offline) are monitored with a view to selling on and/or releasing value in some

way or another. However, as Braudel (1995) suggests, what is seen as capitalism is often less the supremacy of markets, but monopolies and oligopolies. New opportunities for monopolies and oligopolies may be opened up by technological advances, and/or changes in state policy, leading to the outsourcing of not only peripheral, but also core state functions. Indeed, a feature of both the internet and outsource state functions spheres is a dominance of a few insider firms with strong political influence and support.

But, if it is not market, can they always be considered capitalist? Capitalism, is, as Adam Smith (2010) noted, often not about competition, but also collusion and efforts to manipulate markets. However, again, this discounts the manner in which conditions may regress. A key distinction here is between the generation of value through the generation and/or sale of goods and services, and simply the capture of rents made possible through the economic activity of others, the latter of which is more a feature of feudalism. It may seem preposterous to liken the modern internet economy to the latter, but again, a feature of feudalism is a lack of freedom of choice by a large component of society; individuals have to generate value within a particular sphere by their activities and lack the option for opting out. In contrast, the traditional capitalist labour market is about the ability (even if at times constrained) of workers to switch jobs, occupations or regions. Feudalism may certainly be coercive, but a feature of the new oligopolies is the capture of value generated by the act of living and seeking sustenance, even if one's locale and employment may switch. A feature of the strength of capitalism is its mutability and dynamism, but, by the same measure, this does not mean that everything that is loosely considered capitalism really is. More broadly speaking - a phenomena most pronounced in the liberal markets - has been a shift from a focus in the generation of value through productive activity to that of the capture and liquidation of accumulated assets (Lazonick and Shin, 2019). Again, this may have many characteristics associated with capitalism - the marshalling of investors, and the operation of financial micro-structures - but, in other respects, it may have more in common with past institutional orders or even, of a future barbarism.

Another recurring aspect of the past is institutional permeability. The latter was a feature of pre-capitalist societies and, indeed, of institutional immaturity or fluidity in emerging markets. What is meant by this is that individuals are readily able to move between senior roles in core institutions, leading to a blurring of boundaries and responsibilities; for example, members of the feudal elite readily moved between the roles of baron and warlord, administrator and rule, and the church. Of course, senior politicians may rise through the civil service and NGO sector, business, or the military. However, what has come very visible recently is the 'revolving door' syndrome of senior individuals readily moving between the military and firms reliant on state patronage and largesse, and politicians between state sustained business and government (Tylstrom, 2019; Cumming et al., 2019). This leads to the diminishment of any sense of service to the public or organizational stakeholders, and behavioural patterns geared towards the maximization of rents. Again, it leads to the increasing divorce of elites from the actual process of value generation - as averse to the capture of rents. In turn, this leads to elites having increasing disdain for the former, and a fetishisation of the latter as the only worthwhile activity, which, again, is socially corrosive, especially as this leads to

many being left worse off. The issue arises as to whether, again, this could be considered Neo-feudalism or some or other novel pathology.

## **8. Concluding thoughts**

This leaves us with the issue as to whether we should be optimistic or pessimistic. Many of the issues I have highlighted are deeply troubling. However, there are three issues which leave us with some ground for hope. The first is, as mentioned in past addresses, is that more coordinated and developmental state orientated varieties of capitalism have made great progress in the move over to renewable energy. In turn, this is predicated on longer investment horizons and a recognition of the importance of the common good and a shared project around a vision of a more sustainable future. The second is that there is growing awareness of the challenges of global warming; whilst action has tended to be too little and too late, there is nonetheless the basis of a new type of politics and, indeed, emerging competition between politicians around green agendas, leading in turn to more sustainable economic policy interventions. Although corporate lobbying in politics often leads to corruption of the political sphere, as green business gain a critical mass, their voice may gradually become stronger than, say, that of the hydrocarbon lobby. Again, the extent to which the latter have had to resort to ever more expensive non-market strategies indicates that a historic shift in the default balance of forces has already taken place.

Finally, these developments challenge how we understand growth and jobs and indicators of prosperity. Increasingly, it has been recognized (a painful learning curve for many politicians, not only in liberal markets) that these indicators are completely meaningless unless the bulk of society becomes more prosperous, or at least, does not become poorer or more insecure. In the short term, this has led to models of market coordination gaining credibility. It is too soon to call the triumph of market coordination, but, at the very least, claims that liberal markets represent the gold standard of economic organization ring increasingly hollow.

What does this mean for emerging markets? Firstly, efforts to converge with the liberal markets have increasingly lead not to modernization but regression to a past of authoritarian rule and resurgent predatory elites. This does not mean that the latter are necessarily easy to get rid of, but attempting to adopt the liberal market “gold standard” has become increasingly risky, and, indeed, may devour those who work the hardest to bring this about. Although this may lead to marketization becoming increasingly incompatible with democracy, it is possible that it is becoming also incompatible with basic social stability, leaving all but the most predatory worse off. Although historical tides may be hard to reverse, overwhelming evidence of risk may trigger rapid counter-movements.

Secondly, there is an awareness of the challenges of sustaining growth. Although there is no standard recipe, there is increasingly awareness that sub-national and sectoral specific institutions may help secure improvised solutions that sustain particular spheres of production, even if only of limited scope and scale. Thirdly, there has been a growing awareness that markets have become increasingly less sustainable in the



absence of the state, even if only in the form of the largesse of loose monetary policy. Again, this does not represent a solution or end state, but at the very least, it suggests that the sphere of acceptable policy alternatives has significantly broadened. Finally, the boundaries between emerging and mature markets have become less clear cut. Through state lead development, a number of emerging markets have succeeded - even if limited in scope or scale - physical infrastructures that would be considered advanced even by the standards of the developed world. Conversely, politics and the relationship between business and the state in the US and the UK has regressed to one that would be more familiar to a student of Latin American politics than one conversant with the political histories of these two countries over at least the preceding century.

In this address, I have highlighted a range of broad phenomena, and process, some that are historically specific and some universal. I have also highlighted the nature and mechanisms of interconnectedness, in the three way interplay between social structure, action, and the physical environment. The latter both enables both agency and regulation, but also imposes constraints on the same. The interplay between three is one that is never perfectly aligned or stable; often painful adjustments are take place after one becomes fundamentally misaligned or even incompatible with another. In the end, the three are independent; what has fundamentally changed is that the past view that the environment could be manipulated to suit the human sphere is increasingly untenable; rather the human sphere, will, as has been the case in the past, have to adjust what it does within the physical constraints of the natural world.

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