

# Globalization and governance: conclusions

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International relations scholars are interested in debates about globalization and governance partly because of a deeper concern about change versus continuity in the international system. One important focus of theorizing in international relations in recent years has been to set the beginning and end points of the anarchic international order identified by realists and neo-realists as the basic building blocks. There is a tendency for realists to claim that anarchy is universal across time and space (Waltz, 1979; Grieco, 1988). Critics of realism, in contrast, argue that the anarchic international system may have been a useful way of thinking about the world for the relatively short period in history dating from the Treaty of Westphalia in 1648 until some time in the recent past, but that it may be losing its value. Kobrin's essay (Chapter 6) builds on this theme to argue both that there is now a new world order, and that it may be more like the world order that prevailed in the Middle Ages than the one that existed between 1648 and the recent past. He argues that economic globalization, made possible by the wider availability of computers and fast telecommunications systems, is the main reason for this change. Similarly, Cerny in Chapter 7 argues that the dominant actors of the realist's anarchic system, the governments of nation-states, are not as dominant as they once were and that the system is evolving in the direction of greater complexity. Globalization is one of the reasons for this in Cerny's view, but there are other factors as well. For example, Cerny sees factors like the rise of the "competition state" and the "hollowing out" of the Keynesian welfare state via privatization of state functions as also contributing to changes in governance, independently of globalization. Both Kobrin and Cerny question the applicability of realist models in the contemporary world, but for somewhat different reasons.

Globalization and governance are of interest to policy makers because of the growing attention paid by the media and the general public to the globalization theme. A good example is a statement made by President Clinton at the Economic Summit in Denver in the summer of 1997: "Protectionism is simply not an option because globalization is irreversible. . . . If we try to close up our economy, we will only hurt ourselves." He added:

“It seems to me difficult to imagine that this is even a serious debate right now.” (*New York Times*, 1997)

Clinton’s statement raises two important but debatable points: that globalization is irreversible, and that the openness of the economy is positively associated with the welfare of the nation. It is typical of attempts by various interested parties to “naturalize” globalization; that is, to portray it as a natural force which is beyond the ability of mankind to channel or direct.

This volume has focused on three main questions: (1) what is meant by governance in the study of international relations and international political economy; (2) how globalization affects governance; and (3) what kinds of policy innovations may be required for dealing with the challenges of globalization. Two competing perspectives on governance – the new institutionalist and the constructivist – were introduced and defended in Chapters 1–4. The essence of the debate among the authors of these chapters is whether one should adopt a narrow or broad definition of rationality to explain decisions about the provision of collective goods, which the editors of this volume have equated with governance. The new institutionalists (Lake and McGinnis) have argued that a narrow definition of rationality is superior because it provides more parsimonious and testable theories of governance. The constructivists (Sandholtz and Haas) contend that the definition of rationality has to start from the idea that rules and rule systems (also called institutions) are constituted by political actors who use those rules not only as guides to their own behavior but also as guides to the interpretation of the behavior of others.

The constructivists question the ability of new institutionalists to operationalize key variables in their models; transaction costs being one of these variables. Lake has responded to this criticism by arguing that his theory does not require “precise measures of transaction costs.” Both institutionalists and constructivists appear to agree that the heart of the problem of governance is providing actors with rules and incentives to mitigate opportunistic behavior and that such rules and incentives do not always have to be provided at the national or global levels to be effective. They also agree that the appropriate level of establishing and enforcing rule systems varies with the specifics of the problem at hand (see the chapters by McGinnis, Sandholtz, Haas, Cerny, and Fratianni).

The editors equated governance with the organization of collective action in the introductory essay. We are not alone in this view. Oran Young (1986), for example, has adopted the same definition. Defining governance in this manner allows us to tap into the work of scholars who have studied the resolution of collective action problems for more than three decades. One of our new institutionalist authors, David Lake, has decided in Chapter 1 to define governance as the establishment of contracts, by which he means “the enforcement of bargains.” In our view, contracts are one way to resolve collective action problems, but not the only way. There are times when the coercive power of the state or local government is the primary pathway to

resolving collective action problems, although sustainability may be a problem when coercion is not part of a larger social contract and coercion is therefore viewed as illegitimate. Lake has decided to restrict his definition of governance in this manner in order to create a more parsimonious theory. Because the study of governance (and especially that of global governance) is still not well developed, it is not yet clear which of these two approaches for defining governance will yield the best results.

Making global governance the object of study inevitably brings with it a potential bias toward order in the international system, which was also inherent in the earlier study of international organizations, regimes, and institutions. While no one would argue that there is too much order in international relations, the kinds of order that people are seeking can be quite different, and it is always necessary to maintain a critical perspective when claims are made about the superiority of any given type of order over its alternatives (including chaos). This message can be found explicitly in the chapters by Sandholtz, Fratianni, and Douglas, and implicitly in a number of others. Sandholtz in Chapter 3 invites us to examine the fundamental rules that constitute a given order; Fratianni in Chapter 11 suggests we carefully distinguish between orders that provide public goods versus “club goods”; while Douglas in Chapter 5 asks us to beware of a global order which perpetuates an oppressive “dromological order where the fastest win and the slowest lose, effecting a new and more violent hierarchization of the world.”

Another interesting controversy in this volume is about the likelihood that the overall system is evolving toward greater stress on the resolution of collective action problems at the global level. Lake, in particular, questions that there is a trend toward effective global governance. Environmental politics appears to be one of the most likely places for this to occur, but even there many forms of opportunistic behavior can be prevented at the subglobal levels and only a select set of environmental problems have to be dealt with globally (Haas in Chapter 4). A leading example of the latter was the successful negotiation of the Montreal Protocol to deal with the problem of reversing the destruction of the ozone layer in the upper atmosphere produced by the release of ozone-destroying chemicals. Even though the bargaining for the Montreal Protocol was conducted at the global level, responsibility for monitoring and enforcement of the agreement rests primarily on the national governments who signed the Protocol.

All the authors in this volume focused on economic globalization rather than other forms of globalization. The editors have defined economic globalization to mean the increasing integration of factor, goods, and services markets across geographical boundaries. Globalization, thus defined, can be thought of as either an independent or a dependent variable (or both). The editors argued in the introduction that globalization processes (as dependent variables) were initiated and encouraged by factors such as technological change, domestic politics, inter-state rivalries, and the spread of market-

based systems. Economic globalization has been posited to lead to new or modified governance institutions because of the challenge it poses to existing institutions. In Chapter 6, Kobrin argues, for example, that the economic globalization that resulted from the deployment of high-speed global telecommunications networks, creates difficulties for the governments of nation-states by making it more and more difficult to identify the location of economic transactions, and to monitor the costs and benefits of those transactions. This is particularly problematic when it comes to taxation, where the establishment of the location of wealth-creating activities is crucial to the administration of tax laws. Kudrle in Chapter 8 argues, in contrast, that existing laws already provide the necessary instruments for dealing with this issue.

Most of the contributors to this volume have treated globalization as an independent variable and examined its implications for governance, but that is not the only way to study globalization and clearly there is a lot of potential benefit to viewing it as part of a larger set of global processes, as David Lake does in Chapter 1 and Ian Douglas does in Chapter 5. Lake sees globalization as a product of the effort by hegemonic liberal countries to remain hegemonic. Lake argues that economic globalization is at least partly a function of the policy preferences of powerful actors like Britain in the nineteenth century, and the United States in the twentieth, and that global governance is such a threat to that order it is unlikely that it will be supported by hegemons. Douglas argues that the debate over global governance is a continuation of earlier debates connected with the rise of what he calls "bio-politics" in the Enlightenment and the democratization of societies in the nineteenth century (epitomized by the Napoleonic *levée en masse* – mobilization of the entire citizenry for war).

In the remainder of this chapter, we discuss two issues. First, we summarize the principal lessons learned from the essays in this volume. Second, we outline new questions in need of further research.

### **Lessons learned**

Economic globalization is a process which is multidimensional and incomplete. Charting the actual course of economic globalization is a research task that is still in its infancy. Measurement of globalization processes is spotty and inadequate. Financial integration appears to be the dimension of economic globalization that is farthest along, but even in that area, data on globalization are hard to come by. There are still many policy instruments available to states who are willing to opt out of the global system, so one interesting line of inquiry for researchers is determining the perceived and actual costs of doing this.

Globalization is a focus of political organization and activity. Some people oppose it, while others rally to its defense. The identification of supporters

and opponents of globalization is an empirical question worth pursuing. But it is equally important to understand the sources of support and opposition. The prevailing focus in political science literature on globalization is the extent to which it has weakened or strengthened the state. Many of the authors in this volume consider that focus to be overly restrictive. They think it better to see the state as one of a large family of collective goods-providing institutions that may play a greater or lesser role in the future, and for a variety of reasons. Thus, it makes sense to begin examining the political strategies of local communities, local and regional governments, interest groups, religious groups, non-governmental organizations, and other types of human aggregations with regard to globalization and its consequences.

Peter Haas, in Chapter 4, argues that environmental regimes are growing stronger because of the spread of environmental knowledge and consensus among experts. Haas' work suggests that there is a cognitive dimension to the politics of globalization that affects the resolution of collective action problems, and hence has implications for governance. Haas sees technical experts as playing a very important role in this area because of their ability to convince people to change the way they "frame" problems cognitively. These technical experts are not usually organized along national lines, but rather transnationally, as is the wont of intellectuals. The same is true of many environmental interest groups that concern themselves with global environmental issues. The reader may question the desirability of a system which grants so much persuasive power to transnationally organized technical elites, especially as this goes against the grain of many theories of democracy. Nevertheless, in areas where many people would like decisions to reflect knowledge gained via scientific inquiry such elite influence, as Haas argues, is probably inevitable.

Robert Kudrle in Chapter 8 argues that economic globalization constrains the behavior of nation-states, but that governments still retain the power to deal with integration issues. He argues that globalization has developed side by side with a "rediscovery of the market" and increasing European integration, and that these three phenomena together create challenges for national governments which those governments can deal with effectively often via harmonization of policies with other governments. Kudrle focuses particularly on the problems created by globalization for the administration of reasonable and equitable national systems of taxation. Tax havens, rapid shifting of funds across national boundaries, and a declining inability of governments to control the movement of people across geographic boundaries may create incentives for a "rush to the bottom" – that is, the adoption of lower and lower standards for social policy, based on competitive tax cutting which leaves the national governments incapable of cushioning the impact of increasing international competition on the least productive workers and the least efficient enterprises. McGinnis in Chapter 2 and Cerny in Chapter 7 also seem to share this worry. Kudrle, however, is optimistic that national governments will not rush to the bottom but instead will maintain the

essential and effective social policies associated with the welfare state and focus on increasing productivity in order to continue to attract domestic and foreign private investment. This view is echoed, for the most part, in the essay by Hart and Prakash in Chapter 9, although they are more concerned than Kudrle (and therefore more in agreement with Cerny and McGinnis) about the possible negative consequences of the breakup, or what they call the re-articulation of the state.

Kudrle points to the relatively little known fact that US tax laws make it easier than they should for foreign nationals with assets in the United States to evade taxes on those assets as part of an overall system of inducing foreigners to invest in the United States. He argues that the dangers of tax competition among national governments (part of the rush to the bottom thesis) are overstated, and that governments will find a way to harmonize their policies to prevent major distortions in capital flows (which are not that strongly affected by tax rates anyhow). Kudrle seems much more worried about the evil consequences of the untaxed outflow of highly productive individuals out of, and the relatively unrestricted inflow of poor and uneducated immigrants into, the wealthier industrialized countries, than he is about the rush to the bottom via lowered taxes and lower social spending. Indeed, he advocates stricter enforcement of restrictions on immigration and the re-establishment of restrictions on capital flows as reasonable defensive policies for those countries.

Kudrle attacks a number of general propositions about the impact of globalization that he believes are not well grounded in fact: that (1) reinventing government is a manifestation of globalization; (2) deregulation was forced by globalization; (3) the shift in decision-making power to subnational levels of government (devolution) is a consequence of globalization; and (4) increased inequality (higher unemployment and lower wages for workers in import-competing manufacturing industries) is a consequence of globalization. These propositions have indeed been part of the debate over globalization, and Kudrle does us all a service in summarizing the counter arguments against them.

Alfred Aman in Chapter 10 provides an excellent discussion of the implications of globalization for the US legal tradition. He focuses, in particular, on the distinctions embedded in US law between private and public institutions which are increasingly problematic in the new international environment. The desire of the US government to effectively address the consequences of the growing competitiveness of other countries in world markets is helping to create a new form of administrative law which permits the government to work cooperatively with the private sector to enhance US economic competitiveness. This administrative law, however, runs against the grain of a large number of judicial decisions, based on constitutional grounds, legal precedents, and the legacies of nineteenth-century and early twentieth-century capitalism, designed to establish firm boundaries between the public and private spheres. Aman eloquently states the problem but does not advocate a

simple answer, leaving it (in our view properly) to be debated in a larger forum.

Thus, the essays by Cerny, Hart and Prakash, Kudrle, and Aman all deal in different ways with the impact of globalization and other factors on the organization of advanced industrial nations, and particularly on the welfare state and the competition state. As such, these essays bridge the gap between international relations and comparative politics. We believe they should be seen as precursors of a larger agenda for research about the roots of the post-war welfare state and its ability to withstand the challenges that have been posed by neo-conservatives, neo-liberals, and neo-fascists in recent years. Neither Keynesianism nor the welfare state is dead, but the pressures on both are increasingly intense and they are coming from a variety of political locations, so this is not purely an “academic” question.

### **An agenda for future research: coping with globalization**

This volume, despite the many arguments that it contains among the various authors on relatively fundamental issues, constitutes an advance in the conceptual foundations for globalization research. The concepts of globalization and governance have been clarified in such a way that it is now considerably easier to undertake systematic, empirical research on both and the relation between them. Also, the current volume focuses attention particularly on the limitations of international relations research that focuses solely on the implications of globalization towards the ability of national governments to maintain their primacy as authoritative actors in the world system and emphasizes the importance of considering the impact of globalization on other actors as well, where the concern is to observe changes in governance and not just government.

Based on our reading of the globalization literature in preparing this volume, we think that another bias in the existing literature on globalization needs to be corrected. Globalization is often projected as an inexorable and inevitable development that is radically altering the ways in which human societies organize themselves. Two kinds of responses are suggested to deal with it. First, globalization is viewed as an opportunity for economic growth and development. To tap into that opportunity, scholars recommend that collective organizations such as governments and firms should adapt to the demands of an increasingly globalized world economy. Of course, there is disagreement about how to do this. Scholars have different views on the appropriate pace and extent of governmental leadership in liberalizing domestic economies. Some scholars of business strategy suggest that firms should globalize and establish a physical presence in all their major markets. Others suggest that firms should focus on deepening their core competencies and not worry so much about establishing a market presence in all major markets.

The second perspective views globalization as essentially a disruptive force that benefits few but impoverishes many while also undermining the ability of the state to redistribute wealth and income. Thus, the recommendation is to resist globalization. The objective is to slow down its pace and dilute its impact, if not reverse it altogether.

These strategies emanate from opposing perspectives: globalization is either essentially beneficial or disruptive. Consequently, they represent the polar ends of the "response to globalization" continuum. We believe that future research on globalization should start with the idea that most governments and firms perceive globalization to be taking place without prejudging the essential character of globalization. Thanks to the work in this volume, we now view globalization as a set of related processes that are incomplete and reversible. Depending on factors such as resource endowments, preferences, and internal institutions, governments and other social actors have some ability to cope with globalization. We think that future research should focus on the coping strategies of governments and firms, evaluate the success of these strategies, and suggest some possible lessons to be drawn from them.

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