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Is Globalization the Cause of the Crises of Welfare States?

Neil Fligstein

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Is Globalization the Cause of the Crises of Welfare States?*

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Abstract

Economic globalization refers to three related processes: 1) the growth in the world economy, 2) the change in the relations between first and third world countries that has resulted from the use of information technologies to reorganize production nationally and globally, and 3) the integration of world financial markets. These processes are often held responsible for deindustrialization in advanced industrial societies, increases in income inequality, and pressures on welfare states to transform worker protection and benefits. I demonstrate that the changes in the world economy are much smaller, more gradual, and unevenly spread across societies than the globalization thesis suggests. More important, the links between globalization and its alleged negative outcomes are tenuous at best. The rhetoric of globalization has more to do with the U.S. and changes in its political economy than changes in world trade. A brief concluding discussion considers how this is playing out in western Europe.

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Introduction

There is a lot of discussion today about the issue of the globalization of the world economy and its ultimate effects on governments and stratification in both the advanced and less advanced industrial societies. This paper considers more closely the case of the OECD countries and the alleged impact of globalization on welfare states. I focus on questioning the rhetoric both empirically and normatively. My main conclusion is that under most definitions of globalization, the evidence that exists just does not support the view that the growth of the world economy has altered the organization of production and the nature of competition for most world markets. Moreover, if one explores the empirical literature on the topic, one concludes that however one defines the "new global competition", it is not strongly related to deindustrialization, increases in income inequality, nor the fiscal crises of welfare states.

Instead, deindustrialization reflects technological change and the continued shift from manufacturing to services in advanced industrial societies. The political responses to these changes have been radically different in the U.S. and western Europe. In western Europe, governments have continued to intervene in their economies and the distinct French, German, Italian, and Scandinavian business systems remain in

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place. Governments continue to provide more for their citizens and income inequality has changed little in the past 15 years.

In contrast, the U.S. over this period undertook a set of political reforms that deregulated business activities, lowered taxes particularly for the well-off, made it more difficult for labor to organize, and tried to dismantle what there was of the American welfare state. The financial reorganization of firms during the 1980s resulted in mergers, plant closings, downsizings, and more concern with short term profits. This transformation has been described as the emergence of the "shareholder value" conception of the firm (Davis and Thompson, 1994; Fligstein, 1996; for a polemical statement, see Jensen, 1989). The result of public policy favoring only shareholders has been less worker protection, slower wage growth, and more income inequality.

The "shareholder value" perspective on international competition, which is often called the Anglo-American view, (Gourevitch, 1996) is now being touted as the solution to all competitive problems in advanced industrial societies. The general rhetoric of globalization and the policy implications of the American perspective have become part of the worldwide epistemic community of economists as reflected in the policies of the World Bank and the OECD (see for example, OECD, 1994). The argument is that the appropriate response to the global economy is for governments to relax rules that protect workers, allow more inequality by lowering tax rates on high

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income earners, and promote the "shareholder value" conception by giving firms flexibility to invest and disinvest how they choose. The only virtuous thing governments can do is to fund more education to aid workers in adjusting to the new economy (Reich, 1992).

I show that the theoretical and empirical literatures concerning the causes of economic growth, the nature of how firms come to be dominant in markets, and the role of governments in economic development do not neatly fit these policy recommendations. Labor costs are only one factor in competitive processes and for industrial countries, one of the least important. Indeed, the business literature shows that competitive advantage in a particular market depends on firms discovering novel forms of social organization that take advantage of technology. Moreover, governments do far more than just provide education for their citizens and they play crucial roles in their economies.

The Anglo-American model and its globalization rhetoric has found its way into political debate around western Europe where there is a fiscal crisis of the welfare state. Europe's problems are not caused by trade and competitiveness as they are typically used. Indeed, European economies are amongst the most open in the world and the most trade dependent. Over the past 15 years, their share of world trade has increased and they in general, have run trade surpluses (as opposed to the supposedly more competitive U.S. where trade deficits have

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been averaging 3% of GDP persistently over the same period of time). Instead, European slow economic growth is caused by the trend away from manufacturing towards services, the difficulty of starting new businesses in Europe, the forthcoming monetary union, German unification, and the increased demands for government services by an increasingly elderly population. The theoretical and empirical literatures on gaining competitive advantage in markets show that adopting the American shareholder value approach, dismantling social safety nets, or changing work rules to strip workers of rights are not the obvious solutions to these problems. Making it easier for firms to make investments and grow can be done without making workers more insecure.

I conclude by considering how social scientists interested in social justice issues can engage in both empirical and normative analyses that produce a counter discourse to the one generated by economics and its major opponent, Marxism (or what's left of it). The empirical literature shows that capitalism remains rooted in nations, even in markets where there are global participants. National economic and political elites have constructed extensive social organization that is the basis of their governments and economies. Capitalist firms remain dependent on national governments and local labor forces to provide them with stable political conditions, infrastructure, trade protection, trade agreements, competition policies, privileged access to capital

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markets, and bailouts. Because of this interdependence, societies have the continued right to make claims on firms (see Dore, 1996, for a similar argument). This is a normative argument against the view of the shareholder conception of the firm that fails to embed corporations appropriately in their societies.

What is globalization?

Economic globalization generally refers to three processes. First, there has been an increase in the amount of world trade such that firms do not just compete in their own economy, but against firms from economies around the world. Most proponents of the globalization thesis argue that this has produced a qualitative change in competition. This change is defined in a number of ways. The use of information technology is thought to be the driving force that pushes forward globalization (Castells, 1996). Firms in this "new information society" have to move faster to respond to changes brought on by information technology. They rely more on networks (defined to include industrial districts (Piore and Sabel, 1984), long supply chains, joint ventures, and complex ownership structures) to coordinate production processes on a world wide basis. Some firms have gone so far as to contract out almost all of their productive activities to markets and function mainly to design products and market them.

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These "network" activities have a more negative side from the perspective of citizens in developed societies. Firms are using information technologies to distribute their productive activities to wherever in the world factors prices are low (Castells, 1996). First world jobs can be transferred to third world countries because factories can be controlled, skills can be transferred, and wages are sufficiently low that they make up for any additional transactions costs and lower productivity that might exist (Shaiken, 1990). This produces deindustrialization (ie. the hollowing out of manufacturing by the closing of plants) such that high wage blue collar jobs are disappearing (Bluestone and Harrison, 1984).

Since these workers often have few skills, they have a hard time finding new jobs. A larger pool of unskilled labor also creates the condition of further depressing wages for low skill jobs. The new jobs being created by the global economy are for people with a high level of skill, what Robert Reich has called "knowledge workers" (1992). These workers get paid more because they have the ideas and skills that make economic integration possible. Since their productivity is high, their pay is going up. Taken together, these two forces produce a perverse set of outcomes. Returns to human capital are increasing for those at the top of the skill distribution while they are decreasing for those at the bottom. This creates more societal income and wage inequality.

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The second meaning of globalization is that the rise of the so-called Asian tigers has come at the expense of first world jobs in Europe and North America. U.S., Japanese, and to a lesser degree, European firms have transferred productive activities to Asia's inexpensive, but relatively highly skilled labor forces. These societies epitomize the "information revolution". They are the production workers of the new technologies and replace the higher priced labor of the industrialized world. The fast growth of these economies is attributed to a number of factors: state led development processes that produced infrastructure, ease of investment, high investment in human capital, and political stability and openness to foreign capital (Wade, 1990; Akruz and Gore, 1996; Campos and Root, 1996; Evans, 1995; World Bank, 1993).

The final meaning of globalization is that the world financial markets for debt, equity, and particularly currency, have grown substantially. Analysts critical of these markets (Harvey, 1995; Castells, 1996: 435-6; Strange, 1986) see the huge amount of currency being traded daily as a sign the central banks cannot control currency flows. Moreover, speculators in these markets can cause runs on currencies of a given country if they perceive that the current economic policies are likely to result in high inflation or high interest rates. World debt markets also limit fiscal policy options by pricing credit at a high level. Together, world financial markets operate to force governments to pursue

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monetary and fiscal policies that promote low inflation, slow economic growth, and curb deficit spending.

These forces are thought to be causing fiscal crises for welfare states. The demand for government services increases because of laid off workers and their families and the increased wage pressure on low income families. Governments try to care for these workers and have to run expansionary fiscal policies. Unfortunately, if they do so, they face a number of problems. Governments have difficulty raising taxes in general and cannot raise taxes on corporations because that will only encourage firms to move offshore. This accelerates the impact of globalization on deindustrialization by discouraging capital formation. Governments have to be careful about running large budget deficits because over time, world currency markets will force down the value of their currency. This will increase the costs of financing deficits by world debt markets who will demand higher interest rates. High interest rates will translate into slower economic activity.

Governments are therefore trapped by not being able to respond to globalization which produces deindustrialization and more inequality. Virtuous governments can only run economic policies that promote low inflation, low tariff barriers, and cut back on protection for workers and their families in the hopes of attracting foreign investment to stimulate economic growth. The only positive thing governments can do is invest in education.

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This basic story is shared by both the economics profession and their principle opposition, scholars who share more Marxist premises. For the economists, this analysis of global trade and its effects on economic growth is a good thing because it will eventually result in more wealth even if it produces short run problems of increased inequality (Stopford and Strange, 1991; Petrella, 1996). For the Marxists, it is a bad thing because people are losing more and more control over their lives and this is thus, a new phase of capitalism that is even more virulent than the last(Arrighi, 1998). Both economics and Marxism want to have economic forces be structural, inevitable, and everywhere dominating action.

Readers familiar with these arguments will think that they have been proved beyond a shadow of a doubt and that my scepticism must be based on no more than fancy. But I want to suggest that the evidence is more ambiguous and we should be sceptical of globalization claims for logical, theoretical, and empirical reasons. My logical argument is that it is a strong claim to assert that any one structural shift is causing everything we observe. Given what we know about how most social processes work, they usually reflect complex causes working together in different ways across time and space. It should take a lot of evidence to convince us that

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the globalization story is true. From a logical point of view, at the very least, one would expect that societies that were more susceptible to the negative effects of world trade ought to be experiencing the downsides more intensely than societies that were experiencing them less intensely. So, for example, European societies should be more susceptible to these changes than American or Japanese society. It is useful to consider the evidence more closely.

The Slow Expansion and Unevenness of Global Trade

It is well known that world trade has been increasing in the post World War II era. Most scholars know that world trade has increased almost 1200% since 1950 while world GDP has increased 600% (OECD, 1997). During the 1990s, it appeared as if world trade was growing at an alarming rate. So, for instance, in 1994, world trade grew by almost 14% and in 1995 grew by an astounding 20% (OECD, 1996). But these numbers are misleading in two ways. First, world trade (about $5.1 trillion in 1995) as a percentage of world economic activity (about $33.5 trillion in 1995) at the end of 1995 stood at about 14.7%. This means that still over 85% of the world economy was not involved in trade (Wade, 1996). While trade was growing fast in the mid 1990s, it has hardly overwhelmed the world economy.

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Second, this trend towards more world trade should be considered from a longer historical perspective. Numerous scholars have noted that the previous peak for world trade as a percentage of world economic activity in this century occurred in 1913 when world trade stood at about 14% of world GDP (Bairoch, 1993; Bairoch and Kozul-Wright, 1996; Kenwood and Loughheed, 1994). The two World Wars and the Depression so greatly disrupted world trade that in 1953, world trade stood at only 6% of world GDP, only 1/3 of its previous high level from 1914. These events meant that it took almost 70 years to return that trade to its pre- World War I level.

(Figure 1 about here)

Figure 1 presents evidence on the patterns of world trade since 1953 as percentage of world GDP. From 1953 until 1969, world trade grew gradually as a percentage of world economic activity from 6% to about 9%. Between 1969 and 1981, world trade grew dramatically and peaked in 1981 at about 16% of world GDP. Trade as a percentage of world GDP subsequently dropped to about 11% in 1991. From there it increased in a short period of time (5 years) to about 15% of world GDP. What this table shows is that over the postwar era, trade has generally been increasing faster than world GDP. But it has done so in starts and stops and during the decade of the 1980s, it actually grew more slowly than world economic activity. Trade began to grow dramatically in the 1990s, but has slowed in the late 1990s (World Trade Organization, 1997:

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3). World trade has increased, but in the context of long-term world economic growth, and in the context of the size and growth of the world economy, it is not at levels that suggest national economies are being overwhelmed (for more on the long view, see Kenwood and Loughheed, 1994). Indeed, if one looks at the world's experience in the postwar era, it is obvious that from the long run perspective the events of the 1990s are nowhere as dramatic as the events of the 1969-81 period.

Another claim of globalization theorists, is that the direction of trade between the first and developing worlds has changed. The claim is that it used to be that developed countries' trade with developing countries' was for commodities and not finished manufacturing goods, while trade between advanced industrial societies was primarily in finished goods. Now, globalization means that third world countries are engaging in first world manufacturing. Moreover, the less developed societies are supposedly increasing their share of world exports and manufacturing. Bairoch (1996) summarizes a great deal of this evidence for the long run. He concludes that most world trade has been between developed countries and that this has changed little (it was about 65% in 1913) in the past 90 years.

(Figure 2 about here)

Figure 2 presents evidence for the period since 1953. This graph shows more continuity and less change in the relative shares of world trade than the globalization argument

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implies. The developed world's percentage of trade increased, not decreased during the 1950s and 1960s. During the oil crisis of the 1970s, the share of trade of the developed world dropped to 64%. During the 1980s, however, the share of trade in the developed world increased and peaked at 72% in 1991. While the trade share of developed societies has gone up and down (it currently stands at almost 67%), it has not trended downward over time, but instead has moved within a relatively narrow range (between 60 and 70%). Figure 2 also shows that developed countries are trading more with one another over time. Industrialized societies do over 70% of their trade with each other and this has trended upward over time. Finally, figure 3 shows the share of exports that are manufactured goods that originate in developed societies over time. One can observe that the developed world's share of manufacturing increased from 1953 until the early 1970s, stayed constant until 1985, and rose substantially and declined slightly. The overall trend, however, is upward.

(Table 1 about here)

This suprising patterns fly in the face of our knowledge that there has been huge increases in trade with Asia. Table 1 presents results on the shares of world imports and exports in the regions of the world. There has been a great deal of stability in the shares of world trade for North America, Europe, Latin America, and Japan. Africa, the Middle East, Eastern Europe, and the countries of the former Soviet Union

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have all seen decreases in their shares. The greatest increase has been in Asia. While this evidence corroborates the view that the Asian societies have seen a great increase in their exports, the share of trade going to developed countries (North America, Europe and Japan) has not decreased as a result of the growth. Instead, it is the share of the rest of the developing economies that has decreased. Table 1 also presents information about imports. While Asian societies have seen a great increase in exports, their imports exceed their exports. This reflects their importation of raw materials and equipment to produce economic growth. The EU and Japan have been running trade surpluses suggesting that their goods are competitive in the world. The U.S. has run a persistent and large trade deficit. While U.S. exports have grown substantially, U.S. imports have risen as dramatically.

Table 2 examines the structure of world trade by looking at the origin and destination of trade in 1993. This table shows that the largest trading partner for western European societies is western Europe. It also demonstrates that 46.5% of exports from Asian societies end up in Asia. North America (here defined as the U.S. and Canada) has the most diversified trade profile. Their exports are predominantly to one another with the rest almost evenly divided between Asia, Europe, and the rest of the world.

(Table 2 about here)

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The picture that emerges from these tables is a world where trade is increasing in absolute terms (from almost $2 trillion to $5 trillion in 15 years), but not dramatically in relative terms (from 12% to 15% of world GDP). The direction of trade remains predominantly from developed to developed societies and these societies have increased their share of manufactured goods. While Asia has grown in exports, it has not taken trade shares away from the developed world. The societies that have not gained as much in trade have been the rest of the developing world. In sum, increases in trade have been gradual and there is no evidence that the developed world has lost out.

(Table 3 about here)

These patterns deserve to be examined more closely by disaggregating trade by products and regions. Table 3 presents evidence relevant to globalization arguments. It has been argued that one of the sectors where the forces of globalization are most prevalent is information technology and telecommunication equipment. Table 3 shows that this sector produced $379.4 billion in trade in 1993, a sizeable number. But, it for only about 10% of world exports (nearly $4 trillion in that year) and about 1.5% of world GDP. The largest trade volumes continue to be for commodities like grain, oil, other raw materials, and metals, chemicals, and more traditional manufactured industrial goods like machines,

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electrical equipment, and automobile and other transportation equipment.

The bottom of the table presents data on the shares of each of the regions' production of exports by industrial sector. The European Union (EU) ships most of its production within its confines. This has increased over time (OECD, 1996). Trade between the U.S. and Canada is mainly for mining products and manufactured goods. The bulk of exports outside of North America end up in Asia where the U.S. and Canada ship large amounts of office and telecommunication equipment. A surprising amount of Asian exports end up in Asia, particularly for agricultural, mining, and manufactured products. Asian exports a lot of office and telecommunications equipment to the rest of the world. Much of this ends up in the U.S.

The last part of table 3 presents the relative shares of world exports by sectors. The EU produces about 44% of world trade. It is overrepresented in manufactured goods and underrepresented in mining and office and telecommunications equipment. North America produces about 17% of exports and is underrepresented in mining and overrepresented in agricultural and computer goods. Most of its goods end up in North America, followed by Asia. Asia accounts for about 27% of world trade and is underrepresented in every category but office and telecommunication equipment. The rest of the world, mostly

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developing countries is overrepresented in mining and agriculture; ie. raw material production.

This table gives insight into what is true and what is not true about the globalization story. Asian societies have rapidly increased their exports and these are disproportionately for office and telecommunications equipment, as the globalization argument suggests. This fuels the belief that high technology manufacturing has fled to Asia. But, while the dollar amounts of these exports are large ($193.1 billion in 1993), relative to world trade, these amounts are not as significant (about 5%). Asian manufacturing outside of this sector is below their share of exports which implies that the advantage in office and telecommunications equipment has not spread overall to manufacturing.

(Table 4 about here)

Societies where trade dependence is low are by definition less at risk from external trade and should be less open to its negative and positive effects. Table 4 presents exports as a percentage of GDP from 1970 to 1995 for the core OECD countries. The U.S. economy has about 8% of its economy involved in exports, up from about 4% in 1970 (OECD, 1996). This is a significant increase that come about slowly. Japan's exports as a percentage of GDP have actually decreased in the past 10 years. German exports total 21% of GDP in 1995. In general, the Europeans are the most trade dependent and the U.S. and Japan the least. This implies that if increasing

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world trade volumes are producing pressures for changes, Europe should be most hard hit. It turns out, of course, that the opposite has occurred. Higher levels of pay for more skilled workers and increasing income inequality, increased most in the U.S. and hardly changed at all in Europe. This is an issue to which I shall return.

There is a tendency to have a mercantilist view of trade; ie. that it is a zero sum game whereby if one society gains another uses. The argument is often advanced by some scholars that societies develop competitive advantages that spread across their industries and produce national models (see for example, the volume by Crouch and Streeck, 1997). This, of course, is economically problematic. Societies do not compete, firms do. There are going to be winning and losing firms in every society in each market. Economic growth in a particular society depends upon summing the experience of firms across markets. This will depend on which markets are growing (ie. finding customers for their products), which ones are not, and how much national firms are winning and losing in that market (Krugman, 1995 a; b). The exposure trade works in the same way. Firms that are successful in trade (after all, trade is just participation in markets across national borders) help produce economic growth and new jobs in their country. Firms that are less successful may go out of business. The total effect of trade on national economic growth will depend on the

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net balance of winning and losing firms, and of course, the size of trade.

Globalization can only be a force for economic and political change to the degree that it effects different sectors of a given society consistently in a negative way. So, some societies may be more vulnerable than others depending on the level of their trade dependency and the overall success or failure of their products. The evidence implies that advanced industrial societies continue to dominate world trade and compete more with one another than with developing societies.

Change or Continuity in the Organization of Production?

One of the central claims of globalization theorists, is that in the past 15 years, trade has changed not just quantitatively, but qualitatively. So, we are now in the world of the information society where information technology is driving world trade. The evidence that information technology has qualitatively changed the way capitalist firms operate in the world economy and hence, global competition more generally, is difficult to assemble. Manuel Castells (1996) has recently tried to do so. Even Castells is led to admit that firms across the world have organized themselves in very different ways (1996: chapter 3). His evidence shows that Asian firms in Japan, Korea, and Taiwan are organized differently from one another and from the U.S. and European

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firms (1996: 190). This conclusion is supported by the wider scholarship about not just Asian firms but European firms as well (Fligstein and Freeland, 1995; Hamilton and Biggart, 1988; Wade, 1996; Pauly and Reich, 1997; see the edited books by Whitley, 1992; Crouch and Streeck, 1997; Berger and Dore, 1996; Boyer and Drache, 1996). Nonetheless, he wants to claim that all of these differences are subsumable under the rubric of "informationalism".

This debate over the spread of "informalionalism" or as it is sometimes construed, "networks", has both theoretical and empirical problems. First, the features of organizations that scholars focus on differ from study to study. Second, it is nearly impossible to assess whether or not these features are decisive for organizational success because success is rarely defined. Third, the data to evaluate multiple causes and effects of success are hard to compile. Finally, the definition of this new global form is notoriously slippery. "Informationalism" as an organizational model for Castells includes business networks of suppliers and customers, the use of information technology to redistribute the economic activities of firms, global competition, the state's participation in promoting high technology, and the emergence and consolidation of the network enterprise (1996: 196-7). One can see that even if one is sympathetic to his argument, it is not clear that these are all one phenomena and it is not clear that they define something new that is transformative.

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It is the case that all of these factors have been part of the world economy for the past 100 years with the exception of the recent advances in information technology. There have been global supply networks, global competition between firms, the use of new transportation and communication technologies to engage in more trade, and governments playing a large number of roles in facilitating trade. The idea that firms only recently discovered the phenomena of outsourcing or depending on supply chains flies in the face of business history which can track these phenomena to before World War I (Chandler, 1990).

The largest firms in the world economy have organized themselves on a worldwide scale for at least the past 100 years (Wilkins, 1970; 1974; Vernon, 1970; Chandler, 1990; Dunning, 1984; see Wade (1996) who reviews literature asserting the dominance of multinationals since early in the century). To current globologists, it may come as a surprise that the worldwide organization of production by multinationals has been a phenomena that existed before World War II (Stopford and Wells, 1972) and arguably from much earlier (Dunning, 1984; Wilkins, 1970; 74). By 1919, over 90% of the 100 largest American firms were already doing substantial business overseas (Fligstein, 1990). Stopford and Wells (1972) examine how a sample of multinational firms reorganized themselves in a step by step fashion to coordinate production on a world scale during the 1950s and 1960s.

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Raymond Vernon (1970) and Charles Kindleberger (1969), in the same era, thought that transnational firms had become such a world power that they were not attached to any society. Japanese business networks pre-date the Second World War and Korean networks were modelled on Japanese organization (Hamilton and Biggart, 1988).

The "informationalism" argument assumes technology is driving social change. One could easily make technology the dependent variable given what I have already noted about the activities of large multinational corporations (Brenner (1998) makes this case as well). The demand for computer equipment, telecommunications, and new and faster forms of transportation since World War II came about precisely because large corporations were trying to take advantage of business opportunities and control their far flung activities. Computer companies, and later computer chip and software producers, have a huge incentive to build bigger and more powerful machines. At the very least, a believer in the transformed world economy would want to argue that the desire to coordinate more effectively on a world scale stimulated the production of these technologies and that helped increase world wide production (Krugman, 1995a).

There is no systematic evidence to show that "informationalism" has produced a qualitative change in firm organization even for multinationals. There is also no data to suggest that network organizations, defined as firms that

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contract out most of their activities, have substantially reorganized the population of multinationals. Firms have reorganized their production to take advantage of the opening of national markets of affluent customers, but they use most of the local production for local consumption. It is not clear what implications this network form and "informationalism" in general have for the 85% of the world economy not involved in trade. It is not surprising that scholars who study organization structures across societies conclude that there are myriad forms that operate with surprisingly different logics, even in the same industries.

Does Globalization cause deindustrialization and inequality?

So far, I have painted a picture of globalization as being more gradual over time, less revolutionary in its impacts on economies and firms, and more uneven in its economic effects on the organization of firms and societies. This more complex picture should at least caution us, to want to connect the growth of world trade more closely to its alleged negative effects, deindustrialization, the transfer of jobs from first to third world economies, and increases in wage and income inequality. The empirical literature supports the view that trade is not the main cause of deindustrialization and increases in wage inequality in the U.S. Moreover, these changes have not occurred in the much

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more trade dependent societies of western Europe. Instead, one can interpret all of the political and economic changes that have occurred in the U.S. in the past 15 years as having favored capital and hurt labor (Danziger and Gottschalk, 1995), while European governments have continued to support public policies that maintain more equality.

It is generally accepted amongst economists, that only about 10% of the loss of manufacturing jobs in the U.S. is directly traceable to plant relocation in other countries (Krugman, 1994; 1995a; b; Bluestone, 1994; Gottschalk and Joyce, 1994; and the papers in Danziger and Gottschalk, 1995). Most observers agree that at least half of these jobs were lost to OECD countries and not the Third World (Krugman, 1995 a; b). Deindustrialization has a well known cause: improvements in technological processes (Krugman, 1994; 1995b). People have been replaced by new and more efficient technologies that increase the productivity of the remaining workers and eliminate the jobs of others. Even radical economists in the U.S., like Bluestone and Harrison (1982), believe that most deindustrialization reflected changes in technology.

Increases in inequality in advanced industrial societies have almost nothing to do with trade and almost everything to do with politics and the organized relationship between labor and capital. The societies with the highest trade dependence in 1980 were in Europe and the one with the lowest, the U.S.

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At the time, both wage and income inequality in America were higher by a substantial margin (Gottschalk and Smeeding, 1995; Smeeding, et. al., 1990). The two countries that have experienced the greatest increases in income inequality in the OECD in the past 15 years have been the U.S. and Britain (Gottschalk and Smeeding, 1995). The more trade dependent societies of Germany, France and the rest of western European actually experienced declines in income inequality during the 1980s and some small increases during the 1990s. The increases were small in magnitude, given that European incomes were much more equal to begin with, and the observed changes were much smaller in percentage terms than the U.S. (Gottschalk and Smeeding, 1995).

(Figure 3 about here)

If trade was driving wage inequality, one would expect that wage differences between skilled and unskilled workers across western Europe would have increased like in the U.S.. But this has not happened. Figure 3 shows this dramatically. In the U.S. wage differences between skilled and unskilled workers have increased by over 30% in the past 15 years. In England, this gap has increased about 10%. In France, we see almost no change in the ratio of wage differences between skilled and unskilled labor. The data on returns to schooling are more sketchy in Europe, but do not reveal dramatic patterns showing that higher educated people are able to cash in at much higher rates (see the papers in Smeeding et. al,,

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1990). Indeed, in some European societies like Sweden, people with college degrees do not earn much more than those with high school diplomas (Smeeding et. al, 1990).

The careful studies in Danziger and Gottschalk conclude that the more sociological factors driving the reorganization of work in the U.S. explain most of the sources of the increase in income inequality. The increases in downsizing, the decline of unions, and increase in part-time workers has made for more income distribution and the growing insecurity of workers. Changes in tax laws have favored more well off people and these have played some part as well. Bluestone (1994) tries to partition the effect of all of these factors and concludes that 90% of the change in income inequality in the U.S. is not trade related. Danziger and Gottschalk conclude that all of the changes in the U.S. economy in the past 15 years worked to the advantage of capital and against labor.

The picture that emerges here, is the exceptionalism of the U.S. Technological change has effected Europe as well. But, because of the very different ways in which governments have acted to redistribute income and protect laid off workers, and the relative strength of unions to protect workers in labor negociations, income inequality has not risen. The OECD recently completed a large study of jobs in the developed economy (1994). As a result of the changes described above in the U.S., earnings of full time workers

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declined 3.1% from 1985 until 1993. In Italy, they rose 10.4%, in Germany 21.0%, in France, 7.2%, and in Sweden 9.3%. This shows starkly that the "lean and mean" competitive posturing of U.S. business is almost entirely due to the drop in real wages for all workers. This drop reflects how American firms have reorganized and squeezed workers.

I think I have provided a quick, but sufficient review to make the reader sceptical of globalization arguments. There is enough prima facie evidence to suggest that world trade, while growing, is not dominating the advanced industrial economies to the extent people claim. Firms across societies and industries have been organized globally for most of the postwar era, and while information technologies are useful in that endeavor, the continued expansion of multinational corporations has more to do with the growth of markets than technology.

Trade also does not appear to be driving deindustrialization or increases in wage and income inequality per se. Deindustrialization is driven primarily by technological change. Cross national data on income inequality shows there have been few changes in the societies where trade is greatest, those in western Europe, while the greatest changes have taken place in the least trade reliant society, the U.S. This suggests that the truth in the globalization story has more to do with what is going on in America than in Europe. America has seen a rapid increase in trade,

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particularly in the 1990s. This has been accompanied by a rapid increase in inequality exacerbated by political trends which have favored capital over labor by making workers absorb most of the costs of downsizing and new technology. It is this set of ideas, that capital has to increase its returns, and has to be able to do so in any way possible, that is at the root of the globalization discussion. It is not trade per se that is driving this discussion, but the reorganization of firms and work in the American context along lines favoring capital alone. America, the advanced industrial society least dependent on trade, is ironically, the one exporting the idea that in the "new world competition", the only acceptable strategy is to lower the cost of labor and enrich capital.

Politics, Governments, and Financial Markets

One of the great misunderstandings amongst noneconomist scholars about financial markets is the idea that financial markets are a single market. The markets for currency, corporate equity, corporate debt, retail banking, government debt, insurance for corporations and individuals, individual debt, and debt for home ownership are markets separated by firms and nations. As Wade (1996) points out, there is very little integration in any world financial markets except for currency, government bonds, and some futures markets for commodities. There is no world market for equities nor any

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world market for corporate control. Most investment and savings are made within nations. Less than 10% of the capital stock in OECD countries is owned by citizens of other countries (Kapstein, 1994). In the U.S., Germany, and Japan (the three largest economies in the world), less than 5% of the workers are employed by foreign capital (Wade, 1996).

The relationship between world currency and government debt markets have been part of the long history of capitalism since the 17th century (Carruthers, 1997). Governments have helped create financial markets to benefit themselves and to help capitalists. Governments are responsible for producing the world currency markets, as they moved from fixed exchange rates to market determined rates since the 1960s (Dean and Pringle, 1995; Kapstein, 1994). After World War II, governments attempted to control exchange rates by fixing them and guaranteeing to back them up through the sale of gold. As world trade increased in the postwar era, governments found it more difficult to control exchange rates. Currency markets came into existence to determine the relative price of currencies based on the supply of and demand for any given currency. The creation of these markets could be taken as a failure of sovereign states to control the value of their money. But, currency markets serve useful functions for governments and firms (Houthakker and Williamson, 1996). One major function is to allow multinational firms to hedge their

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risks. Firms buy futures contracts on a given set of currencies and place bets on both sides: ie. that the price of two currencies will both go up and go down.

It has been frequently noted that huge amounts of money change hands in these markets daily and this is the source of power for these markets. What is not well understood, is that this process can stabilize currency relationships in the short run. Most of the traders who move money try to take advantage of small differences in currency prices across markets located around the world. So, if dollars can be bought for 1.50 marks in one place and 1.51 marks in another, money can be made by buying lower and selling higher. These opportunities usually appear fleetingly because many traders leap in, and the differences disappear quickly stabilizing the price of currencies (Houthakker and Williamson, 1996). Changes in the relative value of currencies tends to be gradual which helps trade and governments. Governments can then attempt to keep their currencies in a band by buying and selling into the market.

Central banks in the past 20 years, have generally shifted their role from managing the business cycle through the control of money supply and interest rates to trying to promote price stability (Dean and Pringle, 1995; Kapstein, 1994). One argument that is sometimes made is that this is proof that currency markets rule because exchange rates will

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quickly reflect the inflation expectations of currency traders and limit bankers to focusing on inflation.

The problem with this argument is that it gets the story backwards. As a result of the oil shocks of the 1970s, there was low economic growth and high inflation across many OECD countries. To tame this inflation, many of the central bankers, notably Paul Volcker in the U.S., forced interest rates higher and produced a deep recession. Since then, central bankers have more consistently attempted to insure price stability as they were convinced that monetary policies that stimulated money supply or loan growth led to uncontrollable domestic price inflation. Currency traders come to recognize the potential for bad economic outcomes and tend to sell currencies where governments might be acting in an inflationary manner.

There are two other downsides to these markets. First, many market participants are not using the markets to hedge currency fluctuations, but instead to make bets for or against a given currency. This means that no useful economic function is being served and produces what Strange (1986) has called "casino capitalism". Second, if traders think that a given currency is suddenly in trouble, they can punish the holders of that currency. Markets tend to overshoot the real exchange rate by over or undervaluing a given currency. Currency traders can also attack currencies where the underlying financial fundamentals are sound as happened after the Mexican

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debt crisis in 1994 to other countries in Latin America and the crises in Asia in 1997-8. These more social processes are what gives rise to fears about how currency markets can effect national interest rates and hence monetary policy.

This, unfortunately, is an area where there is a great deal of controversy, and a lack of research. There are almost no sociological studies of these type of market contagion processes in the context of the world financial markets. It is clear that the people who trade currencies use very similar information. In the face of uncertainty, a given rational actor might edge out of a particular currency. While this is rational for that trader, collectively, it can produce a cascade that results in a massive selling of a particular country's currency, even though the financial situation does not merit it. It is clear that for developing countries, these types of attacks can have had devastating effects. Where large currency fluctuations occur for little reason, one can see that global financial integration has not been altogether positive.

The problem is that in many of these situations, governments play a complex role in these processes. Many of the recent crises are the result of intended or unintended government policy which was framed around the politics of domestic constituencies. While currency markets may have punished currencies, it was usually after long time lags and extensive policy errors.

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A good case in point is the Mexican situation where a recent dissertation argued that domestic politics was behind all of the changes in financial policy in the past 20 years (Kessler, 1997). The peso devaluation in 1994 is often viewed as a causal outcome of the financial markets, but the events implicate governments and politics in a more ambiguous way (McKinnon, 1996). At least two years before the devaluation, it was well known that the Mexican currency was overvalued (McKinnon, 1996). Six months before the devaluation, one estimate was that the currency was overvalued by at least 25% and maybe as much as 50%. The Mexican government, with the consent and approval of the American government, tried to prop the peso up. Why? Because there was about to be an election, and the leaders of the PRI, who had prided themselves on professional handling of the economy, did not want negative news about the economy. They kept the peso propped up by spending foreign reserves to buy pesos. People in the financial community around the world knew this and given that the peso was being supported by large reserves, traders did not sell pesos (McKinnon, 1996).

But during May 1994, the Mexican government stopped reporting its currency reserves on a monthly basis. At first, they claimed that the reports were to be issued, but that statistical errors and technical problems prevented them from doing so. By the fall of 1994, it was not clear how deep the government reserves were. About that time, Mexican bankers

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began selling off pesos and peso denominated bonds in large quantities (Kessler, 1997; McKinnon, 1996). They obviously had a better sense of where the government stood and they sold out as quickly as they could. This, of course, put more pressure on foreign reserves, and as time went on, it became clear that the government could not prop the price of the peso up. They continued to refuse to issue reports concerning their current account situation.

In December, after six months and continued heavy selling by Mexican banks, the peso began to drop precipitously. The Mexican government reached the point where it could no longer had current account reserves to support the peso. The U.S. bailout served two purposes. First, it gave the Mexican government more reserves to stabilize the currency. Second, it bailed out U.S. bondholders who were caught with peso denominated bonds that now were worth less than 50% of their original value.

This case shows, that yes, world financial markets eventually punished the peso. But it also shows the Mexican and American governments, for basically political reasons, propped it up in the first place. Mexican bankers were saved while the Mexican people were sacrificed (and of course, U.S. bondholders were bailed out) leading to speculation that because of their close links to the government, they had privileged information (McKinnon, 1996). This is a complex story that implicates markets, governments, and economic

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elites. It also does not make international currency traders the obvious scapegoats.

Markets for corporate equity and corporate and government debt serve useful purposes. The growth of equity markets has increased the capital firms and their owners can draw on, and the increased growth in corporate bond markets make it easier to borrow money at lower interest rates to fund new investment (Houthakker and Williamson, 1996). Debt markets for government bonds have also grown internationally. The size of these markets means that governments can borrow money for less interest than they might otherwise. The OECD governments, particularly the U.S., have run huge deficits throughout the past 15 years and these would have been more difficult to fund without international markets.

Governments and firms have always needed to borrow money to fund their activities. World financial markets have grown in size and complexity. But it is difficult to ascertain if government dependence on these markets has increased to the point of limiting fiscal and monetary policy. If governments want to borrow money, they can, albeit they may have to pay higher interest rates. Moreover, there is reason to believe that governments have benefited as much from these markets by being able to run deficits and produce some exchange rate stability.

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There is a tendency to view governments as helpless in the face of global competition (Strange, 1996; Cerny, 1997; Frieden, 1991; Castells, 1996; Saskia-Sasson, 1996). In spite of a plethora of evidence that economies are mostly organized with firms remaining rooted to a particular system of national property rights and governance, political scientists and sociologists seem convinced that the forces of globalization are soon going to make states irrelevant to their political economies. Susan Strange (1994), for example, argues that firms in globally integrated markets, simply bypass states in their relentless search for lower cost production and new markets. Her argument implies that governments are never as clever or effective as markets and therefore, they should just retrench. The argument is also made that governments that try and intervene into competitive global capitalism are presented with a trade-off between efficiency (ie. allowing capital to deploy itself in a way so as to maximize its opportunities in global capitalist competition) and equity (ie. the use of various kinds of state sponsored devices to protect workers from precisely this kind of flexibility). Essentially, governments are being told by globologists that the "new global competition" leaves them very few policy options. They must get smaller, remove fetters to the actions of capital,

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take rights away from workers, or face the consequence that their best firms will either leave the country and invest elsewhere, or fall hopelessly behind their competitors.

There are two problems with this argument. First, it assumes that labor costs are essentially the only variable driving international economic competition in markets where firms from different societies meet. The argument is that the only way to compete for good jobs with third world countries or the U.S. with its unfettered labor markets, is to follow government policies that lower wages and lessen worker protection. One can construct theoretical reasons to support such a policy, but there are good theoretical arguments and more important, empirical evidence as to why this view is wrong.

The basic theoretical problem is that competitiveness in any given industry is a mix of factors, some having to do with costs including labor costs, but the most important ones having to do with the competencies of firms in organizing production and creating new technologies (Winter, 1987; Piore and Sabel, 1984; Porter, 1985; Womack, et. al, 1990; Chandler, 1990). Since most of the real competition is between developed countries where labor has a higher rate of productivity, competing on labor costs does not make much sense. For example, in the automobile industry, the rise of Japanese auto makers had little to do with labor costs and a great deal to do with the distinctive way they organized production (Womack,

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et. al., 1990). Japanese workers in these firms enjoy high wages and job security which are supposed to be anathema to international competition (Dore, 1987).

Second, it assumes that all government policies have negative effects on economic growth by consuming economic resources that would otherwise be put to more productive uses by the private sector. This argument is wrong both theoretically and empirically. Theoretically, the positive role of states in economics derives from the problem of market failure in the context of the provision of public goods. The "new institutional economics" suggests several mechanisms by which government spending and policies might positively effect growth. Endogenous growth theory argues that spending on education, health, and communications and transportation infrastructure are thought to have positive effects on growth (Barro, 1990; Romer, 1990; Aschauer, 1991). North (1990) and Maddison (1995) have suggested that states also provide political stability, legal institutions, stable monetary systems, and reliable governments. Without these social institutions, economic actors will refuse to make investments in economies of scale and scope (for evidence on this point see the essays in the recent volume edited by Chandler, Amatori, and Hikino, 1997). Some economists are prepared to believe that different forms of industrial policies might be effective by providing investment in research and development, capital for risky ventures, and military spending (Tyson,

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1992). This laundry list shows that it is not so easy to discuss what is often called the "efficiency-equity trade-off" in making economic policy. At the very least, the choice is not just for or against governments, but for or against policies that might help economic growth (Evans, 1995).

If this is the case, where does the negative view of states intervening into their economies come from? There is a strand of thought in economics that assumes that governments are rent seekers (Buchanan, Tollison, and Tulloch, 1990). This implies that all of their activities are illegitimate in the sense that they will try and maximize their share of national income and by doing so, will take resources away from the private sector. But the idea that all states are predatory, is not just a product of social choice theory. It is related to the scholarly and policy interest in the past 15 years in trying to assess how nations could attain competitive advantages for their firms in markets.

From the point of view of intellectual trends, many scholars became interested in Japan and the "Asian miracle" in the 1980s (Johnson, 1982; Dore, 1987; Hamilton and Biggart, 1988). This caused them to try and decipher why Japan, Taiwan, and Korea were able to develop so quickly and the role of governments were part of the focus of attention. Others saw the German economy to be admired for its neocorporatist political system, formal cooperation between labor and capital, and its relatively small firms that were oriented

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towards exporting high quality manufactured goods (Albert, 1991). Still others viewed the future of manufacturing as being about flexible specialization, where small firms in the industrial districts of Italy, Silicon Valley, or Bavaria existed (Piore and Sabel, 1984). These highly networked firms could respond quickly to changes in market demand. Various scholars became convinced that one of these models held the key to industrial competitiveness amongst nations. States played an important part in most of these stories. During the 1990s, the resurgence of the U.S. economy meant that it was natural that the relative success of the American economy has propelled scholars to turn back to the U.S. and extol the virtues of American style corporate governance and labor relations as the key to economic success. Given the American view that states should play a minimal role, it is not suprising that government intervention is now out of favor. This is particularly true as the Asian and European models appear to be experiencing some economic distress.

But, these fads in intellectual thought do not do justice to the difficulty of unravelling what causes economic growth. They tend to overstate the significance of a single cause as the way to attain competitive advantage and understate the fact that multiple factors are at work. They are quick to assume that whatever factor is isolated is the main mechanism by which efficiency is attained (in the Anglo-American model, reducing the size of government, reducing workers rights, the

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shareholder value conception of the firm). It is useful to consider some of the surprising empirical evidence about the link between trade, economic growth, and the size of government more systematically.

(Figure 4 about here)

Figure 4 presents a graph that shows the relationship between the percentage of an economy's GDP that is involved in trade and the size of its government for OECD countries. The graph clearly shows that the most trade dependent societies have the largest, not the smallest governments. Rodrik has done an econometric study that included over 100 countries from the 1960s until the 1990s (1996). He concludes that this relationship occurs because societies where trade is more important have compensated for the risks of trade by using government spending to insure some stability. His results also show that higher exports at an earlier point in time are associated with increased not decreased spending. These empirical results fly in the face of neoliberal thinking about states and markets. If competitive world markets have been putting pressure on states to shrink, why has the opening up of markets for world trade caused their expansion?

Garrett (1995) has presented evidence that the main cause of this growth in government protection in OECD countries is the interaction between the presence of powerful left political parties, trade unions, and high levels of trade. The high degree of protection offered by states more susceptible

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to world market forces results mostly from organized politics. Garrett also has evidence that high levels of trade does dampen taxes on capital as well, which is in support the neoliberal argument.

Have the actions of states, which have grown in the past 30 years, made their economies grow slower and create fewer jobs? Put another way, while it might have been good politics to protect citizens and use the state as a countercyclical employer of last resort, it might have made for poor economic performance. The econometric evidence for the effects of different forms of government spending, measures of union power such as national collective bargaining, on employment and growth do not support the view that the "efficiency-equity" trade-off is straightforward.

The empirical literature on this question either looks at highly aggregated data over time, or case studies of particular interventions in particular societies. There is good evidence that government investment in infrastructure and education has paid off for economic growth in societies (Aschauer, 1991). The comparative capitalisms literature has demonstrated fairly effectively that governments have played positive roles in the development process as well (Evans, 1995; Campos and Root, 1996; Wade, 1990). The literature comparing specific industrial policies and their effectiveness for advanced industrial societies offers both positive and negative evidence for the role of governments (Johnson, 1980;

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Herrigel, 1996; Crouch and Streeck, 1997; for a recent review see Pauly and Reich, 1997). But the overall evidence does not point in the direction of big activist states having overwhelmingly negative effects on growth.

Most economic theories tend to see distortions in labor markets that are due to union power as producing labor market rigidities. Minimum wages, collective bargaining, and social policies that make it difficult or expensive for firms to hire or fire workers can be shown to theoretically reduce employment and raise unemployment. But the empirical literature on these issues turns out to be more ambiguous. For example, the recent OECD report on jobs tries to look at how various forms of collective bargaining have effected economic growth and job creation in OECD countries in the past 20 years (1994). The results are worth quoting: "While higher unionization and more co-ordinated bargaining lead to less earnings inequality, it is more difficult to find consistent and clear relationships between those key characteristics of collective bargaining systems and aggregate employment, unemployment, or economic growth" (1994: 2).

This brief review pushes us to a startling conclusion. There is no evidence that trade has made states "smaller" over the past 30 years. In fact, it is quite the opposite. There is evidence that high exposure to trade combined with organized labor has produced more social protection and larger states. There are theoretical reasons to believe that states continue

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to matter in producing economic growth by providing public goods, the stable rule of law, and under certain conditions, good industrial policy. There is little evidence that unions or collective bargaining lessens job growth systematically or increases unemployment. There is evidence that a strong labor movement and labor party act to redistribute income and raise wages in society in general.

There is also little evidence that the competitiveness of firms in industries characterized by world trade are driven primarily by differences in wage rates. Instead, it is innovation in technology and organization that provides distinct competitive advantages (Porter, 1985). This set of conclusions based on current theorizing in economics and the current knowledge available in the empirical literature are totally contradictory to the claims of globologists. States are not disappearing, inequality is not increasing everywhere, and low labor costs and weak protection of workers are not the main engine of economic growth in any industrial society with the exception of America.

(Table 5 about here)

It is useful to turn to the case of Europe as compared to the U.S. in the past 15 years. It is here that arguments about global competition and the role of the state in industrial competitiveness are getting their most serious airing (Crouch and Streeck, 1996; Boyer and Drache, 1996; Dore and Strange, 1997; European Union, 1997) Table 5 presents data on

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unemployment and economic growth in the past 20 years. In western Europe, unemployment rates began to grow in the early 1980s and have remained high in both recessions and periods of economic growth. American unemployment rates have gone up and down depending on economic conditions. This data has frequently been taken as evidence that European work rules prevent employers from hiring workers and that the slow economic growth of the past 15 years is due to these practices which prevent labor markets from clearing. Because American firms can respond to opportunities by hiring workers and downturns by laying them off, they are more likely to create new jobs. Because European firms cannot take on new workers easily, they forego opportunities and therefore, in the aggregate the effect is slow economic growth.

There are a number of counterarguments to this interpretation of the data. First, it places an enormous theoretical burden on one variable as the cause of slow European economic growth. It postulates that European firms are responding to only one factor in deciding whether or not to make decisions on new investment: labor costs. This flies in the face of most theories of markets which usually suggest that investments are made because people believe that demand exists for products. High factor costs could effect investment, but it is only one part of the investment decision.

(Table 6 about here)

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Second, the data on unemployment should not be accepted at face value. Table 6 presents evidence on the prevalence of part-time employment amongst prime age working males across societies. The U.S. has almost 12% of its work force employed part-time. In Germany and France, these numbers are 2.9 and 4.1% respectively. Surveys have revealed that in the U.S., more than half of the part-time workers wish they had full-time jobs. Since Europeans often have the choice about whether or not to work because of high unemployment and health benefits, involuntary part-time employment is relatively minor. If one adds these workers (about 6%) to the U.S. unemployment figure, one can see that U.S. and European unemployment rates begin to converge more than they diverge. Put another way, Europe's generous level of social benefits mean that workers have the choice to be selective about work, while in the U.S., workers have no choice but to work. They must accept part-time work when they cannot find full time work. Indeed, if we add involuntary part-time workers and discouraged workers to the unemployment rates, the U.S. performance over the past decade looks less stunning.

European societies have chosen policies that operate with more open economies (witness the higher level of export dependence), but also have ones that offer more social protection. The OECD societies that have been the most open to trade, ie. western Europe, have the highest social welfare benefits in the world and relatively low amounts of wage and

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income inequality. While in the U.S., the least dependent on trade, has the fewest benefits, and tolerates the highest levels of income and wage inequality. Unemployment in Europe is very high compared to the U.S. But, a large part of that gap is attributable to low U.S. benefits which force involuntary part-time employment. Europeans' social safety nets make them less poor and less likely to have to accept work that they do not want. During the economic troubles of the 1990s, there have been some revisions in European welfare states benefits, but they remain well above U.S. levels (Kitschelt, et. al, forthcoming).

Crisis, what Crisis?

I hope that my quick run down of some of the important patterns of the evidence regarding the amount of globalization, its character, and its alleged effects on deindustrialization, income inequality, and the alleged demise of welfare states has at least shaken reader's confidence in the claim of globologists of every sort. There is not clear evidence that globalization, however defined, has changed qualitatively in the past 15 years and there is even less evidence that it is mostly responsible for increases in inequality across OECD countries.

A counterargument goes, then what is all the chatter about and why do states appear so fiscally strained? I would

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like to argue that welfare states, particularly in Europe, are experiencing stress, but the causes have more to do with domestic economics and politics than local ones. Similarly, the situation in America is also being driven by domestic politics. In a society with low tax rates by world standards and the lowest budget deficit on a proportional basis, balancing the budget and cutting taxes have characterized the politics of the 1990s.

The major factor in the attacks on the European welfare states stem from the failure of social democratic and Keynsian policies to stimulate the European economies. The Single Market Program of the EU has helped increase trade, but not enough to produce additional growth in the EU. Unemployment has remained high in Europe since the late 1970s and economic growth is best described as sluggish. All current economic policies appear to be simply failing. A recent report by the European Community highlighted the problem of job creation in Europe (1997). This report took the view that the main problem was that it was difficult for small firms to grow, both because of the difficulty of getting access to capital, but also because of regulations and tax levels which made it hard for small and medium size enterprises to start up.

Pressures on welfare states for spending are increasing in two ways. Because of slow growth, there has been high and persistent unemployment across Europe and this is expensive to support. The aging of the populations has also produced more

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demand for health care and social security. The European pension systems are in disastrous shape, much worse than the U.S. European welfare states consume about 45-50% of their societies' GDP and offer generous benefits (Usitillo, 1995). Now that many of them have committed to the trying to form a single currency, it is increasingly difficult to run deficits.

Another big problem for European welfare states is the end of the Cold War. From the perspective of the "left", social democracy was a humane way to deal with the problems created by capitalism. From the perspective of the right, European social democracy (and American support of it was predicated on this) was a bulwark against communism. While it might have placed a lot of emphasis on equality, it was still democratic. The end of the Soviet Union has produced an intellectual threat for social democracy as the right can now argue that social democracy restricts freedom and undermines initiative, as it did the Soviet Union. Intellectually, social democrats are on the defensive.

The failure of communism to provide a just society and perhaps, the intellectual exhaustion of social democracy means there is a lack of a clear alternative political agenda. It is easy to see neoliberalism as a capitalist plot. But, the problem is, that social democratic redistributive policies and classical Keynsian approaches to stimulating the economy (running deficits and cutting taxes) are not working. So, neoliberalism with its agenda of deregulation, tax cutting,

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and cutting back on welfare state policies, is viewed as the only set of alternatives.

Herbert Kitshelt (1995) has shown that support for social democratic parties has eroded as the economy has shifted from blue collar manufacturing to service workers. Electoral support for the welfare states has eroded as younger workers employed in services are more sceptical of governments and vote more with conservative parties. Yet, in spite of slow growing economies, high unemployment, high taxes, generous welfare states, and breakdowns of traditional social democratic coalitions, no European society except for Britain has tried to make serious cutbacks. Outside of the Tory Party in Britain, no large party exists in western Europe that claims to want to engage in taking apart the welfare states (and the degree to which this actually occurred in Britain is not so clear, see Pierson, 1994). This does not mean that these societies will not have changes or that the changes that have occurred are not real. But Europeans support equity in their societies and remain firmly supportive of their current social arrangements. All political parties including left, center, and right do not want to dismantle the welfare state, but undertake actions to reform it in order to preserve it (Kluegel, et. al., 1995).

Globalization and Neoliberalism as an American Project

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The American economy during the 1970s was beset by high inflation, slow economic growth, and poor performance by large firms. The causes of this "malaise" are complex, but begin with the first "oil shock" in 1973. What is interesting and important, is how this crisis became "defined" and "solved". When Ronald Reagan came to power in 1980, he did so with the idea that markets were a better way to organize society than governments. He proposed a deregulatory agenda whereby taxes were cut, government regulation attacked, and government was to be cut.

In the core of the American economy, the idea took hold that firms were nothing more than their balance sheets and their basic function was to provide returns to owners or shareholders. Therefore, assets on balance sheets that were underperforming were to be sold off, and the profits either dispersed to shareholders or reinvested where higher rates of return might appear. This view of the firm was a response to the 1970s where managers had decided in the face of low stock market prices, high asset inflation, and high interest rates, to understate the value of their assets and finance their expansions with cash (Friedman, 1987). Financial investors began to realize that because of low stock prices, firms could be bought up and broken up, with the potential for great gain. So, began the merger movement of the 1980s.

The shareholder value conception of the firm emerged from financial economics (see, Jensen, 1989 for a polemic on this

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point), and argued that financial performance was the only criteria to invoke in making strategic decisions. Public policy reinforced this view. The conservative rhetoric of personal responsibility and the intimation that everything governments did was bad, while everything that occurred in and around markets was good, became dominant. The increases in income, wage, and wealth inequality that resulted from these processes was seen to be natural. Analysts of the American economy began to see this "new model" as the solution to America's competition problems from the 1970s, and the Japanese challenge of the early 1980s (again, see Jensen, 1989). A focus on shareholder value would make firms "lean and mean" and this would aid them in competition, both domestically, but also against the Japanese. Firms should maximize profits for owners and governments should just stay out of it. This ideology is a generalization about the American experience.

For Europeans, the U.S. economy from afar appeared to be booming and creating jobs, while theirs appear to be failing. People like straightforward stories that suggest exactly how to get the outcomes they want. But there are lots of dangers in this particular story. Europeans do not appreciate how much inequality there is in America and how little governments do to help people. This has intensified as firms defeated labor, redeployed assets, and laid off workers and managers. One interesting question, is, does this set of ideas work? The

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answer, of course, depends on what you mean. While American firms have increased their exports substantially, the U.S. continues to run a substantial trade deficit. "Lean and mean" American firms have not regained competitive advantage in industries like consumer electronics and automobiles. The U.S. economy has been rebuilt on lowering the wages of most workers. But lower wage costs have not translated into competitive advantage across all markets. This, of course, is what our theories of competitive advantage would predict. If market advantage is driven by organizational factors and technology, factor prices like the price of labor will produce competitive advantage only where in the peculiar situations they are decisive.

Conclusion

I have tried to provide arguments and evidence against accepting too quickly the neoliberal and neomarxist view that the globalization of production has produced a new stage of capitalism, one where inequality will increase, governments are increasingly irrelevant, and the tyranny of the skilled meritocracy will reign. We are in a period of change, but I would suggest that what is lacking is a normative argument to make sense of these changes.

There are two normative issues I would like to emphasize. First, we should resist globalization as a rhetorical device

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to justify any social or economic policies that do not directly follow in an empirically observable fashion. Free trade has proved to increase the wealth of nations. There is, however, no empirical evidence suggesting that removing social safety nets for people and making them insecure, contributes to making firms more competitive in their respective markets or produces long term economic growth.

Second, since corporations depend on states to produce rules to govern markets, firms' relations, property rights, barriers and access to trading and more generally public goods for all to consume, they have responsibilities to society more generally. In Europe, the leaders of most large firms feel this responsibility, like the members of their societies as a whole. They consider themselves members of society and because of that membership, they are in a partnership with society. This idea sounds utopian to Americans where there are only shareholder, not stakeholder rights in corporations. But, this kind of moral agreement is what makes European social democracies special, and so far able to resist the siren song of American style markets. As new markets become integrated on a larger scale, there will be demand for more, not less government.

This stage of capitalism is not about globalization and why it will reduce all of us to either being winners or losers. Instead, the real problems of advanced societies are being subsumed into the globalization rhetoric as a

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universalization of the American experience. The claim that others must accept downsizing, insecurity, increased inequality, and less access to health care, housing and education as a consequence of the domination of the world market is just that: a claim. I have tried to show that the facts undermine or call into question this claim.

Capitalist firms need governments and societies to extract wealth for their shareholders. Social justice means recognizing these interdependencies and trying to use them to spell out rights and responsibilities. Societies have successfully produced just systems of social protection and provided opportunity and economic growth for their citizens. These should not be looked upon as alternatives, but as complementary.

One of my main purposes in writing this paper has been to highlight the difficulty of countering the rhetoric of globalization. Policymakers who accept arguments that world trade is undermining the competitiveness of their firms will make policies as if it is true. If they believe that lowering labor costs and making workers more unequal is the only way to solve this problem, they will act on that belief. I am not saying that is is impossible for changes in world markets to have important effects on given sectors or indeed, whole societies. But I am saying that careful scholarship is necessary to prove such claims in any particular situation. The overwhelming evidence, as it stands now, does not support

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the economic globalization thesis and the Anglo-American policy proscriptions. Instead, the problems of advanced industrial societies can be traced back to the recent developments in their national economies and polities.

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Appendix A

Assembling statistics over a long period of time on world trade, world GDP, and the trade shares on countries, is a difficult task. There are two problems. First, gathering comparable data for each year is difficult. This necessitated using multiple sources. Multiple sources were also consulted to attempt to see if the different agencies that reported these statistics reported similar numbers. There were enough small discrepancies in statistics that one should be cautious in overinterpreting the performance of any single year.

Second, the calculation of the world GDP is problematic. If world GDP is calculated in dollars, then it will reflect inflation in the dollar and currency fluctuations. Since GDP has often been used as an indicator of economic development, a great deal of effort has gone into making sure that the calculation of national GDP is not clouded by these fluctuations. Trade statistics are always reported in current dollars, while world GDP is often adjusted for varying factors. I have solved this problem by gathering a measure of world GDP in current dollars. Thus, the calculation of the percentage of world economic activity accounted for by trade is defined as: world trade in current dollars/ world GDP in current dollars.

The raw data are available from the author.

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Sources (multiple sources imply that series either had breaks in them or multiple sources were consulted in order to assure comparability):

United Nations Statistical Yearbook, Series from 1953-1997. Data on World GDP, Trade statistics, shares of trade for developed countries, trade flows between countries, manufacturing trade flows.

Trends in the International Distribution of Gross World Product, 1970-89 , 1990, New York: United Nations. World GDP.

World Trade Statistics , GATT (in 1995, GATT becomes the WTO (World Trade Organization)), Series from 1962-97. data on world trade broken down by industries, trade flows between developed and developing societies.

Main Economic Indicators, OECD, Annual series 1971-1997. Data on world trade, flows, shares to countries and regions.

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Figure 1: World trade as a percent of world GDP, 1953-1995
(Sources: See Appendix A)

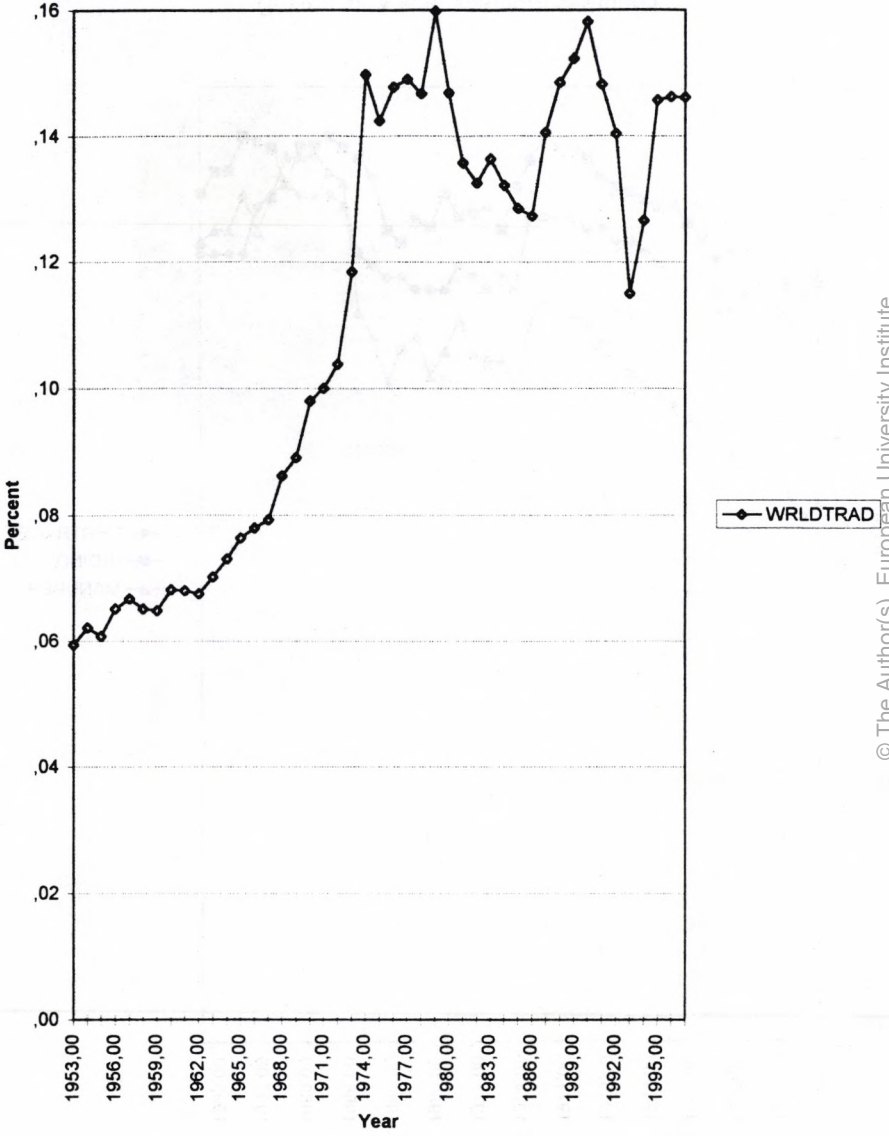

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Chart1

Figure 2: Percent of trade by developed countries (Pertrade), percent of trade by developed countries with other developed countries (indind), and percent of manu. exports by developed countries (Sources: See Appendix A)

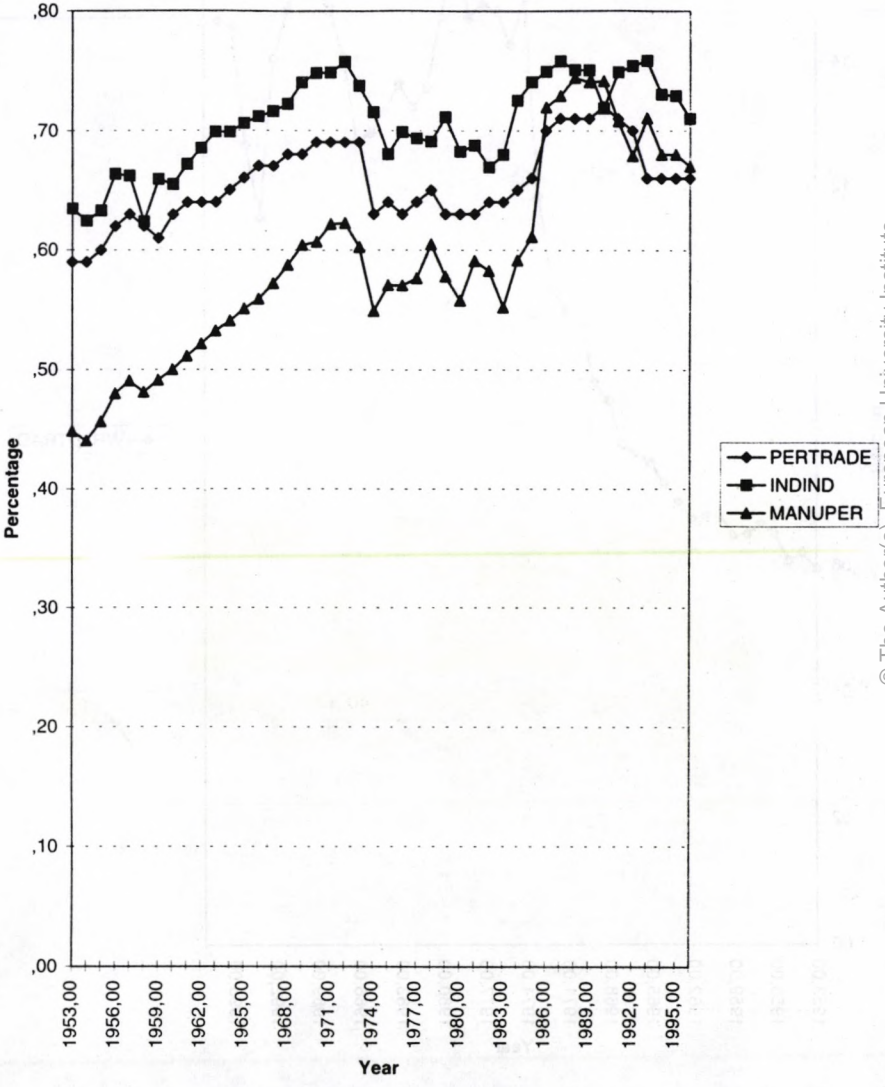

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Chart2

Figure 3: Changes in the Ratio of Earnings between skilled and unskilled workers, 1985=100 (Source: OECD, 1996)

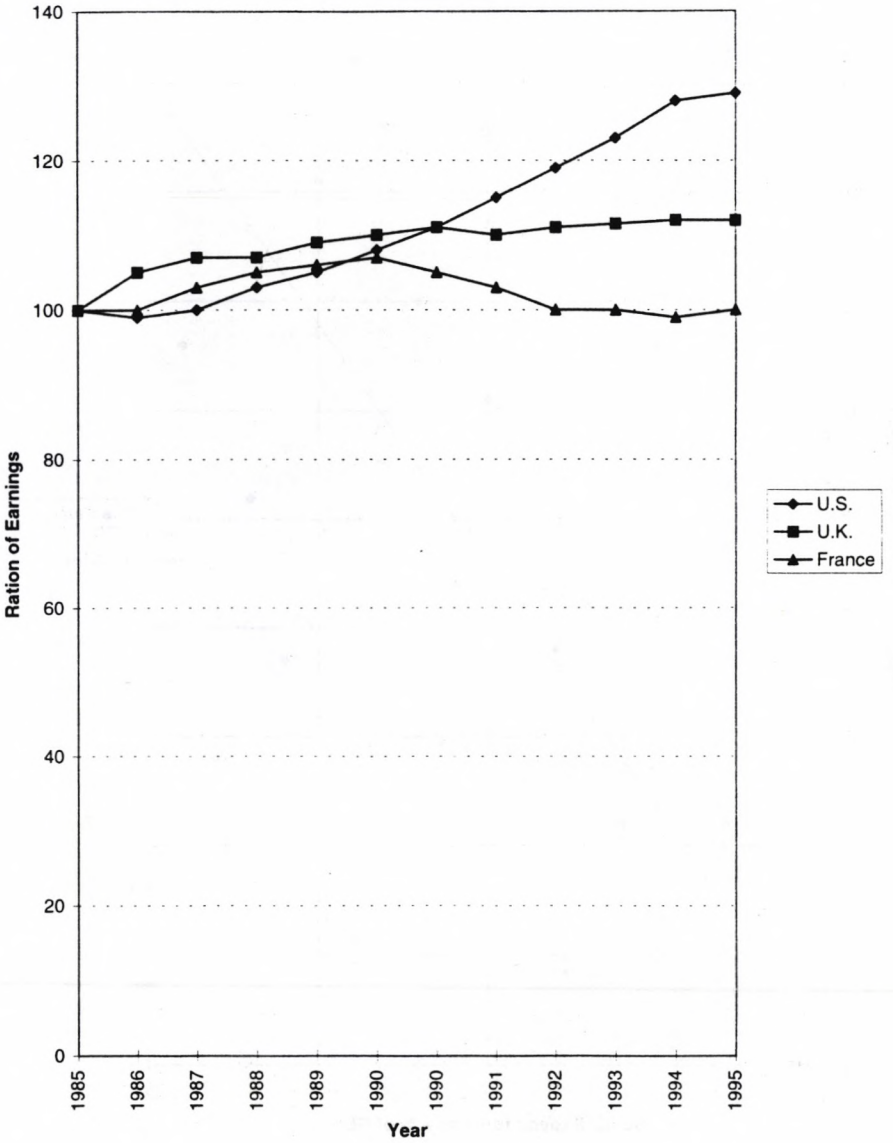

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Chart2

Figure 4: Trade and Social Expenditures as a Percentage of GDP, 1990 for OECD Countries (Source: Rodrik, 1996)

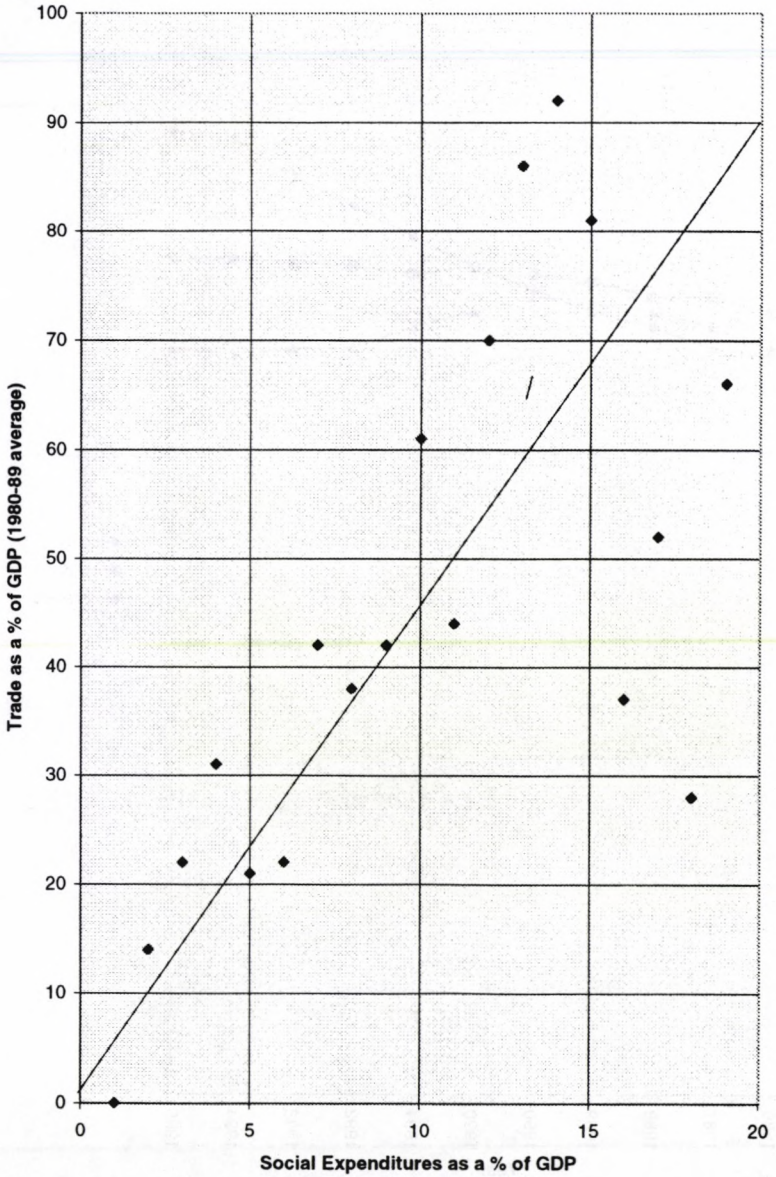

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Table 1: Percentage of world merchandise exports by region, 1980, 1985, 1990, 1995

	1980	1985	1990	1995
North America				
Exports	14.4	16.0	15.4	15.9
Imports	15.5	21.7	18.4	18.7
Latin America (with Mexico)				
Exports	5.4	5.6	4.3	4.6
Imports	5.9	4.2	3.6	4.9
Western Europe				
Exports	40.2	40.1	48.3	44.8
Imports	44.8	39.6	44.7	43.5
Eastern Europe (with C.I.S)				
Exports	7.8	8.1	3.1	3.1
Imports	7.5	7.4	3.3	2.9
Africa				
Exports	5.9	4.2	3.0	2.1
Imports	4.7	3.5	2.7	2.4
Middle East				
Exports	10.6	5.3	4.0	2.9
Imports	5.0	4.5	2.8	2.6
Japan				
Exports	6.4	9.1	8.5	9.1
Imports	6.8	6.5	6.8	6.7
Asia				
Exports	9.2	11.7	13.3	17.5
Imports	9.9	12.3	14.5	18.3

Source: World Trade Association Annual Report, 1995, table III.1, III.2.

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Table 2: Regional structure of world merchandise trade in exports, 1993; percentage of regional exports shipped to each region

	Destination of Trade				
	North America	Western Europe	Asia	Rest of World	Total
Origins of Trade					
North America	35.6	20.2	25.0	19.2	100.0
Western Europe	8.0	68.9	8.8	14.3	100.0
Asia	26.4	17.6	46.5	14.2	100.0

Source: World Trade Organization Annual Report (1996), table II.1.

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Table 3: Network of exports by region and product, 1993

		Destinations			
	Total in Billion $	EU	North America	Asia	Rest of World
Origin					
World	3641.0	42.7	19.4	22.8	15.1
Agriculture	437.8 (12.0)	47.7	11.9	23.4	17.0
Mining	433.0 (11.9)	40.1	18.1	30.2	11.6
Manufacturing	2288.9 (62.8)	43.9	20.0	20.7	15.3
Office and Telecom Equip.	379.4 (10.4)	36.4	27.3	27.8	8.5
EU					
Agriculture	196.7	76.7	4.2	5.0	14.1
Mining	110.6	78.4	8.4	4.0	9.2
Manufacturing	1162.7	67.1	8.7	9.9	14.3
Office and Telecom. Equip.	102.1	71.4	9.8	9.3	9.5
North America					
Agriculture	85.6	16.2	25.6	37.7	20.5
Mining	43.2	15.0	51.6	21.9	11.5
Manufacturing	371.3	19.0	43.4	21.0	16.3
Office and Telecom. Equip.	71.2	27.2	23.6	35.8	13.1
Asia					
Agriculture	83.5	15.6	11.6	61.0	21.8
Mining	69.8	6.7	4.6	83.2	5.5
Manufacturing	589.1	18.0	28.0	44.1	9.9
Office and Telecom. Equip.	193.1	21.6	37.0	36.0	5.4
% of World Exports					
Agriculture		44.9	19.5	19.1	16.5
Mining		25.5	9.9	16.1	49.5
Manufacturing		50.8	16.2	25.9	7.1
Office and Telecom. Equip.		26.7	19.3	50.8	3.2

Source: World Trade Organization Annual Report, Table A.7.

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Table 4: Exports as a percentage of GNP for selected advanced industrial countries, 1970, 1980, 1985, 1990, 1995

Country	1970	1980	1985	1990	1995
United States	4.2	7.9	5.1	6.7	8.0
Germany	18.5	23.6	29.4	25.9	21.0
Japan	9.5	12.2	13.1	9.8	8.6
France	12.4	16.7	18.5	17.5	18.5
Italy	12.3	17.4	18.5	15.5	21.2
United Kingdom	15.5	21.2	21.9	18.8	21.8
Canada	19.0	23.8	24.5	20.8	33.5
OECD Average	17.7	22.8	26.0	23.3	23.1

Source: Foreign Trade by Commodities, OECD (Paris, 1994), table 4.1. Economic Survey, OECD (Paris, 1996).

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Table 5: Unemployment (Column 1) and GDP Growth (Column 2) in selected developed countries, 1975-1995

Country	1975		1980		1985		1990		1995	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
U.S.	4.8	-1.7	7.0	-.2	5.4	2.7	6.7	1.0	5.6	3.2
Japan	1.9	2.4	2.0	4.2	2.6	3.7	2.1	5.6	2.9	3.4
W. Germ.	3.6	-3.3	2.9	1.8	7.1	2.5	4.8	4.6	6.5	1.6
France	4.0	-1.3	6.2	1.7	10.2	1.4	8.9	2.4	12.3	1.0
Italy	5.3	-3.5	7.5	4.0	9.6	2.3	10.3	2.2	9.5	4.2
U. K.	4.3	-1.3	6.4	-1.4	11.2	3.7	6.8	1.0	9.6	2.5
Canada	6.9	.6	7.4	3.3	10.4	4.0	8.1	.9	9.5	4.2

Source: OECD Main Economic Indicators (Paris, 1996), table 2.7.

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Table 6: Part-time Employment in 1993

	% Males 20-64 Parttime Employment (1993)
U.S.	11.5
Japan	11.4
W. Germany	2.9
France	4.1
Italy	2.5
U.K.	6.6
Canada	9.8

Source: OECD, Economic Outlook (Paris, 1995), table 2.14.

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