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**Uncertainty and Rationalization in Constructivist Political Economy:  
A Survey of the Field**

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## Uncertainty and Rationalization in Constructivist Political Economy: A Survey of the Field

Jacqueline Best (2005) *The Limits of Transparency: Ambiguity and the History of International Finance*, Ithaca: Cornell University Press.

Pepper D. Culpepper (2003) *Creating Cooperation: How States Develop Human Capital in Europe*, Ithaca: Cornell University Press.

Timothy J. Sinclair (2005) *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness*, Ithaca: Cornell University Press.

### I. INTRODUCTION

I just don't know what to do with myself. While I have a problem, how to solve it is uncertain, and how to use the institutions I do have to assess my risks is ambiguous. I could look at past situations and use that information to transform my uncertainties into risk, on the grounds that there is some objective 'natural order of things'. That would at least give me some predictive powers to believe in. However, the chance of being wrong would be high, because my beliefs would cloud me from receiving any information that may disconfirm my convictions. Alternatively, I could submit myself to never-ending uncertainties, to the chaos of the universe according to my own purely subjective preferences. But then the only institution that would be of use to me is one with padded walls. My third option is to reassess how I've been thinking about the problem altogether. Perhaps my uncertainty is a consequence not of not knowing, but of not knowing how to know. The solution might be to recognize that all uncertainties in political and economic life are managed by intersubjective constructs of how the world works. If I am at least certain of this, then I have a capacity to construct my own view of how the world works in coordination with others, and I can exercise these constructs through institutions that, ideally, are flexible enough to accommodate my views. This last option provides an avenue for me to neither allow universal models to blinker me, nor for the world 'out there' to simply overwhelm me. Instead, this middle path of intersubjective constructs may allow me to muddle through and solve my uncertainty dilemma.<sup>1</sup>

The three fine books discussed in this review essay all share some version of the middle road described above, and all view political and economic activity as fundamentally an intersubjective experience. Uncertainty, and the management of knowledge that may potentially mitigate it through institutional forms, also provides a common thread between the books. Furthermore, all three belong to what may be considered part of what is a body of 'economic constructivist' literature that seeks to place greater stress on ideational and normative factors that contribute to institutional change (see also Abdelal, 2001; Blyth, 2002; Parsons, 2003; Seabrooke, 2006a; Sharman, 2006).

Despite their commonalities, the three books offer three alternative paths to economic constructivism and the *rationalization* of uncertainty. First of all, they differ in what actors matter for institutional change. Second are differences in how they answer questions of authority and enforcement. Here the question at stake is not only who controls knowledge but who is willing to obey it. Third, the books provide different understandings of institutional change, ranging from identifying tracing changes in deliberation among interest groups, to the diffusion of knowledge within macrostructures of governance, to the influence of particular individuals and their economic ideas on change in the world economy. That the books offer different understandings of change demonstrates a health discord within this field that can only enhance debate about the role of ideas and norms in changing the world economy.

## II. THE UNCERTAIN UNDERPINNINGS OF ECONOMIC CONSTRUCTIVISM

The concept of uncertainty raises questions of how actors and structures relate to one another in solving problems when future outcomes are unclear or unknown. Within rationalist political economy literature uncertainty provides a motivation for the superior design of institutions that may improve access to information, while recognizing that institutional structures themselves generate uncertainty (North, 2005). It also provides a moment for institutional change to occur, primarily by engendering a fight among political coalitions (Gourevitch, 1986). For rationalists most uncertainty is exogenously generated, from a change beyond the control of actors within an institution. This approach to institutional change sees uncertainty essentially as poor or complex information and the preferences of actors operating within institutions to reduce uncertainties are not in question. Rather, these actors operate according to their constant self-interested preferences, even if they operate within a 'bounded rationality' that removes some options off of the menu (Keohane and Goldstein, 1993; Odell, 2002).

Economic constructivists see that uncertainty is not only a problem for rationalization, but also a problem of rationalization or without rationalization. In this sense, uncertainty comes not only from an external environment, but may also be endogenously generated by actors. Uncertainty, to use Jens Beckert's terminology, is a social phenomenon created from a 'double contingency', a 'situation in which actors make their actions reciprocally dependent on each other' (1996: 805, 826). Uncertainty in this form requires not only an ego but also interaction with an equally autonomous alter-ego. As such, uncertainty goes deeper than refocusing self-interest to improve access to information but forces the reexamination of intentions, of conceptions about how the world works. Uncertainty, following Frank Knight's (1921) and John Maynard Keynes' (1921) understandings, emerges from an incapacity to calculate the probability distribution of the outcome in question. Such a scenario is particularly likely when the actors facing uncertainty do not have the conceptual tools to even begin processing their odds (Blyth, 2005). This form of uncertainty forces us to build constructs for the management of information that seem not only reasonable to ourselves but to others. It also permits ideas to be used as weapons in a struggle over what institutions should be constructed to mitigate uncertainty (Blyth, 2002; Parsons, 2003). Similarly, economic constructivists have been interested in the relationship between uncertainty and ambiguity. The common theme here is how ambiguity as a concept calls us to question the use of institutional structures within which uncertainty is

typically discussed. Ambiguity introduces the notion that we don't have to all agree on a common interpretation of how to play the tune, just as long as it sounds all right. Institutions may be better able to fulfil their purposes if they don't insist on rigid conformity. Freestyle jazz may be better for our sanity than a marching band.

In general, economic constructivists rely on the concept of uncertainty to stress the importance of intersubjective understandings. How they treat uncertainty, differs, producing varied understanding of economic constructivism and, therefore, the sources of institutional change despite a common focus on the power of ideas, knowledge, and social norms.

### III. UNCERTAINTY FOR RATIONALIZATION

Pepper D. Culpepper's *Creating Cooperation: How States Develop Human Capital in Europe* is a tightly constructed and formidable piece of research on how French and eastern German firms deal with the development of skills training among their young employees. The key problem for examination is how governments can change mutual expectations under conditions of decentralized cooperation. This problem is particularly tricky for governments who seek to try and coordinate expectations among private actors to foster skills development and economic growth. Culpepper's focus is on how governments can encourage small and medium enterprises (SMEs) to invest in skills development for young apprentices. Such firms are of concern because, unlike large firms, they do not necessarily have the capital to ensure that they are on the cutting edge of skills development. As such, any investment in skills development for an individual is costly given the potential for other firms to poach skilled employees who are willing to defect, or because pooling resources in the development of general skills is unlikely to have an immediate or direct pay-off.

Culpepper provides a comparison of metals and electronics SMEs in France and eastern Germany, in which there is an assumed desire to emulate the western German training system that combines 'public labor market regulation and private employer coordination' to 'clarify the expectations of employers and employees about the likely training investments of other firms in the economy' (2003: 2-3). In the western German system, chambers of industry and commerce oversee standards and testing for apprenticeships, which are established through negotiations with unions and employers' associations. Culpepper asserts that in the 1990s governments in France and eastern Germany attempted to persuade firms to cooperate in order to raise the general skills level, an attempt that largely failed.

The book makes an outstanding contribution to the literature in providing original research on how firms behave during periods of transition. It also makes an important conceptual contribution to the work on 'varieties of capitalism' (Hall and Soskice, 2001), which assumes that firms will select institutional complementarities within national economic systems that can be broadly conceived of as either a Liberal Market Economy (LME) or Coordinated Market Economy (CME). For Culpepper, this literature places too much emphasis on the capacity of governments to sanction and enforce firms within their national economy (2003: 8, 21). As such, 'command-and-control' approaches within political economy that stress state action tend to view uncertainty as strategic choice with poor information under multiple equilibria. Uncertainty is then poor information rather than a need to re-conceptualize the logic of the system. The 'varieties of

capitalism' literature assumes that all the players in the game know the rules of the game, making uncertainty strategic. But this assumption does not hold water in scenarios in which most of the players in the game are learning the rules. Culpepper's French and eastern German firms are cases in which the players don't know the rules or the game and need to overcome *analytic* uncertainty rather than *strategic* uncertainty to move ahead. This distinction between forms of uncertainty underpins Culpepper's book and is worth citing at length:

Analytic uncertainty refers to the misapprehension of one's own payoff matrix, as well as the opponent's payoff, because the causal mechanisms of the new system are not clear or well understood. A reform of the political economy often asks players to move to a mutually beneficial pattern of cooperation when the actors are skeptical that the causal model of policy-makers accurately predicts the payoff (the actors) will receive. If the causal mechanisms underlying one's own payoff matrix are uncertain, then there is a problem of "pure learning" about the real causal mechanism at work in the world (Culpepper, 2003: 9).

Culpepper stresses how private firms are often unwilling to share information and when facing a new situation, such as a new employment training system, and cannot select the 'right' institution with ease because they do not know if they will benefit from it in the long term. As such, constructivist insight tells us that how actors share information and how they deliberate is important in situations where the rules of the game are unknown, especially when actors will adopt an attitude of 'better the devil you know' (Culpepper, 2003: 47). To highlight this Culpepper prefers the term 'relational information' over private information to stress how actors can choose to defect and hide, or to participate and share information (Culpepper, 2003: 50). Similarly, the logic of the 'varieties of capitalism' approach is that deliberation among private actors is important but stresses *discussion* when *reasoning* is more valuable. Culpepper wishes to stress how reasoning requires the creation of *dialogic capacity* because the sharing of information is, more than anything, relational (2003: 20-1). For this reason Culpepper places particular stress on how private associations in the economy can legitimate cooperation between actors (2003: 55).

Culpepper's wonderfully detailed empirical material focuses on SMEs in France and eastern Germany, which do not neatly fit into the 'varieties of capitalism' LME or CME frameworks. In both cases governments want firms to engage in training youth apprenticeships, although there is a key problem here because SMEs have limited resources and are wary of cooperation with others. Culpepper's story starts in the 1990s, where in both France and eastern Germany apprenticeships schemes were going backwards, with employers preferring to use government supported positions that provided cheap employment but did not require intensive skills training within genuine apprenticeship schemes (Culpepper, 2003: 65-8). The old adage about 'why buy the cow when the milk comes for free' springs to mind here. In testing his approach, Culpepper assesses eastern German 23 metal and electronics SMEs in Plauen and Leipzig in Saxony and Halle, and Sangerhausen in Saxony-Anhalt, and 29 French metals SMEs from Lyon and the Valley of the Arve in Rhône-Alpes, Amiens and Vimeu in Picardy, and Greater Strasbourg in Alsace (Culpepper, 2003:

69-70). The book is not a happy story and there are positive results only in the cases of Saxony and the Valley of the Arve.

In the eastern German case there was little difference in the capacity of associations to share information, but there was a distinct difference in how the *Land* governments used subsidies to encourage higher skills training, and the extent to which they involved firms, namely those within a *Verbund* (alliance), in regional planning (Culpepper, 2003: 106, 114, 120). Analytic uncertainty was reduced by deliberation with targeted government subsidies. Saxony did this while others, notably Saxony-Anhalt, were slow to act and develop links with its local *Verbund* (Culpepper, 2003: 124, 127). In the French case, a local culture of distrust in the Valley of the Arve, alongside very small firm sizes, led the local private association to pursue a qualification program to address a skills shortage (Culpepper, 2003: 141-3, 147). In this distrusting environment the costs of defection from a firm were high and it was easier to generate a general consensus even though sharing private information was jealously guarded. Analytic uncertainty was overcome due to the local cultural context that allowed firms to effectively use national subsidies to fix the decentralized cooperation problem.

Culpepper's framework and case material can be seen as a viewing 'uncertainty for rationalization' in that all actors seek to attain a more competitive economic system and the emphasis is on how to get there. As such, two questions come to mind concerning: first, if the rationality of actors has a 'deep core' and, second, to what extent Culpepper replicates the 'varieties of capitalism' framework.

First, like earlier constructivist work, for Culpepper there is a 'rump materialism' to economic life (Wendt 1999: 110, 135). As such, and as he states, Culpepper's economic constructivism is primarily concerned with material pay-offs rather than a 'logic of appropriateness', as is more common in international relations literature (Culpepper, 2003: 14; Finnemore, 1996; Sending, 2002). Culpepper's actors are looking to learn to improve their own comprehension of their pay-off matrices rather than seeing, as in more recent economic constructivist work, 'ideas all the way through' in a sense that self-interest may be overhauled (Blyth 2002: 29-30 n. 56). So while Culpepper stresses the importance of information in as 'circulation, mobilization, and diffusion' to resolve uncertainty (2003: 22), the purpose is to get everyone on the same page, so to speak, towards achieving a more competitive system through the harnessing of joint beliefs (see also Culpepper 2005). The aim is, to invoke Keisuke Iida, who originated 'analytic uncertainty', for actors to improve their pay-off matrix by 'learning the true state of the world completely' (1993: 436). Similarly, Culpepper is looking for how actors may learn the new rules of a game to rationalize their analytic uncertainty into strategic uncertainties. As Culpepper states: 'When cognitive familiarity with an issue area is high, bounded rationality is likely to limit the predictive power of individual actors. When, in contrast, results are easily predictable, there is no issue of analytic uncertainty' (Culpepper, 2003: 178). There is, therefore, a rationality to be bound and some preferences can be assumed to be a stable filter through which uncertainties may be rationalized. Large French firms, for example, are seen as incapable of engaging in 'learning by monitoring' to change their interests (Culpepper, 2003: 184-5; cf. Sabel 1994).

Second, while Culpepper is critical of the static approach of the 'varieties of capitalism' framework (Culpepper, 2003: 190; see also Blyth, 2003; Kristensen, 2005), he is potentially liable to the charge that we holds the western German system as a fixed aim when, in fact, the goal posts may have been moving. Anke

Hassel's work, for example, points out that during the 1990s the western German industrial system was 'eroding', with metals firms' membership in employers' association down to 32 per cent in western Germany 1998 (17 per cent in eastern Germany), and with SMEs increasingly falling away from collective bargaining in preference to company bargaining (Hassel, 2002: 312; Hassel, 1999). This does not invalidate Culpepper's findings one iota, but it does ask us if the French and eastern German firms were facing analytic uncertainty or if they were wary in seeing a western German system undergoing rapid change rather than providing a benchmark. Culpepper's assessment of uncertainty for rationalization returns us to a process in which actors learn new behavior to supplement their mostly-given identities. The economic constructivist 'value-added' is then the stress on social relations within which actors can learn to access information, rather than the rationalist assumption that the rules of the game are known and that uncertainty is simply poor information.

#### IV: UNCERTAINTY FROM RATIONALIZATION

Timothy J. Sinclair's *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness* is a carefully crafted investigation of these very important but understudied actors in the international financial order. Sinclair's book undoubtedly establishes him as *the* political economy scholar on rating agencies, and goes a long way to demonstrating complementarities among constructivist and rationalist approaches. In particular, Sinclair is interested in learning from economic sociology to understand the creation of a market, and to outline how a 'constructivist approach can complement the instrumental cause-effect focus of rationalism' rather than replace rationalism (Sinclair, 2005: 11).

Sinclair establishes how rating agencies have become an 'authoritative source of judgments' in the assessment of creditworthiness in domestic and international capital markets and therefore wielders of considerable power and influence (2005: 2). He traces the historical development of the key agencies (most notably Standard and Poor's and Moody's), and illustrates the impact of agencies in a variety of public and private contexts, including their effect on sub-national governments, sovereign debt, corporations, and international financial crises.

For Sinclair rating agencies are social actors that rely on the construction of intersubjective understandings to have an impact within the marketplace. They therefore seek to take market uncertainties and transform them into predictable risks. Sinclair draws a parallel between how rating agencies operate and John Maynard Keynes' story of how uncertainty reduction within financial markets is akin to a newspaper's beauty-pageant competition. Here the winner was the reader who chose not the prettiest girl according to his or her own subjective preference, but the girl closest to what all other contestants chose, to conform with their intersubjective preferences (Keynes, 1936: 156; Sinclair, 2005: 52). Similarly, rating agencies are recipients of information within an uncertain intersubjective environment and also creators of information that seeks to mitigate uncertainties by putting forward a subjective understanding that claims to be superior to others. The trick here for agencies is to be viewed as endogenous to uncertainty mitigation under financial globalization rather than exogenous to these processes. Achieving such endogeneity, however, requires that their information on ratings must be consistent over time to have credibility (Sinclair, 2005: 15, 41-2).

Sinclair argues that a change in practices within financial markets has bolstered the role and importance of rating agencies. In particular, the distinct processes of *disintermediation* – where debt securities are replacing traditional bank loans – and *securitization* – where capital from stable sources of income are channeled into the financing of debt securities – are important here (Sinclair, 2005: 3; see also Seabrooke, 2001; Seabrooke, 2006a). Both processes have encouraged financial market actors to use shorter term horizons, larger volumes of capital, and to rely more on rating agencies for judgments of creditworthiness rather than, as with traditional mediation, local trust and reputation. Fixed income securities are the best case here for Sinclair, since changes to their value within the marketplace is driven by how they are rated (Sinclair, 2005: 86).

In drawing from international relations and economic sociology literature, Sinclair formulates the notion of an 'Embedded Knowledge Network' (EKN) to clarify how rating agencies seek to achieve endogeneity within financial markets. In putting forward the concept EKNs, Sinclair draws upon the epistemic communities literature to discuss how they provide new ways of rationalizing a scenario, but also eschews the notion that epistemic communities are necessarily drawn to enhancing human welfare (2005: 14). As EKNs, rating agencies produce benchmarks around which other actors converge, therefore providing them with 'unconscious power' from the establishment of a 'mental framework of rating orthodoxy' (Sinclair, 2005: 17). In particular, Sinclair is interested in understanding the mechanisms involved in a transition over time from a 'hegemony of social interest linked to growth and expansion' that has transformed into 'an interest more narrowly concerned with the reproduction and safeguarding of its wealth' (Sinclair, 2005: 87). By exposing this mental framework Sinclair seeks to stress that the ratings given by agencies are not natural but contestable claims (2005: 50).

Sinclair's argument throughout the book is broken down into three aspects: investment, knowledge, and governance. By focusing on these categories Sinclair is able to cater for material incentives for investment, the construction of knowledge on creditworthiness, and changing practices among those who are being rated or seek to be rated (2005: 18-20). This is especially the case given that creditworthiness is both a causal belief and a principled belief in both the likelihood of repayment and the obligation of repayment (Sinclair, 2005: 65-6). These sub-arguments are also complemented by a clever use of counterfactual analysis, which concedes ground to rationalist approaches as a default position, only to then tear it away in demonstrating the power of knowledge used by rating agencies and, therefore, the value of a constructivist approach (Sinclair, 2005: 72). In making his case, Sinclair also distinguishes between synchronic and diachronic forms of investment, the former refers to the 'logic of a language', the latter to 'the origins and processes of language development' (2005: 58). These are also divided into rationalist and constructivist principles, with a synchronic-rationalist view seeing the world as based on a short-term market logic, with the diachronic-constructivist view considering a long-term structural and social logic (Sinclair, 2005: 121, 127).

The book runs through a number of case studies that demonstrate how rating agencies have developed a framework for the rationalization of creditworthiness assessment, how they typically impact on the fate of corporations, national and sub-national governments, sovereign debt, and the 'blown calls' in international financial crises in recent decades, as well as corporate scandals that have rocked the US (such

as Enron). The findings from the cases demonstrate the analytical purchase of constructivist analysis. On corporations Sinclair demonstrates that without ratings downgrades GM would have kept on issuing debt securities in the early 1990s (2005: 79). Similarly, Ford was on the end of the sting from rating agencies, which constructed a sense of crisis within the company (Sinclair, 2005: 80, 83). On sub-national governments Sinclair discusses how in the Australian state of Victoria the actions of rating agencies 'gave the state government the means to externalize and objectify its policy agenda, thus vastly reducing the government's democratic accountability over budgets' (2005: 103). More generally, he demonstrates how powerful rating agencies are in changing political actors' perception of themselves within a competitive market, including the need to reduce welfare costs to access capital markets (Sinclair, 2005: 101, 111-13, 140-1; cf. Mosley, 2003). The Enron case exposes how the agencies rarely go beyond publicly available and supplemental information on a firm and, in doing so, do not audit a company's books (Sinclair, 2005: 171). In the Orange County and East Asian financial crisis cases he demonstrates the extent to which rating agencies can get their predictions way off target (Sinclair, 2005: 157-163).

A key theme in the book is the relationship between rating agencies and the US political and economic environment. In particular, Sinclair discusses how the US Securities & Exchange Commission granted the major rating agencies the title of Nationally Recognized Statistical Ratings Organization. As such, they are increasingly integrated into US domestic regulation and international financial regulation as legitimate actors. Such status also leads rating agencies to act with great bravado, including the practice of rating of actors without their prior consent (Sinclair, 2005: 30). Increasingly this leads agencies to 'rule at a distance', in which 'social forces are self regulating within the norms of the system' (Sinclair, 2005: 67).

Sinclair's analysis of rating agencies is as much about the uncertainties created by the rating agencies as it is about their rationalization of market information into risk. As such, two interlinked questions remain: the first is concerned with how rating agencies acquire authority, while the second is to ask to what extent rating agencies' construction of creditworthiness is a consequence or driver of change in the material world 'out there'.

First, what power do the rating agencies have in providing actors external to them with a worldview on how financial markets operate? Sinclair argues that market actors see rating agencies as endogenous to the market rather than exogenous, and associates endogeneity with legitimacy (2005: 15, 60). He also argues that 'Authority is not persuasion. The major agencies do not seek to persuade others to agree with their views' (Sinclair, 2005: 64). So we know that the agencies are important players in the international financial order, but less about how their role has acquired endogeneity. We may also speculate about the extent to which the rating agencies see themselves as simply providing a function requested of them, particularly given that they do sometimes assess actors that have not requested a rating. Similarly, Sinclair points out that part of the authority of rating agencies comes from the fact that they are not regulated (and therefore provide independent information), while the fact that they are not regulated is viewed as a source of an accountability gap (2005: 53). It is also suggested that the agencies' own search for transparency may be turned against them (Sinclair, 2005: 179). Sinclair speaks less on if rating agencies provide actors with more flexibility within the constraints of the system rather in previous financial orders – on whether or not the

rating agencies provide actors with 'room to move' (Mosley, 2003), 'room to groove' (Seabrooke, 2006b), or no room at all.

Second, does the ideational drive the material or the material the ideational? Surely both is the answer, but the question is important framing Sinclair's approach within the broader field of economic constructivism and in relation to his earlier work closely associated with a Gramscian perspective (Cox with Sinclair, 1997; Sinclair, 1994). While the great Italian Marxist is not center stage in this volume, one can detect him waiting in the wings and informing the concept of EKNs. Sinclair, like contemporary Gramscians (Morton, 2006), explicitly rejects the structural Marxist idea of 'false consciousness' masking a material reality when discussing the capacity of rating agencies to influence market actors' opinions (2005: 54). He also argues that 'Rating agencies did not invent these governance structures but act as interpreters, advocates, and enforcers of them around the world' (Sinclair, 2005: 20). At the same time, the agencies produce the 'universalization of self-regulating markets and the exoticization of other modes of social interaction' (Sinclair, 2005: 60), which suggests a more diffuse process of hegemony. Perhaps, then, ideas do not run 'all the way through' in Sinclair's constructivist approach, as with some other economic constructivists but, in line with Gramscian thinking, and that of earlier constructivists, there is a 'rump materialism' underpinning the construction of knowledge about the world economy.

#### V: UNCERTAINTY WITHOUT RATIONALIZATION

Jacqueline Best's *The Limits of Transparency: Ambiguity and the History of International Finance* provides an innovative approach to the history of international finance in the postwar period. The premise for Best's historical revision of the international financial order is that while the prime movers and shakers in the contemporary international financial order seek to impose transparency to achieve stability, stability often comes from ambiguity because it permits actors within the system more political space. To paraphrase Woody Allen, Best's fundamental view on international financial and monetary systems is that if they bend they work, if they break they don't.

Best turns to the concept of ambiguity from her dissatisfaction with the work on uncertainty within political economy. Like Culpepper, Best criticizes rationalist political economy, and neoclassical economic theory, for viewing uncertainty as poor information. This view of uncertainty suggests a view of the perfectibility of 'natural' markets, while a superior question is to investigate the politics of what information is seen as valid (2005: ix-x, 16). Furthermore, uncertainty is viewed as a negative feature in political and economic life, while *ambiguity* can foster communication between parties with divergent interests who more or less share a common idea or norm. For Best, institutions should permit ambiguity by 'encouraging greater institutional flexibility, political negotiability, and discursive self-reflexivity' (2005: 8). Best discusses how there are three types of ambiguities: technical ambiguities from uncertainty and insufficient information; contested ambiguities from persistent conflicts; and intersubjective ambiguities from mutual interpretation and communication (Best, 2005: 13-14). All can play a constructive role in the maintenance of the international financial order, while much of the literature concentrates on technical ambiguities and therefore ignores much of the politics of how identities are constructed. Here Best is not only critical of rationalist scholars but

also constructivists who focus on resolving conflict between identities. Such an approach leads not only Robert Keohane and Douglass North, and other rationalists, to endorse transparency as important, but also John Ruggie, Fritz Kratochwil and others (Best, 2005: 21). Best's 'critical constructivist' point here is that norms are not treated sufficiently enough as ambiguous in themselves. To remedy this, she provides a focus on economic ideas that set frameworks, and how they included or squeezed out the three kinds of ambiguity mentioned above, the consequent 'nature' of the international financial order, its dominant governance practices, and its stability (Best, 2005: 6).

Throughout the book, Best runs her argument about the importance of ambiguity through ideas, institutions, and, ultimately, on the management and governance of expectations. Her empirical chapters test the argument through a revision of the standard political economy history of the formation and demise of the Bretton Woods system, which is then followed by discussion of changes within the international financial order in the 1970s through to the present. What distinguishes Bretton Woods from the contemporary era is its degree of self-reflexivity in managing ambiguities, so that while the previous order sought to manage them with regulation, the current seeks to eliminate them with deregulation (Best, 2005: 2).

Best does a wonderful job in taking us through the transition in thinking about how to manage the international monetary system from the 1920s to the 1940s. Her focus is primarily on Keynes the Thinker and Best's view is that while much of his advice was ignored during the interwar period (2005: 40; cf. Seabrooke, 2005), his ideas of a self-reflexive international economic order influenced policymakers and underpinned the Bretton Woods system despite distortions to them as they filtered through political negotiations. She also provides the impression that ideally the postwar period would have followed Keynes' idea for an International Clearing Union that would provide states with the capacity for their own 'favorite experiments', but within a 'technical and non-political' order (Best, 2005: 49). Such an order would be politicized and permit ambiguities to play a constructive role, rather than, as occurred, the regime becoming increasingly apolitical and focusing more on resolving technical ambiguities as a means to solve problems.

Best makes her argument for the positive attributes of ambiguity through a number of cases, most notably, the International Monetary Fund's (IMF) Articles of Agreement, the European Payments Union (EPU), and the formation of Special Drawing Rights (SDRs). At all times her argument dovetails nicely with Michael Webb's (1995) *The Political Economy of Policy Coordination*, which demonstrated that, despite the rhetoric of liberalization in the 1980s, developed states had more autonomy within the Bretton Woods regime than after it. Best provides the ideational evidence on why this was the case. For example, Best discusses how the IMF's Articles of Agreement included was successfully forged because of its technical ambiguities and because of intersubjective ambiguities derived from a Keynesian understanding on the need to manage economic instability. The lack of a clear definition of what a 'fundamental disequilibrium' within the agreement was crucial to bringing the major players to the game, who could then to interpret the term broadly (Best, 2005: 56, 84). As such, Best argues that John Ruggie's (1982) assessment of the 'social purpose' behind 'embedded liberalism' masks too much by suggesting a consensus, when in fact the agreement permitted room for different interpretation under an ontological commitment that would soon change. On the EPU, Best argues that it was enhanced by its 'escape clauses' that permitted the construction of international currency convertibility because it permitted tensions and ambiguities to play out.

More important than providing a technical solution to uncertainty, its ambiguity allowed it flourishing (Best, 2005: 81). Similarly, the construction of SDRs is viewed positively as a moment of ambiguity (Best, 2005: 97-9, 111). Still, the Bretton Woods system collapsed as a consequence of an ontological shift towards a view of markets as natural, which encouraged a narrow and technical interpretation of contested passages of the agreement within a neoclassical economic rather than Keynesian framework (Best, 2005: 59-60). In particular, the idea of the perfectibility of markets led to an emphasis on apolitical technical solutions and 'hollowed out' an intersubjective self-reflexive view of markets that Keynes stressed as vital (Best, 2005: 91-4).

Following this logic, for Best the nature of the international financial order changed in the 1970s onwards as a consensus among policymakers pushed the idea of the universality of a technical model of the world economy and the need to remove politics from the marketplace (Best, 2005: 124-5, 127). Resolving technical ambiguities became the key issue, although the consequence was an excess in intersubjective ambiguities that increased market volatility in the 1980s and 1990s, as seen in the Asian financial crisis and the spectacular collapse of Long Term Capital Management (Best, 2005: 147). The de-politicization of the international financial order also endorsed speculation as a means of reducing ambiguity (by seeing uncertainty as risk), as well as the grinding down of the IMF's public resources in comparison to international private assets (Best, 2005: 132). Here Best makes a powerful case for how the self-reflexivity of the postwar period has been replaced with faith and convictions in technical solutions that the IMF and others are now 'seeking to institutionalize in the world's economies' (Best, 2005: 163). Such conviction has led the IMF to focus on transparency as a 'standard of civilization' emerging market economies must conform to, rather than engaging in deliberation with them to reduce contested and intersubjective ambiguities (Best, 2005: 165; see also Best 2006). Accordingly reform to the international financial order can be pushed forward by 'leaving more room for domestic democratic processes to play their role in economic policy making' (Best, 2005: 166).

Given the focus on ambiguity, the book may be interpreted as concerned with uncertainty without rationalization, especially as the emphasis is on the political benefits of permitting multiple interpretations of the same phenomena. Two interlinked questions are pertinent here: first, on who drives ideas and norms change over time and, second, on how can we separate formal and informal ambiguities.

First, Best's overall aim is to 'dig deeper by exploring the discursive context within which particular interests were defined and certain actions decided' (2005: 9). This may remind us of Susan Strange's call for a study 'non-decisions', the 'failures to take a decision, which, no less than active policy-making have affected - and still affect - the outcomes of the international political economy' (1988: 22). Best brings us a long way in answering Strange's call and through the spotlight on ambiguity avoids regressing the multiple options for change within the international system into a single evolutionary story. And although Best's discontinuity reflects her postmodern and critical theory leanings, but an implicit notion of path dependence is still present. This is not an understanding of change that demands that ideas 'fit' with the 'right' institutions (Hall, 1989), but one where a consensus on ideas precedes institutional change. For Best, ideas and institutions provide a 'common vocabulary' (Best, 2005: 146), but who shares in this vocabulary is primary policy elites. Through Best one can trace a time-lag from an individual's ideas to institutional transformation

within the international financial order: from Keynes on intersubjectivity in the 1930s to Bretton Woods in the 1950s, to Milton Friedman and Friedrich Hayek on natural markets in the 1960s to post-Bretton Woods change from the 1970s onwards (Best, 2005: 90-96, 123-25). This asks us then to wonder that if policy elites are holding the ideas, then who is holding the norms? On the demise of Bretton Woods, Best argues that on finding technical solutions international leaders:

[W]ere lost. Believing that there was a technical answer to every problem, they forgot why they once believed that these were the right answers. Although such hollow norms may be strong enough to keep things going in good times, they are incapable of rallying market confidence in bad times. As the public lost faith in these norms, the market lost confidence in the economy. It was not until a new set of classical norms was finally consolidated, in the early 1980s, that this faith was reborn' (2005: 116).

Are norms, then, a framework put forward by policy elites, or are they evident from expressive practices among the broader population? Best has an excellent case for the former understanding, but a weaker case in demonstrating the latter. As such, ideas held by elites are the primary drivers of institutional change, as discontinuous as it may be.

A second, related, question is to ask how we can separate formal and informal ambiguities. Best's analysis has a strong bias towards regulatory institutions, arguing that 'formal political rules can accommodate ambiguity in ways that the informal governance of the market cannot' (Best, 2005: 7). But for ambiguity to work in a positive sense, Best's actors need to bind their rationality to prevent them from selecting options that are not on the set menu. Understandably, Best's key moments for demonstrating the positive value of ambiguity are moments of rules creation rather than rules enforcement. For example, Best dismisses the Gold Pool of 1961-1968 for being an informal ad hoc solution to long term problems (Best, 2005: 107), and the Euromarkets are noted as providing a means for actors (private and public) to move speculative capital within the international financial order – a process states did little to stop (Best, 2005: 105, 109). Both phenomena demonstrate the incapacity of the Bretton Woods regime to formally change. One can stress here that ambiguity is critical to negotiation for the creation of rules but that ambiguity can easily be twisted into hypocrisy once it is clear that the rules can be evaded with little cost (Bukovansky, 2006). Best certainly recognizes this in mapping out technical, contested, and intersubjective forms of ambiguity. It is also recognized in her view that markets require ambiguity in the form of divergent expectations to spur economic activity (Best, 2005: 29). While one can wholeheartedly agree that the IMF and other institutions should not impose a standard of civilization on states through the discourse on transparency, a question remains concerning how institutions can be both ambiguous and rule-enforcers to prevent hypocrisy.

## VI: CONCLUSION: UNDERSTANDING EVERYDAY UNCERTAINTIES

These three excellent books demonstrate the rich diversity within what may now be identified as an emergent 'economic constructivist' literature. Culpepper, Sinclair, and Best provide different paths towards

the rationalization of uncertainty, a concept that underpins much constructivist work and, in doing so, expand our capacity for understanding the social source of change in the world economy. As a commitment to fostering understanding about the intersubjectivity of political and economic life, constructivist thought throws up a number of questions about the role of ideas and norms in institutional change. The books reviewed here demonstrate maturity in diversity because they do not simply seek to 'out explain' rationalist approaches in political economy (Seabrooke, 2007). A key message in how all three books treat uncertainty is that we have moved beyond asking if ideas and norms matter in political and economic change to when and how they matter. As such, I expect that future economic constructivist research will concentrate on specifying mechanisms of change rather than trying to assert the power of ideas or norms as independent variables (see Campbell, 2004: Ch. 3). It also serves to remind us to maintain a conception of established models of political and economic life as ideal types rather than as fixed categories if we are to discover counterintuitive insights (Crouch, 2005).

In closing, two final points are worth considering on how we may understand uncertainty and rationalization in future research. First, it is important that we do not rely on elite actors and institutions to understand how uncertainty is mitigated to the exclusion of broader society. A notion of society independent of the institutions we seek to explain change to is vital if we view norms as 'contested and contingent' between social groups rather than only held by policy elites (Katzenstein, 1996: 3, 18-19). A more sociological understanding of how norms influence institutional change must provide greater room for seeing 'norms as doing things' rather than as 'norms as things to do' (Seabrooke and Sending, 2006). This is particularly the case if we seek to provide a substantive notion of legitimacy as contestation rather than viewing policy elites' proclamations as having an auto-legitimizing character (Seabrooke, 2006a: 38, 40-42).

Second, if economic constructivists seek to tap deeper into processes of rationalization, we need to take seriously why individuals give particular meanings to their actions (Weber, 1975). This may require us to degrade the notion of a 'bounded rationality', which implies that there is a natural rationality lurking beneath the imposed blinkers, and try to situate an 'intentional' or 'axiological' rationality within a local system of meaning (Beckert, 2003: 770-1, 773-5; cf. Seabrooke, 2006a: 47-51). Such a notion calls on us to see how actors mitigate uncertainties within everyday life in addition to change to formal institutions. Investigating intentions among the broader population would provide us with more information on how the everyday navigation of uncertainties provides social impulses for formal institutional change (Hobson and Seabrooke, 2007). This aim is not mine alone and can be found in the three books reviewed here: in Culpepper's desire to discover how to embed policymaking in social networks (2003: 19); in Sinclair's forecasting of how rating agencies will transform 'common-sense understandings we have of the things that shape our everyday lives' (2005: 179); and in Best's recognition that to understand governance it is important to recognize the 'essential freedom and contingency of human activity and the resultant persistence of resistance and contestation' (2005: 30). Understanding more about how uncertainty is rationalized in everyday life will enhance our capacity not only to see how institutions change, but how the policies and practices they generate are implemented among the broader population.

## Note

<sup>1</sup> This threefold division follows conversations with Mark Blyth about prediction and uncertainty in political science (see Blyth 2005). Any errors, of course, are mine and mine alone.

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