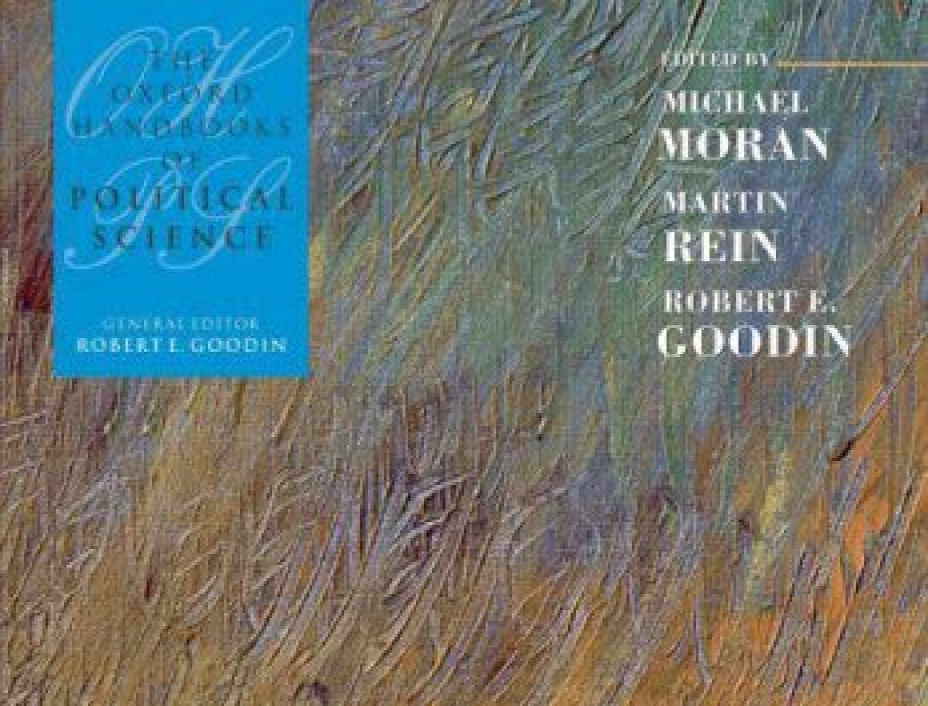

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CHAPTER 29

GLOBALIZATION AND PUBLIC POLICY

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1. Introduction

Virtually no topic in contemporary public policy is more contested or more potentially consequential than the impact of globalization. The balance of opinion would certainly suggest that there is a strong prima facie case for seeing globalization and public policy as antagonistic—the extent of globalization, for many, being an index of the retrenchment of public policy, at least at the national level. A variety of more or less plausible mechanisms for this tension between globalization and public policy can be pointed to. In particular, globalization is seen to challenge the public nature of (domestic) public policy by summoning a series of non-negotiable, external, and largely economic imperatives that must be appeased in a technically proficient manner if good economic performance is to be maintained, whatever the cost in terms of democratic accountability. Similarly, globalization is seen as the enemy of policy, public or otherwise, in the sense that it is seen to dictate policy choices whilst itself being beyond the capacity of domestic political actors to control. Yet none of this is uncontested. In this chapter my aim is to unpack the notion of globalization, considering the diverse ways in which globalization might be seen as antithetical to public policy, before turning to a review of the empirical evidence and the debate that it has generated. I conclude by suggesting that although globalization and public policy can be seen as antithetical in a variety of respects, this is less a consequence of the direct and necessary constraints globalization is seen to impose than it is a consequence of more political and contingent factors—in short, the constraints of globalization are as much as anything else, what political actors make of them. I also suggest that if globalization is antithetical to public policy, then it is only antithetical to public policy at the domestic level; arguably it merely reinforces the need for effective and democratic public policy at the transnational level (see also Goodin 2003). If it is problematic or at least premature to suggest that domestic public policy is a casualty of globalization, it is no less problematic to overlook the opportunities and need for public policy at the transnational level that globalization generates.

In most conventional treatments, globalization and public policy are counterposed. Invariably, in such accounts, globalization is seen to intensify the competitive struggle amongst nations for global market share, driving states to subordinate public policy considerations to economic imperatives, thereby exposing their public sectors to an exacting "competitive audit." Yet, however familiar, this is by no means the only mechanism by which globalization might be seen as in tension with public policy. Indeed, at least four rather different sources of such tension might be identified:[1]

1. Globalization is held to necessitate a certain privatization and technicization of "public policy," rendering it less publicly accountable. Here it is the distinctly "public" character of public policy that is potentially seen as a casualty of globalization. By virtue of "time-space compression" and the complex interdependencies that ensue, globalization is seen to render policy deliberations so technical and involved as to necessitate significant changes in the conduct—and notably the legitimization—of public policy. In the face of the speculative dynamics unleashed by financial market integration, for instance, it is argued that monetary policy must be removed from political control and rendered both predictable and rules bounded rather than discretionary. Globalization, and the complexities and interdependencies which are seen to characterize it, are here associated with powerful tendencies to depoliticization, privatization, and technicization (see also Berman and McNamara 1999). If valid, this is a very important development, for it implies that in a context of globalization public policy cannot be held to account publicly (and hence democratically) to the extent to which we have become accustomed. Such claims rest on the notion of a significant and perhaps growing trade-off, in a context characterized by complex interdependencies between effectiveness and accountability in public policy and that we should resolve any such trade-off in terms of the former. It is suggestive, moreover, of a potentially troubling explanation for the growing and widely identified lack

[1] It is important to acknowledge at the outset that these four sources of tension are by no means mutually compatible; indeed, different authors have placed rather different emphasis upon them. Thus, for some neo Ricardians, an increasingly integrated global economy intensifies the international division of labour, driving a process of divergence (reflecting specialization). For others, however, globalization unleashes vicious competitive dynamics which drive economies, at pain of poor performance, to race to adopt the most optimal policy stance, thereby driving a process of convergence. There is no obvious reconciliation between such contending theoretical predictions; and neither is clearly borne out by the available empirical evidence.

of trust in public officials and associated discontent and disengagement with formal politics (see, for instance, Dalton 2004; Dalton and Wattenberg 2000).

2. Globalization is seen to necessitate an internalization by the state of the preferences of capital and an associated squeezing of the "fiscal space" for public policy. This is perhaps the most conventional sense in which globalization is seen to be antithetical to public policy.[2] As will be discussed in more detail in later sections, the mechanism invoked here is relatively simple. Globalization is treated as synonymous with the mobility of capital. In order to retain high levels of investment, on which economic growth and high levels of employment are predicated, states must increasingly provide an investment climate conducive to profit maximization or more to the point, conducive to the *anticipation* by potential investors of profit maximization. They must, in short, internalize the preferences of capital.[3] Such preferences are conventionally assumed to be for a lightly regulated marketplace relatively free from public policy interventions and characterized by low levels of taxation.[4] The mobility of capital is, then, seen both directly and indirectly, to exert strong downward pressures on public policy—directly, since globalization enhances the effective bargaining power of capital and capital is seen to exert a strong preference for market mechanisms as opposed to public

[2] Whilst this notion of globalization as antithetical to the public accountability of domestic policy is a familiar one with powerful resonances in much contemporary public discourse, it is by no means expressive of a consistent orthodoxy. International institutions (like the World Bank and the IMF) here speak with forked tongues on the one hand advocating powerfully the need for central bank independence from political influence whilst, on the other, emphasizing the importance of good governance and democratic accountability as preconditions of economic modernization. What is clear, however, is that the prevailing wisdom in international institutions, as elsewhere, would seem to be that economic globalization necessitates a certain subordination of domestic political considerations (including accountability to public opinion) to harsh economic imperatives. Good governance and democratic accountability are, in this sense, secondary considerations.

[3] Of course, it is not only capital that is mobile in a globally integrated market. Insofar as labor is both mobile and scarce and in some sectors of the international economy it is certainly both its preferences, too, must be accommodated if the supply of this essential factor of production is to meet demand. With a few rare exceptions, however, the mobility of labor has not featured prominently in accounts of the economic imperatives issuing from globalization (though see, for instance, Rogowski 1989). This is largely because of the emphasis placed in the existing literature upon the differential mobility of capital and labor. Yet two further factors are also likely to have proved significant first, the stigmatized and rather undifferentiated public discourse which surrounds immigration in most of the world's leading economies and the rather greater political clout and influence of those advocating ostensibly capital friendly reforms. The latter, of course, are more likely to stress the mobility of capital and the imperatives issuing from it than those issuing from the mobility of labor.

[4] The notion that capital is motivated politically by strong deregulatory preferences is, of course, a crude generalization and one, as we shall see in later sections, that is difficult to reconcile with the expressed preferences of capital (as revealed by its investment behaviour). Regulation may well bring with it a certain sense of security on the part of (say, financial) investors, suggesting at minimum the existence of complex trade offs in capital's own assessment of the merits of regulation versus deregulation. The simple point is, however, that in most stylized accounts of globalization such complex trade offs are simply not acknowledged and capital's preferences are assumed both simple and fixed.

regulation; and indirectly, since globalization effectively squeezes the fiscal base out of which public policy is funded.

3. More generally, globalization is seen to diminish the policy-making capacity and autonomy of the nation state, resulting in a displacement of functions from public to quasi-public bodies (such as independent central banks) and from national to transnational institutions (such as those associated with the process of European integration and more obviously global institutions such as the IMF, the WTO, and the World Bank)[5]. Clearly this third sense in which globalization and public policy-making capacity at the national level are seen to be antithetical is not unrelated to the points already discussed—indeed the displacement of functions from public to quasi-public bodies almost directly parallels the privatization and technicization of policy discussed above. Yet the emphasis is, again, slightly different. Here commentators highlight what they identify as an increasing disparity between the level at which policy problems emerge and/or must effectively be dealt with and the still predominantly national/domestic character of the institutions from which such responses are initially sought. In short, they note, in a context of globalization, the nation state's increasing lack of fitness for purpose. Of course, to identify a proliferation of global/transnational problems which the nation state is not well placed to deal with is not necessarily to point to a shortfall in public policy, especially if global/transnational policy-making capacity is enhanced in parallel with the proliferation of problems at this level. Yet it is the gap between the pace at which the problems proliferate and the policy-making capacity increases that prompts contemporary concerns. Invariably, it seems, global problems have failed to generate coordinated global solutions—environmental degradation providing an ever more alarming case in point. As this already serves to indicate, many of the contemporary challenges for public policy are to devise proficient and democratic institutions of global governance—an effective policy-making capacity for dealing with problems of global public policy.
4. Globalization is seen as driving a process of convergence, thereby diminishing both variations between states in public policy and the significance of variations in public policy as variables in the explanation of comparative performance. Questions of convergence, divergence, or continued diversity have provided a key focus for public policy analysis in an era of globalization, provoking considerable controversy.[6] In most conventional accounts, for reasons already discussed, globalization is seen to promote convergence, as states have come to internalize the preferences of capital, thereby embracing

[5] On the role of the latter in "global business regulation" see, especially, the exemplary and exhaustive discussion in Braithwaite and Drahos (2000).

[6] Compare Berger and Dore 1996; Garrett 1998; Gray 1998; Hall and Soskice 2001; Weiss 1998.

neoliberal policies. Yet in recent years a rather more institutionally differentiated view has developed. This so-called "varieties of capitalism" perspective is associated most clearly with what Peter A. Hall and David Soskice (especially 2001) call "dual" rather than simple convergence. It sees globalization as an agent of convergence, but suggests that it is likely to have different impacts on coordinated and liberal market economies, reinforcing rather than undermining their distinctiveness (see also Garrett 1998). Yet even in this more subtle, differentiated, and increasingly influential perspective globalization heavily circumscribes public policy makers' autonomy. In liberal market economies, for instance, it essentially imposes on them market-conforming policies, raising questions again about the extent to which public policy can be held to account publicly/democratically.

As this already serves to indicate, the dominant themes in the existing literature on globalization and public policy all point to an adversarial relationship between globalization and public policy—in which the former is seen to select strongly for the depoliticization, privatization, and technicization of the latter. In this context, it is perhaps hardly surprising that commentators like David Marquand should point to a contemporary "decline of the public" (2004). Yet before rushing to endorse such a pessimistic conclusion it is important to acknowledge that most of the themes of the literature already discussed rest on strong assumptions as to the nature, extent, and consequences of globalization. Whether acknowledged as such, these are unavoidably empirical claims and, moreover, empirical claims that do not always stand up to a close consideration of the available evidence.

Indeed, although the contemporary period is invariably referred to as one of globalization, and although globalization is invariably seen as placing stringent constraints on the size of the public sector, in aggregate terms states consume a larger share of global GDP than at any previous point in their history (Garrett 2001; see also Hirst and Thompson 1999). Of course, such evidence is not in itself sufficient to refute the globalization thesis, nor is it especially difficult to see how the globalization thesis might accommodate such ostensibly unsupportive data (for a more sustained discussion see Hay 2005). Yet it certainly suggests the importance of a rather more detailed consideration of the empirical evidence than characterizes much (though by no means all) of the current literature. The frequently hyperbolic nature of much of the globalization debate and its tendency to extrapolate wildly from anecdotal illustrations where empirical evidence is appealed to at all necessitates a more thoroughgoing empirical review.

This is the aim of the later sections of this chapter. However, before turning to the evidence, it is first important to consider the concept of globalization itself.

2. What is Globalization?

Given the now habitual contextualization of public policy in terms of the constraints, pressures, and more rarely, opportunities associated with globalization, one might be forgiven for expecting a clear (if implicit) consensus on the meaning of the term. Nothing could be further from the truth. Whether globalization is occurring or not is highly contested; and indeed, what would count as evidence of globalization in the first place is scarcely less contested. The result is considerable confusion as analysts, who may in fact agree to a far greater extent than they assume on what is really going on, mistake semantic differences for more substantive analytical disagreements.

As this suggests, the question "what is globalization?", however straightforward, is one that invariably lacks a straightforward answer; indeed, it is one that is surprisingly rarely posed. A variety of effects follow from this—not the least of which is the tendency of proponents of the globalization thesis ("radicals" in Giddens's (1999) terminology) and their critics ("skeptics" in the same terms) to talk past one another.[7] Whether globalization is happening and whether the consequences often attributed to it *should* be attributed to it depend on what globalization is taken to imply—and it is here that the major differences often lie. Unremarkably, skeptics tend to adopt more exacting definitional standards than radicals, pointing almost in the same breath to the disparity between the real evidence (such as it is) and the rigors of such an exacting definitional standard. Radicals by contrast set for themselves a rather less discriminating definitional hurdle, with the effect that they interpret the very same evidence that leads skeptics to challenge the globalization thesis as seemingly unambiguous evidence *for* the thesis. What makes this all the more confusing is the seeming reluctance of authors on either side of the exchange to define clearly and concisely their terminology.

However frustrating this may be, it is not perhaps as surprising as it might at first seem. For radicals especially—and they are, if anything, rather more guilty of a failure to provide a precise minimal definitional standard—globalization is multifaceted and complex. Accordingly, it does not avail itself easily of a simple definition. Such authors, perhaps understandably, tend to be reluctant to frame their understanding of globalization in discriminating terms and/or in terms that might easily be operationalized empirically. Insofar as they define globalization at all, then, it is often defined in an anecdotal manner—Giddens, for instance, introduced his 1999 Reith Lectures on globalization not with a definition but with the story of an anthropologist friend watching *Basic Instinct* on video in Central Africa (1999; see also Hay and Watson 1999). After a few more anecdotes, Giddens's audience probably gained a pretty good sense of what he was talking about; what they probably did not get was a

[7] The archetypal "radical" account is probably that of John Gray (1998); the archetypal "skeptic" account probably that of Hirst and Thompson (1999).

sense of a precise analytical concept that could be operationalized empirically to achieve significant analytical purchase on the social and political processes it sought to describe and illuminate.

One way to get at underlying or implicit understandings of globalization in such accounts is to look at the assumptions made by their proponents in deriving the consequences and effects they attribute to it. This is perhaps rather easier when it is the economic consequences of globalization that are being considered—for here the assumptions made by radicals are quite often both stark and stylized. The so-called "business school" variant of the radical or "hyper"-globalization thesis is a case in point (as is its practical political expression within the so-called "Washington Consensus"). Here globalization is essentially synonymous with economic openness—in neoclassical economic terms, with a perfectly clearing and fully integrated global market. The effects of globalization appealed to in this literature are, in effect, logical correlates of such assumptions (albeit without the algebraic/formal modelling associated with the open economy neoclassical international macroeconomics from which these assumptions are drawn). This is an important point, for whatever one thinks of it, the global economy today is *not* a perfectly clearing and fully integrated market. In this sense many of the predictions/diagnoses of the hyper-globalization literature are predicated on unrealistic and implausible assumptions—assumptions used in economic theory not for their accuracy but for their heuristic value (in modeling a perfectly integrated market) and as simplifying distortions necessary to facilitate the formal modeling. Yet important though this is, it does not get us closer to a definition of globalization. For radicals do not offer perfect market integration on a global scale as a definition of globalization—though this *is* invariably how they operationalize the term. The question of how perfectly integrated globally a market must be to warrant analysis in such terms is, again, rarely posed; and consequently, the question of when the degree of integration in the world economy is sufficient to justify the label globalization is rarely, if ever answered.

Having failed to find many clear statements of what globalization actually is, it is time to attempt an alternative strategy. Like so many contested terms in the social sciences, globalization is perhaps better understood in negative rather than positive terms—in terms of what it is not.

This strategy immediately bears fruit as a number of "others" can relatively easily be identified—terms presented alongside globalization, often in the same breath, yet starkly counterposed to it. Amongst such conceptual pairings the following are perhaps the most obvious:

(i) nation vs. global (referring to the level at which the center of gravity of the world system might be seen to lie and the primary character of the cultures, economies, and polities within that system);

(ii) international vs. global (referring to the character of supranational decision-making processes and specifically, the extent to which these might be seen as trans- rather than merely international in form);

(iii) regionalization vs. globalization (referring to the precise geographical scope and character of any particular process of integration);
(iv) protectionism/closure/internal orientation vs. globalization as external orientation (referring to a policy-making orientation and a set of policies consistent with such an orientation).

This immediately reveals a range of rather different senses of globalization or, better perhaps, a range of *dimensions* of the concept. Moreover, looking at globalization in terms of such conceptual pairings is suggestive of a range of continuous (and not necessarily orthogonal) axes along which progress towards (or retrenchment from) globalization might be gauged. Such an approach encourages us to conceive of globalization in rather more fluid and dynamic terms, as a (potential) outcome of a set of tendencies to which there are counter-tendencies (see also Hay and Marsh 2000). Yet whilst this might seem to lessen the importance somewhat of a precise and easily empirically operationalizable definition of globalization, it does not diminish the significance of the question, "how global does it have to be to count as evidence of globalization?"—indeed, it merely projects this question onto a number of distinct dimensions.

The high stakes of such controversies are well illustrated by the debate which still rages on the geographical character of trade within the world system today.[8] For many of those who counterpose regionalization and globalization, deepening intra-regional integration is not, in and of itself, evidence of globalization. For such authors, contemporary patterns of trade integration do not seem to provide strong prima facie evidence for trade globalization—with the most recent data showing that for most of the world's leading regional economies, the pace of intra-regional trade integration far outstrips that of inter-regional trade integration. As a consequence, they conclude, the world economy, though ever more integrated in terms of trade, is becoming ever more regionalized and in that sense, less globalized (Hay 2005, 2004; Hirst and Thompson 1999). Yet such an interpretation rests on a semantic distinction. The same evidence can be described rather differently. For those who see trade openness and globalization as synonymous, the precise geographical character of patterns of trade integration is not the issue—this is, by definition, globalization. And even amongst those who seek to differentiate clearly between regionalization and globalization, there are those who would interpret precisely the same data as evidence of both globalization and regionalization. Such commentators emphasize, in so doing, not the higher *relative* pace of intra- as opposed to inter-regional integration, but the *absolute* increase in both intra- and inter-regional integration (for instance Perraton et al. 1997).

Yet, tempting though it may well be to dismiss the issue in such terms, this is not merely a question of semantics—there is much of substance at stake here. For if, on the basis of a detailed assessment of the trading relations of the EU economy, for

[8] See, for instance, Frankel 1997; Hay 2004; Hirst and Thompson 1999; Perraton et al. 1997.

instance, we identify regionalization where once we saw globalization, we may come to view the competitive imperatives such economies face by virtue of trade integration rather differently. It matters whether Britain and France compete increasingly with their European partners or whether they must increasingly compete in a genuinely global market for traded goods. The semantics matter because they may potentially obscure, in a rather amorphous conception of globalization, the quite specific competitive challenges our economies now face.

3. The Impact of Globalization

In terms of public policy, as already indicated, globalization is invariably seen as a constraint rather than an opportunity. Its impact, if we can indeed speak of powerful globalization tendencies, is then frequently seen in terms of the imposition of external imperatives—most notably perhaps that of competitiveness. However vague and implicit notions of globalization may be in the existing literature, a clear and relatively well-conserved set of mechanisms of constraint on domestic policy-making autonomy is appealed to in the existing literature. These are principally, but not exclusively economic and rely centrally on notions of mobility. Four such sources of external imperatives can be identified, each worthy of more sustained reflection.

1. *Trade.* The free mobility of goods leads to pressures to enhance economic competitiveness.
2. *Foreign direct investment.* The free mobility of investment capital (and in many accounts, already invested capital) leads to pressures to enhance and retain "locational competitiveness."
3. *Finance.* The free mobility of virtual/digital capital leads to an essentially constant audit by international investors of monetary and fiscal policies and the institutions (for instance, independent central banks) responsible for their delivery.
4. *Environment and "the global commons."* The mobility of pollutants and the global nature of "high consequence risks" (Giddens 1990)—leads to the need to pool sovereignty in institutions of effective global governance.

In what follows I consider each as a mechanism, assessing the plausibility of the assumptions and the evidential basis for both the assumptions and the consequences inferred from them to discern the likely consequences for public policy arising from each.

3.1 Trade Integration

Most accounts of the economic consequences of globalization start from a consideration of trade integration. Pointing to a near exponential rise in openness (conventionally expressed in terms of imports plus exports as a share of GDP) since the 1960s, they seek to derive a series of competitive imperatives for the domestic economy and domestic policy makers from heightened trade integration.

In rather stylized terms, such accounts frequently counterpose the supposedly closed national economies of the advanced liberal democracies until the 1960s and 1970s with the open integrated world economy which, they suggest, has developed subsequently. In the former, closed national economic world, competitiveness is of no great consequence, since only a relatively small proportion of GDP is traded and domestic consumption can be assumed to be satisfied by domestic production thereby facilitating a series of domestic management techniques such as Keynesianism.

Under (stylized) open economy conditions things look very different. Keynesianism is no longer effective since the injection of demand into the domestic economy will only serve to boost imports, precipitating a worsening of the balance of payments situation. More significantly still, domestic economic growth is now predicated upon success in international markets—in other words, competitiveness. Competitiveness, moreover, is frequently understood in rather narrow and cost-centered terms—the capacity to produce, distribute, and ultimately sell a given commodity in international markets for less than the competition. Consequently the imperatives of competitiveness that (global) trade integration brings tend to be seen in terms of cost-saving measures—the elimination of burdensome regulations, the reduction in non-wage labor costs (such as those out of which welfare states are funded), and the exertion of downward pressure on labor costs (by, for instance, scaling back workers' bargaining power and removing the institutional settings in which it might be exercised).

The mechanism is a clear one, lubricated by the heightened mobility of goods in a more globally integrated world market (an improvement in the aggregate terms of trade within the world economy). Yet, compelling and influential though it is, the necessity of the competitiveness-enhancing cost-saving "race to the bottom" that it predicts is not so easily reconciled with the empirical evidence. As already noted, state-related activity continues to account for a high and in fact rising share of global GDP, suggesting at minimum that in the face of such competitive imperatives public institutions funded out of taxation receipts have proved remarkably resilient. Moreover, as a growing body of literature testifies, there is a positive and indeed, strengthening relationship between public spending and economic openness—the most open economies in the world are also those, in statistical terms, with the largest public sectors (Rodrik 1996). That historical relationship (as famously revealed by Cameron 1978) shows no signs of being eroded. Finally, however high contemporary levels of trade integration are, a significant body of scholarship suggests that such levels are by no means unprecedented. Indeed, it suggests, there is still some way to go before 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