21 Debated Issues in W. P.

factors. Cultural forces are also cited, but as contributing both to globalization and to fragmentation.

As you read the articles, consider the following questions.

Discussion Questions

1. Is globalization a force for peace, or does it promise more opportunities for conflict as it brings people into closer interaction with one another?
2. Will political globalization inevitably follow economic globalization?
3. Does globalization perpetuate, and perhaps even deepen, the gap between the richer postindustrialized countries of the Northern Hemisphere and the poorer industrializing countries of the Southern Hemisphere?
4. Will globalization destroy the underpinnings of the modern welfare state and thus, ultimately, of democratic governance?

For more on this topic, visit the following websites:

http://www.igc.org/millennium/
Millennium Institute

http://epinet.org/index.html
Economic Policy Institute

http://www.cgg.ch/
The Commission on Global Governance

Globalization and Democracy

CHARLES K. WILBER

Freedom for the pike is death for the minnow.
—Isaiah Berlin

In this paper, I make the following points: capitalism is a creative/destructive system; the democratic welfare state emerged to tame the destructive side of capitalism while promoting its creative side; changes in the international economy have undermined the ability of the democratic welfare state to do its job; and any attempt to re-create political economic consensus to control the destructive side of capitalism must take into account the nature of the economy as a system.

THE CAPITALIST SYSTEM

Two facts stand out from an examination of the history of capitalism. First, capitalism has been successful in producing amounts of goods and services unprecedented in history. Second, it has done so in a temporally and spatially uneven manner, i.e., capitalist development has proceeded very unevenly between countries and among regions within countries. The capitalist system developed in both North America and South America, but one more so than the other. Certain countries and regions became dynamic centers of development, while others stagnated on the periphery. Then the process shifted, and once growing areas stagnated and stagnant ones developed. And, of course, development has proceeded cyclically through booms and busts in each country and region. This process extends to individual industries and even households. These imbalances are naturally generated by the process of capitalist development. One of the great economists of the twentieth century, Joseph Schumpeter, captures this dynamic process in his concept of "creative destruction."

The price of this creation of new products, new jobs, new technologies, and new industries is the destruction of the old products, jobs, technologies, and industries. And the closing or relocation of plants with

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their loss of jobs hurts families and communities—here and now. The new plants and jobs frequently are located elsewhere and use a new generation of workers. The gains are in new and lower cost products for people as consumers.

This process of creation and destruction always has been present in the U.S. economy—the textile industry moved from New England to the South, the growth of supermarkets wiped out mom-and-pop grocery stores, petroleum replaced coal, etc. In the last 20 years, the challenges have come ever more from abroad. The textile industry has moved on from the South to various places overseas, Japanese autos and steel have captured a large part of the market from U.S. firms, etc. The result has been better products at lower prices, new technologies, new jobs, and lost jobs and devastated communities, in addition to balance of trade deficits.

During the past 60 years, citizens have turned ever more to government as the social institution with the task of softening the destructive side of these economic forces. In the domestic economy, the result was the New Deal–Keynesian consensus that reigned from the end of World War II to the mid-1970s. However, control of the destructive side of the capitalist development process in an expanding world economy has become ever more difficult as U.S. dominance has declined.

THE CHANGING INTERNATIONAL ECONOMY

A closer look at the history of the world economy is essential to understand the winds of change that have been buffeting the world and the United States in recent years. At the end of World War II, U.S. dominance of the world economy was unchallenged. The dollar became the international currency, and the United States set the rules for an international trade regime based on the nineteenth century liberal principles of free flows of capital and goods. While often violated in practice, this was the spirit animating multilateral trade negotiations—emphasis on procedures and not on results.

Naturally, as other countries began to rebuild from the devastation of war, the United States' dominant position could not survive. Japan, Germany, and others rebuilt with the latest technologies, giving them more up-to-date industrial structures than the United States. Their lower wage levels and newer plants and equipment combined to make them high-productivity, low-cost producers. The process accelerated as countries such as South Korea and Taiwan began to industrialize, combining the latest technologies with exceptionally low wage levels. The outcome has been ever stronger competition in the international economy.

Many of the major policy developments of the 1970s that finally shattered the New Deal–Keynesian economic consensus were not taken

autonomously by the United States, but were forced on policymakers by external pressures. Two incidents stand out in this regard. The first was the August 15, 1971, decision of President Nixon to remove the United States from the Bretton Woods fixed exchange rate system and at the same time adopt a rigid program of wage and price controls. The key factors in these decisions were international.

This, in turn, had a major effect on the international economic system. International financial and commercial order is difficult to achieve among equals, and since the erosion of the United States' economic power after 1971, no single nation has been sufficiently powerful to impose order unilaterally. The breakdown of the Bretton Woods system resulted in floating exchange rates, which, when coupled with recession in several major nations, posed a constant threat of an international commercial disintegration and, in turn, reinforced domestic recessionary forces.

The second case of an internationally induced domestic policy change was the revolution in interest rates that took place in 1979 when the Federal Reserve Board decided to de-emphasize interest rate targets and to concentrate instead on the growth of the money supply. A key factor was the discontinuity between U.S. and international interest rates. The U.S. money supply growth rates and rates of inflation were also out of line with European countries.

This change pushed interest rates to historic highs, but even more importantly it signalled the large corporations in the economy that their wage bargains (and subsequent price increases) would no longer be ratified by the Federal Reserve through automatic increases in the money supply. Coupled with international competition, which limited their price setting behavior, this encouraged the assault on labor unions and wage roll-backs that were characteristic of the 1980s.

So in both instances of fundamental reformulation of domestic economic policy, the proximate cause was the vulnerability of the U.S. economy to foreign economic pressure and influence. This is a far cry from the hegemonic days of the 1950s and 1960s.

IMPACT ON THE U.S. ECONOMY

These changes in the international economy have led to a direct assault on the welfare state here and in other industrial democracies. The changes in the international economy enumerated above have increased the possibility of "exit" by people with large incomes and capital resources. Fearing the flight of capital from their own citizens and hoping to attract capital inflows from citizens of other countries, governments are pressured to overhaul both their tax and expenditure structures. Thus, the internationalization of capital markets is forcing countries to restructure their tax systems, which in turn is undermining the democratic welfare state. Countries as different as the United States, Canada, Sweden, and Japan, not to mention a number of LDCs, have had major tax reforms. While very different in detail, they share in common the attempt to reduce marginal tax rates on capital and high-income earners and to "broaden the tax base." The result is an increase in regressivity of tax systems.

To provide these tax reductions, governments are forced to cut back on the programs of the welfare state. It is important to note that these outcomes are less the result of demands by the electorate than decisions driven by the exigencies of international economic changes. This certainly raises questions about the autonomy of the democratic state.

The modern industrial world has seen the democratic welfare state as the answer to restraining economic forces so that society could be made a more humane place for people to live and develop as human beings. Unfortunately, international forces are undermining the ability to sustain the welfare state. Instead, we are moving toward the acceptance of a philosophy of "everyone take care of themselves and too bad if people can't cope." The society being created is one of great inequality, alienation, and even despair for many. This is not the soil in which democracy flourishes.

WHERE DO WE GO FROM HERE?

Developing solutions for the problems caused by international forces is difficult because the world economy differs from our or any country's domestic economy. In every domestic economy there is a sovereign power, the central government, that establishes the framework and rules for carrying-on economic exchange. In the United States, the Constitution empowers the federal government to regulate interstate commerce. No state can impose import tariffs on goods produced in other states. The federal government sets minimum wages, environmental regulations, payroll taxes, safety requirements, and so on that are binding on all of the states.

This is not the case in the world economy. There is no central government to set the rules. Prior to World War I, the hegemonic power of Great Britain set the rules for the international economy. During the interwar years, Great Britain was too weak, and the result was chaos in the international economy. After World War II, the Bretton Woods Agreement and the hegemonic power of the United States controlled the world economy. As the Bretton Woods system was abandoned and the power of the United States waned in the 1970s, coordination in the international economy was left to unregulated markets, supplemented with economic summits, to reestablish international coordination.

These efforts to organize the world economy on pure free-market principles—mainly by preachment—have not been successful. World economic growth has slowed; in many areas of Africa and Latin America, growth actually became negative during the 1980s. Trade imbalances have become extreme. Instability of exchange rates has become endemic in many areas. And the foreign debt borne by many countries, now including the United States, has had a constricting effect on the renewal of economic growth.

Reliance on GATT as the vehicle to promote a world economy of free multilateral trade worked as long as the United States and the Bretton Woods system set the rules for international trade and finance. International financial and commercial order is difficult to achieve among equals, and since the erosion of the United States' economic power after 1971, no single nation has been sufficiently powerful to impose order unilaterally.

The interdependent nature of international markets and of the various national economies means that individual policies regarding exchange rates, trade, capital flows, and debt issues will be more effective if set within supra-national programs that encourage and coordinate them. Just as it has been necessary for all countries, developed and undeveloped alike, to introduce various measures to control the workings of their domestic economies for the common good, it is time to extend those measures to the international economy. We cannot continue to practice one kind of economics up to our frontiers and another kind beyond them.

In addition, we as a society must face up to certain choices. Do we want a steel industry, do we want an electronics industry, or do we want whatever the marketplace gives us? Our policy has been that articulated by Richard Darman, Director of the Budget, when he said in 1985, during the Japanese dumping of semiconductors: "Why do we want a semiconductor industry? What's wrong with dumping? It is a gift to chip users because they get cheap chips. If our guys can't hack it, let them go.' Dumping—that is, selling below the home market price in foreign markets—is designed to increase market share and drive competitors out of business. Later the price rises. This used to be called predatory pricing and is illegal for U.S. firms under the antitrust laws.

There are two separate but related issues here. First is the idea of a strategic trade policy. This is where someone, presumably government, picks "winners"—that is, industries of the future that will make us more competitive with other countries. Japan, Korea, and many European countries, which do not have our simple faith in free trade, have national policies that attempt to create comparative advantages in key industries such as the airbus in Europe or supercomputers, optical fibers, and biotechnology in Japan. If done right—that is, "winners" and not "losers" chosen—and that is a big if, such a policy could keep us from falling hopelessly behind other countries, and it could put pressure on others to open up their economies.

The second issue is more fundamental. If we would rather guide our market system, through the agency of government, to give us what we consciously choose as a society, we will be forced to expand a strategic trade policy into a more comprehensive industrial policy. That is, we must decide that we want to maintain certain levels of some industries and expand others even if that requires subsidies or import restrictions. An example is the airline industry. Almost every country has a least one airline. We, along with every other country, do not allow unrestricted competition from foreign airlines on our domestic routes. Neither do we allow foreign firms to buy-up U.S. airlines. We have made a public choice to retain an airline industry because we think it is important, even if less efficient than having the service provided by foreign companies. The same type of choices must be made about other industries—steel, autos, machine tools, etc.

The great danger of an industrial policy is the possibility that it will be captured by special interests and the inefficiences hidden because they only show up in higher market prices. Clearly a system of democratic control must be developed. However, critics never face the fact that there are high costs to free trade—the people whose jobs are destroyed, the businesses that fail, and the communities devastated. If we counted the lost incomes, the abandoned schools, sewers, and other local infrastructure, free markets might not appear so efficient. Also we must remember that in the 1980s free markets gave us leveraged buyouts with junk bonds, overbuilding in commercial real estate, and stock market speculation, in addition to rising poverty and inequality.

Finally, despite the above policies, there will still be many industries that are hurt by international competition. To soften the human suffering in those cases of massive dislocation, trade readjustment aid needs to be increased. Retraining programs for displaced workers, relocation allowances, and subsidies will help the impacted communities attract new businesses, in addition to helping to reduce human suffering and increase economic efficiency by providing access to new skills and encouraging mobility of resources. And, clearly, full employment is necessary to make these policies work.

The key issue here is that worker retraining and relocation, community investment, and other policies are necessary if we want to manage the transition from an industrial to post-industrial economy. Similar transitions in the past were, by default, paid for by the people and communities left behind by the creative-destructive changes brought about by capitalist development.

However, restructuring the world economy and our international economic policies are not enough. We also need to develop new policies, in light of the changes in the international economy, to rebuild a more equitable and democratic domestic economy.

Let me conclude by emphasizing that real political leadership is called for. The American people must be convinced that there is no painless solution. The power of special interest groups must not be allowed to thwart the needed reforms. In addition, real philosophic differences seperate the American people: free markets versus government intervention, individual responsibility versus community obligations, and so on. And, certainly, there will be conflict among nations over changes in international trading practices.

Whatever we do, old policies will not work.

Globalizers of the World, Unite!

DANIEL DREZNER

The past decade has not been kind to the nation-state. Its economic and security functions have been called into question. The advanced industrial states have lost much of their influence over the global economy, a trend epitomized in September 1992 by the collapse of the pound sterling on "Black Wednesday," when a speculator's bet proved stronger than the full faith and credit of the British Treasury. Governments today have little choice but to privatize their economies and pursue rigidly stable macroeconomic policies. Powerful multinational corporations circumvent states, conducting their own foreign affairs and international agreements (Strange 1992). If the leading industrial nations have found themselves constrained, weaker states have been torn asunder. Culture and ethnicity, thought insignificant during the Cold War, have proven stronger than state institutions in Yugoslavia and the Soviet Union. Many governments face a situation of juridical but not actual sovereignty over their territories (Jackson 1990). All told, the Westphalian system of state sovereignty looks much weaker at the end of this century than at its mid-point.

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