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GLOBALIZATION AND POLITICS

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■ **Abstract** This chapter reviews the issues at stake in current public and scholarly debates over the impact of changes in the international economy on domestic politics and society. Over the past two decades, there have been dramatic increases in the flow of portfolio capital, foreign direct investment, and foreign exchange trading across borders at the same time as barriers to trade in goods and services have come down. These changes raise many new questions about the effects of trade and capital mobility on the autonomy of nation-states and the relative power in society of various groups. The first signs of realignments within and between political parties of both the left and the right over issues of national independence and trade openness suggest a rich new terrain for political inquiry.

INTRODUCTION

The rise of public and scholarly interest in globalization and politics is a new phenomenon. Over the past decade, the liberalization of trade, finance, and investment across the world has opened vast new territories to dynamic economic actors. The rise of incomes in developing countries has created large new consumer markets. Producing across national boundaries has shifted research, development, and manufacturing activities involving higher and higher degrees of skill and value into other societies. At the same time, economic institutions are also changing. Corporations that were once vertically integrated are shrinking their boundaries and focusing on core specializations. New partnerships, commodity chains, alliances, and mergers link producers, suppliers, and customers. How do we understand the impact of these complex transformations on our societies as risks, rewards, and security are redistributed in a global economy? How do we understand the impact of these changes on politics?

Before World War I, it was only the rare observer of the international economy who wondered about the effects on domestic politics of soaring levels of cross-border capital movements, migration, foreign direct investment, and the new transportation and communication technologies that accelerated movement of information and goods among countries. But the idea that globalization undermines the autonomy and leverage of the nation-state appears in writings from this earlier period of internationalization. Angell (1913:54–55), reflecting on this theme on the eve of the war, had already identified the very same factors that today are imagined to be the motors of globalization.

> This vital interdependence ... cutting athwart frontiers is largely the work of the last forty years. ...[It is] the result of daily use of those contrivances of civilization which date from yesterday—the rapid post, the instantaneous dissemination of financial and commercial information by means of telegraphy, and generally the incredible increase in the rapidity of communication which has put the half-dozen chief capitals of Christendom in closer contact financially, and has rendered them more dependent the one upon the other than were the chief cities of Great Britain less than a hundred years ago.

From this financial interdependence, Angell deduced the irrationality, indeed the unlikelihood, of war, for he thought it had become too costly to the fabric of international economic exchange to be a conceivable option. This line of theorizing about the politics of open economies was cut off in its infancy by the disastrous failure of predictions such as Angell's and by the fact that national economies closed up at the time of the war. Between World War I and the 1980s, cross-border economic exchanges remained at far lower levels than they had reached at the turn of the century. As the magnitudes of trade, foreign direct investment, and short-term capital flows across national boundaries have skyrocketed since the 1970s, social scientists have returned to Angell's questions.

In this new literature of the 1990s, there is a common understanding of globalization as a set of changes in the international economy that tend to produce a single world market for goods, services, capital, and labor. In a formulation that recurs across the spectrum of views on globalization, Glyn & Sutcliffe define it as "the idea that the world is now really a single economy in the macroeconomic sense. That means that the main determinants of income and employment can now only be understood at a global and no longer a national level" (Glyn & Sutcliffe 1992:77). But beyond the definition, there is little agreement. Researchers disagree even on the basic characteristics of the globalization process. This review lays out some of the issues that divide them, then focuses on unresolved debates over the political consequences of globalization.

First, if the rise in cross-border economic flows as a proportion of the world's economy is uncontestable, should this be interpreted as the advent of globalization or as an extension and deepening of patterns of internationalization and regionalization? The case for globalization as a new and irreversible phenomenon is made most strikingly in works written for a large public readership. The pioneer in this territory was Ohmae (1990), who argued that the "interlinked economy" has wiped out national borders. "On a political map, the boundaries between countries are as clear as ever. But on a competitive map, a map showing the real flows of financial and industrial activity, those boundaries have largely disappeared" (Ohmae 1990:18). Or, as a British commentator put it, "[The state's] powers over the price of money ... tax rates, industrial policy, the rate of unemployment, have been blown away" (*Economist* 1995).

Globalization undermines the national state, these observers claim, not only by shrinking the resources under national control for shaping economic and social outcomes, but also by reducing government's legitimacy and authority in the eyes of the public. Across virtually all advanced industrial countries over the past two decades, there has been an erosion of public confidence in central governments. Even when analysts mention the role of specific national causes in this loss of trust, still they tend to emphasize the universality of the shifts—how everywhere globalization destroys national control of information flows, hence weakens a government's ability to influence its public. The effects of the internationalization of the media, the marketing and export of American popular culture, and the deregulation of information all combine to weaken national values and traditions, and in so doing, they dry up the springs of support for national action. The effects of changes in the international economy are experienced through the national political leaders' diminished control both over the material determinants of a country's prosperity and over the vehicles for reaching common public understandings of national well-being. In this widely held view of the coming political order, the eclipse of the national state is the central fact.

This view of globalization appears not only in the writings of those who are optimistic about the effects of these developments on societal well-being, like Ohmae and Friedman (Friedman 1999), but also in the analyses of those who find these changes threatening (Grieder 1997). *L'Horreur Economique*, which warns of the dire consequences of globalization for employment and for national existence, became a best-seller in France (Forrester 1996).

In describing globalization as a full-blown reality, these popular works accept as fact what many scholars more prudently identify as a strong and virtually irreversible trend. These analysts diverge in the weights they assign to various factors in explaining the breakdown of national controls over economies and the acceleration of trade and capital flows across borders. Some find that the key drivers of the process are new information technologies (Castells 1996); others emphasize more heavily the role of financial liberalization and deregulation, as well as the politics of interest and ideology that brought these policy shifts to fruition in all the major advanced countries (Scharpf 1991, Helleiner 1994, Wade 1996, Strange 1997). Yet others focus on a politics of interests set in motion by an "exogenous easing of trade"—changes in rules, technologies, or prices that reduce barriers to international exchange or increase the gains associated with such trade, thus creating new opportunities for some groups within society to gain from buying and selling across national boundaries (Frieden & Rogowski 1996). In this perspective, no matter what initiates liberalization, the process gains momentum as some economic actors realize the possibilities for using their assets more profitably in more open markets.

Indeed, from this point of view, the effects of globalization can be achieved without moving factors of production across borders. To lower wages in the United States, for example, the industrialist need not import labor from Mexico nor move his factories to Mexico. He simply needs to be able (to threaten) to do so. The potential of substituting foreign workers and production for domestic workers and production reduces labor's bargaining power by making the demand for domestic labor more elastic (Rodrik 1997:16–27, Slaughter 1997). In an opening international economy, then, increases in trade and foreign direct investment that are small relative to the size of the domestic economy may trigger large effects on factor and product prices, as Wood (1994) and Rodrik have argued. (Feenstra 1998). Globalization may then come to have major effects on domestic economies and politics even where most investment is national and where goods and services made and sold in the domestic market dominate imports and exports. Despite their different weightings of the factors that produce the globalized economy, all of these accounts of globalization share a common core, namely the declining relevance of national economic units.

In contrast to those who see evolution to a global economy as the determining process of economic life, there are scholars who interpret the changes of the past 20 years as internationalization or as regionalization. Hirst & Thompson (1996) distinguish between an international economy, in which the basic units remain national societies and actors, and a globalized economy, in which "national economies are subsumed and rearticulated into the system by international processes and transactions" (1996:7–13). In their view, the increases in capital mobility, trade, and foreign direct investment over the past two decades should be understood as intensified interaction among entities that remain distinctively national. Even the largest companies, free to invest their funds and develop their activities virtually anywhere in the world, in fact continue to concentrate a large proportion of their employment, investment, research and development, production, and sales in their own home countries, and thus are multinational rather than transnational corporations (Hirst & Thompson 1996:76–98) . Most economic activities are not traded across borders, and production for the domestic market and nontraded services dominate in all but a few small city-states, such as Singapore and Hong Kong (Krugman 1994).

Analysts who see change in the world economy as extension and deepening of older patterns of internationalization, rather than as globalization, also question whether any fundamentally new developments are occurring. If we consider the period from the mid-nineteenth century to the present, what can we learn about variations over time in the levels of mobility of goods, information, capital, and labor across national borders? If the levels of flow of resources across frontiers do have historical precedents, what can we learn from them about the ability of national states to regulate these economic transfers, and, more broadly, about the survival of national politics in an internationalizing economy?

Research on the international economy in the first two decades of the twentieth century has seriously challenged the new conventional wisdom about the globalized economy by pointing to significant internationalization in the past. By 1913, in the most advanced countries, levels of capital and labor mobility across national boundaries were quite comparable to today's levels (Zevin 1992, Strikwerda 1993, Bairoch 1996, Wade 1996, Williamson 1998, Wade 2000). Cable (1995:24,29) points out that it was only in the 1970s and 1980s that the share of trade in gross domestic product (GDP) for countries in the Organization for Economic Cooperation and Development returned to levels that had already been reached in 1913. Foreign direct investment has been estimated at 9% of global GDP in 1913; subsequently it declined to less than half that amount, and by 1990 it had not yet returned to the 1913 level. An *Economist* survey on states and the international economy noted that capital flows were as mobile before World War I as they are today and that net capital transfers were significantly greater (*Economist* 1995:5,9).

It would be a mistake, of course, to expect exact parallels between the situation obtaining in the international economic and political system linking the advanced countries of 1913 and today's international system. There have been real changes in global capital markets, relative even to the degree of integration achieved before the collapse during the two world wars and the Depression. The velocity and gross volume of capital movements today are on a scale that dwarfs those of the turn of the century. New financial instruments, new technologies of communication, and a greater concentration of assetholders with the growth of institutional investors have created a different environment.

Krugman (1995) points to several important differences between contemporary patterns of trade and those of the period of high internationalization before World War I. Today's exchanges include significant proportions of intra-industry trade. The growing capabilities of developing countries have led to the rise in exports from low-wage to high-wage societies as well as to new possibilities for foreign direct investment and outsourcing from high-wage to low-wage economies. This fragmentation of production, enabled by new information and transportation technologies, is transforming industrial organizations in the advanced countries. Finally, in the contemporary global economy, in contrast to that of the earlier period, a number of trading states have emerged with very high ratios of trade to GDP (Krugman 1995:331–37). Despite the differences, the view from the longer perspective does not show an irreversible progression toward ever greater and unprecedented levels of internationalization. Rather, the picture is of high levels of trade at the onset of World War I followed by a devastating shattering of the links of interdependence among the advanced countries, then by a gradual reweaving of the networks of the international economy, and finally a return (by the turn of the twenty-first century) to an international world with national constraints and opportunities that some of our more prescient great-grandparents had already glimpsed.

If there is something radically new in the world economy, some argue that it is not globalization but regionalization (Zysman & Schwartz 1998). The growth of trade and investment within each of the four major economic blocs—the European

Union (EU), North America, Mercosur (Latin America), and East Asia—is far greater than the growth of exchanges among the blocs or between them and the rest of the world (Lawrence 1996). If the phenomena to be explained are interpreted as regionalization and not globalization, then it makes sense to focus on the role of politics in building regional trade pacts (e.g. the EU and the North American Free Trade Agreement) rather than on changes in communication and transportation technologies or on economic theories of comparative advantage, whether in Heckscher-Ohlin or in Ricardo-Viner variants.

Others looking at the domestic economies of the major advanced countries argue that the most striking change over the past twenty years is not the increase in the proportion of the economy that is traded internationally (imports plus exports) but the rise of employment in services relative to manufacturing (Iversen & Wren 1998). Technological changes would explain far more of this transformation of domestic economic and social structures than would internationalization.

In sum, although scholars have a common idea of what globalization is or would be, they do not agree on whether the current changes in the international economic environment are caused by globalization or by something else. Among the candidate theories for something else, internationalization, regionalization, and the rise of a service economy are the main alternatives.

DOES GLOBALIZATION RESHAPE DOMESTIC POLITICS?

The Second Image Reversed

Research on the impact of globalization on domestic politics builds on a paradigm in political science that Gourevitch (1978) has aptly called "the second image reversed," a reference to Waltz's (1959) models of international relations theories. Waltz sought to identify studies that analyze how changes in international factors are transmitted into domestic life. How do changes in the international economy affect domestic actors? Do the same changes produce the same results in national politics everywhere? According to Gourevitch's (1986) research on national responses to common international crises, the mechanism by which changes in the world market are brought into national politics is a process of transmission through changes in the prices domestic producer groups pay and receive. Gourevitch emphasizes the possibilities of politicians' building different domestic coalitions of interests out of the groups mobilized by upheavals in their livelihood deriving from the international economy. In the countries Gourevitch discusses during the crises of 1873–1896, 1929–1949, and the 1970s, the basic "societal actors" or interests are the same: farmers, finance, labor, industrialists. Yet the patterns of accommodation these interests reached, under pressure from external events, and the economic policies these coalitions supported varied greatly from country to country. Party politics, state structures, intermediate associations, and politicians built different alliances among (the same) social groups.

If Gourevitch's map of societal interests reveals a determinacy in the presence and importance of groups in societies at the same level of economic development, his conception of their politics is far more open. Swedish and German farmers in the 1930s may have had similar preferences for protection from the market, but the Swedes ended up supporting a Social-Democratic alliance with workers, whereas the Germans ended up with Nazism (Gourevitch 1986:124–81). In the same research tradition, Katzenstein's (1985) work on neocorporatism in small open economies also focuses on variation in the responses of social groups under comparable pressures from the international economy, depending on political structures and policies (Katzenstein 1985). However similar the maps of social and economic interests in societies at comparable stages of economic advance, political reactions to shifts and shocks from the international economy are essentially indeterminate because they are mediated by political parties, ideologies, strategies, and contingent acts of leadership.

International Trade Theory

Whereas the "second image reversed" literature built on a proto-Marxist historical conception of social actors and a rather wide range of possible political outcomes under world economic pressures, the research inspired by international trade theory suggests both a simpler map of interests and a sharper set of predictions about groups' responses to change in the world economy. Standard theorems of international trade—Heckscher-Ohlin, Stolper-Samuelson, Ricardo-Viner—elaborate Ricardo's original insight about relative comparative advantage as the reason that nations find benefit in exchange. These theorems predict patterns of trade based on different national distributions of the factors of production, and they suggest that social groups, as defined by their stakes in the factors of production, will have their fortunes altered in predictable ways by trade opening or protectionism (Jones 1971, Magee 1978). If interests are distributed in patterns determined by the ownership of factors of production (land, labor, or capital), and these factors are mobile across borders, according to a Heckscher-Ohlin formulation, or as incorporated in traded goods and services, according to the Stolper-Samuelson model, then clear predictions follow about which groups will support and which groups will oppose economic openness. In societies that have relatively abundant capital, hence a comparative advantage in exporting capital or in exporting capital-intensive products, capitalists will support trade opening and labor will oppose it (Rogowski 1987, 1989; Scheve & Slaughter 1998).

How to conceptualize factors of production, and hence social actors, is a major question for this research agenda. For example, should we think of labor as a single factor of production, and characterize societies as more or less endowed with it, or should we distinguish between more skilled and less skilled workers (as defined by education and training) and characterize the relative advantages of societies in terms of the abundance of skilled labor? If we conceive factors of production as scarce assets, should our analysis also include other assets that may create differential stakes in trade opening or closure? Scheve & Slaughter (1998) have tested the effects of homeownership in counties with trade-exposed industries on attitudes toward trade.

There is a clear division among scholars who ground politics in the responses of different interests to the international economy. On one side are the analysts, including Rogowski and Scheve & Slaughter, whose characterization of factors is independent of the sector in which they are employed, and who assume relatively easy mobility of factors among industries. On the other side are those who see factors as specific to a particular industry and not so easily moved from one sector to another, as in Ricardo-Viner formulations of trade theory (Frieden 1991, Frieden & Rogowski 1996). For scholars in the latter camp, the critical variable for political responses to trade opening is the sector in which capitalists have invested or in which workers are employed, so that, for example, both shoe manufacturers and shoe-industry workers would oppose removing barriers to the entry of shoes from lower-cost producers. The shoe manufacturers could not quickly or profitably sell off their shoe factories and reinvest in new sectors; the workers have acquired particular skills in making shoes that may not be transferable to other jobs. In this research agenda, a critical issue is how specific particular assets are (see Alt et al 1996, a review of the research based on Heckscher-Ohlin and Ricardo-Viner models). If the Heckscher-Ohlin predictions based on factor type (labor, capital, or land) are too broad-gauge to capture the logic of economic interest, how much detail about the industry would we need to analyze the dynamic of political responses? Even in one industry, looking at one factor, there are multiple potentially important specificities. We might distinguish capitalists who held shares of footwear companies from those who owned physical plants, or we might distinguish shoe manufacturers in niche markets (high-fashion shoes, orthopedic shoes, work-protective shoes) from standard mass product makers (athletic shoes and the like).

These two approaches from trade theory lead to two distinct predictions about political preferences and behavior. In a test of the two models, Scheve & Slaughter (1998) ask whether individual trade-policy preferences are better accounted for by factor type (which they define by worker skill levels) or by industry of employment (which they characterize by degrees of exposure to trade). They find that the skill level of workers is a better predictor of individual support for restrictions on trade than is employment in a trade-exposed industry. This result is consistent with a Heckscher-Ohlin factor-type model. Other empirical research, however, supports a Ricardo-Viner model (Irwin 1996, Magee 1978). Frieden (1991) argues that in the short run, the specific-factors model better explains responses to trade, although over the long term Heckscher-Ohlin may prevail. Increasing integration of world markets would bring homogenization of interests within factor types, so that eventually, political struggles over globalization would become conflicts between labor and capital rather than between one industry's workers/employers and another's.

Structural Constraints on Government in a Global Economy

If public policy is considered the result of the vector of interest group pressures, then the political models derived from trade theory suggest some simple predictions about the future of the state in a global economy. The growing mobility of capital and the relative immobility of labor would make governments increasingly responsive to the interests of capital. If taxes, industrial policy, environmental regulation, or industrial relations in any society are too costly or constraining, investors will pull up stakes and transfer them elsewhere; workers cannot move so easily. Therefore, the expected results of limiting taxation of capital are that labor will have to shoulder a greater part of the tax burden and that society's ability to fund social welfare expenditures will decline.

The shift in the domestic balance of power between capital and labor that globalization promotes by rewarding mobile factors thus translates into a shift in domestic politics. Social democracy becomes less likely because capital's incentives for cross-class compromise are lowered by its growing power. Even when socialists win electoral majorities, as Mitterrand did in France in 1981, an open economy (in the case of France, the European economy) offers the holders of mobile assets the opportunity to enforce their preferences by threatening to exit. Although capital flight is hardly a new problem for the governments of the left, the range of policy instruments for dealing with it is far narrower than at any time since the beginning of the century.

Globalization shrinks the state by reinforcing the political resources of those groups in society who desire limitation of the use of state powers to redress outcomes in the market. It also ties the hands of even those political forces whose ideological traditions support state intervention in production and redistribution. In this view, it hardly matters whether the left or the right wins elections; the constraints of the internationalized economy will oblige either party to follow the same monetary and fiscal policies or else face a loss of national competitiveness and investment.

Globalization and Neoliberalism

One need not view the world through the lens of international trade theory to see links between globalization and the shrinking of the nation-state. Whereas political economists who have developed political models out of theories of comparative advantage see openness linked to the power of the state by the dynamic of domestic interest struggles, others see globalization as the result of ideological changes that have transformed national governments. The global spread of neoliberal doctrines has everywhere reduced the legitimacy of broad state involvement in the economy and reduced governments' ability to shape or to protect against market outcomes (Evans 1997). The waves of deregulation that have swept away governmental powers virtually across the world over the past two decades have their origin in deep and complex value shifts. These changes first captured the parties of the right, but the Thatcher and Reagan "revolutions" were reenacted in even more far-reaching renunciations on the left (Scharpf 1991, Kitschelt 1994, Gray 1996, Vandenbroucke 1998).

At the same time, the end of the Cold War and the collapse of state socialism opened new terrain for economic liberalism. According to Wes, in 1978 one third of the world's work force lived in centrally planned economies (cited in Vandenbroucke 1998:13). During the past decade, these economies became integrated into world markets. Even in China, the sole remaining major socialist country, capitalism and liberal market principles made major advances. Although it was possible to argue for more or less rapid "transition" to market economies, plausible alternatives to the market economy no longer seemed to exist. Both in liberal democracies and in the former state-socialist countries, the political appeal of socialist or left doctrines that would enlarge the state's mandate to regulate the economy evaporated. Where Communist parties have reemerged, they function mainly as vehicles of populist protest.

The spread of neoliberal norms was propelled not only by the failures of socialism but also by the advocacy of the United States. In a position of unchallenged dominance in global financial and trade institutions, the United States pushed for a rapid end to capital controls across the world and for making International Monetary Fund and World Bank assistance contingent on recipient countries' acceptance of sharp limitations on the role of government in the economy (Wade 2000). From this perspective, globalization, far from reflecting the spontaneous spread of world markets and the toppling of barriers by economic actors eager for new opportunities, is a story driven by politics: ideological change, the contingencies of the collapse of the socialist economy, and US power in the world.

EVALUATING THE CONSTRAINTS ON NATIONAL GOVERNMENTS

Although important differences exist among scholars who emphasize the role of US policy, new technologies, financial markets, or new political values in the irresistible rise of globalization, most accounts advance some mixture of causes and feedbacks. The real divide in the literature lies between those who argue that globalization, however it has come about, has eroded the autonomy and authority of national governments, and those who argue that however much globalization may have occurred, national states still retain their basic powers. Empirical research intended to confirm or refute theory-driven predictions of the erosion of national government's capabilities has focused on four big questions. Has the state lost the levers that enabled it to make macroeconomic policy? Has the state lost the tools of industrial policy and other supply-side policies that played a major role in the postwar growth strategies of newly industrializing economies? Has the state lost the ability to raise the resources to finance extensive welfare and redistributional policies? More generally, have states lost the ability to sustain distinctive forms of capitalism within their societies—distinctive configurations of market and nonmarket institutions that reflect societal preferences and national traditions in the particular ways they build productive institutions and networks to connect economic organizations?

Macroeconomic Sovereignty

In the international economy of the post–World War II era, with capital controls and trade barriers, states were able to use interest rates, the exchange rate, and the supply of money as levers of control in their economies. When rapid economic growth was accompanied by inflation, governments could limit the consequences by obstructing the entry of foreign goods that might compete with more expensive domestic products and by blocking domestic capital from exiting in search of higher returns. When economic growth slowed, governments could devalue the currency to cheapen exports, lower interest rates to stimulate investment, and increase government spending to increase employment. When currencies came under speculative attack, countries responded with currency and investment controls. In a world of free-moving financial capital, once policy-makers renounce the use of capital and trade restrictions, the menu of macroeconomic options is shortened. (For clear expositions of the impact of the integration of financial markets on macroeconomic policy-making that draw different conclusions, see Frieden 1991:430–33; Garrett 1998a:26–50, 1998b; Glyn 1997–1998:4–8.) At best, governments may choose between the value of the currency and the interest rate. The instruments of macroeconomic policy are even more limited in countries that have pegged their currency to the US dollar, as Hong Kong has, and in countries that link their currencies, as the Western Europeans have (first in the European Monetary System and then in a single currency, the euro). As demonstrated by the experience of the states that were hardest hit by the Asian financial crisis (e.g. Thailand), if a country is to stem the outflow of investors and keep the support of international financial institutions, then borders have to be kept open, even when interest rates soar and the currency collapses.

Is this loss of maneuvering room in monetary policy paralleled by a loss of autonomy in fiscal policy? Views divide widely on this point. Rodrik (1997:62–64), among others, concludes that globalization makes it hard to raise the tax burden in general. Globalization reduces the taxation of capital, which is mobile, and shifts the tax burden onto labor, which is less mobile (Przeworski & Wallerstein 1988, Scharpf 1991, Kurzer 1993, Steinmo 1993). Eichengreen (1997:3) explains that the "most basic principle of the theory of tax incidence is that elastically supplied inputs into production escape the burden of taxes; try to tax them and they vanish. ...It is not surprising that capital's share of taxes paid in the leading industrial countries that make up the Organization for Economic Cooperation and Development (OECD) has shifted steadily downward in recent years."

Other research, however, contradicts these findings. Swank (1988a:679) examines corporate tax burden (as a percentage of operating income) in the 1990s for the 17 largest and richest OECD countries and finds little change since the 1970s. He analyzes the impact of international capital mobility on corporate profits taxation for the period 1966–1993 and discovers that "if anything, direct effects of globalization of capital markets are associated with slightly higher business taxes and, to a degree, the diminution of tax policy responsiveness to the conditions that underpin investment" (Swank 1998a:690–91; see also Steinmo & Swank 1999). With respect to trade, however, Swank reports a small positive effect of trade openness on the fall of business-profits taxation (1998a:686). Garrett (1998b:85–89), exploring the prospects for left-labor policies in the 1990s, concludes that trade openness and capital mobility do not diminish government's capacity to tax, nor even its options for increasing the progressivity of the tax system. Social democratic governments based on left-labor coalitions are associated with bigger government and higher corporate taxation than the Anglo-American liberal market systems, but the end of capital controls need not spell the end of redistributive politics. Garrett argues that business obtains many benefits from the state's role in economy and society, especially from public investments in human and physical resources and from redistributive expenditures that reduce social tensions arising from economic dislocation. Therefore, even mobile asset holders will remain in relatively high-tax societies when these environments provide valuable public goods, such as a well-educated workforce, social stability, and proximity to cutting-edge research institutions (Garrett 1996, 1998a, 1998b; Thelen 1999).

Industrial Policy

How does globalization affect the government's capacity to promote a particular set of economic activities within national territory? Both in advanced industrial countries and in developing countries, governments have used a variety of policies to encourage specific industries: preferential credit, export subsidies, research and development grants, military procurement, export subsidies, protection of the domestic market for domestic producers, and others. (For examples from Western Europe, see Shonfield 1969, Levy 1999b; for Japan, see Johnson 1982, Samuels 1987; for industrial policy in the newly industrializing economies, see Wade 1990, World Bank 1993, MacIntyre 1994, Chiu et al 1997, Rodrik 1999.) If government intervention was intended to attenuate a domestic shortage of capital for promising new activities, then globalization should alleviate the problem, since domestic firms can now draw on world capital markets (not only on domestic savings) to finance new investments. But in most other respects, globalization makes it more difficult or even impossible to use such policies as Japan, Korea, Singapore, and Taiwan developed in the postwar decades to build modern industries. Capital mobility makes it very difficult for governments to constrain local investors to provide funds for industry at lower rates of return than they would receive abroad. The extension across national borders of commodity chains that coordinate production functions distributed across multiple countries (Gereffi 1996) weakens the links of interdependence among domestic producers and retailers. The emergence of global suppliers capable of providing services and subassemblies for multinational corporations wherever they locate production may crowd out local suppliers and reduce the multinational corporations' need to cooperate with local producers and to transfer technology and know-how to them (Hatch & Yamamura 1996, Sturgeon 1997).

Most constraining, the rules of the new international trading order limit the kinds of help that governments can provide to domestic industries without violating the antidumping or anticompetition provisions. The mutual charges of protectionism and hidden subsidy that the United States and the European Union have pressed against each other in the World Trade Organization (WTO) over the past year regarding bananas, beef hormones, and the tax advantages that US corporations derive from offshore Foreign Sales Corporations are only the latest examples of the capacity of internationally accepted trade sanctions to restrain government support of particular industries. OECD debated an international treaty on the rights of foreign investors, the Multilateral Agreement on Investment, which is even more far-reaching in its implications for clipping the wings of governments. This accord would have obliged its signatories to treat foreign investment like domestic investment and would have constrained the regulatory options of governments at all levels. Negotiated in secret, the proposed treaty was stopped by a wave of attacks from nongovernmental organizations and social movements that orchestrated a campaign against the Multilateral Accord on Investment on the grounds that it protected the rights of capital but not labor and that it constrained democratic decision-making.

End of the Welfare State?

Does globalization destroy the welfare state? One of the deepest sources of anxiety about international openness is the fear that welfare-state institutions that have buffered the workings of market capitalism will no longer be sustainable (Pierson 1994, Esping-Andersen 1996, Jessop 1996, Rhodes 1996, Rodrik 1997, Stephens et al 1999). In part, the debate revolves around the issue of whether a race to the bottom in wages, social provision, and labor-market regulation is inevitable because of financial market liberalization and because of capital's new opportunities of relocation in low-cost, low-regulation countries. The arguments run along the same lines as those discussed in the section on macroeconomic policy: that government's fiscal policy is constrained by capital mobility, since taxes cannot be raised without reducing the competitive advantage of domestic producers, and that large budgetary deficits, without the possibility of exchange-rate adjustments, raise prospects of inflation and higher interest rates. The likely outcomes are higher unemployment (as government renounces the use of demand stimulation) and cuts in social welfare expenditure (as government tries to contain and lower the deficit). Indeed, the argument is not only that these constraints will over time undermine the welfare state, but that they are already the principal source of pressures that have led to cuts in social spending across the advanced industrial countries.

The empirical evidence suggests far greater resilience and capacity for adaptation within the format of universal social provision than these pessimistic readings of the new distribution of power within advanced societies suggest. First, as discussed above, corporate taxation as a share of tax revenues or as a share of gross domestic product has been quite stable, challenging the notion that states are engaged in a competitive downward spiral to reduce corporate taxes (Garrett 1998b, C Pierson 1998, Swank 1998a,b). Second, patterns of change in social expenditures vary significantly across countries. Pierson shows that these patterns do not correspond to the predictions that might be derived from assumptions about the vulnerability of social expenditure to pressures from mobile asset holders with increased openness (P Pierson 1998). Swank (1998b:44) analyzed the impact of increasing capital mobility on total social spending in 15 advanced countries and concludes:

> Where institutions of collective interest representation—social corporatism and inclusive electoral institutions—are strong, where authority is concentrated and where the welfare state is based on the principle of universalism, the effects of international capital mobility are absent, or they are positive in the sense that they suggest economic and political interests opposed to neoliberal reforms, or adversely affected by globalization, have been successful in defending the welfare state.

In contrast, where such institutions are weak, capital mobility has had a more dampening effect on social expenditure.

Is globalization really the main explanation for the pressures on welfare state expenditure that are evident across developed countries? Domestic factors—e.g. the aging of the population, a productivity slowdown in service-based postindustrial economies, the maturation of welfare programs—may be at least as important as new developments in the international economy (Iversen & Wren 1998, P Pierson 1998, Stephens et al 1999, Iversen 1999). The welfare state may be in for hard times, but globalization matters only in conjunction with domestic variables that vary from state to state. Its effects on policy are not direct. Rather, where governments have been committed to preserving the basic features of the welfare state (as in the Netherlands), a range of reforms and accommodations have maintained the essential distributive elements of the old social compact (Levy 1999a, Visser & Hemerijck 1997).

National Varieties of Capitalism

Beyond the constraints that globalization may exercise in economic policy-making, there remains the question of its impact on the institutional constellation of different national systems. Albert's *Capitalism vs. Capitalism* (1993) launched a debate over the societal foundations of economic performance. This book, which sketched "Anglo-American" and "Nippo-Rhenish" models, was followed by a wave of research on the specificities of German, Japanese, Italian, French, and other "models" (Albert 1993; Soskice 1991, 1999; Streeck 1992, 1997; Hall 1997).[1] The common

[1]Earlier contributions that provided an empirical foundation for this debate about various national capitalisms (Dore 1973, Maurice et al 1986) demonstrated that firms operating in the same industries in different societies had very different organizations that were about equally efficient and productive over time. They showed that organizational differences reflected broad societal characteristics.

intuition underlying all of these contributions is that economic performance is a characteristic of firms understood not as autonomous actors but as social creations, highly dependent on societal resources that they do not themselves create. In Streeck's words (1997:37), firms are "social institutions, not just networks of private contracts or the property of their shareholders. Their internal order is a matter of public interest and is subject to extensive social regulation, by law and industrial agreement." Streeck describes the similarly social and organized character of capital and capital markets. Even firms in the same sector, with the same technologies and products, will differ systematically across societies according to the kinds of resources and frameworks those societies provide.

What kinds of resources and frameworks? Are there as many different national models of capitalism as there are nations? Although these theorists argue for the diversity and pluralism of social types, the diversity is constrained. The basic grid of analysis is institutional configuration or production regime (Soskice 1999:19), defined by the sets of rules and institutions regulating the industrial-relations system, the educational and training system, the relations among companies, and the system of corporate governance and finance. Those four patterns together form a production regime, and the production regimes of the advanced industrial countries fall into regular patterns. In Soskice's categories, there are two broad types: business-coordinated market economies (e.g. Germany, Sweden, Japan, Korea) and liberal market economies (e.g. the United States and Britain).

Contributors to the varieties-of-capitalism literature, then, see more than one kind of industrial society and believe that the different institutional configurations, or production regimes, generate systematically different microbehaviors. From institutional configurations and differences in microbehaviors, these scholars deduce a theory of comparative institutional advantage (Hall 1997). In this perspective, different production regimes, or different capitalisms, should be good at solving different kinds of coordination and production problems, and hence over time should come to specialize in and excel in those activities.

Are these varieties of capitalism, each with its distinctive assets and weaknesses, equally resilient in an open international economy? Within this question are two different issues. First, one may ask whether the characteristics of the new economy—however conceptualized—play to the strengths of some models of capitalism more than others. The American economy, with flexible labor markets, arms-length relations between investors and industry, research and development systems that favor radical change rather than incremental process improvements, well-developed financial markets, and so forth, might be better able to respond to global competition than, for example, German or Japanese capitalism. There are many claims made along these lines, but the evidence is far from clear. It is true that the German and Japanese economies have experienced major difficulties over the past few years, but if one compares the economic growth, employment, and productivity growth of these countries with that of the United States over a 10-year period that corresponds to the same phases of the business cycle, their performance is roughly equivalent. Although one variety of capitalism might do better at particular economic conjunctures, or at solving particular kinds of problems in innovation, production, or distribution, there is no compelling evidence that any of these constellations has a clear economic superiority across the board over time.

The second issue is as follows. If one believes that economic institutions depend on specific societal resources, then globalization might differentially affect models of capitalism by undermining a society's ability to reproduce those resources (Streeck 1997). Capital mobility, for example, might have different effects in a country whose economic system relied heavily on labor-capital negotiation and cooperation in the workplace than in a country where skills are formed outside the workplace and acquired in markets.

GLOBALIZATION AND THE NEW AGENDA OF POLITICS

The case for a decline of national power and sovereignty in an age of globalization stands on two legs. One is the notion that the magnitude and velocity of international economic exchanges have eroded the state's capabilities. The other is the argument that the extension of market relations across national borders diminishes the citizen's attachment to national authority, leading to a decline in the legitimacy of central governments. Contemporary politics in advanced industrial countries provides much evidence of a growing distrust of elected politicians. But there are no signs that the electorate's disillusionment about their representatives reflects a deeper detachment from national loyalties, let alone a transfer of political allegiance and identification to regional or international bodies.

As pressures from the international economy intrude on domestic societies, citizens turn ever more urgently to their own governments for help. What many of them mean by help is protection from the unregulated flow of capital, labor, and information from outside national territory. In their view, domestic problems—e.g. unemployment, delocalization of industry, immigrants, pornography on the internet—are carried into the community by this unregulated flow across unguarded national boundaries. Far from understanding the new relationships induced by internationalization as the product of impersonal and inevitable market forces, many of these citizens see the new situation as one created by their own government's actions in opening the frontiers, in negotiating new trade treaties, and in legislating about immigration. Because the problems appear to have political origins, they appear reversible by government action. Thus, one paradoxical outcome of globalization may be to refocus political attention on the role of the state on the boundaries of national territory (Berger 1995, Kitschelt 1995, Della Porta 1998). Citizens are mobilizing along new lines of cleavage, and in many advanced countries, a new political camp has emerged, organized around a program of reinforcing national controls at the frontiers. Supporters of these views can be found across the political spectrum.

A twenty-first century of nation-states—an expansive, intrusive, and unregulated global economy—these are the future parameters of our opportunities and our dangers. Citizens increasingly understand the relative economic strengths and weaknesses of their societies as products of specific national political arrangements and of different national cultures, not as the result of diverse natural advantages. The combination of these elements makes it likely that the new age of globalization will be one of international conflicts over the economy. We can already glimpse the character of these contests: a mix of conflicting visions of right and interest. The struggles between the United States and Japan in the Structural Impediments Initiative negotiations (1989–1990), between the United States and Europe over the "cultural exception" in the Uruguay Round, between the United States and Europe over beef hormones and genetically modified substances in foods, between Japan and China on the linkages between trade, aid, and nuclear weapons; in the conflicts heating up on internet content, on child labor, on "social clauses," environment, and trade—all reflect different national conceptions both of interest and of the basic norms of social life. Energized partly by interests, partly by ideals, these confrontations do not align one ideological camp against another nor one civilization against another. They do not pit "Asian values" against "Anglo-American" values. Often they mobilize multiple and conflicting traditions within pluralistic national societies. In this way, the conflicts between societies that are induced by globalization threaten to reopen old lines of domestic discord.

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