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pre-First World War levels of trade integration, at least for the world's leading economies, are exceeded (Bairoch 1996; Hirst and Thompson 1999).

The empirical evidence also suggests a number of reasons why the anticipated deregulatory "race to the bottom" is at best a simplifying distortion of a far more complex reality. First, as already noted, markets, not least those for traded goods, are far from perfectly integrated—and on balance, distortions from perfect market integration tend to serve to protect the most advanced and affluent economies (those with the largest public sectors) from competitive undercutting. Second, it is only a relatively small proportion of potentially tradeable commodities whose cost is determined to a significant extent by direct labor costs and indirect non-wage labor costs (such as payroll taxes). Consequently, the competitive undercutting predicted in the globalization thesis, even though it certainly goes on, is more confined to certain sectors of the world market than the model assumes. Third, to a very considerable extent the advanced capitalist economies compete less in terms of cost than they do in terms of the distinct qualities of the goods they export. And quality competitiveness, in contrast to cost competitiveness, is often enhanced and supported by high levels of public spending. Fourth, as already noted, regionalization tendencies that are often ignored in the overly general literature on globalization may alter significantly the real terms of competition that economies face, giving rise to rather different competitive dynamics from those assumed to drive a deregulatory race to the bottom.

3.2 Foreign Direct Investment

Scarcely less significant in accounts of the consequences for public policy of globalization is the role of foreign direct investment and the (assumed) mobility of international investors. The significant, indeed at times exponential growth in both the accumulated stock of invested foreign capital (total fixed capital formation) and fresh foreign direct investment is seen, in conventional accounts of globalization, to impose upon domestic policy makers a series of additional competitive imperatives. Here it is not so much the competitiveness of the domestic economy qua domestic economy that is the focus of attention (important though this is), but the "locational competitiveness" of the economy as a site for new or continued investment.

The picture created is of potentially footloose and fancy-free investors choosing from a vast array of potential investment locations the one that offers them the best anticipated return on their investment—that is, until a new and better opportunity arises elsewhere. In order to attract investors in the first place, then, governments must essentially internalize and approximate as closely as possible in terms of their exhibited policy choices the preferences of mobile capital. Those preferences, in turn, are anticipated to be for attractive investment incentives at the point of initial investment, flexible labor markets, low rates of corporate taxation, a flexible regulatory regime, and lax environmental standards. Big government and the

taxation receipts out of which a generous welfare state might be funded are rendered increasingly anachronistic—a guarantee of disinvestment and economic crisis.

Equally intuitive though such a view is, it is again at some considerable odds with the available empirical evidence. A number of points might again be noted. First, the mobility of invested capital is grossly exaggerated in such stylized accounts which invariably discount the costs borne by investors of carrying through an "exit" threat to the point of disinvestment. Having invested and often built plant in a particular economy, foreign direct investors acquire a variety of generally irredeemable sunk costs. For, to relocate production is, essentially, to sacrifice the lion's share of the capital value of the initial investment (assuming no new investor is prepared to take the place of the old), whilst bearing the significant costs of building and equipping new plant, to say nothing of the intervening period of non-production. For this reason, whilst it may well be rational for hypothetically mobile investors to threaten "exit" whenever they wish to bargain for concessions and/or changes in policy from their host government, it is seldom in their interests to exercise their hypothetical mobility even in the absence of such concessions. This is presumably why it is that the much-vaunted exit option is in fact rather less frequently exercised than the model of free capital mobility would predict.[9] Second, there is quite simply no inverse relationship, such as the model would lead us to anticipate, between volumes of inbound foreign direct investment and levels of corporate taxation, environmental and labor market regulations, generosity of welfare benefits, or state expenditure as a share of GDP.[10] This would merely seem to underline the point of the previous section that competitive advantage is not necessarily secured by cost minimization strategies. Finally, as is again now well documented, the vast majority of the world's outward foreign direct investment (over 90 per cent between 1980 and 1995) is sourced from within the so-called "triad" (of North America, Europe, and Pacific Asia) and the vast majority (between 75–80 per cent over the same period) of inward foreign direct investment is invested within the triad (Brewer and Young 1998, tables 2.7, 2.8; Hay 2004, fig. 7). This staggering concentration of foreign direct investment is hardly consistent with the predictions of the simple globalization model, a point reinforced by the observation that the most significant factor determining investment location is not the availability of investment incentives but geographical proximity and access to a sizeable market (Cooke and Noble 1998).

[9] It may, of course, be that the emphasis here on "exit" in much of the literature, radical and skeptic alike, is misplaced or at least exaggerated. For multinational firms, and many such firms now exist, there is no need to exercise exit nor is there often a need to build new plant whenever disinvestment occurs. Such firms, with multiple production sites, can simply juggle production volumes between locations, bargaining with local jurisdiction for policy concessions which might increase the likelihood of them expanding capacity in a particular location. I am indebted to Mick Moran for pointing this out to me.

[10] See Cooke and Noble 1998; Pfaller et al. 1991; Traxler and Woitech 2000; Wilensky 2002; and see also Hay 2005 for a fuller assessment of the empirical evidence.

3.3 Financial Market Integration

The third in the triumvirate of sources of external economic constraints on public policy comes from the anticipated consequences of financial market integration. Once again, the assumption in much of the literature is of perfectly clearing and fully integrated global markets—here financial markets, with near instantaneous investment decisions lubricated by new digital technologies operating in an effectively post-geographical environment (O'Brien 1992).[11] In such a context, vast financial resources can be unleashed by institutional investors in speculative attacks on the currencies of states incurring the investors' displeasure. Sterling's forcible ejection from the European Monetary System (EMS) at the hands of George Soros and others is a classic case in point. Within such models, portfolio investors, in particular, are seen to display a clear interest in, and preference for, strong and stable currencies backed both by implacable independent central banks with hawkish anti-inflationary credentials and governments wedded in theory and in practice to fiscal moderation and prudence. Any departure from this new financial orthodoxy, it is assumed, will precipitate a flurry of speculation against the currency and a haemorrhaging of investment from assets denominated in that currency. Governments provoke the wrath of the financial markets at their peril.

Once again, this is a familiar and intuitively plausible proposition that would seem to be borne out by a series of high-profile speculative flurries against "rogue" governments in recent decades. It is, however, an empirical claim and one that a growing body of scholarship reveals to be considerably at odds with the empirical evidence. For capital markets do not seem to be as perfectly integrated as the globalization literature invariably assumes. In particular, the anticipated convergence in interest rates which one would expect from a fully integrated global capital market is simply not exhibited (Hirst and Thompson 1999; Zevin 1992). Moreover, financial integration has also failed to produce the anticipated divergence between rates of domestic savings and rates of domestic investment which one would expect in a fully integrated global capital market—the so-called "Feldstein–Horioka puzzle" (Feldstein and Horioka 1980; see also Epstein 1996, 212–15; Watson 2001*a*). Finally, though the liberalization of financial markets has certainly increased the speed, severity, and significance of investors' reactions to government policy, capital market participants appear far less discriminating or well informed in their political risk assessment than is conventionally assumed (Mosley 2003; Swank 2002). Consequently, policy makers may retain rather more autonomy than is widely accepted. Speculative dynamics, it seems, are in fact relatively rarely unleashed against currencies and, at least as far as the advanced liberal democracies are concerned, the range of government policies

[11] This is, of course, to adopt a wholly undifferentiated and correspondingly problematic conception of "financial markets" a term which can and should be disaggregated. Such a generic category in fact hides very significant variations, for instance between the instrument trading that characterizes foreign exchange markets and the altogether more locationally immobile provision of commercial services like corporate law. The point is, however, that in the somewhat stylized accounts which dominate the existing literature on globalization's impact on public policy, such disaggregation is exceptionally rare (though see, for instance, Mosley 2003; Watson 2001*b*).

considered by market participants in making investment decisions is, in fact, extremely limited. As Mosley explains:

> Governments are pressured strongly to satisfy financial market preferences in terms of overall inflation and government budget deficit levels but retain domestic policymaking latitude in other areas. The means by which governments achieve macropolicy outcomes, and the nature of government policies in other areas, do not concern financial market participants ... [G]overnments retain a significant amount of policy autonomy and political accountability. If, for domestic reasons, they prefer to retain traditional social democratic policies, for instance, they are quite able to do so. (2002, 305)

This important finding is further reinforced by other recent work. On the basis of a detailed statistical analysis, Swank demonstrates that, contrary to the prevailing consensus, "rises in international capital openness, or exposure to international capital markets, do not exert significant downward pressure on the welfare state at moderate levels of budget imbalance [and] when budget deficits don't exist, some expansion of social protection is possible even in the context of international capital mobility" (2002, 94).

Financial markets, it seems, are neither as highly integrated as we are accustomed to thinking, nor as exacting in the audit of fiscal and monetary policy they are frequently assumed to engage in.

3.4 Environmental Degradation

Thus far we have focused almost exclusively upon mechanisms identifying *economic* globalization as the key contemporary constraint on public policy-making autonomy. We have also questioned, in so doing, the extent to which contemporary economic trends are well captured by the term globalization. Yet at least equally compelling is a rather more political mechanism which refers unequivocally to issues that are genuinely global in their scope and scale. Strictly speaking this does not so much point to the diminished capacity of public policy makers in an era of globalization, as to the globalization of the problems with which such policy makers are confronted—and their inability to date to deal with such problems.

The classic example here is the problem of high-consequence global environmental risks (Giddens 1990). This is well expressed in the so-called "tragedy of the commons" first identified by Garrett Hardin (1968). Hardin provides an intuitively plausible and all too compelling model of the seemingly intractable problem of environmental degradation in contemporary societies (for a useful extension and updating of Hardin's pioneering work, see Gardiner 2004). The systematic exploitation and pollution of the environment, it is argued, is set to continue since individual corporations and states, despite a clear collective interest, choose not to impose upon themselves the costs of unilateral environmental action. Their logic is entirely rational, though potentially catastrophic in its cumulative consequences. Such actors know that environmental regulation is costly and, particularly in an open

international economy, a burden on competitiveness. Accordingly, in the absence of an international agency capable of enforcing the compliance of all states and all corporations, the anticipation of free-riding is sufficient to ensure that corporations and states do not burden themselves with additional costs and taxes. The long-term effects for the environment are all too obvious, preventing as it does a global solution to a genuinely global problem.

The extent to which the narrowly perceived self-interest of states and governments can subvert the development of effective mechanisms and institutions of global governance is well evidenced by the Bush administration's withdrawal from the 1997 Kyoto Protocol (committing signatories to staged reductions in greenhouse gas emissions); and for its critics, by the fact that such a protocol, even if fully implemented, would only serve to reduce slightly the pace of an ongoing process of environmental degradation.

This is a most important example, and a number of broader implications might be drawn from it. First, the "tragedy of the commons" is indicative of a more general disparity between the need for and supply of effective institutions and mechanisms of global public policy. For whilst it is easy to point to genuinely global problems requiring for their resolution coordinated global responses, it is far more difficult to find examples of the latter. Second, whilst the proliferation of genuinely global political problems does point to the incapacity of a system of sovereign states (capable of exercising veto power) to deal with the challenges it now faces, it does not indicate any particular incapacity of domestic public policy to deal with the problems and issues it has always dealt with. This is, then, less a story of a loss of capacity than of the proliferation of issues which domestic policy makers have never had the capacity to deal with. Finally and rather perversely, the disparity between the need for and supply of global solutions to global problems is merely exacerbated by economic globalization. For this has served to drive states, at pain of economic crisis, to elevate considerations of competitiveness over all other concerns, including environmental protection. There is a clear and obvious danger that the narrow pursuit of short-term economic advantage will come at the long-term price of a looming environmental, economic, and political catastrophe.

4. Conclusion: From Globalization versus Public Policy to Global Public Policy

I began this chapter by pointing to the pervasiveness in the existing literature of a significant tension between globalization and public policy—such that the extent of globalization is seen as a simple index of the degree of the loss of autonomy of (domestic) public policy makers. In the preceding sections, I have sought to

demonstrate that however influential this trade-off is seen to be, it is deeply problematic—both theoretically and empirically. Whether globalization is occurring or not depends both on how exacting a definitional standard one imposes and where one looks to gather evidence. Moreover, in seeking to discern the space for public policy in a more globally integrated environment, the characteristically amorphous and vaguely specified concept of globalization obscures as much as it reveals. For as I have sought to demonstrate, the challenges that public policy makers face from, say, processes of economic integration are specific to the contexts in which those policy makers are located. Overly aggregated and general accounts of globalization can only fail to capture and reflect that specificity; as such, they distort significantly the constraints faced by public policy makers today.

This is an important point, for it reminds us again of the significance of semantics. Whether globalization is happening or not depends on what the term is taken to imply. It has been the argument of this chapter that if we are to develop more complex and differentiated accounts of the various external constraints and challenges (economic and otherwise) that public policy makers face today we need to move beyond the amorphous and anecdotal appeal to terms like globalization. This entails a rather more exacting definitional standard—one that sharpens rather than blunts the analyst's descriptive vocabulary and one that leaves us capable of differentiating, for instance, between globalization and regionalization. If the preceding analysis seems unremittingly skeptical of the globalization thesis, then this is at least in part because of this insistence on a rather more demanding and empirically operationalizable conception of globalization than is often the case in the existing literature. Yet we should not let the appeal to semantic differences blind us to the still very significant differences in interpretations of the constraints imposed on public policy makers in an ever-more interdependent international environment. Even if we settle our semantic differences, there is plenty of scope for controversy.

Yet even if this is accepted, there is a certain danger that we confine ourselves to a consideration of the degree of autonomy of domestic policy makers in an era of complex interdependence or globalization. The casualty in this is an adequate consideration of transnational public policy. For arguably, and as the final section of this chapter hopefully serves to demonstrate, the greatest challenges to public policy today do not come from internalizing domestically the competitive imperatives unleashed by economic globalization. Rather they lie in developing the global and transnational policy-making capacity to deal collectively with the environmental and other consequences of processes of complex economic integration (for an exemplary discussion of the extent to which this has already been achieved within the area of business regulation, see Braithwaite and Drahos 2000). Far too much of the literature to date on globalization and public policy has presented the latter, often in narrowly domestic terms, as a casualty of the former. It is surely now time to re-present and project public policy onto a global stage, as having the potential to hold the process of globalization to account—both publicly and democratically.

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PART VII

POLICY INTERVENTION

STYLES AND RATIONALES

CHAPTER 30

DISTRIBUTIVE AND REDISTRIBUTIVE POLICY

TOM SEFTON

1. Introduction

Whenever a government pursues a course of action towards a specific goal, there will inevitably be winners and losers, even if these distributional effects are unintended. In this broadest sense, virtually all government policy can be termed redistributive (Tullock 1997). But for the purposes of this chapter, the focus is on social and welfare[1] policies, where the redistributive motive is most prominent (Hills 2004). Most of the literature in this area is concerned with taxation and spending on cash transfers or in-kind services, though "legal welfare," such as minimum wage legislation, can also have significant distributional effects.

Social and welfare policies are often assessed as if their only purpose were to redistribute from rich to poor. If so, the effectiveness of welfare systems as a whole could be assessed by looking at their impact on overall inequality and poverty. Similarly, in assessing a particular policy or program, the crucial question would be which income groups benefit most. In common with most of the literature on redistributive policy, this chapter is largely concerned with these two types of question.

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[1] The word "welfare" is used here in the broader sense of social welfare policies, including cash and in kind transfers from government, not just in the narrower sense often applied in the USA referring only to assistance for certain poor groups. Similarly "social security" refers to all cash transfer programs, not just those for the elderly.