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The Non-economic Preconditions of Globalization

Motorcars are travelling faster than they otherwise would *because* they are provided with brakes.

Joseph A. Schumpeter 1950 [1942]: 88

1 Globalization Issues and the Task of Social Theory

As globalization has reminded us most forcefully, problems of territoriality and space are too important to be left exclusively to geographers. Anything that eases the spatial movement of ideas, goods and persons also accelerates the course of history – and causes political problems in the process. Since the state is a combination of territory, people and government, every increase in the effective utilization and mastery of spatial distances made possible by technological progress has an initially negative and destructive impact on established forms of social order.

People establish a territorial basis because many critical issues of social order – including issues of distributive justice, such as security, recognition, welfare, education, and so on – can best be resolved *within* geographical units (Walzer 1983: 42–51; Elazar 1999). To think geographically about the political organization of space forces us to acknowledge that territory has its own *social* significance. The problems of space cannot be severed from concern with specific social processes.[1] The ability to move from one place to another and to physically evade political pressure – facilitated as much by technological as by organizational changes – has become a primary and thus also a contested means of power, for the members of different social groups depend to a different extent on public benefits and thus on the efficiency of territorial authority. In this situation, conflicts are inevitable, for changed spatial conditions have *institutional* repercussions.

In this book we argue that 'globalization' – described below in more detail – is largely a coincidental by-product of the welfare-democratic revolution in the institutional order in the most advanced post-war societies. Yet it also impacts back upon this geographically fixed socio-political order, removing its veil of naturalness and thus making its costs and restrictive effects visible. Indeed, this order's origins and development were shaped by very different spatial conditions which have long since been overtaken by the course of history. Spatial conditions and their significance as a determinant of social order are rarely perceived and even more seldom understood (Ruggie 1993; Jim Glassman 1999). The reason for this is that changes in spatial

1 Cf. Robert Sack (1986) who pleads for *human* territoriality as a key concept in the social sciences and defines it as 'the attempt by an individual or group to affect, influence, or control people, phenomena, and relationships, by delimiting and asserting control over a geographic area' (19).

conditions are typically protracted and continuous, perceptible only retrospectively as great leaps and characterized by prolonged phases of suspension and slow adaptation, during which their political significance is easily overlooked. Nonetheless, time–space relations are constitutive for social, economic and political systems.[2] After all, under the 'reign of the spatio-temporal' (Friedrich Ratzel), conflict occurs not only over the appropriate reorientation and restructuration of political action, but also over the politics necessary to implement it – the latter being a problem in its own right.[3]

However, technical progress in the mastery of space, together with the resulting organizational possibilities for utilizing these new spatial conditions, are a necessary, but not a sufficient condition of the newly emerging global economy and information society. Welfare state structures of the developed post-war societies were and remain a critical variable for the timing, the form and the content of globalization. Conditions of emergence, though, are not identical with the existing or functional conditions, and clearly cannot be equated with conditions of rational further advancement. The mere demand for global governance – or its increased 'functional' necessity – by no means guarantees a corresponding supply of institutional solutions (Keohane 1982; Axelrod and Keohane 1985). The existing international organizations are 'powerless by design' (Feher 2000). They are not instruments for collective action, and none of them has a mandate to provide government. The now extant international governance of economic affairs involves no usurpation of the distinctive responsibilities of the separate national governments. The international apparatus is not an external organization based on delegated authority. It is made up of *national* organizations linked together for international work, and themselves forming the instruments of that work. In consequence, and not just by default, even under conditions of dramatically increased levels of interdependence, international economic policy is at its core a function of welfare-democratic and thus nation-state power relations. Moreover, globalization itself is an at first *unintended* effect of essentially domestic political developments, and it makes itself felt mostly in the national, apparently totally self-regarding politics of welfare states. In the following chapters, the focus is on the social and institutional repercussions of globalization in the most developed societies, the varying effects of these repercussions on national trade policy and on international economic policy, and finally, in turn, on the secondary consequences of these for the conditioning factors and the horizons of possibility for national social policy.

[2] It is not quite true, as Harvey (1985: xii) claimed, that in the classical works of social theory there is an almost overwhelming predisposition to give time and history priority over space and geography. Weber (1978) described the locational competition of nation-states induced by the mobility of capital; Simmel's monumental *Soziologie* (1992 [1908]) includes a fascinating chapter simply titled 'Space'; Durkheim (1964 [1902]) foresaw a European integration brought about by an 'organic solidarity due to the division of labour'; and Marx and Engels (1998 [1848]: 39) described how the new cosmopolitan character of production and consumption has 'drawn from under the feet of industry the national ground on which it stood'. More recently, Giddens (1981) was one of the first in social theory to insist that time–space relations are determining features of social systems.

[3] Still today, Ratzel's (1923, 1940) analyses of the relationship among spatial conditions, social order and political conflicts are illuminating. On Ratzel's geopolitical thought, see Weigert (1942a, b), Farinelli (2000), and Parker (2000). For two more recent overviews of a political geography see Burnett and Taylor (1981) and P. J. Taylor (1993).

The two fundamental problems of global governance

Since the claims of the 'theory' of globalization centre on the relationship between political organization and territoriality, which thus sees the nation-state as its number one victim, a first central political difficulty in effectively dealing with globalization issues under the new condition of 'complex interdependence' (Keohane and Nye 1989) is the absence of *legislative* international governance structures.[4] The latter is to a large degree the inadvertent side-effect of government action in societies in which critical changes in domestic conditions – in income, employment, distributional patterns, relations between individuals and between social groups – enjoy absolute priority over any type of problem-solving coordination at the level of international politics. The foundation of the national *de*regulation of foreign trade and its international liberal *re*regulation in the framework of GATT – which paved the way for economic globalization – was provided by the welfare state. What the welfare state revolution has done is to make material well-being the basis of citizens' *rights*. In the immediate post-war period, the welfare state was fashioned as a central propaganda tool in the Cold War competition between political and economic systems. Under the conditions of representative democracy, the only answer capitalism could give to the challenge of socialism was the proof that the material benefits it could secure were definitely greater than those of any alternative system. Thus welfare capitalism was born. But much more importantly, in the 1950s and 1960s, fuelled by the political rights of citizenship social policy's rise – from a series of makeshift interventionist measures to a systematic, formative power in people's lives and a primary symbol of societal modernity – represented a rejection of a free-market economy, or at least 'an insurance against revolt by the disinherited' (Laski 1933: 21).[5] It is thus one of the more ironic twists of world history that thereafter social policy became a pivotal precondition for the establishment of a free-market economy on an international scale.

[4] As just one example for this line of thinking, see Ohmae (1995). For an introduction to the 'theory' of globalization, see Waters (1995). On the issue of 'complex interdependence' the work of Keohane and Nye and others is worthy of mention in many respects, and in particular for its demonstration that this condition is by no means new. Already in the 1950s and 1960s, a debate on 'transnational integration' occurred – one that easily could be confused with today's. Yet after the neo-mercantilist withdrawal from free trade and from world market integration in connection with the consequences of the oil crisis of 1971, the subject of 'complex interdependence' nearly disappeared from the theory of international relations once again. The concept was used as early as 1900 by Small (p. 628) in his discussion of sociological methods. Rothschild (1947: 306) pointed out in his study of oligopolistic price formation that von Neumann's and Morgenstern's *Theory of Games and Economic Behavior* (1990 [1944]) represented a pathbreaking attempt to understand problems of complex interdependence. Knorr (1947a: 36; 1947b: 556) introduced this concept into the study of international relations: 'Only if teaching practice focuses on the complex interdependence of domestic and international politics can the International Relations student understand the flux of national foreign policies in juxtaposition, their diverse elements of insistence, vacillation and contradiction, and their capacity for adaptive response' (1947b: 556). Keohane and Nye used the concept first in 1974 (p. 56), and endowed it with a central analytical and theoretical significance in their textbook *Power and Independence*, which appeared first in 1977 and, most recently, in a third and revised edition, in 2001. See also Keohane (2002: 1–114).

[5] Cf. Marshall (1949) and Harold Laski, who anticipated a central point in Marshall's seminal analysis: 'Universal suffrage has meant the constant expansion of the functions of the state. It has enabled things to be achieved for the individual by the exercise of a corporate faculty of compulsion which are unattainable when they remain in the sphere of private and voluntary initiative' (Laski 1933: 201–2).

But if that which is termed globalization not only is an unintended consequence of developments that were pursued for quite different reasons and with very different objectives, and if it also seems to have turned against that which decisively contributed to its development, what then are the implications of this for the prospects of a 'global governance' called for in so many quarters today? What interests come into play here, and how strong is their respective influence? How may the advantages of globalization, above all the new degree of freedom in economic and social action and the welfare-producing effects of transnational interdependence, be put on a secure footing, and how can their negative side-effects be brought under control? How can welfare states master the challenges of globalization if that which helped to produce them is also that which threatens to undermine their own foundation? If one takes a closer look at the welfare state points-of-departure and the foundations of globalization – the subject of this and the next chapter – it becomes clear that *it is not so much the welfare state, but globalization which is endangered*.[6]

A second difficulty – again, an essentially political one – in dealing with globalization is that even when the institutional preconditions for effective global governance are thought to obtain (which is by no means assured), this still does not guarantee that 'correct' decisions will be made. And 'correct' refers at first only to a policy that would secure those increases in welfare and economic efficiency which globalization as an engine of growth also entails. To the extent that international politics is subjected to democratic standards, i.e. that form prevails over substance, chances increase that the predictability of the outcomes of international politics declines.[7] In national politics, checks and balances are inherent in the separation of powers and in the accountability, disclosure and publicity obligations of democratic governance, as in constitutionally inscribed counter-majority instruments of political obstruction and the duplicative and federally subdivided structure of the legislative branch.

In international politics, such institutional checks and balances do not exist as counterweights to a 'democratic' input into government action and thus to the latter's tendencies to expand and render itself perpetual. Moreover, in this particular arena, governments are to a large extent among themselves – and governments are, according to Robert Hudec (1987: 212), 'complex institutions known the world over for their inability to behave like rational beings'. The norms of international regimes and organizations – with the exception of those of the European Union – are addressed exclu-

6 As formulated here, this proposition applies to the developed welfare states of Western Europe and North America. For the other countries of the world the situation is somewhat different. This is primarily because globalization – in the form of capital inflows, access to technological know-how and new expert prospects – can provide them with more benefits than harm.

7 Constitutionalism, or *controlling* the power to coerce by establishing 'a government of laws and not of men' (Hume 1953: 106), is the essence of republicanism, not democracy. Where 'the people' rule, constitutional restraints are not only unnecessary, but positively injurious (S. Gordon 1999; Cooter 2000). Constitutionalism as 'rules against rules' will check the popular demand that is persistently for more government action rather than less. On the prevalence of form over content as the essence of democracy, see Schumpeter (1950 [1942]: 269): 'The democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote.' For a summary account, see Ricci (1970). On economic indeterminacy and the prospects of a democratic foundation of politics, see Reynolds (1995) and Wollheim's (1958: 242) 'anything goes' notion of modern democratic politics: 'It may be maintained that it is irrelevant whether Democracy does in fact maximise welfare, safeguard rights, accord with natural law, etc., for the fact is that under modern conditions it is the only working possibility.'

sively at governments. They have no 'direct effect' vis-à-vis private entities – be they firms, consumers or the advocates of some kind of 'public' interest worthy of protection, and therefore they cannot be invoked by such entities against governments, even in the case of egregious violations of norms (Berkey 1998; Kessie 2000). If we were to assume for a moment that non-governmental organizations truly did exercise an independent influence on international politics (Keck and Sikkin 1998), then the problem would arise, 'Who is the principal of these agents?'. Located beyond the market *and* the democratic framework of national governance structures, there is no authority effectively controlling their behaviour – they are thus unaccountable (Brody 1996; Jordan and van Tuijl 2000).

Because the need for and demands upon international politics have dramatically increased as a result of intensified interstate contacts brought about by globalization, the latter has exacerbated – not mitigated – the problems of international politics. The disproportion in global affairs between actual economic, social and environmental control and formal political power is quite fantastic. Let us examine the means for the resolution of global problems effectively available, i.e. in essence the institutional coordination and legal standardization of interstate cooperation. Here, the enormous gap between individuals' contemporary degree of reciprocal dependency regarding their welfare, on the one hand, and the legal-institutional solutions hitherto achieved by these individuals' state representatives, on the other, is plainly arresting (Elazar 1998; Perrez 1998). The technological and economic development associated with the revolution in spatial relations has called forth a range of new problems in all realms of social cooperation. Yet only very few of these problems have been coped with sufficiently by international politics and international law – and those that have been dealt with have been the less rather than the more important ones.[8] On the contrary, it is becoming more and more clear that this condition of complex interdependence has increased the potential for reciprocal – and often unintended – harm to unprecedented levels. For this reason, complex interdependence has become the point of departure in international power politics and for the various forms of coercive diplomacy.

Since private entities, including firms, have neither a seat nor a formally recognized voice in the arenas of international politics, they have to rely on their governments to represent their interests. Whether governments do so, under what conditions and under the influence of what kind of pressure, are both domestic and foreign policy questions, just as are the different forms this access to government will take depending on the specific characteristics of each group and political situation. And even when governments become active, the outcome is uncertain, because international law, which aims at supporting and institutionalizing cooperative solutions, is the weakest kind of law.

[8] For this reason, it is no coincidence that the principal political achievement of supranational institutional politics in the European Union is in the field of agricultural policy. The unquestionable high-point of a new approach to international politics represented by the Schuman Plan establishing the European Coal and Steel Community and by the European Economic Community at the end of the 1950s could not allay Claude's (1958: 51) scepticism vis-à-vis multilateral trade diplomacy: 'The role of the spokesman for the international interest is still too marginal, too exceptional, too poorly defined, too grudgingly accepted.' This judgement still applies today; consider in this regard the following definition of international law by a US judge: 'A theoretical body of precepts and propositions, *honored only in the breach*, that has little to do with the "real world" ' (D. Wood 1999: 97; emphasis in the original). For a brief introduction to the practical problems of international law, see D. Wood (2000).

It consists neither of central legislative nor of central executive organs.[9] On the other hand, this is not the first time that states, confronted with interdependence and acting unilaterally, have expanded their legal instruments in order to achieve control over economic interreliance – including its unintended consequences – thus compensating for the weakness of international governance structures:

> There may be agreements made beyond our borders not intended to affect imports, which do affect them, or which affect exports. Almost any limitation of the supply of goods in Europe, for example, or in South America, may have repercussions in the United States if there is trade between the two. . . . (I)t is settled law . . . that any state may impose liabilities, even upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders which the state reprehends; and these liabilities other states will ordinarily recognize.[10]

Globalization and interdependence have neither created a legal 'no man's land' nor condemned national legal systems – and with them, national politics – to impotence. On the contrary, the overwhelming share of new transnational and international conflicts are resolved in a national legal framework, in national courts. The legal literature on these developments demonstrates that national courts, governments and legislatures react to changed spatial relations – above all concerning relocation, physical absence and bridging distances – with new conceptions concerning the extraterritorial reach of national law. Legal practice is changing accordingly, albeit in a halting, uncoordinated manner and with uneven results. Nonetheless, it is clear that developments have begun in which the new, globalization-induced 'exit' opportunities of the

9 Whether the most recent advances in the juridification of international economic relations – for example the institutionalization of the new arbitration proceedings in the framework of the WTO – actually render international norms more binding, or whether they have the opposite effect as a result of the higher costs this development occasions when governments deviate from or change these norms, is still an open question. See the contributions in Issue 3 (2000) of *International Organization*, above all those by Goldstein and Martin (2000) and by Kahler (2000). On the cultural contradictions of transnational juridification, cf. Lawrence Friedman (1996) and Peng (2000).

10 *United States* v. *Aluminium Co. of America et al.* (148 F.2d 416 [1944], here p. 443). At issue in this ruling was the extraterritorial effect of the Sherman Antitrust Act. The author of this ruling, Judge Learned Hand, also maintained, however, that 'when one considers the international complications likely to arise from an effort in this country to treat such agreements as unlawful, it is safe to assume that Congress certainly did not intend the Act to cover them' (ibid.). On this conflict between legislative and political considerations in the extraterritorial application of national law, see Maier (1982). As long as no global cartel or global competition law exists, national economic law and cooperation among national antitrust authorities assume an importance that cannot be overestimated. What use do agreements on market opening and the dismantling of boundaries to trade, production and investment have if the market-closing activities of *private* entities in turn undermine these advances (D. Wood 1989, 1994, 1996, 2000)? For this reason, competition law is of central importance for the Internal Market of the European Union as well (Goyder 1993; Lennart Ritter et al. 2000). Diane Wood (1999: 109) summarizes the status quo in the politics of international competition rules through national means as follows: 'Currently, most major antitrust agencies around the world agree that they have jurisdiction to combat any practices, anywhere in the world, that have a direct, substantial, and reasonable forseeable effect on their domestic markets. Some refer to practices that are being "implemented" within their own markets; some refer to practices that target their domestic markets. The terminology does not matter. The key point is that this level of agreement on the proper scope of national regulation could, if it were acknowledged everywhere, resolve most competitive problems of an international scope by using exclusively national mechanisms.'

more mobile groups and actors are being matched by an internationally coordinated expansion of the domestic 'voice' of immobile groups (Benvenisti 1999). Margulis-Ohnuma (1999) thus speaks of an 'unavoidable correlation' between nation-statehood and the extraterritorial rule of welfare in the wake of changed spatial relations.[11] This does not mean, however, that the problem of international political coordination is settled. Rather, it poses itself in a more profound way, for, increasingly, disputes can entail a conflict between different socio-legal systems.

States' original and initially unlimited capacity to act is the greatest threat to international cooperation, for in the absence of a central authority every consciously instituted order is dependent on the action of every participating state.[12] The unique social structure of international law has always been characterized by a lack of a central authority equipped with coercive means that can enforce agreed commitments on reluctant members.[13] An international order can only come into being on the basis of explicit declarations of intent among equal and sovereign states. For maintaining this order, all members depend on the corresponding behaviour of each individual member. In principle, every state, as a sovereign community, is legally free from control by any other state. Yet the unorganized freedom of all leads to the effective dependency of all states on the state that is least interested in cooperation – or, what amounts to the same, which behaves uncooperatively – and thus is able to dictate the rules of the game to all others (Gilpin 1984; Axelrod and Keohane 1985; Kindleberger 1986b). As a result, transnational and international interdependence will unavoidably be associated with national power politics. This threat, which can stem from individual governments, suffices to force the others to pursue defensive measures, thus complicating the effective normative ordering of international politics. An international order can be created only by costly collective action, yet it can always be destroyed by any individual member which disposes of a certain degree of power. Ultimately, as long as there is no world government or international executive institution with an autonomous legisla-

[11] Incidents that have occurred outside of the United States – in particular, human rights abuses or violations of environmental or worker protection standards by US firms – are being challenged by private parties before US courts with increasing frequency (Chibundu 1999; Kieserman 1999; Rosencranz and Campbell 1999). The globalization of financial markets was accompanied by a corresponding extraterritorial expansion of US jurisdiction (Bensen 1999; Calhoun 1999). In some areas, this practice is predicated on an explicit, not merely tacitly assumed, legal foundation: 'The recent prosecution of an Italian corporation, Montedison, S.p.A. by the U.S. Securities and Exchange Commission for violation of the Foreign Corrupt Practices Act based on conduct that occurred entirely in Italy, once again brings into sharp focus Congress' assertion of extraterritorial jurisdiction over foreign commercial activity' (H. L. Brown 1999: 407). In US judicial practice, there also seem to be no major difficulties about protecting consumers in the rapidly expanding field of e-commerce. This is partly the case because in the shadow of the extraterritorial application of the law, effective self-regulation has emerged (Puurunen 2000). National jurisdiction also seems to be getting a grip on the problem of internet 'virtual casinos', for it is established case law that the medium itself produces no change in legal status: 'There is nothing about the connecting medium itself that matters here or that differs from other communication means' (Keller 1999: 1609; see also Bak-Boychuk 1999). These developments constitute the exact opposite of the hollowing-out of the nation-state that Zürn (1998) sees as the main consequence of globalization.

[12] On this and what follows, see M. Huber (1910), Brierly (1924), Schindler (1948), Jenks (1963), Claude (1981), and Boyle (1985: 3–74).

[13] But note that this perhaps overstresses the difference between domestic and international law. Judith Shklar (1986: 55) observed that the 'monopoly of violence hardly explains anything about the actual conduct of government in a constitutional democracy. No monopoly of power ever got a single bill through Congress or Parliament.'

ture, the foundation of every international organization is the common interest of its members in cooperative solutions (M. Huber 1910; Waltz 1959, 1962). And thus it is of decisive importance to know where the commonalities of the newest incarnation of the international society of states lie, what the conditions of emergence of globalization were, and what consequences for the subsequent fate of globalization follow from these very particular conditions of emergence.

Social policy as a determinant of globalization

Because welfare statism marks the apogee of national autonomy, globalization is a key term above all for social policy. By all accounts, it not only seems to determine the socio-political agenda of the developed welfare states. It also, in the interest of greater national competitiveness, appears to dictate cuts in social expenditure as well as the implementation of market-oriented welfare state reforms, and thus ultimately gives the impression of unleashing and sustaining a 'race to the bottom'. A more careful examination of the discourse on the theory and practice of free trade reveals, however, the critical importance of the social – and thus nation-state based – foundations of open foreign trade relations. There is considerable evidence to support the contention – a primary thesis of this volume – that the universal transformation from industrial society to the welfare state played a critical role in shaping the conditions of the emergence of stable, sustained world market integration. As we will argue in more detail in chapter 2, in the period after World War II the welfare state was able to assume the social functions of protectionism – the defence of employment and incomes via tariffs, import quotas, licensing and restrictions on capital flows – and thereby paved the way for trade policy to take advantage of an international division of labour. The deep economic integration of the post-World War II period is much less the result of conscious international institution-building than of a fundamental shift from external methods of adjustment which differentiate between transactions with foreigners and domestic transactions to internal measures which do not rely on such discrimination.

Their institutional set-up enables welfare states to cope with the volatility of an internationalized economy on their own terms, without resort to protectionist trade measures, through income maintenance programmes, corporatist wage-setting, and regional fiscal redistribution. The welfare states themselves, by virtue of their domestic policies, are the major providers of order in the world economy.[14] Welfare statism, however, is only a necessary, but not a sufficient condition for order in international economic affairs. A statement about the roles welfare states can – and sometimes do – play in sustaining the deep integration achieved at the end of the twentieth century is not the same as a description of what they actually do.

Since the middle of the 1980s evidence has been mounting that an inner transformation has occurred in welfare states through the formation and consolidation – via political parties or lobbies – of manifest and latent privileging structures. These structures, in turn, have created a constellation in which the positive effects of welfare state institutions on trade liberalization threaten to turn into negative ones. When therefore,

[14] The ensuing dilemma was already noted by Laski (1933: 245): 'The state-power cannot, for international purposes, be regarded as something distinct from the system of privilege which gives it its whole colour and complexion. Those who resist the settlement of problems at home in parliamentary terms are unlikely to utilise an international machinery for that end in which even the effectiveness of majority-rule does not apply.'

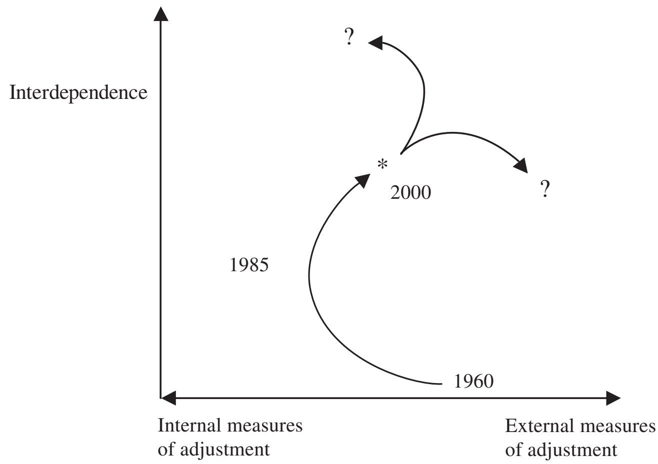

Figure 1.1 Coming full circle?

one tries to answer the question of what tasks social policy serves, one is tempted to analogize Abbe Siéyès' famous reply and to say that it is sufficient if it has survived the problems it is supposed to solve. Figure 1.1 can be used to illustrate the increased danger of a reversal to the *status quo ante* and thus a return to a much more disintegrated world economy. The most significant expression of this precarious constellation is, first, the difficulty of achieving socio-political reform precisely in those states in which the economy is most integrated into world markets; and, second, the increase in neo-protectionist tendencies in countries in which social policy was reformed in such a way that it no longer constitutes an alternative – or makes up only an inadequate alternative – to market income. The *raison d'être* of the welfare state is its use of political power to supplant, complement or modify operations of the market system in order to achieve discrete results which the market would not achieve on its own, and that in doing so it is guided by values other than those determined by open market forces (Marshall 1985 [1965]: 15). States differ greatly in the extent to which they follow such a course of action. In this volume, Germany and the USA will be examined as two paradigmatic examples of these opposing reactions to the same challenges of globalization, and in chapter 5 we discuss the East Asian forms of social policy. Figure 1.2 indicates the relative position of the three economically dominant countries with regard to their predominant reliance on means of adjustment and economic interdependence.

As something to be analysed on its own terms, globalization is not a topic of the investigations assembled here.[15] Also, we do not claim that the major features and main

[15] For a wide-ranging set of selections on concepts of globalization and the role of globalization in the transformation of intra- and international structures, see Held and McGrew (2000). Introductory discussions with directly opposed points of departure and conclusions are offered by Beck (1997, 1998), Frieden and Lake (2000) and Burtless et al. (1998) and continued in Burtless and Litan (2001). For a description of the domestic functioning of globalization, see Frieden and Rogowski (1996). On the political dimension see Strange (1996). On the historical economic perspective, see Bordo et al. (1999), Eichengreen (1996a, b) and James (2001).

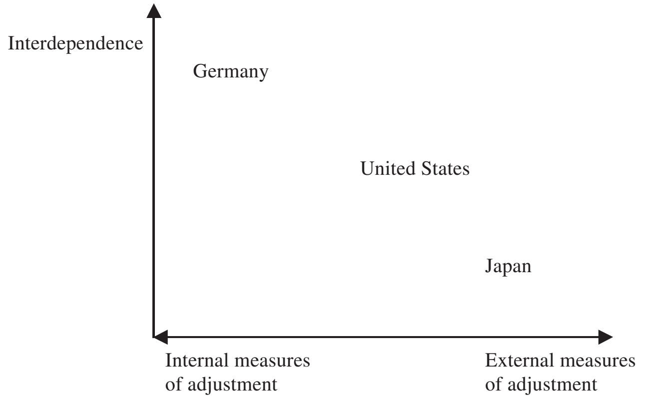

Figure 1.2 The relative position of welfare states in the institutional matrix of globalization

trends in the international economy or in national terms of trade can be explained solely with recourse to welfare state structures and variations in socio-political processes. Likewise, the trade policy decisions of individual governments are only one determinant – and often a relatively weak one – of global trade and investment flows. Conversely, we cannot draw or infer from these large-scale transformations of the international economy any unambiguous conclusions about what they might imply, or should imply, for national economic and social policy. With regard to the first point, Franz Eulenburg noted as early as the late 1920s:

> [T]he development of foreign trade policy differs from that of foreign trade itself, which is only one component of international economic relations. This policy thus provides no conclusive insight into the content and course of foreign trade. Also, from the perspective of individual countries, foreign trade development often proceeds in directions which are independent of, or even contrary to, the direction of their trade policy. These are targets, ambitions, preferences, which appear important enough in themselves, even if success follows only partially or not at all. (1929: 201)

In short, there is no assured *direct* linkage between the policies of governments and resulting trade flows, except in the negative sense that severe restrictions can definitely lead to lower trade flows, and in the positive sense that any move towards freer trade needs a specifically organized domestic *social* foundation. As the history of the second half of the twentieth century shows, structures of social policy and the policies pursued with or through them constitute a variable that strongly influences governments' foreign trade policy and, therefore, also firms' prospects of internationalization. Other variables are international regimes and collective organizations that regulate the global economy and establish norms, but these governance structures also depend in large measure on the policies and politics of welfare states. Welfare state institutions can lower the risks of national communities' dependency on and vulnerability to world markets and increase the security of international commercial transactions.[16]

[16] On such international regimes, see the volume edited by Krasner (1983), Keohane's collection of essays (1989) and Young (1994). On the relevant functional changes in the international monetary system in the wake of the systematic welfare state transformation of the post-WWII era, see Eichengreen (1996a: 188–91).

Regulatory frameworks like GATT or the WTO, institutions such as the IMF or the BIS and consultative mechanisms like the G7 meetings increase the transparency and predictability of global economic interdependencies and to some extent 'domesticate' the world market.[17] These regulatory frameworks, however, can only complement, not replace, the domestic functions of public policy in coming to terms with the social consequences of a dynamic and fundamentally self-regulating world economy.[18] The ordering structure of the WTO, including its mechanisms of dispute settlement, is a response to the problems faced by *governments* with regard to economic and above all economic-political and socio-political interdependence, not a response to the problems of citizens or firms. The rules of GATT are substantially determined by welfare state structures, and they build on these. Governments seek to use international economic policy coordination and its established institutions to increase – or at least to secure the integrity of – their national scope for action in coming to terms with the social externalities of global economic integration and the international economic division of labour.[19] Possibilities within this context to *legally* contravene the rules of GATT or the WTO thus assume great importance:

> It is not the legal bond per se that holds GATT law together. It is, rather, *the convergence between what GATT law does and what governments need*. The viability of the GATT legal system ultimately rests on maintaining that convergence. (Hudec 1999b: 174; emphasis added)

The problem of globalization is not exhausted, however, with these preliminary references to its socio-political foundations and conditions. Rather, the questions must be posed anew and, above all, differently. Depending on the matter at hand, different aspects or dimensions of globalization become relevant. Globalization as such does not exist. In the discussion below, then, we will specify what is meant in the various analytical contexts by the term 'globalization'. In social science discussions and in political debates, the concept of globalization is often employed without a precise definition. Usually, one of the following developments is intended:

- Quantum leaps in the development of communication and transport technologies continually lowered the costs of transnational trade, or sharply increased their rewards, as opposed to domestic economic activity.
- Together with these technological advancements, a series of institutional-organizational changes in firms provided them with new opportunities to radically restructure their value chain and to broaden their range of instruments for strategic action. Politically, this meant most of all new *exit* opportunities for firms and thus a spectacular revaluation of *voice* power, i.e. a fundamental change in their relation to state authorities.

17 On the abbreviations used here and below, see the list on pp. ix–x.

18 For an introduction to the approaches, institutional actors and problems of a 'global' social policy, see Deacon et al. (1997) and Deacon (2000a, b). For an overview of the socio-political problems of 'fair trade' and a discussion of social clauses in trade policy, see Leary (1996), D. K. Brown et al. (1996) and Elliott (2000).

19 For this reason, 'safeguard clauses' play a central role in GATT and in the WTO. Cf. Deardorff (1987), Hizon (1994) and Romero (1999). On the social safeguards in NAFTA see Gal-Or (1998), and on the critical significance of safeguards in China's negotiations on WTO entry, see Bhala (2000).

- As early as the 1980s, with the Thatcher and Reagan governments in Great Britain and the USA respectively, a renaissance of the market and of open competition as the guiding ideas in economic policy began. Neither conservative nor social-democratic governments in other countries could elude the revaluation of 'state', 'market' and 'society' as the quintessential political-economic ordering concepts associated with this watershed.
- With the dissolution of the Soviet Union and the transition to parliamentary democracy and a liberal market economy during the 1990s, the bipolar world order of the post-war period also disappeared. With the disappearance of the socialist alternative to liberal democracy the international society of states achieved a much more homogeneous social structure, permitting a more complex and productive division of labour to take place and thus a sufficient degree of solidarity in recognizing common objectives and acting to promote them.
- In part influenced by this development, the countries of the Third World – only East Asia had already led the way in the 1970s – proceeded on a broad front beginning in the 1980s from their traditional policy of protectionist import substitution to one of emphatic world market integration.
- In the wake of the transition from GATT to the WTO in the 1990s, the genuinely international regulation of the global economy was deepened and broadened.

All of these developments – and more – flow into the concept of globalization. As a result, the diverse aspects of globalization can generate the impression of being a strong independent force. Hence 'globalization' appears discursively above all as an autonomous entity vis-à-vis the national welfare state – as a force that influences it from without and determines government policy.[20] This view is misleading.

2 The New Economics of Globalization

In all political-economic discussions in which the term globalization is used as more than simply a fashionable phrase, it is intended to express a simple state of affairs: the circulation of economic goods no longer proceeds largely within the confines of distinct communities organized as territorial entities, but rather transcends state boundaries in a multitude of ways. The effective decision-making domain of business enterprises exceeds the jurisdiction of single governments. No country – no matter how territorially expansive – is in a position to meet its population's needs solely with domestic production. Further, every country must export a more or less sizeable portion of its goods, capital, labour and intelligence to foreign populations and in turn has an explicit interest in the production and consumption that occur in other countries. In short, its own welfare depends on events taking place in foreign economies.

Since some mismatch of economics and politics is a constant feature of world history, it is, at first glance, not clear why this obvious state of affairs which comprises globalization has led to such heated debate. The term describes not only an institutional normalcy but forms the backdrop to a trade policy norm which is evidently compelling: free trade, and not trade restriction, is conducive to the welfare of a political community. But it is equally true that throughout world history this precept has hardly

[20] The most extreme position in this regard, portraying globalization as a totalitarian project, is expressed by Hardt and Negri (2000).

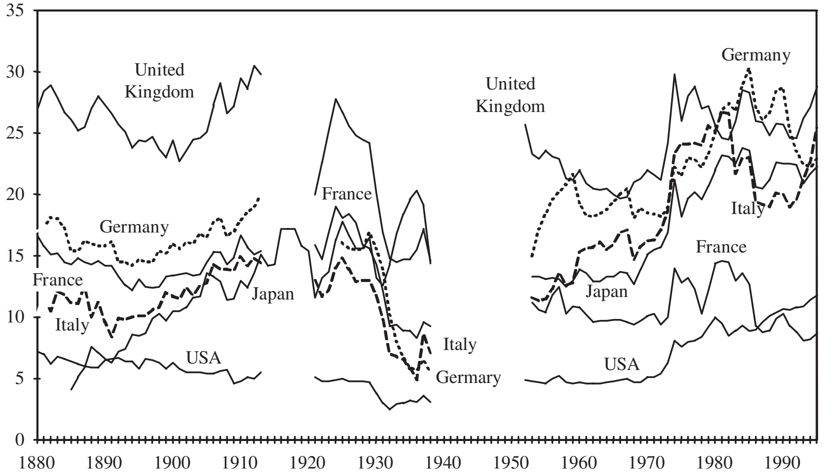

Figure 1.3 Foreign trade of selected industrial states, 1890–1995[1]

[1] Average of exports and imports (goods and services) as % of GDP.

Source: Own calculation based on EUROSTAT (1968, 1983, 1997); OECD (1983, 1995); Mitchell (1993, 1995, 1998)

ever been followed. Countries may have acquiesced to economic interdependence, but they have never welcomed it, much less actively promoted it. The current debates on so-called globalization have their precursors. In fact, the present-day discussion of the forms and consequences of globalization occurs, with regard to Western societies, in an environment – namely democratic welfare states – which was created as a response to the internationalization of the economy of the time and thus an attempt to contain interdependence.

However, the way in which the debate on globalization is conducted gives the impression that it constitutes a completely new constellation and challenge.[21] Yet internationalization tendencies in the economy, just as national counter-movements, are regularly recurring phenomena. First, as figure 1.3 shows, in the decade prior to the outbreak of World War I, some states were integrated in world markets to an extent that is entirely comparable with that of today. In his famous treatise, *The Economic Consequences of the Peace*, John Maynard Keynes in 1920 described eloquently the 'extraordinary episode in the economic progress of man' that came to an abrupt end in 1914:

> [Before 1914] the inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means venture his wealth in the natural resources and new enterprises of any quarter of the world, and share, without execution or even trouble, in their prospective fruits and advantages. . . . He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate, without passport or other formality,

[21] Cf. Held and McGrew (2000), and for an empirically rich account which gives equal treatment to historical continuities and discontinuities Held et al. (1999).

> could despatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters without knowledge of their religion, language or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. *But, most important of all, he regarded this state of affairs as normal, certain and permanent, except in the direction of further improvements, and any deviation from it as aberrant, scandalous, and avoidable.* (Keynes 1988 [1920]: 10; emphasis added)[22]

Second, the graph in figure 1.3 shows that, measured in terms of this indicator, the globalization process had already peaked in the mid-1980s. Clearly, one cause of this stagnation is the increase in 'grey' protectionism in the form of voluntary export limitation and non-tariff trade barriers, representing the exhaustion of welfare state institutions to protect the levels achieved in the international division of labour against the domestic pressures of social democracy (Salvatore 1993; Kaufmann 1997a, b).

The decisively new aspect of the current constellation of complex and deep economic interdependence is the development of the welfare state and its inner transformation. This transformation brought a change, first of all, in the perception and evaluation of the consequences of economic globalization in the domestic relations of developed societies, and, secondly, in the institutions and organizations which regulate the international economy. A higher rate of growth in international trade relative to production itself and consequently a rapidly advancing interdependence characterized the world economy as early as the late nineteenth century (Deutsch and Eckstein 1961; H. James 1996: 1–26; 2001). The same is true of the degree of integration and interdependence of financial markets.[23] In historical perspective it is striking, however, that previous globalization and internationalization tendencies in the economy were of a relatively short duration, and were very quickly followed by long periods of general foreign trade closure (Bairoch 1993: 16-33; Bhagwati 1998; H. James 1996: 1–26; 2001; Kindleberger 1996; Rogowski 1989).[24] This leads us in the present situation to

22 Then as now there are many fundamental questions implicit in Keynes's account: which inhabitants of London behaved or could behave in this way? Why did large parts of the world remain outside this happy state of affairs? However, it is only fair to note that Keynes did note the social asymmetries involved and stressed the 'intensively unusual, unreliable, temporary nature of the economic organization' which afforded some citizens the fruits of the globalization of his days. As Asa Briggs (1968: 39) also noted, the international economy before 1914 was 'a product of nineteenth-century experience: it was unique as well as mortal'. In essence, this book makes the same point about the contemporary incarnation of globalization.

23 The mere degree of the globalization of financial transactions is regularly adduced as evidence of an unprecedented development. In historical perspective, this assessment is untenable: 'Some measurements of the degree of financial integration in the world economy indicate that at the beginning of the twentieth century the world was more interconnected than at any subsequent time (including the 1990s, despite the trillions of dollars of daily currency movements). These measurements examine the behaviour of saving and investment levels. Investment and savings were coordinated on a global level, with the result that a surplus of investment in one area or state (that is, a balance of payments current account deficit) could be smoothly financed by the export of surplus savings from another area. Even in the highly integrated 1980s and 1990s, such transfers were much more difficult and raised many more political eyebrows than in the golden era that preceded the First World War' (H. James 1996: 12).

24 See the comment by Eugen Staley (1939: 52), reflecting on the raging economic nationalism of his day, which destroyed the world economy as a integrated system in spite of all technological progress: 'In the "Dark Ages" following the collapse of the Roman Empire, technology adjusted itself to politics. The magnificent Roman roads fell into disrepair, the baths and aqueducts and amphitheatres and villas into ruins. Society lapsed back to localism in production and distribution, forgot much of the learning and the technology and governmental systems of earlier days.'

pose two questions. First, what is the contribution of the development of the welfare state, which has occurred in the meantime, to the most recent wave of globalization, i.e. that of the late twentieth century? Second, what role does the inner transformation of developed welfare states play in the internationalization of trade, production and investment?

The present-day welfare state is essentially a product of the Great Depression of the interwar period and of the experience of the Second World War. Comprehensive social policy and activist economic policy and planning were thought to be solutions to the problems that threatened to tear apart European societies: economic and social insecurities caused by mass unemployment, large-scale sectoral upheaval, downward occupational mobility for large segments of the labour force, falling wages and short-term employment relations. Until then, these societies had reacted to such problems with protective tariffs and other autarchic policies. Indeed, in light of the preceding economic and political catastrophies, political scientists and economists such as Karl Deutsch (1979), Deutsch and Eckstein (1961), Edward Hallett Carr (1945), Wilhelm Röpke (1942), John Maynard Keynes (1933) and Gunnar Myrdal (1957) assumed that the breakthrough and rise of the welfare state as a new social order for developed, democratic nation-states would preclude any return to previous levels of world economic integration.[25] Against this empirically and theoretically well-founded horizon of expectations, it is the near simultaneity of the expansion of the welfare state and the growth of the international economic system that calls for further explanation, not the globalization process itself.

Globalization or internationally interdependent national economies?

Has some integral, effectively global capitalism replaced the mere summation of national economies? This is precisely what the concept of globalization suggests. It characterizes an independent entity which is sharply distinguished from what has hitherto been characterized as a mere assemblage of national economies.

The existence of international economic relations itself is not contested. If one takes a metaphorical approach, one can imagine the various individual national economies as interlocking circles. The interfaces represent the scope of international economic relations. Further, globalization means, to continue with this image, that the number of economies that participate in this international economy has increased considerably and that the shared interface of the individual states has grown in size. The exchange relations were intensified, the relations expanded and the interdependence between the national economies became increasingly complex and thus also more prone to surprises.

Yet the concept of globalization claims more than this. National economies, the argument goes, have become mere provinces of the international economy. Their partial character precludes their capacity to survive without a connection to all other provinces – or to the hegemonic core country, the USA. The term ‘globalized economy’ refers to the collaboration between individual national economies based on a division

[25] In 1909 Winston Churchill, then a ‘new’, or ‘social’, Liberal, declared that if he had to sum up the immediate future of democratic politics in a single word, he would choose ‘insurance’. See Briggs (1968: 44), who also notes that in the period from 1890 to 1914 demands for protection were already universal and came from both the underprivileged and the business circles (ibid.: 45).

of labour, in which each individual economy has lost its economic independence. In a globalized economy, therefore, welfare is indivisible. But this view of things is false.

In the past as well, the concept of the national economy has encompassed international economic relations – and the latter were controlled by the long arm of the law. The capital inflows of German citizens from investments in US equity markets are included in German national accounts, just as is the cruiseship *Deutschland* – even if it only carries US citizens from New York to the Caribbean. If these transactions had not been taken into account, the concept of the national economy since the mid-nineteenth century would have been a mere torso without arms or legs. Far more important, still, is that the global economy is an aggregate and composite, yet not a unified, entity. It does not have its own foundations or form which would make it truly independent of national economies. Every economic relationship or market transaction is predicated on a quintessentially domestic legal order and makes use of unavoidably domestic legal forms. Both of these are products of national legislation in a fragmented world of territorial states. It is this national connection that makes a milieu of welfare states a critical conditioning factor of national and international politics in the process of globalization. But if the structures of an interdependent world economy and transnational society presuppose national welfare state systems, such systems do not presuppose them in the same way. In terms of individual life chances and citizenship rights, the economic world is not a seamless web. Welfare is, thanks to national systems of economic regulation and national social policies, territorially divisible. For this reason, all accounts of economic interdependence, from Richard Cooper (1968) to Robert Keohane and Joseph Nye (2001), are not on target if they assume an incontestable connection between the rise of international interdependence and a decline in domestic autonomy. The more important causation runs in the opposite direction.

Globalization, then, is not a process involving two somehow equivalent economic forms, where one dominates or even replaces the other. Instead of speaking of an independent, globalized economy, it makes more sense to proceed from the assumption of an international system of interdependent national economies. Globalized conditions are made up of processes that develop out of individual national economies. From this perspective, we can also see that the significance of governments and politics has increased, not decreased, as a result of international economic integration. As early as 1970, Kenneth Waltz called attention to the fact that economic interrelations rooted in *intra-industrial* trade, and increasingly also in *intra-firm* trade, do not generate *political* dependency:

> States are mutually dependent if they rely on each other for goods and services that cannot easily be produced at home. That kind of interdependence is difficult (costly) to break. The other kind of interdependence – sensitivity of response to variations in factor prices – may be economically more interesting; it is also politically less important. (1970: 210)

In light of the enormous increase in recent years in economic inequality among nations (Gylfason 2000), one point – which Waltz calls an 'iron law' – deserves more attention:

> The political elements of a state are formally differentiated according to the degrees of their authority, and their distinct functions are specified. Specification of roles and differentiation of functions characterize any state, the more fully so as the state is more highly

> developed. The parts of a highly developed polity are closely interdependent. . . . The domestic order is composed of heterogeneous elements; the international order is composed of homogeneous units. Each state regulates its own affairs and supplies largely out of its own resources the food, clothing, housing, transportation, and amenities consumed and used by its citizens. The international order is characterized by the coaction of like units. Since the functions of all states are highly similar, differentiation among them is principally according to their varied capabilities. Because the units that populate the international arena are the same in type, interdependence among them is low even if those units are of approximately equal size. Interdependence is further reduced by the immense disparity in the capabilities of states. This last point can be stated as an iron law: high inequality among like units *is* low interdependence. (Waltz 1970: 207; emphasis in original)

Given the increase in international inequality which was already beginning to become apparent at the time, Waltz proceeded from the assumption of decreasing interdependence (ibid.: 206). Yet it remains essential to transnational or global business activities – unrelated to the degree of national economic interdependence – that they are extended over different state territories and thus accessible to the intervention of at least two national governments. This constitutes its eminently political character.

Further, no one disputes that globalization has national political foundations to the extent that multilateral international regimes and bilateral treaties and agreements permit or prohibit, complicate or ease transnational flows of goods, services and persons. Through these agreements, international areas have been created within which goods and persons can circulate in similarly uninhibited fashion as in the territory of a single state. The international area to which this description best applies is the internal market of the European Union. It is, however, not only based on a common legal order to an extent unparalleled in other internal markets, customs unions or free trade spheres, but it is also distinguished by a supranational constitution with quasi-governmental character. Nonetheless, it is true of the European Union – contrary, for example, to the US 'internal' market – that the area's 'national' economy cannot (yet) be considered alongside the national economies of the member states as an independent entity.

Decisive, however, is that with the multiplication of the points of contact between government intervention and economic circuits, governments have not stopped acting pig-headedly or unilaterally. In terms of political action, the progress made in a more *rational* division of international labour did not produce more *reasonable* actors. The overwhelming share of foreign trade is not regulated by an internationally coordinated trade agreement policy or by the norms of the international economic regime of GATT and the IMF, but is instead shaped by unilateral actions – often not by legislatures, but by administrative agencies.[26] The economy of the European Union, too, is not the somehow exclusive object of a European economic policy, but is influenced and shaped

[26] In consequence, the results of this policy often, viewed on their own, make little sense. Hudec (1996: 15) describes the situation in the USA as follows: 'U.S. trade legislation is replete with protean concepts like "subsidy", "cause", and "injury", that leave room for widely varying interpretations. The government officials who administer these laws have been left free to devise all sorts of inconsistent definitions for their loosely defined concepts, and they have done so. Although Congress occasionally corrects a result here and there, *its overall approach has been to leave its trade laws in chaos, in confusion, everyone wins now and then*' (emphasis in original).

now as then by the myriad of uncoordinated activities of member states. Further, historically, increases in the volume of economic transactions, expansions of market freedom and increases in the number of marketable products have always been accompanied by increases in market regulation (Weber 1978: 82–5). This development is inevitable to the extent that goods and services are not 'objects' or 'things' but, at their core, social relations which depend, to be valid and to achieve the *appearance* of 'objects', on some kind of order (Böhm-Bawerk 1881; O. Williamson 1985; Braithwaite and Drahos 2000).[27]

There is thus nothing more misleading than associating the concept of 'free' trade with the new globalized economic conditions. Contemporary transnational trade is to all intents and purposes *political* economy. For business, this point has always been a hard fact. A textbook on corporate foreign trade states that for firms participating in foreign trade, particular functions and risks emerge from the fact that the boundaries of the national economic area are being traversed. These functions and risks are either not present in domestic economic activity at all, or not in similar fashion, or at the very least not in comparable intensity:

> National foreign trade policy measures bring about artificial conditions of competition which must be taken into account as points of departure in firm planning (subsidies, import quotas, tariffs, non-tariff trade barriers, development aid). Further, governments' monetary and finance policy measures distort international competition, and – due to the perpetual eventuality of changes in these measures – burden it with specific risks. The globalization of the economy has the additional effect that government foreign trade policy is recast as an instrument of inter-state competition, with the help of which the national site is to be given an advantageous position in international competition. (Grafers 1999: 9)

Alongside national legislative provisions concerning foreign trade, the network of internationally legally binding multilateral and bilateral trade agreements, as well as habitual or customary international commercial practices,[28] yield a very particular framework of action. This framework determines both the degree of freedom in corporate foreign trade – its 'autonomy interval' – and also the types and degree of risk that a firm takes upon itself when it engages in foreign trade (ibid.: 29).

Thus, when one looks at globalization processes in trade, production and investment from the perspective of their actual agents, i.e. of firms, it becomes clear that they are highly conditioned developments. The lack of a central international ordering power means that the institutional fit which actually allows an international division of labour is a largely uncoordinated result of the interplay of numerous

[27] Thus some normative framework *precedes* any kind of 'economy': 'In the strict sense of utility, it is not a "horse" or a "bar of iron" which is an economic "good", but the specific ways in which they can be put to desirable and practical uses; for instance the power to haul loads or to carry weights, or something of that sort' (Weber 1978: 69). Markets do not evolve 'naturally'. They are constituted by regulation. This is true of both formal and informal (black) markets.

[28] The most important of these are the International Regulations for the Interpretation of Trade Terms (Incoterms, first developed in 1936 and updated numerous times since), the *Wiener Kaufrecht* (which regulates the merchandise trade of virtually all internationally commercially significant states), the Hamburg Rules and Institute Cargo Clauses for shipping, and the various agreements aimed at organizing an international legal framework for commercial patents (Grafers 1999: 50–73).

factors.[29] Attendantly precarious is the stability of the institutional foundations of globalization, namely the reciprocal advantages resulting from the increasing international division of labour. It was the latter that brought forth the vast international goods exchange and the even more vast global monetary flows. Yet this implies neither that the achieved levels of international economic integration are independently sustainable nor that they are politically defensible. Neither supposedly functional constraints nor ideas and programmes of coordinated reaction amount by themselves to policy.[30]

This is not to deny that the expansion of the international division of labour is accompanied by certain reciprocal dependency relations. When a country produces only those goods for which it is particularly suited, while importing the others, this does not imply that it can satisfy its need for the latter only through imports. It merely means that it obtains these goods more cheaply when it imports them. It can, but does not have to, follow these price signals. As earlier with 'free trade', today with globalization it is a matter of obtaining the highest possible productivity for national capital. Then as now it revolved around the double insight that, first, the production costs of the same good in the same country can differ because of companies' differential economies of scale, and, second, that no country has more favourable conditions of production than its neighbouring countries for all goods. This double circumstance generates an interest in economic exchange.

The international division of labour does not eliminate national economies; rather, this 'division of labour' results from a division of production due to divergent productivity rates of capital and labour, as well as of organizational diversity. International exchange is determined by cost advantages, but not by any kind of economic laws which can no longer be influenced by state policy. These cost advantages constitute *incentives* for a certain behaviour, but they do not determine it. Up to now,

29 We differ here from important earlier studies on the systemic relationship between domestic conditions and the prospects of foreign trade liberalization, in particular from the works of Katzenstein (1984, 1985) on the fate of 'small' states in the international economy. He comes to the same conclusion as we do in underscoring, in line with Richard Blackhurst and other liberal economists (1977), that 'the link between the case for [international] free trade and the case for [domestic] laissez-faire has been broken' (1985: 47f.) and in observing already in 1980 (p. 533) that: 'Switzerland and the other small European states are clear exceptions to the generalization that liberalism in the international economy and interventionism in the domestic economy are incompatible.' In contrast to him, however, we proceed from the assumption that this compatibility can obtain in 'large' countries as well. Further, we argue that this is not some kind of 'necessary' connection, but rather an *elective affinity* of external and internal structural conditions which is largely beyond the strategic calculations of domestic political actors. As the fate of Sweden and Austria during the 1990s showed, 'cooperative corporatism' is not a guarantee that the 'correct', or functionally productive, answers to the difficulties of world market integration will be found. Finally, in a subsequent, and for our purposes equally central, point, Katzenstein, using the example of Switzerland, points out that functional equivalents do exist to socio-political instruments of state income security beyond the labour market: Switzerland reduced the foreign economic pressure on its labour force in that the temporarily very high share of guest workers more or less independently expanded or shrank depending on the labour market situation: 'The Swiss appear to have found their (im)moral equivalent of the welfare state' (1984: 104).

30 'Policy requires politics. Ideas for solving economic problems are plentiful, but if an idea is to prevail as the actual policy of a particular government, it must obtain support from those who have political power' (Gourevitch 1986: 17). Robert Hudec (1999a: 283) objects in the same way to the critique of the meagre achievements of international economic law: 'Before any more criticism is written, there first needs to be a careful examination of why the volumes of criticism already written have had so little influence.'

countries have been very quick to sacrifice these cost advantages for social, ethical, religious, military or other reasons.[31] The often cited international economic interdependence thus rests on a weak footing. In social science jargon, it is a dependent, not an independent, variable. Globalization is not something that can only increase in scale – it can also subside. Moreover, it has different dimensions, in which contradictory developments can be observed.[32]

If today's globalization – notwithstanding the relative cost advantages that endow the new international economic conditions with their particular dynamic and the fact that national politics largely adopts this rationality as well – is basically the unexpected outcome of a very peculiar constellation, then the empirical question arises how this outcome can be explained. How has it come about that the new realities of the global market economy appear to correspond to the teachings of foreign trade theory? And why did the economic rationality of the free trade idea prevail so late? Could economic theory be the cause of globalization?

This seems to be what critics of globalization believe. Yet it is one thing to observe that the new international conditions largely correspond to the theoretical tenets of foreign trade theory, but another to contend that the latter are the cause of the former. Max Weber, in 1908, characterized a very similar constellation as just a *cultural* artefact. The heuristic merit of economic theory rests on *cultural-historical* facts, not on its supposed foundation in some objective 'law':

> The historical peculiarity of the capitalist epoch, and thereby also the significance of . . . every economic theory of value for the understanding of this epoch, rests on the circumstances that – while the economic history of some epochs of the past has not without reason been designated as 'history of non-economic conditions' – under today's conditions of existence the approximation of reality to the theoretical propositions of economics has been a *constantly increasing* one. It is an approximation to reality that has implicated the destiny of ever-wider layers of humanity. (Weber 1908: 257; emphasis in the original)

Similarly today, the power of economics as positive analysis, concentrating on particular problems of empirical research, and not on its predilection to find general laws, probably produces this correspondence. And then as now there is evidence to support the contention that international conditions are not the product of a superior economic policy programme, but instead have completely different foundations and thus have a rather coincidental character. Globalization was not planned, and it is extremely doubtful that globalization as such can be managed in any meaningful sense, despite heightened efforts to build international governance structures.

[31] As the dispute between the European Union and the USA concerning hormone-treated beef shows, potentially costly 'grounds of faith' have increased rather than decreased. See Berkey (1998: 46), who cites a report in the *Los Angeles Times* from 12 May 1997: 'French Agriculture Minister Vasseur went so far as to state that "France is entirely prepared to pay penalties if that is what is needed to prevent hormone-treated American meat from gaining entry to our territory".'

[32] Keohane and Nye (2000, 2001) distinguish between an economic, military, ecological and socio-cultural 'globalism'. Economic globalism, which prevailed from 1850 to 1914, declined again sharply until 1945, during which time military globalism was on the rise. The worldwide influenza epidemic, which took 30 million lives in 1918/19, can be attributed not only to the large transcontinental troop movements of the time, but also to the far more extensive international mobility of workers, which in the ensuing period was largely brought to a halt. The religious fundamentalism which marks the end of the twentieth century can be seen as a decline in socio-cultural globalism.

The welfare-democratic roots of globalization

As discussed at the outset, two sets of relationships are essential to the conditions of emergence of globalization. In addition to the precarious relationship between the institutionalization of welfare states and their foreign trade liberalization, and the new micro-economics of the technologically advanced firm, a third one obtains. All these developments – the internationalization of the economy, the expansion of welfare state interventions and the growth of firms – have a fixed common point in the bureaucratization of social life. One fails to penetrate the surface of reality if one believes that globalization is the opposite of all of this, that it even constitutes the promise of less bureaucratic conditions, or an unholy anarchy of production – depending on the perspective. This is not the case – and the historical experiences with earlier globalization processes prove this convincingly. The pace of global firm mergers, the size of the new firms and, above all, the scale of their legal divisions speak a clear language. Focusing on today's ostensibly very 'free' trade and on the new mobility of capital, goods and services and information leads one to overlook that many of these transactions, while indeed transcending national boundaries, actually take place within units of one and the same firm and thus have an essentially bureaucratic and not at all a market character (Dunning 1993, 1997a; Doremus et al. 1998).

In the second half of the nineteenth century, when, through the gold standard, free trade in the form of the exchange of goods in the market shaped foreign trade relations far more than it does today, the market economy and democracy did not achieve a stable balance. This first test of power was won by democracy, confirming that once economics became the controlling factor in a democratic society, economies will be controlled.[33] And at the end of the twentieth century it was not the democratic but the autocratic states that enjoyed the strongest economic growth – e.g. South Korea, Taiwan, Singapore, Malaysia, Chile and, also, China. Social policy, which – as an independent, third pillar of modern society beside democracy and the market economy – was supposed to achieve an equilibrium, was ultimately turned against economic and political freedom by fascism and National Socialism. The thesis of globalization as 'divesting statism' (Zürn 1992, 1998) overlooks that *statism* is a side-effect, and not the foundation, of social policy. Social policy has an infinite number of modalities, due to its basically *negative* definition: to grant the individual citizen or social groups something markets presumably do not provide for. Its content, therefore, can only be determined empirically, but not a priori in some principled manner.[34] With regard to *welfare* democracy, the more fundamental point of departure for social policy, one can speak at most of a change in its manifestations, yet hardly of a waning of its driving forces. Rather, the opposite is the case.

33 Charles Lindblom (1982: 332) stated the same point as a general proposition: 'For minimal democracy, we require a market system. For fuller democracy, we require its elimination.'

34 Since social policy is closely bound up with highly diverse and fast-changing circumstances of concrete and often very vociferous individuals, it forms an area of compromise and contradiction in which both general principles of organized action and grand theories of all kinds are tested – usually to destruction. For the very same reason, the whirlwind of quite diverse empirical situations with which social policy is confronted implies almost by necessity that both the application of 'bad' theory and the misapplication of 'good' theory will have disastrous consequences for real people. Thus one of the reasons for the turn to the market is simply intellectual despair.

As early as 1905, Jacob Burckhardt observed that national sovereignty is the 'eternally fluctuating ferment of the modern world' (1982 [1905]: 323). By democracy, he understood the 'unbounded penetration of the public sphere'; everything becomes 'debatable', and the state is expected to carry out a 'social power programme' which threatens to overwhelm it (ibid.: 193, 262).

> *Democracy* . . . is a world-view which flows together out of a thousand different streams, and differs markedly according to the social stratum of its adherents. It is consistent in only one respect, however: namely, in that the power of the state can never be sufficiently large, extinguishing any boundary between state and society, so that it expects of the state all that which society will presumably no longer be able to do, while [at the same time] leaving everything continuously debatable [and in flux] and providing select casts with a special right to employment and subsistence. (Ibid.: 371; emphasis in original)

Jacob Burckhardt already perceived that which would not occur on a large scale until after his time: the expansion of the welfare state as a result of the democratization of society, the systemic excesses in regulating economy and society and, ultimately, the crystallization of grantee classes in the welfare state: 'Step by step we will arrive, relatively soon, at a point where the state is considered to be absolutely responsible for sustaining the population' (ibid.: 137). He viewed democracy as a specific culture and less as a form of politics: 'The breakthrough of democracy as the overpowering of the state by culture' – 'the exterior shape of government is secondary to this' (ibid.: 318, 137). Hence, for him, there was no countervailing power in sight, only 'here and there a whimpering for decentralization, self-government, North-American simplification etc.' (ibid.: 324). For him, even the market economy did not constitute a counterforce to this cultural revolution: 'Profit-making and commerce are continuously admonished in the harshest manner that they are not the most important thing in life' (ibid.: 326).

In the second half of the nineteenth century in Basel, however, Burckhardt had already experienced the globalization of his day: 'the cosmopolitan traffic, [the] world exhibitions; the dying out of the local with its pros and cons; the marked decline even of the national' (ibid.: 375). And he posed the question whether 'indeed everything will just become "business" as in America?' (ibid.). He clearly saw the 'collisions' of these democratic 'fermentations' with the desire for profit-making. The latter is 'ultimately the stronger of the two; the masses want tranquillity and income; if a republic or monarchy can provide them with these, they remain loyal; if not, without searching for long, they will rally behind the first form of government which promises them these privileges' (ibid.: 375). This insight provides a decisive clue to the understanding of present-day economic globalization. It has essentially democratic foundations, and in the future as well it will be forced to comply with democratic demands. This process is already under way.[35]

That which makes globalization seem threatening – the impression of a loss of control – is most likely a mere intermediate stage like the apprentice sorcerer, 'who is no longer able to control the powers of the nether world whom he has called up by

[35] A small but telling example from the autumn of 2000 was the occasionally violent and in part successful 'consumer' reactions by lorry drivers in Europe and North America to increases in petrol prices (Ayres 2000; Came 2000; Josey 2000; Morton 2000).

his spells' and cries for the master to his rescue.[36] When one compares the present condition of the welfare state with its so-called golden age of the 1950s and 1960s, in which grand reform projects such as Lyndon B. Johnson's War on Poverty and Konrad Adenauer's pension reform of 1957 were undertaken, one is using the wrong yardstick.[37]

The deregulation of the economy and trade which paved the way for globalization was a reaction to the conditions in which an highly regulated economy was no longer able to fulfil its promise of prosperity. It was an attempt to find an answer to the failure of regulatory welfare state politics. High rates of inflation and rising unemployment defined the era after the oil crisis in all developed economies. It was populist figures such as Ronald Reagan and Margaret Thatcher who campaigned under the banner of freeing their societies from the web of regulations. Their economic and social policies were anything but directed 'against the people'; on the contrary, they were expressly predicated on a democratic mandate. It was these special conditions which endowed their anti-regulatory policy with legitimacy and support, not the form of the policy itself. And these conditions are decisive. In a democratic environment, these conditions alone determine the substance of government policies. In short, in the highly organized political contexts of welfare democracies, markets are a tool of social policy, not a substitute for it.[38] Globalization is not so much market driven as state driven. For this reason, the important thing about globalization is not its allegedly autonomy-reducing form, but its democratic scope and above all its welfare-enhancing effects. World markets, too, are judged by their results, and the judgement is given by the broad masses, not by theologies of some elite.

In any case, there is no evidence to support the case that the economic interests which ostensibly prevail today indeed have the power widely attributed to them to erode the bureaucratic conditions in which social policy is rooted and which in turn it feeds. On the contrary, after the First and above all the Second World War, it was precisely society's economic structures – undergoing perpetual transformation – which called for new governance structures.[39] It would be equally errant to assume that these new, now global profit-making and financial interests would themselves somehow provide for 'freedom'. Max Weber described the conditions at the turn of the nineteenth century, which are strikingly similar to those of today:

> If the *only* things that mattered were 'material' conditions and the constellations of interests directly or indirectly 'created' by them, any sober observer would be bound to conclude that all *economic* auguries point in the direction of a growing *loss* of freedom. It is quite ridiculous to attribute to today's high capitalism, as it exists in America and is being imported into Russia, to this 'inevitability' of our economic development, any 'elec-

36 The quote is from Marx and Engel (1998 [1948]: 41). They make use of a poem by Goethe ('The Apprentice Sorcerer'), but leave out the return of the Master Sorcerer.

37 'Golden ages' are always like an optical deception in the rear-view mirror. If one takes a closer look at these periods, then one ascertains very quickly that at the time, everyone was complaining that there was too much yellow.

38 In some way this only repeats a basic idea of T. H. Marshall (1981: 133): 'It is legitimate, and also profitable, to regard [politically organized] welfare and the market as embodying two different ways of performing the same task, that of satisfying the needs and wants of the population.'

39 This is also demonstrated by the rapid growth in international organizations after the Second World War; cf. Rittberger with Zangl (1995: 72), Zürn (1998: Part B, 171ff.), and Shanks et al. (1996).

> tive affinity' with 'democracy' or indeed 'freedom' (in *any* sense of the word), when the only question one can ask is how all these things can 'possibly' survive at all in the long run under the rule of capitalism. (Weber 1906: 69)

They are in fact only possible

> if they are supported by the permanent determined *will* of a nation not to be governed like a flock of sheep. We are 'individualists' and partisans of 'democratic' institutions 'against the tide' of material constellations. Anyone who wishes to be the weather-vane of a 'developmental trend' should abandon these old-fashioned ideals as quickly as possible. The genesis of modern 'freedom' presupposed certain unique, never-to-be-repeated historical constellations. (Ibid.)

Bureaucratic politics as a means, and bureaucracy as an outcome are essential to the welfare-democratic answers to economic change. The more fundamental such change is, the more probable is its welfare-democratic result.[40] For precisely this reason, democratic structures can lead to 'more market' as a response to welfare state dilemmas and the exhaustion of the 'utopian potential' of welfare statism.

Political power or economic law?

One facet of globalization is that theoretical arguments for its economic rationality are adduced as irrefutable advice. This is supposed to neutralize the political struggle essential to every democracy and replace it with 'theoretical' truth. However, the truth claims of every 'theory' – including most religious world-views – are anathema to democratic politics. 'Truth' is not accessible to the weighing of different perspectives and thus to political compromise. Put differently, there is a general impression that political leaders seem to subordinate themselves to the views of business leaders. In some quarters this is bemoaned as a loss of the influence of democracy in the shaping of societal conditions; in others it is celebrated as the return of economic rationality to its proper domain. Both of these contribute little to clarifying the problems. Globalization was not created by economics. It arose as a result of completely different, essentially political forces. For this reason, one can justifiably object that, first, with regard to the point of departure, the ostensible 'terror of economics' poses no problem whatsoever, but, rather, pointed significant groups of the population to the way out of a self-made cul-de-sac. Three points, which usually receive at best cursory discussion, support the assessment that the globalization tendencies of the economy are political – and not theoretical – answers by welfare democracy to the seemingly unstoppable growth of the welfare state that is at the same time unable to deliver on its promises anymore.

First, beginning in the early 1980s ever greater spheres that were hitherto under the control of politics have been subjected to the ordering force of the market. This development is to be attributed less, however, to an intrinsic superiority of this form of coordination of needs than to the perception of those who hold power in democracy, namely the voters, that government and politics have reached the limits of what they

[40] One of the few commentators to call attention to the increase in authoritarian elements in the era of globalization is Dahrendorf (1999).

had promised to provide. The difficulty here lies less in the technical capabilities of the political-administrative system than in the fact that in the competitive struggle for political power, incumbents and those fighting to replace them discovered social policy.[41] It is the welfare state itself which in the twentieth century systematically produced needs and built up expectations which it was increasingly unable to fulfil.

The welfare state has developed its own battalions, which now rally to its defence. Its clientele of insured persons and risk groups amount to – at least in Europe – essentially the entire population, and at the very least make up relevant majorities (Lepsius 1979; Alber 1984; Flora 1989; Rieger 1998). The problem today consists not in the welfare state being too weak to defend its socio-political benefit standards, but in its inflexibility precisely because of its strength. Social policy can become a victim of its own success. The institutionalized and dynamic expectations of the social risk society overpower both the welfare state bureaucracy and party politics.[42] It is mainly the quasi-corporatively organized, insured clientele which determines the socio-political status quo. The democratic welfare state still exists as a socio-political system designed to fulfil exclusively nationally defined needs, and its future lies precisely in this promise.

It is thus by no means clear that the individualization of expectations and the pluralization of needs, which are fundamental to economic globalization, will also lead to forms of social policy that are oriented towards individual needs and not to collective need satisfaction, as has hitherto been the case. The globalized economy is indeed driven by consumer wishes and customer satisfaction. Yet this does not necessarily or automatically imply a socio-political shift towards social security according to private choice and thus a turn away from social security as welfare state need fulfilment. Every case of individual responsibility involves costs. Under strict market conditions, these costs tend to fall upon the individual. This is *by definition* not the case in social policy. The collectivized help of others through the welfare state entails the

[41] As Weber (1978: 1128) was one of the first to note, such a development threatens to turn democracy into its opposite: 'Both the pragmatic interest in the flexibility of the parliamentary apparatus and the power interest of the representatives and party functionaries converge on one point: They tend to treat the representative not as the servant but as the chosen "master" of his voters.' For Weber, the criterion of formally voluntary solicitation as the focal point of party competition in a democratic regime was of major sociological significance since it produces a fundamental analogy between parties and firms. Both try to become independent of the sovereign consumer citizen by advertisement and the conscious creation of wants. In the same way as business managers *fashion* markets for their merchandise and services, the political entrepreneurs of all parties, regardless of whether they are on the left or on the right, invent markets for their social policy goods. The fact that voters are eager to take them does not mean that they in actual fact *need* them (ibid.: 284–8).

[42] In Germany this line of critique has a long tradition (A. Weber 1913; Bernhard 1914). For a neutral analysis, see Achinger (1971 [1958]) and Kaufmann (1997b) as well as Kaufmann's conceptual history (2001b). In the Anglo-Saxon world, this critique was even more pronounced and found its classical expression in T. H. Marshall's analysis, 'Value Problems of Welfare Capitalism' (1972). In this analysis he noted that in contrast to the economic process it is 'a fundamental principle of the welfare state that the market value of an individual cannot be the measure of his right to welfare' (ibid.: 107). However, since in the sphere of organized welfare, provision is made at the expense of one set of people for the immediate needs of others, the democratic political process is prone to introduce a perverse and ultimately self-defeating dynamic of its own: 'Democratic voting is egotistic; most voters voice what they believe to be their own interest' (ibid.). It was the great concern of traditional liberals that if pensioners and others who depend on the public purse were allowed to vote – i.e. the beneficiaries could put pressure on their benefactors – government would be corrupted and the foundations of democracy undermined.

promise of being able to lower or even completely avoid some of the costs of individual responsibility. The market antipathy of social welfare organizations, in terms of both their form and effects – characterized by Esping-Andersen (1985) as 'politics against markets' – is not coincidental, but systematic.[43] Similarly, the fashionable proposals to introduce the logic of the market into social policy – i.e. proceeding from the idea of the customer, the free consumer with his or her own needs and demands, and shaping the production and consumption relations of the welfare state accordingly – overlook that, historically, social policy was implemented against the market and that it derived and continues to derive its legitimacy from the fact that it is a quintessentially collective undertaking. Thus one has to stress the fundamental difference as well as the complementarity between welfare state institutions and market institutions.

The second point is necessarily related to the first one. That which today is termed globalization is not a fate that somehow came from above to befall the populations of the world and their political representatives. Globalization attained its political-economic form not under democratic parliamentary conditions alone – e.g. as deregulation in economic policy, liberalization in trade policy and multilateralism in an international free trade regime. The path to globalization was paved as well – above all with regard to the Second (socialist) World – by democratic revolutions in which consumer interests played an essential role. To bemoan the fate of democracy in globalization, or to call for *more* democracy to control a seemingly unleashed economy, is to ignore an important point: the conditions that are currently described as globalization were created and advanced both in terms of their institutional foundations and their dynamic by parliamentary, democratically legitimated decisions. Globalization was and is subject to an ongoing plebiscite of consumers and voters and is shaped by this perpetual *plebiscitum*. Even when the thesis of the 'McDonaldization of society' (Ritzer 2000) is clothed in social scientific garb, its core is the moralizing denunciation of mass consumers by the representatives of an elite culture. It is thus beside the point to want to pit 'democracy' against globalization, voters against consumers (Ritzer 2000; Alfino et al. 1998; Smart 1999). In some sense, and for better or for worse, globalization *is* the new form of *social* democracy.

Third, globalization losers and globalization winners are hardly distinct groups or classes pitted against one another. Even those low-skilled workers who are most threatened and most strongly impacted by unemployment can profit from globalization as consumers. This is not only due to the low rate of inflation, but also to the easier access to a larger range of goods, the emergence of new occupations and jobs, and, above all, to new forms of employment. In this respect, the functional capacity of the welfare state has been evident. The new poverty risks and the phenomenon of social exclusion are by no means meant to be understated here. Yet in contrast to widespread contentions, these groups have hardly been left in the lurch by social policy in either Western Europe or North America. On the contrary, the full spectrum of social problems resulting from globalization is dealt with in public policy on a daily basis (Leisering and Leibfried 1999). Welfare state benefit claims – the 'new property' (Charles A. Reich 1964) – have by no means disappeared. Thanks to welfare state

43 The *locus classicus* of this argument is Marshall (1949), who in this exemplary study noted that 'in the twentieth century, citizenship and the capitalist class system', the natural outgrowth of the market economy, 'have been at war' (p. 84). Marshall also observed that 'the wars of religion have been succeeded by the wars of social doctrine' (1962: 61).

institutions, low-income consumers in 'developed' or 'mature' countries, some of them unemployed for a very long time, could convert their wants into effective demand.[44] Politically decisive, in contrast to the social question of the nineteenth century, is thus that globalization has not, until now, divided populations. The new social conflict is individualized and diffuse (Dahrendorf 2002). Hence no broad political foundation exists which would allow the new social conflicts, which clearly exist, not least in the form of the so-called underclass, from being resolved by an authoritarian dictate of new distributional criteria.

3 The Politics of Globalization

'The philosophers have only interpreted the world, in various ways; the point, however, is to change it.' This is Marx's famous eleventh thesis on Feuerbach. Today, the reverse problem seems to present itself: Those who seek to change the world do not waste too much time beforehand on trying to understand it. Its reality appears to be beyond question. Nearly every social science study of ostensibly indubitable and 'necessary' connections between the welfare state and globalization seeks to engage in politics. Upon closer examination, however, it quickly becomes clear that the argument is always designed in such a way that the scientific findings reached perfectly match the political change desired. Regardless of the direction of the political change sought, the dramaturgy is always the same: more or less identical observations on the sole true nature of globalization are followed without much ado by ostensibly compelling but – small surprise – opposite conclusions on the future fate of social policy: 'Statistics and economics are an arsenal from which everyone chooses his weapon' (Burckhardt 1982 [1905]: 193).

For one camp, globalization proves that contemporary welfare state arrangements are no longer tenable and that they ultimately must be trimmed to their appropriate size. Economic laws, it is argued, prevail not only to the extent that free trade obtains. They enforce themselves, for as territorially bounded national economies have disappeared, so has the autonomy of the nation-state. Any resistance, regardless of whether it be of protectionist or social-conservative nature, is futile, it is contended, and harms itself by leading to a waste of resources. Hence adaptation is the order of the day.[45]

[44] For a graphic description of the extremely different fate of the unemployed in Germany, the United States and Hong Kong see the *International Herald Tribune* of 21 February 2002, p. 6 ('Testing the Safety Nets'). The German jobless worker cited had been unemployed since 1990, and the article pointed out that despite a jobless benefit of $529 per month, thanks to extra housing benefits, he could hold on to a three-room, 69 square metre (743 square foot) apartment costing more than the jobless benefit. This man lived for almost three decades in that same flat, and refused to move because he wanted to stay close to his divorced wife and children.

[45] This is the core of the argument presented for example by Siebert (1996a, b; 1999a, b) or Berthold (1997) as well as by Scharpf (2000a, b). In an international and popular form, this argument can be found in Thurow (1992) and Rifkin (1995). Scharpf and Schmidt (2000) have a similar point of departure, but a different political focus. 'The [economic] laws confirm themselves to the degree that free trade becomes dominant' and opposition, 'whether protectionist (tariffs) or social-conservative, is futile' – this is an excerpt from the speech 'On the Question of Free Trade', given in 1848 by Karl Marx (1848: 454 ff.). Marx favoured free trade because it was seen as speeding up the socialist revolution.

For the other camp, the same welfare state arrangements amount to a necessary precondition to a national economy opening itself up to globalization. Precisely under conditions of economic globalization, it is maintained, there is no alternative to politically organized existential provision. The latter is the only acceptable reaction to the social ruptures produced by capitalist economies. The goal, then, should be to protect the levels of welfare state provision hitherto attained in order not to undermine this necessary foundation which the main actors in world markets – firms – cannot procure by themselves.[46]

Both of these lines of argument are intellectually equivalent to short circuits. In so far as they depart from non-normative research, they represent social science reasoning. These two variants of capitulation demonstrate each in their own way, however, how violent and radical the contemporary ruptures have been. Thus it should not surprise us that in their descriptions both sides can take recourse to the brilliant passages from the Communist Manifesto and its formula of a 'constant revolutionising':

> All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.
>
> The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere.
>
> The bourgeoisie has through its exploitation of the world-market given a cosmopolitan character to production and consumption in every country. To the great chagrin of reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature.
>
> The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production, it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image. (Marx and Engels 1998 [1848]: 39–40)

[46] This argument is made by Ganßmann (2000). A social science version of this approach is offered by Rodrik (1997, 1998), and by Garrett (1997, 1998).

As this description shows, Joseph Schumpeter had good reason to come to the defence of Marx the sociologist against Marx the politician (1950: 9–20). Schumpeter owes his formulation of 'creative destruction' as the core and motor of market economic development to the Marxian insight into the constant 'revolt of modern production forces against modern conditions of production' (Marx and Engels 1998 [1848]: 41). He acknowledges Marx's superior capacity to 'pierce through the random irregularities of the surface down to the grandiose logic of things historical' (1950 [1942]: 10).

This capacity is critical again today. Then, as now, the motor of globalization is the combination of technological progress and sinking transport costs, which put production and communication on a new footing. Between 1830 and 1880, too, the share of transport costs in the value of goods shrank by half for the entire range of goods.[47] This created the foundations for world markets in which, in contrast to today, not only capital became mobile, but also – and to an equal extent – labour. Economists who did not lose their historical senses thus see present-day economic integration processes as a return to a normalcy which had abruptly ended with the outbreak of the First World War.[48] Yet now as then, it is not technology alone that endows economic activity with a new dynamism and which gives the latter its new forms. The development of the world economy in the interwar period and in the first decade after the Second World War shows that even a high degree of integration among national economies can give way to sudden, radical economic disintegration and political fragmentation. What causes such abrupt reversals of policy directions?

The ostensibly so compelling logic of globalization appears to be rooted less in its economic technical core than in a fast-paced social change which in many of its aspects is only feebly related to 'that single, unconscionable freedom – free trade' (Marx and Engels 1998 [1848]: 38). In fact, there is much more political control in international trade than in domestic economics. International economics was and remains a matter of an extremely reluctantly implemented and even more carefully guarded trade policy made by governments for governments through governments. In addition, these governments are solely responsible to a *national* electorate and thus to the members of a jealously shielded *exclusive* association. Elected officials gauge each and every foreign economic policy measure for their potentially negative effects on this target group – if only for reasons of enlightened self-interest alone. These essentially *domestic* political aspects of national and foreign economic policy are less obvious than the much more

47 Bairoch (1999: 164) has compiled some figures on this. The table below depicts the share of transport costs expressed as a percentage of the value of the respective good:

	around 1830	around 1880
Iron ore	115–20	60–65
Iron products	32–38	16–20
Cotton products	8–11	4–5

48 Cf. Thomson and Krasner (1989), J. G. Williamson (1995), Eichengreen (1996b), H. James (1996: chs 1 and 17) and Timmer and J. G. Williamson (1998). The apparent decoupling of financial from goods markets and the volume of international financial flows are often adduced as arguments for the position that present-day globalization cannot be compared with that of the nineteenth century (Beisheim et al. 1999; Walter et al. 1999). Yet management and finance experts regularly point out that the overwhelming share of financial globalization is caused by the new instruments for hedging 'real' transactions against the higher risks of international trade.

autonomous changes in production techniques, consumption habits and lifestyles. A retrospective comparison, however, can help render perceptible a general pattern in the political reactions to economic globalization processes. This pattern consists in a twofold change in the equilibrium among social groups, and precisely for this reason creates much more political tensions in societies with the most developed economies than in so-called underdeveloped countries. Under the transformed framework conditions of national politics, the social changes that produce globalization winners and losers can be followed by a revision in the distribution of the costs and benefits of preserving the community. The problem is the interconnection between economics and politics.

Precisely for this reason, in his speech ‘On the Question of Free Trade’, Marx declared himself in favour of free trade: the system of free trade would accelerate, he argued, the social revolution (Marx 1848: 458). The contradiction between classes would become sharpened and more palpable. Free trade makes ‘the secondary conditions’ disappear which ‘workers up to now could believe to be responsible for their plight’ (ibid.: 456). What Marx perceived in its early stages, but whose significance he radically underestimated – namely the emergence of social policy as a ‘conscious and deliberated response of society on the anarchic form of the production process’ (1977 [1867]: 504) – will, perhaps, prove again today to be the main reason why the latest economic revolution will most likely not have the effects that are desired or feared. The welfare state did not come into being as a one-time equilibration of opposing interests; social policy is an ongoing concern of an effectively democratized nation-state. The welfare state as such is not threatened. Rather, the welfare state and its social policy *are* this equilibration in the form of an incessant political process which regularly reinvents itself. The only way it can work is to incorporate ever more interests and needs into its transfer and regulatory systems in such a way that these interest groups get their money’s worth out of the process. Ultimately, every welfare state will systematically link the material fate of each politically significant group with its own (Rieger 1998a).

The first of the two domestic societal changes which accompany globalization is indeed essentially economic in nature. At its core is the phenomenon that in the more developed economies low-skilled labour is in part due to technical progress which is no longer in demand and which in part has become comparatively expensive. Low-skilled labour becomes redundant, for the new information and communications technologies generate hitherto unimaginable rationalization effects in ever more realms of goods production as well as in the service sector. It also becomes more expensive, because as a result of the new transportation and communications infrastructure the costs of domestic economic production rise relative to those of international and foreign-based production. This appears to be the recurrence of a constellation which in the past has been repeatedly perceived as a societal challenge and which has provoked enormous social struggles.

Marx redivivus?

Ever since the foundation of the modern ‘work society’ (Dahrendorf) by industrialization and capitalism, causing the creation of jobs to become the alpha and the omega of all politics, the same question presents itself again and again: in managing scarce resources and attempting somehow to fairly distribute income and goods according to need, is technological progress a solution or a problem? What happens to the workers who are 'set free', or 'down-sized', by such progress? The answer of the classical economists amounted to the following: 'that all machinery that displaces workers simultaneously, and necessarily, sets free an amount of capital adequate to employ precisely those workers displaced' (Marx 1977 [1867]: 565). Marx contradicted this contention, and his argumentation – today just as in earlier periods of accelerated change – appears to mirror at least those segments of public opinion in which populist critique and 'leftist' or 'critical' social scientific explanations seem to meet:

> The workers, when driven out of the workshop by the machinery, are thrown onto the labour-market. Their presence in the labour-market increases the number of labour-powers which are at the disposal of capitalist exploitation. In Part VII we shall see that this effect of machinery, which has been represented as a compensation for the working class, is, on the contrary, a most frightful scourge. For the present I will only say this: workers who have been thrown out of work in a given branch of industry can no doubt look for employment in another branch. If they find it, and thus renew the bond between them and the means of subsistence, this takes place only through the agency of a new, additional capital which is seeking investment, and in no way through the agency of the capital that was already functioning previously and was then converted into machinery. And even if they do find employment, what a miserable prospect they face! Crippled as they are by the division of labour, these poor devils are worth so little outside their old trade that they cannot find admission into any industries except a few inferior and therefore over-supplied and under-paid branches. (Ibid.: 567–8)

For a large share of the labour force, rapid technical progress initially means a devaluation of their occupational qualifications. This devaluation can take two forms: either the price for their occupational labour sinks – wages are cut or are no longer adjusted to inflation, so that their real value declines – or, when this adjustment of the price of low-skilled labour is not possible, a lesser amount of this labour is demanded and the remainder of these workers are dismissed into unemployment. In essence, each of these forms of adaptation can be observed in both the USA and Germany. Starting in the mid-1970s, the USA experienced a decline in real wages which affected ever-greater segments of the labour force.[49] In the Federal Republic of Germany, on the other hand, contrary to the international trend, a relative stability of real wages was maintained at the expense of mass unemployment. For low-skilled workers in particular, this turned into long-term unemployment.[50] However, this differential impact of technological progress on the labour market chiefly has institutional causes, and it is above all for the macro-organizational setting that in the two countries job creation, in particular the creation of 'good' jobs, is not, or at least not to a sufficient degree, accompanied by job destruction. In Germany the combined effects of a centralized, corporatively organized collective bargaining system and a broadly cast and yet differentiated system of social protection, and in the USA precisely the lack of such arrangements, are mainly responsible for the different labour market outcomes. With regard to this reshuffling of labour markets, welfare state institutions themselves are initially of only secondary importance. Much like the Red Cross, but a good deal more

[49] Cf. F. Levy (1998), Mishel et al. (1999, 2001) and Blank (2000: 10 ff.).

[50] An economist at the IMF thus speaks of the 'unbearable stability of the German wage structure' (Prasad 2000).

unevenly due to differing national regimes, they provide for those who are no longer capable of labour market participation.

The institutions of the welfare state can play a substantial role, however, in the shaping of the future of individual workers or of the labour force as a whole. Particularly interesting here is the relationship between social and educational policy, or the question of how *productive*, or resourceful, social policy is. Do its institutions function as holding tanks for the unemployed and others who no longer participate in the labour market, or do they themselves improve the chances of the affected individuals to succeed under changed labour market conditions?[51] The coordination of social and educational policy is of central importance in this regard.[52] At issue here is thus what happens in social policy after the effects of radical economic change become apparent.

As the German case makes clear, social policy can be a cause of mass unemployment to the extent that it abets a 'cartel' made up of unions and employer associations, or of employees in firms and their management. It can open up strategic possibilities for corporatist and firm actors to preserve existing wage levels and levels of labour law and social protection for those workers who are still employed. In other words, it can help privilege the 'job holders' at the expense of the general public or the unemployed. Such an institutionally mediated outcome is only to a limited degree the result of the new economics of globalization and thus, at least in theory, much more open to political reform, since it is a purely domestic affair.

Globalization losers in welfare democracy

The social explosiveness of globalization, and in particular the conflicts surrounding welfare state institutions, is due to a second aspect of globalization: the new *political* deal it involves. Since the middle of the 1970s, an ever-expanding group of countries has gradually repealed controls on capital flows and other such restrictions. As a result, it became nearly impossible for any country to withstand this pressure to liberalize its capital markets (Helleiner 1994; Kapstein 1994, 1999, 2000). Capital thus became not only more mobile, but also – in today's solely relevant global dimensions – more scarce in relation to labour. The main cause of this has been the rapid growth in the global population over recent decades.[53] Thus, not only did capital become more mobile; its mobility also became more profitable. The new scarcity of capital and its greater mobility pose a far more direct challenge to the welfare state than do the economic conse-

51 In comparative welfare state analysis, Heidenheimer (1981) was one of the first to call attention to the critical importance of a conjunction or disjunction between educational and social policy (see also Katznelson and Weir 1985; Allmendinger 1999; Leibfried and Obinger 2001; Allmendinger and Leibfried 2003).

52 The Japanese government, in an attempt to help the unemployed, introduced in 1998 a grant system under which it subsidizes up to 80 per cent of the tuition for a career-training programme including classes for those qualifying exams that regulate access to well-paying jobs. Toyohiko Narikawa, the founder and president of Waseda Seminar K. K., a provider of private classes that prepare people for qualifying exams, which attract more than 100,000 students, said: 'Companies are protecting themselves, so workers are protecting themselves' (Tanikawa 2002: 13).

53 The ILO (2001) estimated that in the year 2000 there were 160 million unemployed persons in the world, 50 million of whom live in developed industrial societies. Alongside these unemployed are 500 million persons who earn less than 1 $US per day – the global poverty line. It is estimated that over the next decade there will be 460 million new labour market entrants.

quences of globalization. Globalization causes a systemic crisis in the welfare state not because it presents it with problems regarding benefits and their financing. Rather, it does so by calling into question the distribution of the fiscal burden of social policies. In the wake of globalization, the new institutional politics – the politics of defining the rules of the game – consists mostly in the struggle to adapt institutions suited to one set of objects and their attendant means to conditions in which those sets cannot freely operate. The result is necessarily serious strain, but there is no clear line upon which the large-scale reorganization should proceed that is not vetoed by one or the other group in society able to do so.

We mentioned above that the core of economic globalization consists in a shift in factor price relations from which no part of the economy is exempt. This systematic shift is a *political* problem due to the fact that it has *exogenous* causes: the revaluation and devaluation of labour market qualifications – just like the relative increase in the costs of social control by means of social policy rather than through market coordination – brings about an abrupt redistribution not only of individual life chances, but also of ‘power’, or ‘influence’ chances. Shifts in the latter are only seldom attributable to changes in *individual* performance. Thus it is one thing when certain social groups see themselves as globalization losers. For initially it is indeed not only the blind, but also the anonymous forces of the market that cause such socio-economic change. The *subsequent* fate of these individuals – how fast and under what conditions they find their next job – depends, however, to a great extent on institutional arrangements and the capability of the national political system.

It is another thing altogether, though, when the redistribution of political power associated with globalization also translates into a redistribution of fiscal burdens within a community. This development occurs in a system of *politically* – and thus *consciously* – created responsibilities. Hence these secondary – in contrast to the primary – shifts caused by globalization can also have dynamic effects, i.e. lead to a targeted, articulable dissatisfaction which can have consequences. The greater mobility of capital seems to make it more costly for any given state to retain capital within its borders – without its societal value having increased. This higher political price for capital to stay is the real reason why in all developed societies, tax cuts for corporations and for the affluent social strata have been and continue to be on the political agenda. If, under these conditions, the scope of welfare state benefits is not to be diminished, the financing burden must ultimately be shifted to those groups that are not mobile, i.e. the bulk of the workforce whose labour power is easily replaceable and who do not have to be specially wooed by employers.

Two processes thus overlap here: a new economic differentiation among individuals and groups in the wake of shifts in factor price relations, and an essentially socio-political or fiscal redistribution of the public burdens of the polity. For some individuals and groups, this can mean that they are at once doubly affected. First, the probability increases that they will become unemployed, earn less money and find their career prospects diminished. And second, their tax and social insurance contribution burden increases – without a corresponding increase in their social rights. In fact, they must reckon with the opposite, i.e. with *rising* fiscal burdens and *dwindling* social rights. Conversely, the new globalized markets not only provide the owners of capital as well as highly skilled workers with higher profits and incomes respectively; government compounds this effect by striving to relieve the tax burden on these individuals’ incomes.

In the course of this twofold displacement in distributional relations among social groups, a socio-political dimension becomes more clearly visible than heretofore – and makes it more difficult to come to terms with the new political responsibilities and to pursue a rational social policy. The welfare state itself creates its own system of social inequality – additional to that of the market (Marshall 1949; Janowitz 1976). Just as social inequalities can persist without continuing to fulfil any economic function, such as offering mobility and performance incentives, differences among welfare state clients can also lose their social *raison d'être*. In developed welfare states, it is not only the clients' social rights that are at war with the capitalist class system; the same is true of the relations between the various producers and consumers of socio-political goods (Marshall 1949). The institutions of the welfare state allocate benefits according to their own rules and thereby create new and independent distinctions between privileged and burdened groups, between those with secure and those with insecure claims – i.e. between members of corporatively organized social insurance funds on the one hand and social assistance recipients on the other, who are left to a far greater extent to fend for themselves. It is expected from democratic social policy, however, that it creates distributional effects which the market economy, left to itself, would not have achieved. Yet when social and fiscal policy merely pays homage to the Matthew principle – giving more to those who already have – the problem of socio-political justice is exacerbated.

Now it is not only, and often not at all, the impact of a globalized market economy that puts pressure on welfare state arrangements. At least as important is the condition that social policy – as it currently exists as the sum of a multitude of institutions as well as a certain mode of dealing with problems – has difficulties legitimizing itself by its own standards. Every one of these institutions has its own interest group or party political justification, and every institution has a politically potent clientele. The 'good reason' for each such institution is indeed essentially historical to the extent that its once perhaps rational core probably no longer exists today. This notwithstanding, the institution continues to be defended – with considerable prospects of success – but not as much for social as for electoral and party political reasons. With regard to the efficiency of social policy, majoritarian democracy is afflicted with the problem that its point of departure is the self-interest of the voter. At issue in decisions on welfare, however, is provision for others as well as reciprocal provision. At the expense of one segment of society, measures are taken to provide for the risks and immediate needs of another. From the standpoint of those who pay, however, these needs are very distant or mere hypothetical eventualities (Marshall 1972: 108).

A basic problem in the entire globalization discussion consists in the failure to differentiate sufficiently between objective problems and political liability for them. Much of that which is causally attributed to economic globalization is actually a product of welfare state conditions themselves. At the same time it must be noted, however, that the interrelation between globalization and the welfare state can assume very different forms, and political decisions can play a critical role in its shaping. What role do nation-state socio-political arrangements play here?

The fate of national social policy

At first glance, the defining of socio-political trajectories and the shaping of welfare state institutions appear to have been decisively determined by the fact that they occurred within the more or less protected shell of the nation-state. This protected environment is no longer a given today. As a result, in the future, only those national specifics in social policy which are compatible with or appropriate to the market appear to have a chance of survival, or, expressed conversely, global capitalism will create the socio-political institutions that suit it.

This outcome need by no means be willed or planned, yet it is becoming increasingly probable as a result of the new *political* deal that globalization entails. If one follows the logic of a certain line of thinking in economic theory, the new national politics of the welfare state, too, is subject to the imperative of a now ineluctable international interdependence of all (socio-)political decision-making. As long as social policy resided in a more or less exclusive national economic framework and was shaped there, its anti-market, populist, electoral-strategic and ideological tendencies were able to assert themselves because they could be imposed on geographically imprisoned companies at a relatively low political cost. Only those firms that could adapt to the welfare state conditions of mass democracy survived. The welfare state created a world of production after its own image.

In the meantime, this constellation has turned into its opposite, at least to the extent that globalization has provided firms with new 'exit' options and has thus enhanced their political power – their 'voice' – to undermine the existent welfare state structures. Thus the demand that social policy should now orient itself towards economic conditions, that its structures should be compatible with and appropriate to the market (e.g. Homann and Pies 1996). If political units – whether local, regional or national – find themselves in a relatively similar position with regard to their largely *man-made* suitability as a home to economic activity, then even comparatively 'small' decisions in social and fiscal policy can have large effects on a company's decision-making concerning location and investment. Under the artificially created competitive conditions of *organized* locational advantage to which territorial units are subject, differences among the latter are systematically ground away. 'We do everything everyone else does' – this is how a Senator from Arkansas once described his state's budget policy (cited in Case et al. 1993: 285). Will global capitalism now create a welfare state world after its own image?

The fiscal federalism of the USA, including its independently limiting effects on the socio-political ambitions of state actors, apparently demonstrates on a small scale what can be expected on a large scale in global site competition. However, this view is totally misleading.

State governments in the USA do not behave the way they do – i.e. take the utmost care not to become 'welfare magnets' – as a result of some natural state of being, or of a Hobbesian non-order, but because of the US Constitution, which comprises a carefully designed political will. The much greater hurdle that social policy initiatives have to overcome in a locational competition environment framed by fiscal federalism, compared to one in which this mechanism does not obtain, is a constitutional device: US state governments simply do not have the legal powers necessary to build welfare states of their own. If they had had their way, they would have opted for 'welfare democracy', which in fact they did after the War of Independence, and which was stopped by a federalizing counter-movement (Beard 2000 [1913]; Jensen 1940).

In the preface to his 'Notes of Debates in the Federal Convention of 1787' James Madison counted among the main vices of the Articles of Confederation, soon to be replaced by the new Constitution which went into force in 1789, 'the animosity kindled among the States by their conflicting regulations' (Madison 1987 [1787]: 8). In their original position the American states behaved just like modern welfare states:

> The want of a general power over Commerce led to an exercise of the power separately, by the States, which not only proved abortive, but engendered rival, conflicting and angry regulations. Besides the vain attempts to supply their respective treasuries by imposts, which turned their commerce into the neighbouring ports . . . taxed & irritated the adjoining States . . . and treated the Citizens of other states as aliens. (Ibid.: 14)

As this remark makes clear, welfare statism depends on territorial closure, and that is not a 'state right' in the United States.[54] In other words, there is a Commerce Clause which effectively binds the behaviour of US state governments, and, at the same time, *empowers a national* government – but there is nothing that comes even close to this norm in the governance of the global economy.[55]

As the view on the United States shows, it must not be forgotten that the interdependence of national economies and the mobility of capital are hardly new phenomena, whose probable consequences are not anticipated and thus reflected in welfare state structures. The historical parallels suggest that, even under conditions of fully developed competition among states, the reciprocal relationship between the economy and social policy is by no means as close and compelling as, for example, the theory of fiscal federalism would lead one to expect – *pace* the absence of an international Commerce Clause.[56] Max Weber noted that it was not until the onset of a competitive nation-state system that modern rational capitalism received a guarantee for its survival. Constitutionally protected property rights only came into being 'wherever several political communities competed with one another by enlarging their tax base and by promoting capital formation for the sake of obtaining private loans' (Weber 1978: 353). Earlier beginnings of a capitalist, market-based development in the economy, for example during the Roman principate, failed because of the inability of

[54] As early as the turn of the nineteenth century Max Weber observed that the USA – compared to Europe which was turning increasingly away from free-market, profit-making capitalism towards a socio-politically domesticated capitalism of controlled consumption – constituted the 'exception from the general welfare-state trend'. He saw in the 'particularistic independence' of the individual states in the American union the reason for the 'failure of all serious efforts at unifying consumer interests' and thus of all the groups with an interest in a capitalism of controlled consumption (1978: 352). However, it is not federalism as such that constrains social policy in favour of market-based capitalism, but merely those forms consisting in autonomous sub-units – here, states – largely unrestricted in their legislative powers and enjoying neither a system of fiscal equalization nor an institutionalized participation of state *governments* in the federal legislative process. Only under these conditions can a locational competition emerge which has the effect of furthering a decline or at least a defensive stabilization in tax and social insurance burdens, while thwarting the social ambitions of democratic welfare states (Peterson and Rom 1990; Peterson 1995; Pierson 1995; Obinger 1998; Oates 1999).

[55] Up to the New Deal the Commerce Clause was mostly used by the Supreme Court to enforce *negative* freedom, i.e. *not giving Congress a general power of legislation*; thereafter, however, marking a fundamental constitutional transformation, it was and is actively used to *grant*, not to *deny* federal powers: 'Once the Commerce Clause is taken to authorize Congress to control whatever has an indirect effect on commerce, the national government may do almost anything a majority in Congress thinks proper' (Easterbrook 1992: 368). The same point was made most forcefully by Ackerman (1992: 322–5).

[56] On the limits of fiscal federalism to understand international locational competition, see S. Sinn (1992).

the civic protagonists of a free economy to defend themselves against the state, for they did not have the possibility of territorial 'exit' and thus had only a limited domestic political 'voice' (Weber 1896).

Moreover, a glance at the late nineteenth century shows not only that an expansionist social policy was pursued in the face of a comparatively much stronger process of world market integration of national economies, against the resistance of the business community, but also that this social policy assumed very different forms in different countries. The major, and until today still structurally defining distinctions in social policy – tax-financed versus contribution-financed systems, social insurance for selected employment groups versus general provision for the whole of the citizenry, uniform systems versus decentralized systems, self-administered versus state-bureaucratic systems – crystallized under conditions of international economics that would have led one to expect a convergence of socio-political solutions, not the divergence which actually occurred (Marshall 1961a).

These historical references cannot be brushed aside with the argument that at the time it was simply the compelling imperatives of the social question which dictated a social policy that ran counter to the market. The last major socio-political act of Germany's Second Empire was not in the realm of poverty or some other ameliorative policy. It was a social policy measure provoked exclusively by factional political pressure by the most privileged group in the labour force at the time: white-collar workers – then still called 'corporate civil servants' (*Betriebsbeamte*) because of the security of their jobs. The white-collar pension insurance introduced in 1911 is thus exemplary of an opportunistic distributional policy which operated beyond the scope of market-rational social policy (Zwiedineck-Südenhorst 1924, 1925). Interdependence and locational competition do not lead automatically to specific socio-political outcomes, just as one cannot compellingly deduce from this constellation a 'race to the bottom'.

The metaphor of a race to the bottom refers to a development which – if it is indeed more than a pseudo-fact – requires closer examination. More analytical attention needs to be devoted to specific policy contexts. Further, consideration should be given to the political reaction that such a process – to the extent that it indeed exists – generally triggers.

The *locus classicus* for the thesis of locational competition with predominantly negative consequences for the public interest is the dissenting vote of Louis Brandeis in a decision of the US Supreme Court on 13 March 1933:

> The removal by the leading industrial States of the limitations upon the size and powers of business corporations appears to have been due, not to their conviction that maintenance of the restrictions was undesirable in itself, but to the conviction that it was futile to insist upon them; because local restriction would be circumvented by foreign incorporation. Indeed, local restriction seemed worse than futile. Lesser States, eager for revenue derived from the traffic in charters, had removed safeguards from their own incorporation laws. Companies were early formed to provide charters for corporations in states where the cost was lowest and the laws least restrictive. The states joined in advertising their wares. The race was one not of diligence but of laxity.[57]

[57] 288 US 517, p. 557.

Before 'Delaware' became proverbial for domestic locational competition in the USA, New Jersey was the strongest magnet for the transfer of an incorporation – until this state's newly elected governor Woodrow Wilson put an end to it:

> A corporation exists, not of natural right, but only by license of law, and the law, if we look at the matter in good conscience, is responsible for what it creates. . . . If law is at liberty to adjust the general conditions of society itself, it is at liberty to control these great instrumentalities which nowadays, in so large part, determine the character of society. (Wilson 1911: 273, 275)

Governments are anything but impotent handmaidens to business in a race to the bottom. To the contrary, as a rule, exponents of this thesis expect it to spark political resistance. What matters to them is not its truth content or explanatory value, but its political impact, and the latter – when one sees its public echo – appears to be considerable.[58]

4 An Old Conflict Assumes New Forms

One can thus safely assume that the welfare state can fend very well for itself – as this book suggests, perhaps too well. In any case, it is not dependent on its social science advocates for its continued survival. The extent to which welfare state bureaucracies together with their organized clientele succeed in defending their interests can hardly be overestimated. Also, globalization needs no 'theory' to support it. Under conditions of welfare democracy, every crisis that government has experienced has ultimately led to more government. Politics and bureaucracy differ, however. Welfare state administrative apparatuses have not only remained mostly untouched by changes in political power, they have even acquired ever more responsibilities in the process.

This is true not only of the nation-state: international conditions, too, are increasingly subject to political control, as the scope and above all the growing intensity of efforts at international coordination of hitherto largely fragmented nation-state regulatory frameworks demonstrate (Slaughter 2000a).[59] The allegation that these regula-

[58] The argument of a welfare-reducing race to the bottom was initially grounded in the development of corporate law in the United States. It was articulated in an article by Cary (1974) that was pathbreaking also for the interpretation of US labour, social and environmental law. Yet this seemingly paradigmatic case in point did not remain uncontested. The counter-argument is predicated on the independent controlling effect that a market has on firms: market forces independently of legal regimes oblige managers to orient their behaviour towards the interests of investors, even when the latter no longer have any direct influence on firm decisions (Manne 1965; Dodd and Leftwich 1980; Easterbrook 1984; Romano 1987). For a differentiated treatment of the race to the bottom thesis in the field of corporate law, see Kostel (1993) and Bebchuk and Ferrell (1999). In the field of social and environmental law, Drezner (2000) similarly comes to the conclusion that the thesis of a race to the bottom is a myth. This does not mean, though, that the thesis is without consequences: 'Descriptive uses of language are themselves events *in* the world, which commonly have causal effects. Descriptions or assertions can have the effect of persuading hearers of their contents, which can lead to small-scale or large-scale world changes. . . . Even in such cases, however, the linguistic act does not directly confer truth on its content. It is still the portion of the world predicted that directly confers truth or falsity on the prediction's propositional content' (Goldman 1999: 21).

[59] In the wake of the oil crises of the early 1970s, the seemingly unstoppable victory march of US corporations – for which Vernon (1971) coined the phrase 'Sovereignty at Bay: The Multinational Spread of

tory orders have a predominantly economically liberal orientation overlooks a central aspect in all these developments. The technical means of such control – the formal authority to set norms, the material resources, including a bureaucratic apparatus and enforcement mechanisms – can also be used for goals that differ thoroughly from the original ones. What is decisive about the regulatory substance of international governance structures is, firstly, that for governments it actually pays off in the form of sustained economic growth that enables them to continue the policy of social concessions to those groups of their societies which feel left behind and, an important proviso, are politically significant, and, secondly, that they are able to control interdependence. Underlying all the WTO agreements and thus the mainstay of international economic governance is an elementary compact of coexistence between states which implies, to use an expression coined by Hedley Bull (1977: 83), '*a conspiracy of silence* entered into by governments about the rights and duties of their respective citizens'. This 'conspiracy of silence' includes their *corporate* citizens; neither individual nor corporate citizens can claim any rights from WTO agreements, since they are binding only on governments. The international economic treaties are much more designed to protect the integrity of nation-states and much less individual rights and private transactions. Also, domestic implementation legislation does not provide for any actionable right to private interests. A federal court in the United States formulated this as a general rule: 'No one has a protectable interest to engage in international trade'.[60]

The best example for a creeping social democratic usurpation of international governance structures is the European Union. What was created as a counter-project to the traditional nation-state and launched with the promise to create a 'government-free' space (Hallstein 1962) has now itself become an object of some kind of state building (Moravscik 1998a; Weiler 1999; Wallace and Wallace 2000). The parliamentarization and democratization of the Union are the most powerful levers for this development. The European internal market, with its four freedoms – free movement of goods and of capital, freedom to provide services and freedom of movement – is

U.S. Enterprises' – came to a very sudden halt. There followed a 'Storm Over the Multinationals' (Vernon 1977). Gourevitch (1978: 894) summarizes a study by Gilpin (1975) that investigates the political power relations in the new world economy as follows: 'When the state chooses to act, its power is greater than that of any subunit, including such transnational actors as multinational corporations. In general, whenever states assert their views they are able to prevail over international organizations. Interdependence derives from state policy, not the other way around; that is, it exists because states allow it to exist. Should states refuse to do so, the constraining quality of that interdependence would be broken. All of these propositions are truer of some states than of others and vary according to the historical period.'

60 *American Association of Exporters & Importers* v. *USA*, 751 F.2d 1239 (Fed. Cir. 1985). This ruling is no aberration. Ernst-Ulrich Petersmann (1993: 15) described this state of affairs in the following way: 'According to a recent decision by the Court of Appeals for the Federal Circuit, there has apparently not been one single court decision over the past 200 years which has upheld a right of importers to overturn a congressional exclusion of any product from importation. The reason given by the court for this absence of a "right to trade" is the following: "When the people granted Congress the power 'to regulate Commerce with foreign Nations' . . . they thereupon relinquished at least whatever right they, as individuals, may have had to insist upon the importation of any product" ' (*Arjay Associates Inc.* v. *Bush*, 891 F.2d 891, 898 Fed. Cir. 1989). Not only the United States, but all other countries view the individual freedom to import and export as a privilege rather than as an individual right which could be invoked as a cause of action against discriminatory or disproportionate governmental foreign trade restrictions. For a comparative review of national constitutions and international economic law with regard to individual rights, see the collection of Hilf and Petersmann (1993).

slowly but surely being overtaken by socially oriented political regulation (Leibfried and Pierson 1995, 2000; Falkner 1998; Geyer 2000).

The roots of this development are to a certain extent inherent in the nature of the institution, for two reasons. First, because in national economies, a parliament based on equal voting rights amounts to the political representation of the needs of the masses – and a person's needs are *not* based on his or her position in the machinery of goods-production (Weber 1917b: 105). Thus, a European Parliament of *direct suffrage*, notwithstanding the complex formulas of inter-institutional power-sharing, cannot but behave *as if* sovereign in its power, and for this reason can and will take an independent stand in relation to the economics of the European Union. Moreover, and representing in a similar way the outgrowth of welfare-democratic sentiments, we cannot expect these economically *and* politically sovereign consumers to make sacrifices in the interest of the future productivity of the market economy.[61]

Second, parliamentarization can be an answer to the concentration of *executive* powers and especially to the often extensive bureaucratization of European Union rule. Parliaments have always been institutions which primarily represent those who are ruled by the bureaucracy. '*What organ would democracy have*,' asks Max Weber (ibid.: 126), '*with which to control the administration by officials in turn,* if one imagines that parliamentary power did not exist?' (emphasis in original). Weber knew no answer to this question, except a negative one.[62] In the behaviour of the European Parliament and in the progressive expansion of its competencies, one can see the real political content of European integration and of supranational institution-building to the extent that European government is no longer limited to the mere administration of a framework for a free internal market. As a truly *independent* public power, the European Parliament now needs to gain more support among its constituents if it does not want to be considered illegitimate – and precisely for that reason a social democratic agenda became its going concern.

The change in the political form and structure of the European Union also entails a lesson concerning global governance structures. European integration along liberal economic lines was carried out and further enhanced by strong supranational bodies, above all by the European Commission and the European Court of Justice. Yet the more the Union was able to gain a profile as an independent political actor directly affecting the lives and work of European citizens, the stronger became the efforts to bring its institutions under democratic control, as well as to utilize them for non-economic purposes.

61 Tocqueville was one of the first to note 'the propensity that induces democracy to obey impulse rather than prudence, and to abandon a mature design for the gratification of a momentary passion' (1994 [1835–45]: I.235).

62 Despite the unrenouncable function of parliamentary control of bureaucracy, it is a nearly universal phenomenon that parliaments have de facto undergone an institutional debilitation. If one merely looks at the magnitude of public administrations in terms of the personnel, responsibilities and resources at their disposal, and then compares this with the number of parliamentarians, a massive deterioration of the control ratio between politics and the machinery of government becomes apparent in the history of parliament (Jänicke 1990: 27). Judicial control of the machineries of the state is similarly unable to keep pace with their growth. There is a simple reason for this: for their clients – and in welfare democracies they constitute an overwhelming majority of the electorate – these apparatuses fulfil immediate material needs and are hence corruption machines *par excellence*. On those grounds there exists a close relationship between the rise of mass democracy and the bureaucratization of the public sphere (Weber 1978: 226).

First, 'democracy' has become the universal standard of nearly all conditions of rule – including in the economic sphere. It is not only the economy that has now attained a global scale. Under democratic conditions and confronted with the forms and outcomes of a global economic society, politics is essentially oriented to the collective reduction of material vulnerability. The particular function of democratic politics in modern societies consists in coming to terms with the social risks of capitalist market building and rebuilding, influencing both their scale and their distribution and thus reducing – by means of what can be called 'income from social rights' – individuals' fear for their achieved levels of status and for their existential security in the wake of an ongoing economic-technical revolution (Zolo 1991).

Independent of the type of wealth – the publicly created and guaranteed as well as the private – the following maxim seems to apply: the 'wealthier' a society is, the more the need for security will gain political ground. A century ago, Jacob Burckhardt observed that the political redress of the need for security does not – at least primarily – protect those who are concerned with preserving the little that they have, but is, rather, a quintessential striving of the propertied classes. Security as a 'precondition of any happiness' demands:

> The subordination of arbitrariness to the rule of law, the treatment of all matters relating to property according to objective statutory law, and the provision of secure framework for profit-making and commerce on a large scale. All our contemporary morality is essentially predicated on this security, that is, the individual is spared from having to make the most critical decisions on matters relating to the defence of house and hearth, at least as a rule. And all that the state cannot perform is provided by insurance, that is, the purchase of protection from certain types of unhappiness through a specified annual sacrifice. As soon as existence or its yield has become sufficiently valuable, foregoing insurance even invites moral reproach. (1982 [1905]: 237).

Were Burckhardt alive today, he would see 'hedge funds' and 'futures' as the capitalist equivalents to social assistance and social insurance institutions.[63]

Second, every concentration of power provokes counter-movements – some of which attempt to control it, and others of which attempt to marshal it for other purposes. No matter what shape democracy might take on a European level, its effects will have a very specific, namely social character. When in international politics institutional actors with independent powers emerge – be it to create a 'new financial architecture' or to draft new rules of the game for global capitalism – then sooner or later the 'social democratic' counter-interests will attempt to take control of these new commanding heights. That this movement is borne mainly by so-called non-governmental organizations (NGOs) merely demonstrates how far the process of national deparliamentarization has progressed – and that, as a result, resistance against the loss of democratic control of living conditions is expressed in non-parliamentary forms. Even small and tentative attempts at formally placing NGOs in international organizations such as the WTO have unavoidably changed their agendas. Globalization, and

[63] These 'protective devices which most economists accept as normal elements of rational management' were also noted by Schumpeter: 'Practically any investment entails, *as a necessary complement of entrepreneurial action*, certain safeguarding activities such as insuring or hedging' (1950 [1942]: 88; emphasis added). On the utopian impulses for the development of insurance, i.e. the desire for 'total security', see P. Bernstein (1996) and Weisbrod (1999/2000).

above all its attendant social and ecological phenomena, has dramatically reduced the legitimacy of international politics. Two years before the Seattle demonstrations against the WTO Ministerial Conference in December 1999, the WTO had already issued Guidelines for Arrangements on Relationships with Non-Governmental Organizations; yet these did not, one must add, significantly increase the transparency of such arrangements (Esty 1998: 125).

The fundamental conflict in modern society is that between profit-making and need – and not between labour and capital. The main forms of this need are societal recognition, maintenance of cultural identity, minimum social standards and ecological considerations. Business groups together with employees in private enterprises make up one camp, and the parties with a material stake in the welfare state and in welfare democracy – i.e. public service and social administration employees together with those who manage to scrape out a living as producers and consumers of socio-political goods – constitute the other. Conflicts over globalization and the welfare state abound between these two camps, but both agree that there are conspicuous deficits in the number of jobs available, the level of wages necessary for the consumption needs of families, the scale and scope of social services and in the protection of natural resources. The basic social conflict is less about the objects than about the ways and means to achieve them.[64]

Crudely formulated, the key question is as follows: should the future direction of economic policy follow the need interest, i.e. *directly* provisioning the citizens with social policy goods, or rely on the profit-making interest to produce welfare also for the uncompetitive groups and to take care of non-economic objectives? In a way, to formulate the question is to answer it. The welfare state as we know it today can also be understood as the organization and mobilization of the interests of *consumers*. The ubiquitous regulation of markets in the welfare state is geared to the satisfaction of the *needs* of consumers rather than to an interest in *profit-making*. Once the well-being of democratically empowered and thus politically sovereign consumers had become the going concern of welfare state systems, Keynesian demand policies were less a blueprint for a rational economic policy than the genuinely sociological perception by political actors of an immediate consequence of the essentially *social* quality of democratic politics in mass society. Strengthening mass purchasing power is to some degree an alternative to social insurance policy, *not* to market-based policies. In effect, the monetarist alternative to Keynesian policies is accepted as long as and to the

[64] That these deficiencies can be caused by the dynamics of autonomous markets does not mean, theoretically speaking, that market mechanisms cannot bring about modifications which correct them. From the perspective of economic theory, these needs, as Coase (1988) has shown, are negative externalities which, as long as transaction costs do not prohibit it, a renegotiation of property rights can correct in the sense that they provide incentives for mutual gain. 'International organizations' or 'supranational institution building' are not the only – and above all not inevitable – answers to the transnational problems of the modern world (Conybeare 1980). Yet the 'natural tendency' of democratic politics regularly takes a different direction: 'The political response [to market failure] all too often fails to match the policy instrument to the specific nature of the failure. . . . Non-economists have an almost universal desire to deal with market failures through carefully drafted regulation rather than a change in incentive structures. Drafting such regulation is the natural function of lawyers, and the legal profession continues to dominate Congress. When government intervenes in the marketplace, our political leaders typically rule out the manipulation of economic incentives to deter undesirable actions because reliance on market responses injects an uncertain, partially random, and therefore "unfair" set of forces into the picture' (Schultze 1996: 27).

degree that it is able to increase the wealth of *all* politically significant groups in a society, or that it does at least entail the credible *promise* of such increase. This is a sine qua non for all market-strengthening policies in a representative democracy, as Laski (1933: 25) pointed out:

> [A] policy of economy [i.e. strengthening the rights of property against social rights] may succeed as a temporary measure, amid the drama of crisis; it cannot succeed as a permanent policy. Its acceptance depends upon the clear proof that it is intended only as an expedient which is to be a prelude to further generosity. Otherwise, it is rapidly and deeply resented.[65]

Politically assured and protected consumption is the going concern of welfare state policies and constitutes their competitive advantage relative to market-based production of life chances precisely because of this distinctive organizational capacity and the promise of secure living conditions and status positions *independent* of market income. It is for this reason that T. H. Marshall could insist that social rights – the rights to welfare in the broadest sense of the word – are 'not designed for the exercise of power at all' (Marshall 1969: 141). To rely in social politics on the multiplication of social rights soon makes a farce out of what it multiplies. Social rights refer to individuals as consumers, and 'there is little consumers can do except to imitate Oliver Twist and "ask for more", and the influence politicians can exert over the public by promising to give it is generally greater than the influence the citizens – or those who care about these things – can exercise over politicians by demanding it' (ibid.).

Put pointedly and from the perspective of the maintenance of global *market* conditions, it would be better if there were no strong WTO and no autonomous bodies endowed with the legal power to create a multilateral agreement on investment and more of the like resembling an international commerce clause.[66] Even if these supranational organizations were empowered to achieve common – and not merely hegemonic – ends, which aimed at the creation of a liberal political-economic framework, or initially corresponded solely to the interests of multinational corporations, which is not necessarily the case, its political foundation would probably soon be conquered by 'socio-political' and other 'protection', 'solidarity' and 'ordering' interests engaged in a continual search for an Archimedean point for the realization of *their* conceptions.[67] The most important vehicle for this is bureaucracy, and it always entails the

[65] For a description of the main trust in US economic policy-making corresponding to this fundamental notion, see Krugman (2001).

[66] That in international arenas the concept 'state' is not used to characterize the new organizations does not mean that functionally equivalent decision-making instances are not being created. Power emerges through the cumulation of political functions. Using exactly this notion, Hermann Heller has described state-building in this way: 'If a scheme of functional centralization, cumulation and activation is developed for the purposes of making perpetual a new normative order, then we have before us a type of organization universally featured in large human associations' (1983 [1934]: 6).

[67] In *The Wealth of Man*, Peter Jay comes to very similar conclusions: every increase in economic welfare and opportunities 'generates predatory reflexes. These threaten both from within and without the societies enjoying the new opportunities, and the management of those challenges by government – through lawmaking and law enforcement, military action and political and diplomatic negotiation – determines how much, if any, of the original enlargement of opportunity is successfully cashed in improving living standards (or rising population) and how much is squandered in conflict. . . . Can the threat be managed in a way that preserves at least most of the original gain in economic opportunity to be enjoyed by

thwarting of hitherto free initiative. Heretofore diffuse, highly diverse opposing interests find in powerful international and supranational economic organizations a single point on which they can focus their coordinated efforts and from which they can demand new accountability. The actions against the WTO in Seattle in December 1999 (see Gantz 2000; Tiefenbrunner 2000) and against the IMF in April 2000 consisted merely of an uprising of a political will which lacked a leader or a conceptual orientation. It found its limits in the weakness, not in the strength of its opponent.[68] The lack of centralized institutional structure and focused political orientation among the instances of international economic regulation have until now been their best protection against the welfare-democratic demands that have been expressed.

Max Weber had already pointed out that it is precisely the fragmented nature of the community of states and thus inter-state competition for mobile capital that preserve both the market economy's political-economic foundations and the citizens' personal freedom. Of course, personal freedom is not the only value in relation to which both national and international conduct may be shaped, and it is not necessarily an overriding value. Nevertheless, and perhaps more by default than design, down to the present day an essentially transnational market economy on the one hand and a multitude of welfare-democratically closed nation-states on the other have been mutually stable. A world government would mean the end of globalization and would rob the world society of one of its most important guarantors of personal freedom. Without a credible threat of territorial exit, corporations – or the bearers of valuable 'capital' of any kind, and today this includes large segments of the labour force – would have no influential domestic political voice. The '*housing of the new serfdom*' would then assume global dimensions. This would mean that Max Weber's prophecies at the end of the nineteenth century – regarding 'good', i.e. rational, administration as the solution to the contradiction between globalization and the welfare state of his day – would finally have come true: making bureaucracy *inescapable* (Weber 1918a: 158–9).

5 Conclusion

As this chapter has tried to point out, one decisive detail is almost never mentioned in the globalization discussion: the twofold phenomenon that in the post-war period the most advanced industrial societies turned away from protectionism, and that freer trade as a revived 'engine of growth' is concentrated for the most part in the developed national economies. This was by no means inevitable, even when one accepts the

someone?' (2000: 286). The point that is politically critical for globalization is summarized by Jay as follows: 'Direct government action is prey to too many pressures other than those of the problem to be solved ever to be relied upon to adopt and implement strategies that may well require changes in private behavior by people who do not recognize or understand the need for such change' (ibid.: 302).

68 See here the comments of Lori Wallach, one of the main organizers of the resistance to the WTO and to the other bearers of the 'trade status quo': 'All of these crushing defeats of the trade status quo are brought to you mainly by the arrogance and inability to bend of those enjoying the trade status quo. The inability to bend has caused several major things to be smashed. But it's getting extremely tedious, because it's really boring to stop things. What would be interesting is to talk about the second phase. Not stopping a bunch of stuff, but rather, what would replace the status quo with' (Foreign Policy 2000: 37).

classical explanation – prominent in all textbook presentations of classical foreign trade theory – that free trade is beneficial overall and welfare-enhancing for every country. The fundamental *political* problem for trade policy consists, however, less in the ability to export than in the willingness to allow imports. Market access and import competition were and are the pivotal realms of national and international foreign trade policy. This problem does not lose but, rather, gains political significance to the extent that national economies reach higher and more sophisticated stages of economic development. It is the interdependence of the most advanced economies multifariously bound up with the social regulation of self-regarding welfare states that brings about a situation in which one nation's sovereignty is another nation's uncertainty. In a welfare state perspective, the technologically facilitated all-embracing *economic* community of nations made it more *difficult*, but did not render it impossible, to define and to defend the complex formulas of social justice that the democratic struggle revolves around. Welfare democracies are dominated by a communal psychology which thinks essentially in terms of the *national* state.

Because of the overwhelming presence of welfare states, the conflicts that mark international economic policy-making are more about *fair* than about *free* trade – 'fair' meaning the terms on which governments can defend the achievements of domestic public policy. The consequences and conditions of import competition form the core of the entire scientific and political discussion on foreign trade: 'levelling' the playing field and outlawing social dumping on the one hand, prescribing rules of origin and measures of local content etc. to protect exclusively national conceptions of employment structures on the other. *These* issues, and not some international laissez-faire, determine the greater part of the rules of the WTO agreements. What is striking about the period after the Second World War is that the Western industrial countries, either unilaterally or in the context of the various GATT rounds, gradually lowered the trade barriers with which they had attempted – if not to block import competition – at least to control the market access of foreign countries.

This dismantling cannot be explained away with the argument that these governments increasingly viewed free trade as more beneficial than protectionism. In economic theory, the benefits of free trade have occasionally, but never convincingly, been called into question. Yet, as history regularly demonstrates, the superiority of free trade doctrine rarely affects policy practice. British policy in the second half of the nineteenth century remains a striking exception. The British case can be attributed, however, to the country's twofold exceptionalism in terms of its hegemonic industrial *and* political position. The central question thus runs: why was free trade not able to become the prevailing doctrine in trade policy? And the admittedly cursory answer, which in the following chapters will be analysed in more detail, is: the ostensible or real negative effects of import competition on domestic wage levels, income distribution, the structure of industry and the quality of employment positions are widely attributed to foreign countries' unlimited market access. They thus constitute significant impediments to the realization of the ideals of free trade. Conflicts regarding trade policy have always revolved around these domestic societal frictions, and for this reason the fate of globalization was and is determined domestically.

One goal of this book consists in underscoring the critical significance of the institutionalization of social policy for trade policy. The main thesis of this volume is that not until the expansion of the welfare state in the first three decades following the Second World War were the governments of the most advanced industrial societies in a position to lower, lessen or eliminate import barriers. Not until the universalization of the right to market access could global market integration attain dynamism and autonomy.

This means neither that governments pursued social policy with this goal in mind, nor that they were always in a position to do so. Social policy has its own motive forces: political ones in the nation-state's striving for integration and legitimation, social ones in responding to the impact of the market on the distribution of life chances, and economic ones in improving the performance of labour markets and increasing the returns of human capital. In a government's decision-making on social policy, effects on its latitude in trade policy are seldom, if ever, an overriding concern. Once income security was guaranteed by the welfare state, however, governments had more flexibility in drafting their foreign trade policy. Here lies one of the reasons for the extraordinary growth of the global economy during the final third of the twentieth century. And here, too, lies the reason for globalization's dependency on *social* politics. Krugman (1995) called attention to this dependency when he argued against conceptions of a technological determinism and of an unstoppable global market dynamic. Globalization is not an irreversible process, above all because the parameters of welfare state intervention – the widespread experience of social insecurity and economic scarcity – have not disappeared in the new international economic world. On the contrary, they have become even more pronounced. As a result, in terms of rational economic policy, *socially* insufficient national preconditions of increased world market integration can easily translate into protectionist policies.[69]

Which tendency will actually prevail in which countries is, however, not yet clear. There is considerable evidence that governments increasingly become aware of the reciprocal dependency of national social policy, on the one hand, and the functional preconditions of a free global economy on the other. Whether national governments will indeed be in a position to deal adequately with the threefold challenge this poses – reforming welfare state policies, managing the globalization-induced ruptures in their social orders and institutionally securing global market conditions – is an open question. This is so because welfare state institutions represent privileges – and one thing that social groups are particularly good at defending is privilege.

Our emphasis on problems and herewith also opportunities in social policy decision-making is justified not only by the facts of the case, but also by the tendency in social science discourse on globalization to declare findings and then, without much ado, to jump to 'solutions' that cannot be substantiated by this branch of science. As David Hume was the first to point out, and as Max Weber repeatedly stressed, it is not possible without violating simple logic to derive from the empirical observed unequivocally binding norms and ideals (Weber 1904). It is not only of social scientific interest, but also of fundamental political significance that the conditions of human action are only to a limited extent explicable through theory, for they have a non-necessary character. Strangely enough, the history of the new science of politics is an ever-recurring attempt to repudiate or circumvent precisely this Aristotelian insight (Meier 1980; Hennis 2000 [1963]). In the natural sciences, theory is based on neither probability nor chance; rather, strict necessity prevails. As Einstein put it, the Lord doesn't roll the dice.

Rules and regularities can, but need not, apply to human conditions. Human behaviour and the realm of politics are not determined. Every problem presents the actor

[69] On the instruments and general tendency of neo-protectionism, see Bhagwati (1988; revisited 2001) and Salvatore (1993). The now classical analysis is Corden (1997 [1974]).

with alternative possibilities. Every action, every decision is a realization of a possibility. There are no social scientific theories, trivial ones aside, of necessary truths. This leaves social science with two sources of knowledge: history and common-sense reasoning oriented towards set goals. What to globalization theorists as diverse as Melvyn Krauss (1997), Wolfgang Reinicke (1998) and Geoffrey Garrett (1998, 1997) seem to be 'necessary' developments and ineluctable relationships may at first glance appear to be deductions from ostensibly manifest premises.[70] Yet in fact, and this is easily demonstrated, these are nothing other than well-worn and ideologically familiar normative demands and apodictic statements. They argue *de more geometrico* and thereby conceal the contingent and discretionary nature of social action. That which they portray as a true image and objective investigation of a reality which exists independent of the observer and seems untinged by any subjective conceptions is actually a model – a normative design. This, of course, they would never concede. Their premises are not scientifically compelling and cannot be. In order to be operative, they must be voluntarily acknowledged. The first precondition for this is the admission that premises are always preliminary and debatable. Yet certain conceptions of social science contradict precisely this standard. To clothe argumentation in theoretical truth following the model of physical laws is monological, not dialogical – i.e. it reasons exclusively within one frame of reference – and to this extent is the antithesis and a rejection of any politics pursued as the art of the possible, and expressly seeks to exclude compromise.[71]

To repeat, the series of enquiries that constitute this volume should not be read as a set of prescriptions or recommendations. We do not attempt to offer solutions but rather to disclose problems. If our argument is an implicit defence of the welfare state, then this is so because it is more derived from a descriptive-historical than a prescriptive-functional reading of the complex interplay of welfare democracy and international economics. Both the domestic and the international order are dealt with in terms of actual or possible states of affairs; we do not *judge* their underlying and motivating values, goals or objectives, but try to gauge their *empirical* significance. If we canvass the merits of a particular perspective, it is for purely intellectual, not political, reasons. Scientific enquiry has its own morality, and the search for conclusions that can be presented as 'solutions' or 'practical advice' is a corrupting element in the contemporary study of welfare state politics, which, properly understood, is primarily an intellectual activity and not a practical one.

70 Hence Richard Feynman, Nobel prizewinner in physics, is in some cases not totally off target when he refers to social science as 'cargo cult science': 'Because of the success of science, there is, I think, a kind of pseudoscience. Social science is an example of a science which is not a science; they don't do [things] scientifically, they follow the forms – or you gather data, you do so-and-so and so forth but you don't get any laws, they haven't found out anything. . . . We get experts on everything that sound like they're sort of scientific experts. They sit at a typewriter, they make up something. . . . There's all kinds of myths and pseudoscience all over the place' (1999: 22). 'Because science which is done carefully has been successful; by doing something like that, they think that they get some honor. . . . So I call these things Cargo Cult Science, because they follow the apparent precepts and forms of scientific investigation, but they're missing something essential, because the planes don't land' (ibid.: 209). On the distinction between theoretical truth and factual truth, see Heinemann (1948). On the apolitical character of argumentation *de more geometrico,* see McClure (1918), and on the emergence and developmental history of the idea of physical laws, see Zilsel (1942).

71 Arendt, in particular, has called attention to this (1967).