John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," International Organization 36, no. 2 (Spring 1982), pp. 379-415.

Ruggie makes a three-pronged argument:

a) Political authority is a "fusion of power with legitimate social purpose." (p.382) Traditional IR theories ignore the dimension of social purpose,[1] a sine qua non to explaining the *content* next to the *form* of the international order.

b) International economic regimes[2] "play a mediating role, by providing a permissive environment for the emergence of certain kinds of transactions, specifically transactions that are perceived to be complementary to the normative frameworks of the regimes having a bearing on them." (p. 404)

c) Power and purpose do not necessarily covary, broadening the dimensions of sources of change. Ruggie focuses particularly on "norm-governed" change (p. 405), where in spite of hegemonic decline one may still find continuity in the normative frameworks (principles and norms) of regimes, while new instrumentalities (rules and procedures) reflect the new power distribution. He argues that post-1971 economic regime developments in money and trade are best characterized as and explained by norm-governed changes.

More specifically:

1. Pre-WWI orthodox liberalism was displaced during the interwar period by a new balance between "markets" and "authority," whereby governments assumed a greater role in ensuring domestic social and economic stability. Comparing the pre-WWI and interwar gold standard systems, Ruggie argues that the interwar system failed not because of the lack of a hegemon, but because the gold standard regime stood in contradiction to the new mediating role of the state between market and society.

2. Ruggie terms this as the "compromise of embedded liberalism," (p. 393) whereby governments could use Keynesian domestic growth policies while maintaining monetary stability through international cooperation (e.g., the double screen of the IMF to correct "fundamental disequlibri[a]"). "Unlike the economic nationalism of the thirties, [embedded liberalism] would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism." (p. 393)

3. Postwar transaction flows contradict a pure Ricardian hypothesis of liberalization, and are better explained by embedded liberalism, whereby the international division of labor approximates comparative advantage but also minimizes domestic social disruption. For

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[1] In particular, Ruggie takes hegemonic stability theories (e.g., Kindleberger) as his baseline for comparison.

[2] Ruggie uses the definition of international regimes as "social institutions around which actor expectations converge in a given area of international relations." (p. 380)

example, the post-1971 dominance of intracontinental and intrasectoral trade (the "narrowing of the economic basis" of international transactions) minimized domestic adjustment costs of trade liberalization via GATT negotiations. Ruggie argues that international economic regimes do not determine international economic transactions, but play a mediating role (see (b) above).

4. The hypothesis of norm-governed change provides a better explanation for the commencement of a floating rate exchange rate regime and the "new protectionism" of nontariff barriers, domestic safeguards, and voluntary export restraints. In other words, changes in money and trade have been at the instrument rather than the norm level. Hegemonic decline, hence, is not necessarily destabilizing when social purpose remains the same.

5. Embedded liberalism has facilitated three modes of externalization of adjustment costs, which may threaten the long-term stability of embedded liberalism: intertemporal (i.e., inflation), intersectoral (i.e., shifting responsibility from public institutions to market actors, such as the increased role of international financial markets in balance-of-payments lending), and terstratum (i.e., shifting adjustment costs onto "regime takers," generally LDCs).