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Neo-Liberalism, State Power and Global Governance

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Edited by

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PREFACE

This volume explores some of the ways in which neo-liberalism has affected both the exercise of state power and the conduct of global governance in the contemporary global economy. While the contributors have approached their subject from a variety of social science perspectives, their research is united by a number of underlying themes. First, neo-liberalism has failed to deliver a framework for state power and global governance capable of delivering stability and enduring prosperity. Second, the role of the politics in general, and the state and global governance in particular, should be defined more broadly than the simple neo-liberal construction of institutions for the market. There is an urgent need for the re-balancing of state power and global governance in favour of the public domain of the state and citizenship, in order to redress some of the inequalities bequeathed by three decades of liberalization, privatization, and de-regulation. Third, the degree to which globalization has undermined the policy autonomy of the democratic state has been overstated in many cases. While many poorer developing economies have been presented with a developmental fait accompli, for many more affluent polities, neo-liberal globalization has been a deliberate policy choice.

As a consequence, any analysis of the impact of neo-liberalism upon state power and global governance must acknowledge the importance of context, including the role played by society, historical traditions, and culture, in mediating the effects of neo-liberalism. Therefore, the volume commences by identifying and analysing the pattern of national differences in the exercise of state power in a variety of industrialized and developing economies. It then identifies a similar diversity in the patterns of trans-national policy prescriptions that have developed in the contemporary architecture of global governance, with particular reference to developments in the governance of labour markets. Because of the emphasis placed by neo-liberalism upon market-driven patterns of social change, and the importance of rolling forward the frontiers of the market through further privatization, liberalization, and de-regulation, the final part of the volume is devoted to an analysis of the need for reform in the contemporary pattern of global governance. The contributors have highlighted major flaws in the governance of liberalized financial markets, competition policy, and world trade, as well as the need for reform of the World Trade Organization and the Organization for Economic Co-operation and Development.

Although there is a well-established academic critique of neo-liberalism, the volume concludes that, in the face of mounting evidence its `one-size-fits-all' approach does not work, there is now the genuine prospect of at least a reform of neo-liberalism. While proponents of the `Washington Consensus' such as John Williamson have advocated a second stage of institutional refoms in developing economies, other influential commentators, notably Dani Rodrik, have confidently predicted the demise of the Washington Consensus. The most encouraging development has been the publication by the World Bank and International Monetary Fund of a series of major reports that have highlighted the deficiencies in the neo-liberal agenda. Furthermore, the United Nations Conference on Trade and Development has outlined the basis for an alternative developmental paradigm. The volume therefore concludes that there is the prospect of a more plural approach to state power and global governance, and one that recognizes the importance of the public domain of citizenship for delivering the global public goods of security, prosperity, and environmental sustainability in the twenty-first century.

PART I: NATIONAL DIFFERENCES IN THE FACE OF PRESSURES TO CONVERGE

SIMON LEE AND STEPHEN McBRIDE

INTRODUCTION

Neo-Liberalism, State Power and Global Governance in the Twenty-First Century

1. RE-BALANCING THE PRIVATE AND PUBLIC DOMAINS

There are few more vital contemporary questions for political scientists than those that emanate from the relationship between neo-liberalism, the exercise of state power, and the institutions and practice of global governance. Since the demise during the early 1970s of the first 'Washington Consensus' provided by the capital controls and fixed exchange rate system of the Bretton Woods international economic order, its neo-liberal successor has come to dominate the relationship between states and markets in both the industrialized and the industrializing economies. Policies of privatization, deregulation, and liberalization of markets have not only given entrepreneurs and trans-national corporations greater freedom to innovate and take risks in pursuit of profit, but also largely redrawn the boundaries between the public domain of the state and citizenship and the private domain of the market, entrepreneurship and consumerism. Globalization, often when allied to arguments about the need to maintain international competitiveness, has provided a generation of politicians with both a convenient alibi, to explain their inaction or indifference to rising inequality and other social consequences of unfettered market forces, and an ideological weapon, to justify major restructuring of domestic political, economic, and social institutions in the guise of urgent and overdue modernization (Blair, 1998; Giddens, 1998). The parallel response of a generation of voters, to this attempt to roll forward the frontiers of the private domain of the market, entrepreneurship and consumerism as agencies of social change, has been to abandon the public domain of political parties and the electoral ballot box in increasing numbers.

The purpose of this volume is to explore some of the ways in which neo-liberalism has affected both the nature of state power and its relationship to the institutions of global governance in the contemporary global economy. Although the contributors have approached their subject from a variety of disciplinary backgrounds from within the social sciences, there are a number of consistent underlying

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themes to their work. The first is that neo-liberalism has failed to provide a framework for state power and global governance capable of delivering stable and lasting prosperity for the richer industrialized economies, and a developmental route out of poverty for the poorest economies. Second, the role of politics and the exercise of public policy should be more broadly defined that the simple construction of institutions for the market. While the World Bank has argued that this limited role for the state is an effective one, the analyses furnished by the contributors to this volume suggest otherwise. The relationship between the state and market needs to be reordered to foster a broader conception of the public domain that will deliver greater effectiveness in both state power and the pattern of global governance, and thereby advance human development. In particular, the contemporary pattern of state power and global governance needs to be re-balanced in favour of the public domain of the state and citizenship, in order to redress some of the inequalities bequeathed by three decades of liberalization, privatization, and deregulation. Third, while international flows of finance, goods and trade have challenged and constrained the exercise of state power, the degree to which globalization has undermined the policy autonomy of the democratic state has in many cases been overstated. Consequently, any analysis of the impact of neo-liberalism upon state power and global governance must recognize the importance of context, including the impact of society, historical traditions and culture, in mediating the effects of neo-liberalism.

Thus far, the nature of the constraints which globalization has placed upon national sovereignty has been disputed between the 'hyper-globalizers', whose thesis is that national economic policy autonomy has been rendered largely redundant; the 'sceptics', for whom the notion of the powerless state has been overplayed to the point of mythology; and the 'transformationalists', for whom globalization has ushered in an unprecedented era of change upon states and societies (Held, McGrew, Goldblatt and Perraton, 1999). This volume is written in accordance with the thesis developed by Weiss that 'hyper-globalizers' and 'transformationalists' have tended to exaggerate the extent to which the political economy of the state has been constrained by the need to conform to the policy and institutional conventions of competitive liberalism. Indeed, as Weiss has suggested, 'rather than national states being generally constrained, hollowed out, and transformed by global markets, domestic institutions – especially, *but not only*, political ones – are key to understanding the effects of openness and where interdependence may be heading' (Weiss, 2003: 4). As the contributors to this volume have sought to demonstrate, states have significantly more political autonomy to mediate the effects of globalization than has been allowed by 'hyper-globalizers', not least because globalization can act as an enabling force as well as a constraint on economic governance. As a consequence, the character of domestic institutions remains decisive in determining how state power is used to deal with the impact of global markets. Although the structures of the world economy may set the 'political and economic parameters of the possible' at any juncture, 'it is only the parameters that they set' (Henderson, 1999: 361). Indeed, in the specific instance of the United Kingdom (UK) and United States (US), where neo-liberalism was kindled in the mid-1970s, the decision to roll forward the frontiers of the market in the interests of corporations and competitive liberalism, but at the expense of the public domain and citizenship, has been a conscious political choice rather than a fait accompli dictated by the ineluctable constraints of globalization. However, for many lesser developed countries, the conditionality accompanying loans and grants from the World Bank and International Monetary Fund has ensured that neo-liberalism has been anything but a conscious political choice.

To provide a context for the contributions which follow, this chapter provides an overview of the relationship between neo-liberalism, state power and global governance. It is divided into five sections. First, the roots of neo-liberalism are traced to the mid-1970s and the political economy of Thatcherism. Second, the chapter identifies how the neo-liberal conception of politics encapsulated by the second 'Washington Consensus' has narrowly defined the role of state power and global governance as the construction of institutions for the market. Third, the chapter demonstrates the degree to which neo-liberalism has failed to deliver global public goods such as growth and prosperity. Fourth, in the face of the failure of neo-liberalism, its hegemony in debates about state power and global governance is accounted for in terms of, on the one hand, its revitalization by the policies of the Bush Administration and, on the other hand, the rhetorical discrediting of its two principal rivals, namely, the European social democratic welfare state and the Asian developmental state. However, in both cases, it is argued that neo-liberalism has failed to demonstrate its superiority either in terms of economic efficiency or morality. Therefore, we need to look again at the relationship between neo-liberalism, state power, and global governance. Consequently, the chapter concludes by summarizing how the contributors to this volume have each sought to explore different aspects of that key relationship.

2. NEO-LIBERALISM: THE FREE ECONOMY AND THE STRONG STATE

The 3rd May 2004 was widely marked, if not celebrated, by the British media as the 25th anniversary of the election of Margaret Thatcher as Prime Minister of the United Kingdom. This event was remembered as one of the pivotal turning points of twentieth century peacetime British politics. However, it was equally important for global political economy because it marked the beginning of the process by which the political leadership of the Group of Seven industrialized economies began to embrace the New Right's project of rolling forward the frontiers of the market in the name of neo-liberalism. This was the point at which the Thatcher Government, equipped with 'a different analysis and a different set of policies' challenged the social democratic orthodoxy about the role of state power, both domestically and internationally. Domestically, it identified six main obstacles to full employment and prosperity, namely, high state spending; high direct taxation; egalitarianism; nationalization; a politicized and Luddite trades union movement; and the presence of an enterprise culture (Joseph, 1979: c.706–11). Underpinning the New Right's neo-liberal perspective on state power and global governance was the conviction, most readily promulgated by Sir Keith Joseph, Thatcher's closest ideological ally, that British politics had become stranded on a collectivist 'middle ground', characterized by Britain being 'over-governed, over-spent, over-taxed, over-borrowed and over-manned' (Joseph, 1976a: 19).

To restore the political and moral authority of the state, and to return politics to the 'common ground' of prosperity would require nothing less than salvation for an 'endangered species', and the rediscovery of the 'missing dimension in our economic thinking' and 'the only route to our prosperity, namely the entrepreneur (Joseph, 1976b). Ronald Reagan supported this thesis, contending that 'In this present crisis, government is not the solution to our problem; government is the problem' (Reagan, 1981). Internationally, the Thatcher Government was to argue for the restoration of the authority of the state through a more aggressive liberal militarist foreign policy towards the Soviet Union, given substance by the British procurement of four Trident ballistic missile submarines, and increased military spending on both sides of the Atlantic during the early 1980s, especially by the Reagan Administration. For Reagan, 'the aggressive impulses of an evil empire' had engendered a political and ideological crisis, symbolized by military confrontation, but whose underpinning was 'a spiritual one; at root, it is a test of moral will and faith' (Reagan, 1983). It was this agenda that was eventually to inspire both the collapse of communism, and the disorientation of social democracy, as neo-liberalism's principal ideological rival for the organization of twenty-first century capitalism (Lee, 2007a).

From the outset, the use of the prefix 'neo' and the generic term 'the New Right' (King, 1987) have been indicative of the way in which neo-liberalism has adapted and combined what were previously two separate ideologies, namely liberalism and conservatism. For example, in 1960 when Friedrich Hayek had used *The Constitution of Liberty* to interweave 'the philosophy, jurisprudence, and economic of freedom', defined in terms of classical liberalism, he had concluded his work with the postscript 'Why I Am Not A Conservative'. Here, Hayek had expressly rejected conservatism because its simple adherence to the principle of opposing 'drastic change', meant that it could not 'offer an alternative to the direction in which we are moving' (Hayek, 1960: 398). However, in 'the great struggle of ideas', liberalism, with its advocacy of the free growth, spontaneous association, individual entrepreneurship and self-regulating forces of the market, could offer a politically and morally superior alternative to the rolling forward of the frontiers of the social democratic state, whose 'chief evil' was 'unlimited government' (Hayek, 1960: 403). By the early 1970s, Hayek's optimism that liberalism could triumph over the arbitrary interventions of social democratic, state-led modernization projects had been dissipated by the rise of trades union militancy, and the onset of rising inflation and unemployment. Consequently, he now contemplated a scenario where 'If in a society in which the spirit of enterprise has not yet spread, the majority has the power to prohibit whatever it dislikes, it is most unlikely that it allow competition to arise' (Hayek, 1982: 77). Since personal freedom would no longer be guaranteed by the free constitution of spontaneous market association, a model constitution would have to be drawn up politically and legislation passed to define the limits of state power. In short, the basic principles of a free society might have to be 'temporarily suspended when the long-run preservation of that order is itself threatened' (Hayek, 1982: 124). To preserve the market order, state power would have to be used to rule out specific policies, for example, rendering 'all socialist measures for redistribution impossible' (Hayek, 1982: 150). The free economy would be accompanied by the strong state (Gamble, 1994).

Hayek's thesis was that the 'last battle against arbitrary power', namely 'the fight against socialism and for the abolition of all coercive power' (Hayek, 1982: 152) could yet be won. Through policies of privatization, market liberalization and deregulation, Thatcherism and Reaganomics sought to roll back the frontiers of the state, and to maximize the opportunities for entrepreneurship, competition and profit. However, as the authors of this volume have demonstrated, in practice the frontiers of state power have been redefined, and not necessarily rolled back. Indeed, for more than three decades, Hayek's 'coercive power' has been mobilized by the state to advance the frontiers of global capitalism. To restore a purer market order in the United States and the United Kingdom, neo-liberalism sought to initially challenge and then dismantle the institutional and ideological legacy of the old Keynesian social democratic state, and the popular expectations that accompanied it. Individuals and their families would have to be encouraged to look to the market and their own personal responsibility and initiative as the key agencies of economic and social change. This transformation would not occur spontaneously. It would have to be brought about through concerted political intervention, and a developmental role for state power. In practice, popular expectations of and attachments to social citizenship rights, and the institutions of the welfare state, have proven to be surprisingly resilient and difficult to dismantle.

Neo-liberalism thrived ideologically on both sides of the Atlantic during the 1980s and 1990s because it was able to exploit a loss of confidence in the efficacy of the Keynesian social democratic welfare state. Internationally, the suspension of the convertibility of the dollar, the introduction of floating exchange rates, and the liberalization of its financial markets by the United States had brought an end to the Bretton Woods era of managed capitalism through fixed exchange rates and capital controls. Domestically, the coincidence of rising inflation and unemployment in the aftermath of the 1973–1974 Oil Crisis had challenged longstanding assumptions about the attainability of full employment, the desirability of high rates of taxation, and the dangers of welfare dependency and subsidy addiction. Neo-liberalism was able to exploit this uncertainty by placing faith in the market as a discovery process for entrepreneurs to acquire the knowledge and information that would enable them to take risks and innovate to provide new goods and services to consumers. The superiority of the market mechanism over the state was held not just to be economic, in terms of a more efficient allocation of resources, or political and social, as a better and more spontaneous basis for human organization, but also moral, because of its maximization of individual liberty from the state (King, 1987: 9). However, from the very outset, the purported political and moral superiority of neo-liberalism has been vigorously contested, even by those who have been among its principal beneficiaries. Most notably, the multi-billionaire financial trader, George Soros, has lambasted neo-liberalism as an ideology of 'market fundamentalism' and untrammelled individualism, which has acted as a form of 'ideological imperialism' in emerging markets. For Soros, market fundamentalism has sought 'to abolish collective decision-making and to impose the supremacy of market values over all political and social values' (Soros, 1998: xviii).

3. STATE POWER: BUILDING INSTITUTIONS FOR THE MARKET

The agenda for state power which has emerged from the neo-liberal order has identified a 'limited but effective' role of the state, narrowly defined as 'to build institutions for the market' (World Bank, 1997). Neo-liberalism has cast the primary purpose of politics as the servicing of the interests of entrepreneurs, corporations, private enterprise and liberalized markets, operating within a neoclassical orthodoxy on globalization which holds that trade and development will accelerate, and inequalities in income and wealth simultaneously narrow, as the world converges around an Anglo-American, liberal democratic model of capitalism. Following this rolling forward of the frontiers of the market, at all levels of governance from the local to the global, the fostering of entrepreneurship has been identified as the key to improved economic performance. For example, at the supranational level, in the wake of the March 2000 Lisbon Summit which focused on the need for social and economic renewal to confront the 'paradigm shift' driven by globalization and the new knowledge economy, the European Union (EU) asserted that 'Enterprise Europe requires a revolution in our culture and attitudes towards entrepreneurship' (European Commission, 2000: 3). For its part, a United Nations' Commission on the Private Sector and Development has concluded that business may be made to work for the poor by unleashing entrepreneurship (UNDP, 2004). The models of competitiveness developed by the World Competitiveness Project, the Organization for Economic Co-operation and Development (OECD), and the Global Entrepreneurship Monitor (GEM) have all tended to praise those economies which have promoted entrepreneur-led innovation. For example, the 2005 World Competitiveness rankings placed the United States in first place because of 'The vitality of entrepreneurship, the abundance of technology, the size of the capital market, the mobility of the workforce, and the quality of infrastructure' (Garelli, 2005: 40). In a similar vein, the GEM's

2004 Executive Report found that no fewer than 20.73 million of the 73.22 million people contributing internationally to Total Entrepreneurial Activity were living in the United States (GEM, 2004: 17).

The primary reasons for the crisis of confidence in social democracy, as an alternative to neo-liberalism for the exercise of state power and foundation for global governance, reside in the policy choices of the 'Third Way', social democracy's most successful recent purported reincarnation. Although the Third Way has been cast in theory as a project of social democratic renewal (e.g. Giddens, 1998; Blair, 1998), in practice it has actually delivered an accommodation with the tenets of neo-liberal political economy. Indeed, the UK New Labour governments led by Tony Blair since 1997 have not only accommodated the legacy of Thatcherism, but actually strengthened and deepened the commitment to liberalization, the entrepreneurial spirit and market-based reforms of the public services. Many of the central tenets of post-war social democracy, surrounding state ownership, equality and redistribution have been abandoned (Lee, 2003). Moreover, while an ethical dimension to its foreign policy was promised through the Blair Doctrine of the 'international community' (Blair, 1999), in practice the Blair Government has chosen instead to align itself with the pre-emptive military invasions of the 'War on Terror' launched by the Bush Administration in Afghanistan and Iraq (Lee, 2007b).

The crisis of confidence in the social democratic state has been vividly illustrated in the demise of the European Union (EU)'s Constitutional Treaty. Among its defined objectives, the Treaty had offered its citizens 'an area of freedom, security and justice without internal frontiers, and an internal market where competition is free and undistorted'. The Treaty had also committed the EU to work for 'the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress' (European Commission, 2004a: Articles 1–3). However, on the 29th May 2005, a legally binding referendum in France saw 55 per cent of the electorate vote against the EU constitution. Three days later, the Dutch referendum witnessed a 61.6 per cent rejection. The very future viability of the European social democratic welfare state, in the face of neo-liberal globalization, has been called into question. In its 2004 annual report on European competitiveness, the European Commission noted that in 2003, overall government spending averaged 49 per cent of GDP in the 15 EU member states. An average of 19 per cent of GDP was spent by the EU15 on social protection, compared with 7 per cent in the United States and 10 per cent in Japan. The EU15 spent slightly more on health than the United States, but their share of national income was slightly lower than that of the United States (European Commission, 2004b: 30–1). Such reports have led some commentators to question whether the provision of welfare and other public goods, notably security and the protection of the cultural integrity of the nation, can remain the basis of state power in the twenty-first century. For example, it has been suggested that 'the State seems less and less credible as the means by which a continuous improvement in the welfare of its people can be achieved' (Bobbit, 2003: 222). Consequently, in the post-communist, neo-liberal world order, the nation state may be supplanted by the rise of the market state, i.e. 'a mechanism for enhancing opportunity, for creating something – *possibilities* – commensurate with our imaginations', through the provision of incentive structures and only a minimalist state framework of welfare and redistribution (Bobbit, 2003: 232).

The other principal rival model to neo-liberalism has been the developmental state which has governed the market so successfully in Japan, the 'tiger' economies of Korea, Hong Kong, Taiwan, and Singapore, and the newly industrializing economies of Thailand, Indonesia, and Malaysia. However, as a potential alternative to neo-liberalism, the developmental state has been tarnished. Long before the Asian financial crisis, neo-liberalism had sought to discredit the developmental state by attributing East Asian economic performance to high rates of investment, productivity growth and the endowment of human capital. Most famously, the World Bank's 1993 report, *The East Asian Miracle*, asserted that around two-thirds of this rapid growth could be accounted for investment averaging in excess of 20 per cent of GDP between 1960 and 1990 (incorporating unusually high rates of private investment), allied with high and rising endowment of human capital because of universal primary and secondary education. The remainder of the growth could be accounted by rapid productivity growth, made possible by the unusual success achieved in allocating capital both to high-yielding investments and catching up technologically with more industrialized economies (World Bank, 1993: 8). Rather than explaining this success in terms of the coordinating role of the state, the World Bank concluded that East Asian economies had 'achieved high growth by getting the basics right', while 'industrial policies were largely ineffective' and had 'little apparent impact' (World Bank, 1993: 8, 312, 354).

The Bank's report was attacked as 'quintessentially political and ideological' by Alice Amsden, one of the foremost scholars of the Korean developmental state. Because the Bank itself had recognized that 'in most of the East Asian countries, in one form or another, the government intervened – systematically and through multiple channels' (World Bank, 1993: 5), the macroeconomic 'basics' or 'fundamentals' could not tell the entire story and should not be separated from their microeconomic foundations or supporting institutions (Amsden, 1994: 624). Furthermore, the Bank's rejection of the importance of industrial policy for growth, simply because of the difficulty of establishing statistical links 'between growth and a specific intervention' (World Bank, 1993: 6) was not sustainable because it must therefore be equally 'impossible to establish links between growth and non-intervention' (Amsden, 1994: 628). Other academics dismissed the report as 'almost a textbook example of neo-classicists visibly confused but too proud to admit their failure'. It had been based 'not on fact but on sheer faith', deliberately ignoring a large body of literature counterfactual to its evidence (Kwon, 1994: 635, 641). The definitions of industrial policy and market failure deployed by the Bank had been 'biased and partial', while the distinction drawn between 'market friendly' and selective industrial policy interventions had been spurious because 'any intervention that corrects for market failures is market friendly' (Lall, 1994: 646, 648).

Despite this robust defence of the Asian developmental state, a further neo-liberal ideological assault was launched by Paul Krugman. He referred to 'The Myth of Asia's Miracle', claiming that 'once one accounts for the role of rapidly growing inputs in these countries' growth, one find little left to explain'. It was 'simply deferred gratification, the willingness to sacrifice current satisfaction for future gain' (Krugman, 1994: 70, 78). Subsequently, Krugman has attributed the Asian financial crisis to the corruption of 'crony capitalism', because 'The biggest lesson from Asia's troubles isn't about economics; it's about governments' (Krugman, 1997: 8–9). Indeed, 'the region's downfall was a punishment for its sins . . . a dark underside to "Asian values"', whose politicized, corrupt and distorted investments had left Asia's economies 'dead in the water' (Krugman, 1998: 28–9). However, this analysis has been challenged in turn by Dani Rodrik. He has contended that the very fact that investment in these Asian economies increased from 10 per cent to 30 per cent of GDP within 15 years, in economies where saving and investment decisions were made primarily by private households and entrepreneurs, should be grounds not for wholesale rejection of the developmental state model, but further inquiry into its proximate causes (Rodrik, 1997: 422).

In short, industrial policy cannot explain the Asian financial crisis or indeed the increasing incidence of financial crises during the neo-liberal era because not all crisis-hit economies have experienced large scale state intervention. Thus, Indonesia and Thailand had experienced little industrial policy before 1997, while industrial policy was largely absent in Korea in the build-up to the Asian crisis. Indeed, the very fact that Korea has been able to recover so quickly from the crisis is itself a true testament to the potential effectiveness of the developmental state, as an alternative to neo-liberalism in the exercise of state power. The Asian financial crisis came about because of the actions and irresponsible lending by private financial institutions operating in liberalized markets – the classic neo-liberal model. Indeed, the actions of the Korean state since 1997 suggest that the developmental state has been a very successful means of surmounting the crisis. The IMF has attempted to argue the after-effects of the Korean governments' interventions in the economy 'are now holding back a recovery' (IMF, 2004: 5), but this is to overlook the evidence (not least in its own Staff Reports) that the Korean state has been very successful in orchestrating rapid recovery from a major financial crisis. The Korean economy grew by no less than an average of 7.25 per cent from 1999 to 2003. This was only possible because the state had rejected neo-liberalism, and instead played a classical developmental state role by intervening massively to abolish directed credit, to restructure the giant industrial *chaebol*, to eliminate protectionist barriers, to float the exchange rate, and to massively restructure and privatize the baking system. As the IMF itself has acknowledged, Korea has engineered 'one of the more open and liberal economies in the emerging market universe' where foreign investors now own 43 per cent of market capitalization, the fourth highest in the world' (IMF, 2004: 5). All of this has been accomplished while Korea's public and external debt is estimated to have been no more than 48.75 per cent of GDP in 2004 (IMF, 2004: 310).

In any analysis of state power and global governance in the twentieth century, the developmental state model must not be abandoned. In the quest for alternative approaches, the focus of political scientists should be upon the effectiveness of policy design and implementation, and whether the Asian states might yet offer a better developmental model to poorer and newly industrializing economies than the neo-liberal orthodoxy of the World Bank and IMF. The key insight lies in recognizing that there is no one 'one-size-fits-all' solution for defining the relationship between neo-liberalism, state power and global governance. On the contrary, the key task for political scientists is to comprehend better the role of politics, history, and society in shaping the shifting boundaries of the public domain of state power and citizenship rights, on the one hand, and the private domain of market power, entrepreneurship and consumerism, on the other.

4. NEO-LIBERALISM AND GLOBAL GOVERNANCE

One of the principal manifestations of the dominance of neo-liberalism has been the transition from government to governance in the theory and practice of politics in general, and debates about globalization and state power in particular. Neo-liberalism has brought about a dual paradigm shift. During the period from the end of the Second World War until the early 1970s, the focus among both political theorists and practitioners had been upon a discourse about politics, government and public administration. This had reflected the dominance in the industrialized economies of the politics of the social democratic, Keynesian welfare state. This era witnessed the rolling forward of the public domain of the state and citizenship, both nationally and internationally – the latter through the agency of the United Nations (UN), the IMF, the World Bank, and the European Community. However, since the rise of the New Right in the mid-1970s, and the establishment of the dominance of neo-liberalism as the orthodoxy underpinning the policies of the IMF, World Bank and latterly the WTO, debates have tended to focus upon governance, rather than government per se. This, in turn, has reflected the increasing role of trans-national corporations (TNCs) and non-governmental organizations (NGOs), in the exercise of political power and the conduct of public policy.

Despite its ubiquity in debates about the exercise of state power and the role of international institutions, governance has remained an essentially contested concept. Governance was defined by the Commission on Global Governance as 'the sum of the many ways individuals and institutions, public and private, manage their common affairs' (Commission on Global Governance, 1995: 2). More recently, the UN has defined governance as 'the traditions, institutions and processes that determine how power is exercised, how citizens acquire a voice and how decisions are made on issues of public concern' (UNDP, 2006: 35). Good governance, defined as 'democratic governance' has been identified as the prerequisite to human development. The freedoms provided by democratic governance have been seen as 'ends in themselves, over and beyond their instrumental value', for 'freedom is the development metric by which people and governments monitor and assess human progress' (UNDP, 2006: 36). Irrespective of how it is defined, as the authors of this volume have attempted to demonstrate, the study of governance, at any level from the local to the global, cannot and should not be restricted to the descriptive. Research must move beyond the simple mapping of an ever more complex and 'thickening web of multilateral agreements, institutions, regimes and trans-governmental policy networks' (Held, 2004: 78). Governance, and the pursuit of 'good governance' are not value-free concepts, which can simply be administered through a technocratic programme of structural reform. The meaning of the customary prefix 'good' can be established only with reference to a particular normative or ideological framework. For example, the UN has defined 'good governance' in terms of eight core characteristics of democratic governance (UNDP, 2002: 35). Debates about governance have therefore penetrated to the very heart of the relationship between states and markets in a particular territory or jurisdiction. For political economy, debates about governance are inherently normative, prescriptive, and frequently ideological and programmatic.

The dominant perspective on governance has been the neo-liberal perspective. This has asserted that globalization of markets will reduce inequalities within and between states; that problems of market imperfections and externalities will bring forward a new institutional architecture of global governance; and that, in the longer term, there will be a process of societal convergence, based upon the common recognition of the benefits of markets and liberal democracy, and the emergence of global values, issues and institutions. In debates about global governance, the shorthand 'Washington Consensus' has been adopted to denote the hegemony of neo-liberalism in the policies of the World Bank, IMF and WTO. The phrase 'Washington Consensus' was first devised by John Williamson in 1989 to describe the list of ten specific policy reforms, focused upon privatization, liberalization, and deregulation, which at that time were deemed appropriate in Washington for most Latin American countries. Latterly, the 'Washington Consensus' has been used as a convenient shorthand for the neo-liberal policy prescriptions for development advanced by the IMF and World Bank in particular (Williamson, 2004a, b). Such was the triumphalism that accompanied the collapse of communism in 1989 that some influential commentators suggested that the world was converging towards 'the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government' (Fukuyama, 1989: 3).

The frontiers of the private domain of the liberalized market, in which the individual as entrepreneur and consumer enjoys the freedom to create and consume innovative products and services, have rolled forward to the detriment of the public domain, in which the individual as citizen used to enjoy or aspire to not only the right to access universal public services, but also the responsibilities and duties of being an active participant in the government of his or her community.

Operating within this paradigm, the technocrats of the IMF and World Bank have attempted to reduce governance to questions of efficiency and effectiveness, implementation and performance indicators (Kaufman, Kraay and Mastruzzi, 2005). As a consequence, a democratic deficit has developed in global governance manifested in parallel deficits in accountability, legitimacy, participation and transparency. These deficits have been illustrated, for example, in the One World Trust's *Global Accountability Report 2003* which has suggested that major Intergovernmental Organizations tend to be characterized by inadequate mechanisms to ensure both efficiency and representation, and dominated in their decision-making by powerful states, despite formal structures of equality. This power without accountability has been mirrored in trans-national corporations (TNCs) where institutional investors have increasingly come to dominate individual shareholders' interests in a less than transparent manner. By contrast, the governance structures of seven major international NGOs have been found to possess adequate mechanisms to ensure both efficiency and representation in their executive bodies. Furthermore, the decision-making in these NGOs has not been dominated by the interests of a minority (Kovach, Neligan and Burali, 2003: 29–30).

The onset of repeated financial crises during the 1990s had led many to challenge the efficacy of the 'Washington Consensus' for human development. The former Chief Economist at the World Bank and Nobel Prize-winning economist Joseph Stiglitz has asserted that 'The most fundamental change that is required to make globalization work in the way that it should is a change in governance' (Stiglitz, 2002: 226). For his part, Williamson has conceded that the 'Washington Consensus' failed to deliver the expected dividend for development because 'some of "first generation" reforms were neglected' or indeed incomplete. Consequently, rather than abandoning the core neo-liberal assumptions, what is now needed is both the completion of 'second generation reforms, including the strengthening of institutions', and the broadening of the reform agenda to include not only the acceleration of economic growth but a more equitable distribution of its benefits (Williamson, 2003: 5–6). However, others have asserted that 'The new, refurbished Washington Consensus is not a helpful guide to promoting development in poor countries'. Rather than attempting to fine-tune a neo-liberal model based upon a 'one-size-fits-all' approach to state power and governance, there should instead be an alternative approach focused upon 'experimentation – both in the institutional and productive sphere – as an important driver of economic development' (Rodrik, 2002: 8).

The shortcomings of neo-liberalism, as the foundation for human development, were acknowledged at the dawn of the new century by the agreement of a series of Millennium Development Goals (MDGs), notably to halve the number of people living in absolute poverty, to be accomplished by 2015. Subsequently, in the principles of the 'Monterrey Consensus', the outcome of the March 2002 Financing for Development Conference, the UN has recognized the particular difficulties which globalization has presented for state power in developing and transition economies. Thus, while each country has been accorded 'primary responsibility for its own economic and social development, and the role of national policies and development strategies cannot be overemphasized', the UN has also looked towards 'a holistic approach to the interconnected national, international and systemic challenges of financing for development-sustainable, gender-sensitive, people-centred development' (UN, 2002: paras: 6–8). As part of this concept of state power in an era of globalization, the UN has further asserted that national development efforts need to be complemented by enhanced 'coherence, governance, and consistency of the international monetary, financial and trading systems'. Furthermore, 'Good governance at all levels is also essential for sustained economic growth, poverty eradication and sustainable development worldwide' (UN, 2002: paras: 52, 61). In this regard, and to 'better reflect the growth of interdependence and enhance legitimacy', the UN has sought to improve economic governance by 'broadening the base for decision-making on issues of development concern and filling organizational gaps' (UN, 2002: 61). Therefore, the International Monetary Fund (IMF) and World Bank have been exhorted to enhance the participation of developing and transition economies in their decision-making, and the World Trade Organization (WTO) to ensure that its consultations are representative of its entire membership, with participation based on 'clear, simple and objective criteria' (UN, 2002: paras: 63).

5. THE DIVIDEND FROM NEO-LIBERALISM

Despite the concerted exhortations from the UN for a change in approach, neo-liberalism remains as entrenched as the orthodoxy informing the exercise of state power and the conduct of global governance. Paradoxically, evidence of the manifest failure of neo-liberalism to deliver global public goods such as prosperity, security, and environmental sustainability are legion. The *Global Monitoring Report 2005* has noted that, 'Every week in the developing world, 200000 children under five die of disease and 10000 women die giving birth. In Sub-Saharan Africa alone, 2 million people will die of AIDS this year. Moreover, 115 million children in developing countries are not in school' (World Bank, 2005: 1). Under the orthodoxy of neo-liberalism, things have actually deteriorated. For example, the incidence of poverty in Sub-Saharan Africa actually rose between 1990 and 2001, with almost half of the region's population living on less than a $1 a day (World Bank, 2005: 2). In a similar vein, the World Economic Forum has created its Global Governance Initiative (GGI) to monitor progress against a range of internationally agreed objectives in major areas of human development, namely peace and security, poverty and hunger, education, health, the environment and human rights. A score of 10/10 would indicate that everything necessary was being undertaken to meet the agreed developmental goals. However, in its 2004 report, the GGI discovered that only poverty and health had achieved a paltry score of 4/10, while every other issue area had scored 3/10. In short, 'too often the governments are scarcely trying' (WEF, 2004: 3). In 2005, the picture had remained static, except for progress in peace and security which had deteriorated to 2/10. The GGI concluded that the world leaders were inexcusably breaking the 'solemn promises to humanity' they had made in defining the Millennium Development Goals (WEF, 2005: v). In its 2006 report, the GGI found that progress in addressing poverty and health had risen to 5/10, and education and hunger to 4/10, but peace and security could score only 3/10, while progress on human rights and the environment had declined to only 2/10 (WEF, 2006: 5–6).

In relation to the impact of neo-liberalism upon the Least Developed Countries (LDCs), the UN has observed that 'The incidence of income poverty in LDCs is 43 per cent, with more than 82 per cent or rural households being income poor' (UNDP, 2006: 29). At the same time, there are major global inequalities in income, wealth, and human development. For example, while in 2004 the Gross Domestic Product (GDP) per capita (calculated by Purchasing Power Parity) was only $1270 in the LDCs, in developing countries the income was $4306, and in the affluent members of the Organization for Economic Cooperation and Development (OECD) a massive $29624. These inequalities reflect the fact that the LDCs only account for 0.6 per cent of global GDP and 0.6 per cent of global trade. The dividend for human development in 2003 was an average life expectancy of only 51 years in the LDCs, compared to 63 years in the developing countries. Furthermore, only 61 per cent of the population in the LDCs had access to safe water, compared with nearly 79 per cent in developing countries (UNDP, 2006: 149). Rather than providing a framework within which globalization might benefit all, neo-liberalism has simply reinforced competitive advantage, and accentuated inequalities in income and wealth to the extent that the world's richest 500 people now have a combined income that is greater than that of the poorest 416 million. In fact, around 40 per cent of the world's population receive only 5 per cent of global income, and therefore have to exist on less than $2 a day. By contrast, the richest 10 per cent now account for 54 per cent of global income (UNDP, 2006: 149).

Instead of delivering growth and stability, neo-liberalism has yielded a series of major capital account crises in liberalized markets, characterized by periodic volatility, contagion and panic. Thus, while 116 developed and developing economies experienced annual average GDP per capita growth rates of 3.1 per cent between 1960 and 1980, the same economies experienced growth of only 1.4 per cent between 1980 and 2000. Indeed, in 101 of these economies and 75 of the developing economies, the annual GDP growth rate failed to rise by more than 0.1 per cent between the two periods (Weisbrot et al, 2000, cited in Chang, 2002: 128). As the IMF's own data have demonstrated, far from delivering increased stability, the 'Washington Consensus' has fostered greater volatility in global markets and an increasing incidence of recessions. Most of the Bretton Woods era (1950–1972) was characterized by recessions which averaged 1.1 years and led to an average 2.1 per cent decline in output. A total of 94.4 per cent of these recessions were only one year in length with 63.6 per cent were associated with a decline in investment. In overall terms, only 5.6 per cent of the Bretton Woods era was spent in recession. By comparison, the IMF has shown that the post-Bretton Woods era (1973–2000) has witnessed recessions averaging 1.5 years and leading to a 2.5 per cent average decline in output. While 60 per cent of these recessions were one year in length, no fewer than 32.5 per cent were two years in length and the remainder three years or longer. There were no recessions of more than three years in length during the Bretton Woods era. In terms of expansions, Bretton Woods was characterized by a 102.9 per cent average increase in output compared to an average of only 26.9 per cent since 1973. Moreover Bretton Woods saw an average 5.3 per cent annual growth rate, arising from expansions averaging 10.3 years in length which occupied no fewer than 94.8 per cent of the years from 1950 to 1972. In sharp contrast, the post-Bretton Woods era has seen an average annual growth rate of only 2.6 per cent and expansions which have averaged only 6.9 per cent and occupied only 86.6 per cent of the period from 1973 to 2000 (IMF, 2002: 45).

It is not just the outcome of neo-liberalism for state power, global governance and human development which has come under increasing academic and official scrutiny. It is also the manner in which neo-liberalism has operated as a process of governance which has been roundly criticized. The manner in which the International Financial institutions (IFIs) have responded to recent financial crises from Mexico to Argentina has been described as anti-democratic, hypocritical, lacking transparency, and based upon 'what seemed a curious blend of ideology and bad economics, dogma that sometimes seemed to be thinly veiled special interests' (Stiglitz, 2002: xiii). Indeed, the IMF's approach to poorer countries has been portrayed as the 'Four Steps to Damnation', namely, privatization; capital market liberalization; market-based pricing leading to IMF-inspired rioting; and the premature opening of markets to free trade (Palast, 2001). One former Chief Economist at the World Bank and Nobel Laureate has argued that 'The most fundamental change that is required to make globalization work in the way that it should is a change in governance' (Stiglitz, 2002: 226).

Unless such a change is engineered, wherein the voice of the poorer countries is actually heard and their urgent developmental needs addressed, the MDGs will not be realized. For example, the United Nations' Conference on Trade and Development (UNCTAD) has identified a past cost of debt servicing among many African countries which has been simply incompatible with the fulfilment of the MDGs. Thus, between 1970 and 2002, Africa received US $540 billion in loans, but despite paying back around US $550 billion, there remained an outstanding debt stock of US $295 billion. For Africa to be able to cut poverty by half by 2015, it would have to achieve annual growth levels of around 7–8 per cent, around twice their existing levels, but this would remain virtually impossible given the continuing burden of debt servicing (UNCTAD, 2004). The United Nations Millennium Project (UNMP) has noted that during the past decade average per capita incomes in the developing countries have risen by more than 21 per cent, and that 130 million people in 2001 were living in extreme poverty than a decade before. However, this meant that 21 per cent of the population in these countries were still trying to survive on an income of less than 1$ per day.

In Sub-Saharan Africa, between 1990 and 2001 the number of people existing on less than $1 per day had actually risen from 227 million to 313 million, or 46 per cent of the population. Furthermore, heavily indebted poor countries had seen their incomes rise only from $298 per capita to $337 (in 1995 dollars) between 1990 and 2002 (UNMP, 2005: 13–14). Paradoxically, as the World Economic Forum (WEF) has suggested, developments such as the MDGs are 'not mere pious aspirations. They are the fundamental building blocks of global stability in what has become a tightly interconnected world'. However, the WEF has asserted that 'too often the governments are scarcely trying' to deliver such stability, while 'the "non-state" actors on the international scene – businesses and civil society groups – are neither able nor willing to compensate for the inadequacies of government efforts' (WEF, 2004: viii). The greater role accorded by neo-liberalism to non-state actors cannot of itself compensate for the developmental failures of state power and global governance.

6. THE STRUCTURE OF THE BOOK

Neo-liberalism has brought about a dual paradigm shift. In the realm of state power, neo-liberalism has redefined the role of the state by emphasizing 'market mechanisms and individual rather than collective approaches to solving or handling economic and social problems' (McBride, 2003: 14). In the realm of global governance, neo-liberalism has been used as a convenient conceptual shorthand for the ideology that has given 'content and shape to the heightened internationalization of globalization of our times' (McBride, 2003: 13). The conventional wisdom about the relationship between neo-liberalism, state power and global governance has tended to suggest that globalization has been an inevitable and irresistible development which states have been powerless to resist. However, far from being the passive victims of an ineluctable force, driven by powerful technological and economic developments, in practice, this volume seeks to show how states have tended to be 'active participants in their own demise, if demise it be' (McBride, 2003: 15). Furthermore, this volume provides a modest contribution to the task of reassessing state power and global governance by presenting a series of chapters which explore how state power and pattern of global governance have evolved within the paradigm shift brought about by the neo-liberal orthodoxy of the 'Washington Consensus'.

The book is divided into four parts. Part I is devoted to an analysis of national differences in the exercise of state power in the face of pressures to converge. In Chapter 2, Michael Whittall addresses the impact of European level macroeconomic policy on long standing arrangements governing the relationship between labour and capital in a leading European country. Specifically, the chapter discusses the impact of Economic Monetary Union (EMU) on German industrial relations. It contends that the neo-liberal character of European economic integration is undermining the traditional balance of power between centralized (collective bargaining) and plant level (works council) employee representation. In response to increased product market competition, the very aim of the European project, German companies increasingly favour plant level concession bargaining. A growing preference by firms for decentralized negotiations undermines a previously existing social consensus, could have long-term negative consequences for *Modell Deutschland*, the non-plus ultra of a Post War corporatist arrangement. Thus the chapter traces the strength of some international pressures and their impact on policy and governing arrangements at the national level. However, it notes the presence of countervailing tendencies, one being that the decimation of industrial level collective bargaining may turn out to be contrary to the interests of German capital.

In Chapter 3, Simon Lee explores the public policy choices undertaken by the Blair Governments in England and the Chrétien and Martin governments in Canada in order to compare their contrasting perceptions of, and responses to, the constraints placed upon state power by globalization. In particular, this chapter deals with the relationship between the public and private in policy choices, and the ethical questions raised when the role of traditional collectivist and democratic institutions is demoted in favour of greater opportunity for the entrepreneur and market. Focusing on innovation policy, Lee's analysis takes into account the mediating influence of state institutions on global influences and the impact of institutional differences such as the federal versus unitary dimensions that contrasts the two countries. He concludes that Canada's federal system has performed better than the centralized English system since it facilitates the design of policy for local, market-, sector and enterprise specific conditions. This demonstrates the continued salience of institutional differences in explaining countries' relative success in adapting to the pressures of globalization. In Chapter 4, Michael McNamara notes how education's contributions to human development, social change, economic progress and the elimination of poverty have been widely acknowledged. However, the gap in educational performance and competitiveness between Latin America and other regions is widening. There has been a strong tendency in recent decades to promote of decentralization as a policy solution to Latin America's poorly performing educational systems in particular, and poorly performing social sectors in general. This chapter assesses the common perception that the rapid pace of globalization throughout the 1980s and 1990s is the driving force behind the decentralization of educational systems across Latin America. It concludes that countries that were more exposed to trade and that had open capital accounts (important indicators of globalization) were not necessarily the most decentralized in terms of their educational systems, nor were countries which were more democratic necessarily more decentralized in terms of education. Rather, countries with higher levels of debt/GDP ratios were somewhat more likely to follow the trends towards decentralization in their reforms during the 1990s.

Part II of the book is devoted to an exploration of trans-national policy prescriptions for state power and global governance. It begins with Stephen McBride, Kathleen McNutt and Russell Williams' analysis of labour market policies in the Organization for Economic Co-operation and Development (OECD) area. Considerable research has attempted to identify what type of labour market polices most effectively respond to the persistently higher rates of unemployment associated with adaptation to globalization. A dominant 'neo-liberal' orthodoxy has emerged, suggesting the only effective policy is for states to abandon macroeconomic attempts to increase employment and focus on increasing 'flexibility' through labour market policy retrenchment. States should reduce unemployment insurance, deregulate labour laws, and reduce minimum wages. By providing employers with increased 'flexibility' in labour costs, adaptation is accelerated and, according to proponents, employment rates will increase. The OECD's decade long 'Jobs Strategy', a cross national policy recommendation and surveillance project, illustrates this orthodoxy. Expanding on earlier research, this chapter argues that the liberal Jobs Strategy is theoretically flawed in its analysis of 'flexibility', and practically flawed in that it does not lead to good labour market performance.

In Chapter 6, Peter Graefe analyses the emergent contradictions in and local alternatives provided by trans-national policy solutions. Recent analyses of neoliberalism refer to the development of 'flanking mechanisms' to shore up the model. Community based organizations grouped into a third sector or social economy can help ensure economic development and social cohesion, particularly in less competitive economic spaces. These organizations potentially provide a means of meeting growing demands on the service side of the welfare state (child care, elder care) within the fiscal and political limits to welfare state expansion set by the neo-liberal context). At the same time, they can contribute to employment by employing those at the margins of the labour market to meet unmet social needs. This chapter traces how the social economy has been positioned in trans-national public policy discourse as a flanking mechanism, and then, examines the contradictions and potential alternatives it opens up. The chapter focuses on developments related to the social economy in Québec, Canada, but makes frequent reference to parallel trends noted elsewhere, particularly in the United Kingdom and Europe. Particular attention is paid to the women's movement's counter-strategy of creating 'social infrastructures', and how this has fed into some success in moving debate on the social economy beyond the flanking role of trans-national policy discourse, to being part of a broader anti-poverty strategy.

In Chapter 7, Linda Elmose assesses whether there is convergence in the legal reforms undertaken in emerging market economies. Through a universal lens the recent wave of transformations toward market economies undertaken by the developing countries in all regions of the world are presumed to have similar causes, processes, and final destinations. The market economies in transition are expected to abide by and copy the same or similar institutions currently featured in the western advanced industrialized countries. In this way, convergence or harmonization parallels the crude Modernization Theory popularized by development theorists in the 1950s and 1960s, wherein the late-developers were expected to follow the same paths toward growth and development as the western countries, by supplanting their own unique, culturally attuned and traditional institutions, values, beliefs, and norms with "modern" ones. This chapter aims to more closely probe and to challenge the mostly uncritically accepted theme of universalism, or convergence, of market economies and their attendant legal rules and institutions.(i.e. property rights, contract rights, rule of law). The argument holds that convergence amongst the market economies currently under transformation towards a global norm, or standard provided by the western countries is overstated. What is needed is a more cautious view of the widespread trend of market economy transformations, with a more balanced apprehension of both the areas and trends of divergence and convergence as the end result.

Part III of the book assesses whether labour constitutes a special case, in terms of the exercise of state power and practice of global governance. In Chapter 8, Christina Gabriel analyses the past and present pattern of the governance of international labour. International trade agreements contain detailed provisions regarding the liberalization of trade, investor rights and disputes settlement mechanisms. Concerns have been raised as to the extent to which these agreements compromise state power and sovereignty. However, state sovereignty is also exercised, in part, through the right of nation-states to control the entry and exit of people to a territorially bounded space. In terms of migration issues, the nation-state is still at the fore. However, under conditions of globalization and regionalization states have moved in different ways to regulate labour mobility. This chapter considers the ways in which states are implicated in the construction of new regimes of international mobility. It will firstly highlight the existing multilateral regime, the International Labour Organization (ILO) and International Organization for Mobility (IOM) that attempt to address international labour mobility. It compares these weakly institutionalized mechanisms to the entrenched but limited mobility provisions of trade agreements, such as NAFTA. In doing so, the chapter emphasizes the competing interests of countries in the North and South regarding strategies to govern labour mobility of particular groups of workers.

In Chapter 9, Habiba Zaman explores the impact of neo-liberal policies upon immigrant women in Canada. Globalization has liberalized the movement of all factors of production except one-labour. Mobility of labour is surrounded by complex regulations that provide some opportunities for mobility. Indeed, advanced countries increasingly rely on the global market for a constant supply of domestics for childcare and eldercare financed by private employers. However, in Canada the absence of government regulations as well as the lack of private bonds and obligations has created an unregulated, neglected area where labourers are mostly at the mercy of their employers. Thus, while economic liberalism has produced a more trans-national mobile labour force, it has also created a process that makes immigrant female labourers a cheap commodity. This chapter uses Canadian public policy as a case study through which to investigate the processes of commodification of migrant and immigrant female labourers. In particular the impact of one programme affecting domestic workers is examined in detail. The Live-in-Caregiver Program (LCP) and the acceleration of deskilling through the LCP pave the way for the labourers' partial commodification. Zaman contends that Canada's LCP and the Philippines Labor Export Policy (LEP) constitute an asymmetrical partnership resulting from neo-liberal policies. The chapter undertakes a comprehensive analysis of macroprocesses within a political economy theoretical framework and reviews migration from theoretical and feminist perspectives.

Part IV of the book is devoted to the need for reform of both the exercise of state power and the practice of global governance. In Chapter 10, Johnna Montgomerie explores the relationship between neo-liberalism and consumer-led debt. The chapter attempts to understand the rise in consumer debt as a consequence of neo-liberalism and to outline its socio-political and economic consequences. During the 1990s, the OECD and Group of Seven (G7) co-ordinated an effort to stem inflation, reduce government deficits, and allow for steady economic growth in advanced industrialized economies. This overall policy package, associated with neo-liberalism, was intended to discipline governments and support a resurgence of international financial capital. However, it translated into huge levels of consumer debt because the policies of low inflation meant stagnant wage rates. Therefore, in order for the average household to continue consuming (and the economy growing) they incurred debt. Hence, this chapter explores how the neo-liberal contradiction of non-inflationary growth is linked to consumer debt and how these policies will only perpetuate the structural crisis of excess credit. In Chapter 11, Duncan Cameron evaluates the case for a new world currency unit. The world cannot have a balance of payments' deficit. Yet deficit countries, other than the United States, are being forced to practice polices that restrict their capacity to enhance national capabilities. A new world currency could allow the rich countries to adjust their policies to the needs of the poor countries, instead of the prevailing situation where the opposite occurs, at the great expense of justice and equity in the world. A form of global governance based on justice and equity would be greatly enhanced if states were to agree to the creation of a new reserve currency or to the extension of the existing Special Drawing Rights of the IMF. The international community could then call upon its credit making capacity to underwrite projects that help meet the pressing needs for human development: literacy, health, basic income, and economic opportunity. This chapter sets out the case for the creation of a world currency and how it would serve the promotion of global justice for 'the peoples of the United Nations'.

In Chapter 12, Marc Lee analyses the case for a multilateral approach to competition policy. Competition (or anti-trust) policies are well-established as part of the institutional apparatus of the nation-state, at least in advanced industrial economies. But as trade and investment expand the realm of commerce beyond national borders, and trans-national corporations become more powerful players in the global economy, many analysts suggest that competition policies are also needed at the international level. With a specific focus on competition policy, the chapter considers the case for a multilateral framework on competition policy, and how that contrasts with the specific existing proposals for such a framework under the WTO and the Free Trade Area of the Americas (FTAA). It examines how competition policy proposals became less about reining in abuses of market power, as in the case of national competition policies, and more about the territorial expansion of that market power. It also considers how competition policy proposals failed to address the concerns of developing countries, and ultimately worked against their interests – a key ingredient in the demise of negotiations on this topic at Cancun.

Chapter 13 explores the role of the World Trade Organization (WTO) in the global governance of international trade. Ted Cohn notes that the Uruguay Round was the GATT's most ambitious multilateral trade negotiation, extending trade rules to services and intellectual property, and replacing the informal GATT with the formal WTO. However, the WTO has encountered serious problems with the Doha Round, and there is no consensus on the causes of the problems. Only by examining the diversity of views on the WTO can we arrive at possible solutions. This chapter focuses on three sets of seemingly contradictory views about the current problems with global trade governance. First, the view that the WTO's growing membership hinders expeditious decision-making versus the view that the WTO's decision-making is undemocratic. Second, the view that the North has dominated trade decision-making versus the North providing inadequate leadership in the WTO. Third, the view that the WTO is too powerful versus the WTO lacking authority to effectively perform its functions. The chapter's conclusion offers some policy prescriptions to address these contradictions and the WTO's problems with global trade governance. In Chapter 14, Colin Tyler explores the relationship between the WTO and social justice to consider the implications of social democratic critiques of the capitalist imperative for ever greater financial growth (developed many years ago by Galbraith, and still supported by Sen and others). It is noted that that such critiques presuppose a significant degree of scepticism about the claim that wealth can be reduced primarily to the possession of financial resources. Based on a careful analysis of theorists such as Sen and Walzer, the chapter's conclusions bolster a deep scepticism about 'one-side-fits-all' policies of global governance, and about the efficacy of global institutions such as the WTO and IMF as effective promoters wealth and social justice. In policy terms, the analysis provides strong support to calls for global institutions to be hollowed out as a stage in their transformation into mechanisms for conflict resolution between regions. This transformation will necessitate the creation of regional forums within the WTO and other global institutions, tasked with the development and enforcement of broad procedural rules rather than specific, universal goals (e.g. neo-liberal trade liberalization). More fundamentally, it indicates the need to supplement this global level with nested systems of local and regional institutions tasked with determining production and distribution policies.

In Chapter 15, Richard Woodward analyses the role of the OECD in global governance. The OECD is frequently cited as one of the foremost institutions of global economic governance. Yet, in contrast to many other leading institutions, notably the IMF and the WTO whose roles are well documented and widely comprehended, remarkably little detailed analytical work has been undertaken with regard to the OECD and its contribution to global economic governance. This chapter seeks to begin to remedy this major lacuna in the literature on global governance and global political economy by addressing three key questions. First, what role has the OECD played in global governance since its creation in 1961? Second, what challenges now confront the OECD and is it still relevant to global governance? Third, what reforms should the OECD undertake to meet such challenges? Policy failure and growing criticism deriving from the failure to engage sufficiently with the problems of the developing world have undermined the legitimacy of the OECD as a global policy maker. Woodward argues that the OECD must accelerate the reforms aimed at improving links with non-member states and civil society groups and enlarge its membership. Finally, the OECD needs to solve its identity crisis and come up with a clear statement of its purpose in contemporary global governance.

In the conclusion to the book, Simon Lee and Stephen McBride explore the prospects for challenging the hegemony of neo-liberalism as the ideological basis for both the exercise of state power and the practice of global governance. Drawing upon the analyses of Marquand, Drache, Held and Hutton, and the recent work of UNCTAD, the solution is held to lie in the restoration of the public domain. The public domain is portrayed as an arena characterized by consensus, co-operation and public discourse, but also by power, ambiguity and paradox. However, it offers the key to the provision of global public goods, such as security, prosperity and justice because it alone, as an arena of social life, cuts across the state and market and other public private agencies, and is insulated from the private domain of market forces, such that citizenship rights rather than market power govern the allocation of social goods. The chapter concludes that the theory and practice of state power and the global governance of markets for trade, money and finance must be politicized once more in order to better manage the attendant risk of volatility, contagion and crisis. The notion of power must be reintroduced such that the normative and prescriptive aspects of political economy once again enjoy supremacy over the descriptive and scientific.

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MICHAEL WHITTALL

EUROPEAN ECONOMIC INTEGRATION

The Threat to Modell Deutschland

1. INTRODUCTION

Faced by the advent of neo-liberal market forces, epitomized by the austerity character of EMU (Buda, 1998; Ferner and Hyman, 1998), Germany like other European Member States is having to contend with a radically new macroeconomic regime (Grahl and Teague, 2003). With the advance of European economic 'integration', a byword for production transparency, low unit costs and labour flexibility, governments and corporate interests are increasingly committed to improving economic performance by promoting a deregulation of labour markets (Marginson and Sisson, 2001; Lane, 2003). The following chapter contends that the aforementioned neo-liberal agenda is having far reaching repercussions on the dual system of employee representation, the heart *Modell Deutschland*. The forward march of decentralization is unsettling the historical equilibrium between plant level co-determination and sectoral collective bargaining, i.e. that a conflict of interest is occurring between works councils (WC) and trade unions. Certainly, the potential 'historical tension' between these two industrial relations actors cannot be ignored, with employee representation marked by the dilemma of unifying the particular (the place of work) and general (class affiliation). In the case of Germany, as will be shown below, the Adenauer government attempted to exploit this division when passing the Works Constitution Act in 1952 (Thelen, 1991; Artus, 2001). The dormant micro-corporatist tendencies of WCs, what Streeck (1995) terms 'plant egoism' (WCs placing plant interests above of the wider company and sector), are certainly something German trade unions have had to continually contend with.

Favourable economic conditions (Streeck, 1995) and the exertions of trade unions to monopolize WCs and conflicting legislative tendencies, however, helped to neutralize the micro-corporatist leanings of WCs in the past 50 years. In fact, WCs served as an important extension of trade union influence in Post-War Germany, both as an agent for winning new union members and as a control mechanism (*Tarifpolizei* – collective bargaining police) for ensuring employers adhere to

S. Lee and S. McBride (eds.), Neo-Liberalism, State Power and Global Governance, 27–40.

collective agreements (Müller-Jentsch, 1995). The question remains, though, whether such an arrangement is sustainable in an economic environment marked by intensified product market competition and an EU economic policy guided by free-market principles. Should German firms, in the face of intensified competition and greater geographical choices, reject the high cost diversified quality production paradigm; WCs will be under increasing pressure to conclude various concessions. Although such measures might ensure short-term job security, they would represent an undermining of *Modell Deutschland's* cohesive nature.

In addressing the implications of EMU on *Modell Deutschland* this chapter focuses on the dual institutions of WC and trade union employee representation. The hub of German industrial relations, it is here (the geometric relationship between WCs and trade unions) that the impact of European economic integration is most likely to be felt. To this end evidence is drawn from the metal working industry, a highly internationalized sector, and BMW, a company both covered by metal working agreements and a leading promoter of working time flexibility in the last 20 years.

A case study of the German metal sector, in which 15 respondents, 9 BMW WC delegates and 6 *IG Metall* officers, were interviewed, the chapter is structured as follows. In Section 2 the research design is discussed. This is proceded by an understanding of the impact of EMU on labour markets, in particular the existence of a new macroeconomic regime and its consequence for German corporate governance. Section 4 offers a brief outline of *Modell Deutschland*, with particular attention given to the legal relationship between plant level and sector level employee representation. The paper then turns to consider the introduction of flexible working time practices at BMW between 1988 and 1996. This is followed by a general review of data relating to WCs in the metal working industry, particularly the development of *Öffnungsklauseln* (open clauses). In the concluding section the paper considers the condition of *Modell Deutschland* in light of evidence presented in this paper.

2. ECONOMIC MONETARY INTEGRATION: INTERNATIONALIZATION OF *MODELL DEUTSCHLAND*

Grahl and Teague (2003) rightly note that EMU represents the most advanced attempt to integrate the European Union to date. It is somewhat axiomatic today to note that the Maastricht Treaty (1991), the key juncture in the transition towards a unified monetary sphere, is having far reaching repercussions for industrial relations in Euro and non-Euro zones (Buda, 1998; Marginson and Sisson, 2001). Endorsing EMU in Maastricht, Member States abdicated their responsibility over key economic variables central to governing national labour markets. Interest and foreign exchange rates, essential tools used by national governments to protect and encourage labour demand in the past, are now strictly guided by deflationary policies emanating from Brussels (Zis, 1992; Ferner and Hyman, 1998). This is no more evident than by the existence of the Stability Pact designed to ensure monetary stability. The pact stipulates national governments are required to keep within the following certain monetary boundaries; inflation below 1.5 per cent of the average three countries with the lowest rate, nominal long-term interest rates not exceeding 2 percentage points of the average three countries with the lowest inflation rates, deficits not be in excess of the 3 per cent of the country's GDP and finally gross debt to the GDP no higher than 60 per cent. With Member States no longer able to promote inflationary growth through changes in the money supply, a Keynesian principle widely followed in the Post-War period, economic success becomes increasingly dependent on reducing labour costs and greater employee flexibility (Buda, 1998; Coen, 1998; Lane, 2003). According to Marginson and Sisson (2001: 5) this produces 'regime competition', sites pushed into price 'competition with each other for the mandate to produce given products and future investment projects'.

Another aspect of EMU that needs to be considered relates to European financial integration and the consequences this is having on company investment and credit channels in countries adhering to the shareholder value principle (Grahl and Teague, 2003; Lane, 2003). As Grahl and Teague (2003) note, the move to reduce technical obstacles to full financial economic integration, especially since the passing of the Financial Services Action Plan in 1999, brings into question the 'Hausbank' paradigm (Höpner, 2001). Banks can no longer be relied upon as sources of long-term credit and guardians against hostile takeovers. Instead, companies are increasingly required to turn to capital markets for such financing. The importance of this development can be seen by the fact that the European stock markets in the last 20 years increased from $200 billion to $7.4 trillion (Hank, 2001: 4).

According to Lane (2003) this paradigm change in corporate financing has major repercussions for employee relations. In resorting to capital markets for financial investment an outside controlling influence (shareholder value) is introduced into corporate governance that throws into imbalance the amalgamation of insider interests (stakeholder). The later include employees, employers, customers, banks, local community and suppliers. What Hoffman (1997) refers to as the 'exist' threat, the increased mobility of capital, implies that key actors (employees and local/national governments), whose very existence is geographically fixed, become hostages to external investment decisions. As a means of satisfying shareholder interests, which increasingly represent a short-term commitment, employees are required to demonstrate, usually in the form of greater flexibility and low wage demands, their commitment to ensuring investors get the best possible return on their investments. Fajertag (2000), for example, notes that the EMU influenced restraint in pay settlements. In terms of German corporate governance various indicators suggest a move towards the shareholder paradigm. One important development occurred in 2000 when the German government passing a new tax law governing the sale of bloc shares tied up in cross-holdings. Under the new ruling the sale of such shares is now exempt from tax payments.

Consequently, investors, mainly banks, are now able to withdraw their commitment from firms that offer poor returns on investment at a lot lower cost.

3. MODELL DEUTSCHLAND: DUAL TENSIONS

Any discussion of German industrial relations usually centres on the dual system of employee representation, namely the clear division between plant and sector level representation. Unlike in other continental countries with similar structures there is very little overlap between centralized collective bargaining and WC activities in Germany (Kittner, 1997; Hassel, 1999). Although German WCs have a history dating back to the 1848 *Fabrikausschüsse* (factory councils), it was not until the 1920s that WCs became recognized as an important industrial relations institution (Uellenberg van Dawen, 1997). Gripped by revolution, the *Betriebsrätegesetz* (*BetrG* – works council act) of 1920 represented an attempt by employers, the State, the *Sozialdemokratische Partei* (Social Democratic Party) and trade unions, to neutralize the *Rätebewegung* (workers council movement) (Müller-Jentsch, 1995; Limmer, 1996; Kittner, 1997; Uellenberg van Dawen, 1997). According to Müller-Jentsch (1995) such an historical overview is essential in understanding the relationship of WCs to sector level collective bargaining. Even after four major reform periods, 1952, 1972, 1988 and 2001, the main characteristics of today's WC can still be traced back to the 1920 *BetrG*. Two variables in particular have stood the test of time, the *Doppelloyalität* (double loyalty) and *Friedenspflicht* (peace clause) (Kittner, 1997). Whilst *Doppelloyalität,* Article 2 of the *Betriebsverfassungsgesetz* of 1952 (BetrVG – Works Constitution Act), states that WCs are required to promote both the interests of employers and employees (Kittner, 1997), the *Friedenspflicht*, Article 74 (II) of the same law, forbids WCs calling or leading any form of industrial or political action (Zachert, 1993).

Although the genesis of works councils is depicted as one of the fostering 'pluralist collaboration', such definition needs to be handled with care. A closer understanding of legislators' intentions in 1952 suggests that another aspect, and one which is key to understanding WC and trade union relations, cannot be ignored. Not only was the 1952 law a democratic disappointment for organized labour, mere rights of information, but trade unions found their position within the workplace marginalized. Markovits (1986: 81) notes, that with the *BetrVG* the Adenauer government 'banned the unions as the official shop-floor representatives of West German workers'. At the time this led to widespread outrage amongst German unions (Felder, 1992; Limmer, 1996; Kittner, 1997), the *DGB* even referring to the passing of the law as a 'black day' in the development of the German Republic (Müller-Jentsch, 1995).

From this perspective the historical foundation of WCs appears very much in the tradition of the *gelbe Gewerkschaften* (company unions) prevalent in Germany before 1920. A decentralized structure, the unitary side of WCs, most evident in the *Doppelloyalität* clause, advances principles of social partnership between employers and employees to the legal exclusion of trade unions. Thus, WCs are the potential bearers of what Sorge (1999) refers to as *Betriebsindividualismus* (plant level individualism), parochial above collective interests. *Betriebsindividualismus*, however, did not become the unitarist force trade unions feared it would. Various factors helped to mitigate such a tendency. One of these, the most important influence this paper would suggest, was a favourable economic and political environment. Other factors were only what can be described as contradictory tendencies within legislation relating to WCs as well as trade union responses. In terms of legislative contradictions, for example, the peace clause, Article 74 (II), the legal inability of WCs to resort to industrial action, has ensured a WC dependency on the 'industrial muscle' of organized labour. The close association with trade unions has traditionally strengthened the status of WCs. Of greater significance, though, is Article 77 (III) of the *BetrVG*, which forbids plant level actors party to collective regulation from determining pay and other employment terms and conditions. This is the domain of collective bargaining partners. Thus whilst Markovits (1986) correctly notes that the 1952 law banished trade unions from the workplace, with WCs a trade union free structure, this tendency was constrained by the fact that Article 77 made trade union agents of collective bargaining.

Finally, for over 50 years German trade unions have adhered to a strategy of WC 'incorporation' (Felder, 1992; Müller-Jentsch, 1995; Kittner, 1997). Central here has been the organizing of WC members. This has involved offering important training and support for WC members on a whole array of issues, ranging from labour law, through to public speaking skills. As can be seen from Table 1, the policy of

Table 1. Works Council Elections: Percentage of DGB Members Elected

Year	Number of Establishments	Councillors Elected	DGB Elected Members (%)
1965	23,813	149,672	82.7
1968	29,298	173,670	77.6
1975	34,059	191,015	77.5
1978	35,294	194,455	78.1
1981	36,307	194,125	77.5
1984	35,343	190,193	77.4
1987	34,807	189,292	76.6
1990	33,012	183,680	76.3
1994	40,039	220,245	75.2
1998	33,000	NA	NA
2000	NA	NA	76.0

Source: WSI-Mitteilungen (2001), EIRO (1998), Jacobi et al. (1998) and Fürstenberg (1998).

'incorporation' appears to have been relatively successful, the most recent figures indicating that 76 per cent of WC delegates are members of a *DGB* affiliated union. Faced by a new macroeconomic regime promoted by EMU, however, resulting in high unemployment, pay restraint, intensification of the labour process and the emergence of a working poor, suggests that factors which once tempered the tensions between WCs and trade unions might be warning. The intensification of product market competition, both globally and regionally, poses a particular threat to labour markets traditionally marked by the principles of stakeholder value.

4. GERMAN METAL SECTOR AND THE PROCESS OF DECENTRALIZATION

The metal working sector experienced far reaching structural changes in the 1990s – all factors pointing to a deregulation of centralized collective bargaining and the growth of plant egoism. *Gesamtmetall*, the employers association that represents companies in sectoral collective bargaining, for example, saw its membership decline by 39 per cent between 1990 and 2002, the loss being especially severe in the east part of the country where it experienced a 70.4 per cent drop in members (Gesamtmetall, 2002). As a whole, sectoral collective bargaining declined from 73.8 to 63 per cent between 1985 and 2003 (Schild and Wagner, 2003: 327). Parallel to this the number of company agreements rose by 43 per cent between 1993 and 2003 (Schild and Wagner, 2003: 327).

As a means of bolstering sector collective bargaining, in particular the stemming of 'plant egoism' in the form of concession bargaining, German trade unions promoted the gradual increase in flexibility of centralized collective agreements in the 1990s. This was achieved most notably through the advancement of *Öffnungsklauseln*. Referred to by Streeck and Kluge (1999) as *lokale Optimierung* (local optimization), *Öffnungsklauseln* date back to the 1973 pay negotiations in *Nordwürttemberg/Nordbaden* (Riester, 1994). Designed as means of advancing job security measures, they give plant level actors far more room to manoeuvre in terms of working time and remuneration (Schulten, 1997), although working time is where such clauses have had the most impact (Bispinck and Schulten, 2003).

According to the Hans-Böckler Institute there exist around 110 *Öffnungsklauseln*. In the metal working sector the following parameters apply (see Table 2):

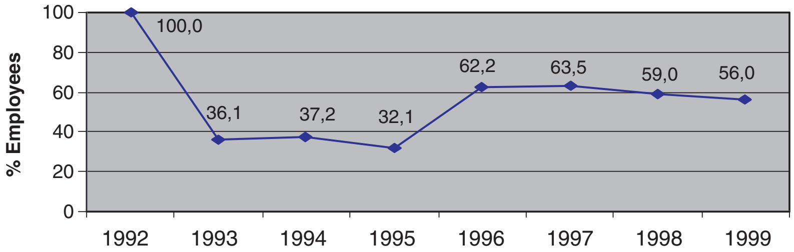
> In the case of the so-called 13/18 and 50 per cent rule in the metal sector, for example, allows for a section of the workforce to be exempt from the 35-hour week. Prior to February 2004, the 13/18 per cent clause allowed 13 per cent of employees covered by the collective agreement and 5 per cent of employee outside this agreement to work a 40-hour week (Whittall, 2001). More

Table 2. Open Clauses in the German Metal Sector

13%/18% and 50% (qualified employees) rule (1990–2004)
Reduction of the working week from 35 to 30/29 hours (West) and from 38 to 33/23 hours (East)
The fixed non-implementation of negotiated pay increases in cases of insolvency (West Germany)
Special arrangements in cases of insolvency (Nordrhein Westfalen)

Source: Bispinck (2003: 398).

Figure 1: Plant Pacts Deviating from Sectoral Collective Agreements.

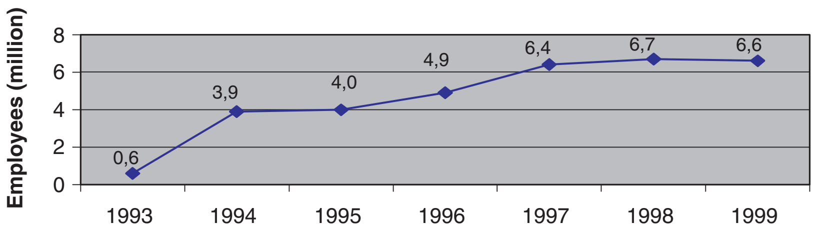


Source: Rehder (2003: 207)

recently the 2004 pay agreement expanded this ruling to include 50 per cent of highly qualified workers. In terms of working time reduction the most famous example of this practice occurred at Volkswagen in 1993. According to Rehder (2003) the expansion of *Öffnungsklauseln* helped stem illegal deviations from collective agreements in the 1990s. Studying Germany's top 100 companies, she depicts how plant egoism was a general problem in the early 1990s (see Figure 1). Of those firms in which WCs signed employment security pacts, all deviated from the collective agreement.

As Rehder (2003) demonstrates, though, the number of such illegal agreements decreased by nearly half between 1992 and 1999, dropping from 100 to 56 per cent. Like Bispinck and Schulten (2003), Rehder (2003) attributes the decline to an increase in *Öffnungsklauseln* in the same period. As Figure 2 demonstrates, the number of workers in industry and construction covered by *Öffnungsklauseln* rose from a mere 0.6 to 6.6 million between 1993 and 1999. The legitimization of what were previously illegal plant agreements is taken in some quarters as evidence that *Modell Deutschland* has not been institutionally dismantled (Streeck and Rehder, 2003). A process referred to by Thelen (2000) as 'functional conversion' demonstrates, she argues the German system's ability to react to deregulation pressures in a way that does not involve wholesale change. How valid, however, is this position?

Figure 2: Development of Collective Agreement Open Clauses.



Source: Rehder (2003: 217)

Although *Öffnungsklauseln* are depicted as a stabilizing factor, moves to empower plant level actors exemplify German trade unions' growing inability to control the actions of WCs in the face of increased international competition. Discussing the metal industry in particular, Schild and Wagner (2003) argue that the delegation of responsibility represents a defensive rather than a defensive act, placing in question the traditional cohesive nature of *Modell Deutschland*. Although the closer association of WCs with management principles is, at one level, 'enforced' by an increase in international competition, the issue of WC competency cannot be ignored. One effect of the decentralization process of collective bargaining relates to the increase in WC delegates' expertise, which in turn has led to a degree of skill independence from trade union structures. As Artus (2003) argues, WC members are becoming less dependent on unions' *Fachwissen* (specialist knowledge). In a recent study of 16 WCs in the in Baden-Württemburg metal sector, Schmidt (2004) notes that whilst WC delegates were found to be wanting in terms of expertise in the early 1990s, by the end of the decade a sense of 'professionalism' was to be observed. As a result Schmidt (2004) observed that the *IG Metall* was no longer the important point of reference for many WCs it had once been. In the proceeding section the chapter offers a micro-analysis of the impact of greater international competition on Modell Deutschland. This entails studying the growth of working time flexibility practices at BMW, a multinational not only considered a premium German company, but an employer that closely associated with the German system of employee relations, *Mönnich* (1991).

5. CONCESSION BARGAINING: THE CHALLENGE OF WORKING TIME FLEXIBILITY WITHIN BMW

The automobile industry has had to respond as much as any other sector to heightened international competition since the late 1970s (Law, 1991). Increasingly competition is composed of deregulation, the emergence of new growth poles and the increasing unpredictability of markets (Piore and Sabel,

Table 3. Comparison of Metalworking and Regensberg Working Time Agreements

	1990	1991	1992	1993
Units (000)	362.1	413.6	444.2	370.7
% Change	–4.0	14.2	7.4	–16.5

Source: Motor Business Europe (1998: 28).

1984; Law, 1991; Freyssenet and Lung, 1996; McLaughlin and Maloney, 1999). In the case of the EU it appears that the EMU project has only exasperated the situation, European economic integration leading to cost and price transparency and in turn 'pressure to rationalize capacity and reduce costs' (Marginson and Sisson, 2001: 10). Although BMW felt the effects of increased international competition much later than its competitors, by the early the 1990s the Munich based car manufacturer began to recognize that it was not immune from market instability. With sales in Western Europe declining between 1990 and 1993 (see Table 3), BMW's net profits fell by 40 per cent in 1993 (Mantle, 1995:186).

BMW like other German automobile producers has sought flexible and at times innovative responses to the changed circumstances. For example, between 1984 and 2000 the number of working time models at BMW increased from 70 to over 300. This saw BMW not only become a role model for other manufactures, but an important test case for WC and trade union relations.

6. THE REGENSBURG AGREEMENT

A major juncture in the development of flexible working time practices at BMW, and an historical catalyst for concession bargaining in this sector, concerns BMW's working time agreement at its Regensburg plant in the 1980s. A green-field site, Regensburg not only became the centre stage of a controversial management move to undermine the then *Tarifvertrag* (collective agreement), but also a fine example of the potential tension prevalent within the dual system of German industrial relations. According to Bihl, Berghahn and Theunert (1989) the high levels of capital investment in new technology at Regensburg had to be offset through longer production runs. To this end management favoured introducing Saturday working and a nine-hour day, both factors which breached the then *Tarifvertrag*. Although the Regensburg Works Council had successfully opposed such a working time proposal in 1986, within two years the same demands were once again placed on the negotiation table. This time, though, management's stance was far more aggressive, BMW threatening to axe 2000 jobs,

Table 4. Comparison of Collective Metalworking and Regensberg Working Time Agreements

Variables	Collective Agreement	Regensberg Agreement
A regular working day	8 hours	9 hours (+1 hours)
A regular working week in hours	37.5 hours	33 h (–4.5 hours)
A regular working week in days	Monday to Friday	Monday to Saturday (+1 day)

Source: compiled by the author.

halt investment set-aside for expanding the plant, cancel the '13th wage' (a bonus paid around Christmas) and terminate the employee profit sharing scheme (Regensburg BMW Works Council, 1996).

After lengthy negotiations, in which the WC initially attempted to oppose the proposed FWT pattern (Regensburg BMW Works Council, 1996), the following agreement was reached in 1988: 'The shift system . . . allows the plant to operate six days a week, nine hours a day, resulting in a 30 per cent increase in production compared with the standard working week' (European Motor Business, 1990: 88). On average the agreement ensured employees worked a 33-hour week, producing a deficit of 4.5 hours a week to be re-paid through extra shifts (Lehndorff, 2001). Moreover, the working time practices caused a major furore not only in the *IG Metall,* but also within trade union circles nationally as it contravened the existing collective standards by conceding to Saturday working, a nine-hour day and 33-hour week (see Table 4).

The significance of the Regensburg agreement can be gauged by the fact that the then *IG Metall* president, Franz Steinkühler, visited the plant in a much-publicized attempt to dissuade the local WC from agreeing to such concessions (Regensburg BMW Works Council, 1996). The *IG Metall* was concerned that Regensburg plant would represent a dangerous precedent for the industry as whole. Such fear was not unfounded. As Katz and Derbyshire (2002) note, concession bargaining became a major characteristic of the German automobile industry in the 1990s. In fact, within three years of management registering an important success in Regensburg, the issue of working time flexibility was successfully broached at the BMW plant in Munich, too.

7. BMW WORKING TIME ACCOUNTS

The next major step in the flexibility of working time at BMW occurred in 1996 with the introduction of the working time account (WTA). Designed to create 'optimum scope for balancing out fluctuations in seasonal and production related demand, as well as shifts in the overall market' (BMW, 1996), WTAs represent the highest form of flexibility to date. When questioned about WTAs the *IG Metall* critically noted, the de-coupling of working and production times is a process which makes labour even more party to the risks of free market economics. In the case of the BMW working time account, a corridor of 200 hours plus/minus was introduced. In practice an extension of the Regensburg and Munich agreements, BMW employees now accrue up to 200 extra hours when a new model is launched, which they then are compensated for in terms of time off when a model is phased out or there is slump in demand.

According to the *IG Metall*, WTAs have the disadvantage that they stop overtime payments, threaten to reduce the level of the current workforce, intensify the labour process and work as obstacles to creating new jobs. Another major concern of the *IG Metall* relates to the 'reconciliation period', the time allocated for evening out the plus/minus hours. Concerned with trying to regulate the impact of such working time corridors, the existing collective agreement states that any hours which are accrued or owed should be paid back within a six-month period. In the case of the BMW agreement such a time limit remains unspecified – what one *IG Metall* officer diplomatically referred to as a 'grey zone'. Once more, the introduction of WTAs took place without the support or involvement of the *IG Metall*. In the face of increased competition BMW employee representatives viewed such an agreement as an important step in securing long-term investment in German plants. Respondents pointed out that BMW had invested in greenfield sites in South Carolina (US, 1992), Birmingham (England, 1996) as well as purchased the English car producer Rover (1994), German employees had to contend not only with external (other competitors) but increased internal competition (sites within the BMW holding), too.

8. CONCLUSION

In response to increased market competition, this epitomized by the EMU project in the context of Europe, evidence presented in this paper suggests that German firms are eschewing a deregulation of *Modell Deutschland*. This is no more evident than in the changing geometry of WC and trade union relations. Although historically a potential tension between plant and sector level representation cannot be ignored, this after all the very intention of the Adenauer government in 1952, it would appear that these dormant tendencies have been activated with the advancement of European regime competition. The tension between WCs and trade unions has been most evident in the metal sector. The *IG Metall,* until recently Germany's largest union, has had to contend with a new economic regime, one in which shareholder value increasingly takes precedence over stakeholder interests. In trying to pacify capital as well as retain a strong influence over plant level employee representatives, the *IG Metall* has implemented various measures, and in particular the promotion of *Öffnungsklauseln* (Peters, 2000), to lessen the impact of deregulatory pressures and keep WCs within the trade union fold. It is questionable, however, whether the advancement of *'kontrollierte Dezentralisierung'* (controlled decentralization) has been successful. Bispinck (2003: 403) argues it has not 'secured a re-stabilization of the collective bargaining landscape'.

Seen from this perspective the future of *Modell Deutschland* will depend on how committed employers are towards achieving even greater flexibility. There is a strong argument to suggest that the decimation of industrial level collective bargaining is not in the interest of German capital. The rational of the current system helps to contain industrial action and neutralize labour costs as a key factor of competition (Hassel and Rehder, 2001). However, it needs to be considered that *Modell Deutschland* was always a 'German exercise', favourable labour relations dependent on being sheltered from the harsher economic and employment realities outside its borders (Streeck, 1991). By agreeing to conform to the policy guidelines set down in the Maastricht Treaty (stability pact), a commitment supported by consecutive German governments, Berlin is no longer in a position to moderate external competition. Within the confines of this new economic regime, German employers might well tend towards greater decentralization, a fact that would further destabilize the current tentative balance of interests between WCs and trade unions, representing an apocalyptic scenario for *Modell Deutschland*.

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SIMON LEE

STRANDED ON THE COMMON GROUND?

Global Governance and State Power in England and Canada

1. INTRODUCTION: BRINGING THE STATE BACK IN

During the past decade, the traditional dominant discourse within the discipline of political economy about the appropriate roles for the state and market respectively has been displaced by a near fixation with the nature, impact and implications of globalization for the exercise of state power, and the need to conform to the policy and institutional conventions of competitive neo-liberalism. Despite these external constraints, states have retained significant policy autonomy to mediate the effects of globalization because globalization can act as an enabling force as well as a constraint on economic governance. Indeed, 'rather than national states being generally constrained, hollowed out, and transformed by global markets, domestic institutions – especially, *but not only*, political ones – are key to understanding the effects of openness and where interdependence may be heading' (Weiss, 2003: 4). As a consequence, the character of domestic institutions has remained decisive in determining how state power has been used to enhance the competitive advantage of nations in global markets.

This chapter explores the viability of national policy models, in the face of globalization, through a comparison of innovation policy in England and Canada. Innovation policy has been chosen because major studies of best practice in this field have emphasized the importance of devolved institutions as a prerequisite for networking for competitive advantage. The chapter contrasts the effectiveness of Canada's federal polity with that of England which, despite the onset of directly elected, devolved government to the other nations of the United Kingdom (UK) and to Greater London, rivals France for the status of the most centralized polity among the major industrialized economies. The chapter seeks to establish whether the consequences of globalization for domestic state power and international competitiveness are better mediated through a centralized or federal polity.

There are at least three other reasons for comparing Canada with England. First, England (as 85 per cent of the UK's population and economy) and Canada are two of the most open economies in the global economy, and are facing important

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choices in terms of their future relationship to regional integration with the European Union (EU) and the United States (US) respectively. They therefore provide a very useful context for assessing the relationship between the exercise of state power and global governance. Second, a prominent feature of the discourse on competitiveness has been the tendency to compare rival Anglo-American models of capitalism with continental European or East Asian developmental state models. These dichotomies have tended to conflate the national capitalisms of Canada, the United Kingdom and the United States into a single Anglo-American model. The effect has been to overlook the major differences between and the distinctiveness of national capitalisms, particularly in relation to its domestic policy choices and institutional structures. Despite Canada's status as a G8 economy, the Canadian model in particular has been overlooked in comparative studies of economic performance (e.g. Graham and Seldon, 1990; Coates, 2000; Weiss, 2003). Third, like Canada, the political economy England has equally been overlooked in studies of economic performance, because of its having been conflated with either the United Kingdom or Britain. However, with the onset of devolution to the other constituent nations of the United Kingdom, England alone has been subjected to a nationalized style of 'constrained discretion' and 'earned autonomy' in policy design and resource allocation (Lee, 2008).

To provide some tentative conclusions about the viability of national capitalisms in Canada and England, the article is divided into three further parts. First, the literature on competitiveness is explored to note that the ubiquity of the entrepreneur has become so widespread as to occupy the common ground of political economy. However, at the heart of this literature, the seminal work of Michael Porter has tended to overlook the importance of domestic democratic institutions for competitive advantage. Second, policies for fostering innovation in England and Canada are compared to contrast the competitive advantage to be derived from a centralized and decentralized polity respectively. Third, the Canadian superiority, on almost every measure of economic performance, not only in terms of innovation and entrepreneurship, is noted. Fourth, the conclusion drawn is that the political economy of England remains stranded on the common ground of devolution to the entrepreneur, consumer, and the discovery process of the market, accompanied by increasing centralized prescription over policy and resources. By contrast, the political economy of Canada remains wedded to the discovery process of a more pluralist and decentralized federal polity.

2. THE COMMON GROUND: BRINGING THE ENTREPRENEUR BACK IN

One of the most important developments in public policy during the past two decades has been the transition from government to governance (Pierre, 2000). This in turn has reflected a transfer of power over policy and resources away from the state towards the market, the trans-national corporation, the consumer, and the entrepreneur. This development has been marked by a transition from industrial policy to competitiveness policy and, latterly, from competitiveness policy to enterprise policy. The rolling forward of the frontiers of the market has resulted in a shift in public policy 'away from policies that constrain the freedom of firms to contract and towards policies enabling the start-up and viability of knowledge-based entrepreneurial firms', not least because 'the comparative advantage of the high-cost countries in the OECD is increasingly based on knowledge-driven innovative activity' (Audretsch and Thurik, 2001: 29). At all levels of governance of the market, the fostering of entrepreneurship has been identified as the key to competitive advantage. The primary purpose of politics, and the attendant role for the state, has been narrowly defined by neo-liberalism as to build institutions for the market (World Bank, 1997, 2002). Politics has been cast as serving the interests of entrepreneurs, private enterprise, and liberalized markets within a neo-classical orthodoxy on globalization which holds that trade and development will accelerate and inequalities in income and wealth narrow (Williamson, 1993).

Political economy is now stranded on the common ground first identified by Sir Keith Joseph, Margaret Thatcher's closest ideological ally. In the mid-1970s Joseph claimed that British politics had become stranded on a collectivist 'middle ground', characterized by Britain being 'over-governed, over-spent, over-taxed, over-borrowed and over-manned' (Joseph, 1976a: 19). To return to the 'common ground' of prosperity would require nothing less than salvation for an 'endangered species' and the rediscovery of the 'missing dimension in our economic thinking' and 'the only route to our prosperity, namely the entrepreneur' (Joseph, 1976b). The subsequent ubiquity of the entrepreneur in debates about competitive advantage has been reflected in a series studies from major institutions.

At the international level, in the final report of its growth project, the Organization for Economic Co-operation and Development (OECD) has concluded that 'Entrepreneurship has always been important, but its role stands out in the present time of innovative change' (OECD, 2001: 87). At the supranational level, and in the wake of the March 2000 Lisbon Summit, whose agenda focused on the need for social and economic renewal to confront the 'paradigm shift' driven by globalization and the new knowledge economy, the European Union has focused its enterprise policy around the mantra 'Enterprise Europe requires a revolution in our culture and attitudes towards entrepreneurship' and the need for greater risk taking and rewards for risk taking (European Commission, 2000: 3). At the United Nations, a Commission co-chaired by the then Canadian Prime Minister, Paul Martin, has recommended that governments, public development institutions, the private sector, and civil society organizations can work together to unleash entrepreneurship that will make business work for the poor (Commission on the Private Sector and Development, 2004).

The problem with occupation of the common ground is that the New Right's simplistic neo-liberal prescriptions of rolling back the frontiers of the state were neither delivered nor effective. Instead, three key challenges have arisen from the desire to roll forward the frontiers of the market in pursuit of competitive advantage. First, virtually every industrialized economy has sought to define and refine its own competitiveness policy. The competition for migrant enterprises has therefore become severe both between and within national and regional political jurisdictions. Second, despite the ubiquity of competitiveness policies, entrepreneurship has remained difficult to define, operationalize in policy terms and measure. Third, because of its elusive nature, creating the most appropriate policy framework for fostering entrepreneurship and innovation has remained more of an art than a science. Nevertheless, studies of best practice in innovation policy have concluded that there has been a shift in 'the locus of such enabling policies, which are increasingly at the state, regional or even local level' (Audretsch and Thurik, 2001: 26). Consequently, 'One central tenet of any strategy for entrepreneurship and small business must be a move from the sectoral to the territorial' (OECD, 1996: 13).

Foremost among those who have argued that competitive advantage increasingly resides in local qualities, such as knowledge, relationships and motivation, which distant competitors cannot replicate, has been the Harvard economist Michael Porter. He has asserted that wealth is created at the microeconomic level and thus the character of sub-national governance is vital for the creation and sustenance of competitive advantage. This is because of the existence of clusters, i.e. 'critical masses in one place of linked industries and institutions – from suppliers to universities to government agencies – that enjoy unusual competitive success in a particular field' (Porter, 1998: 77). In a major study of US' competitiveness, Porter and Van Opstal identified the key importance of strengthening regional clusters, asserting that 'The locus of innovative activity that supports national prosperity is increasingly tied to geographic location' and that 'Regional public–private networks improve the physical and policy environment for cluster innovation' (Porter and Van Opstal, 2001: 62). Porter has therefore recommended that there be an expansion of 'the focus of competitiveness and innovation policy to the regional level'; support for 'regional leadership initiatives and organizations that enhance and mobilise cluster assets'; and identification of 'best practices in cluster development of a regional strategy that involves all stakeholders; and the encouragement of cluster development' (Porter and Van Opstal, 2001: xviii).

The role of regional and local government, including strong support for education, standards and accountability, and upgrading of the core business infrastructure has been feasible only because of the genuine autonomy for devolved institutions and initiative codified in the US constitution. The problem with Porter's pre-eminence in the field of competitiveness policy is that his work has consistently treated such constitutional determinants of competitiveness, and the role of domestic political institutions, largely as exogenous variables. In his seminal work, Porter readily acknowledged the importance of 'cultural factors', i.e. those aspects of national development influenced by social and political history, but 'often closely intertwined with economic factors', but chose only to touch lightly upon the role of state power in governing markets (Porter, 1990: 129).

Admittedly, Porter's various case studies of national competitive advantage did incorporate a section on 'The role of government'. However, while he readily acknowledged the role of the state in the post-war reconstruction of Japan, South Korea and Germany, he downplayed its importance in the case of the United States. Instead of building the political more overtly into his analytical framework, Porter chose instead to treat politics as a largely exogenous variable, whose consequences could be encapsulated by his category of 'The role of chance'. Thus, for example, the massive competitive advantage enjoyed by the United States in 1945 as a consequence of the Second World War and the massive investment by the warfare state in new technologies and production methods was attributed to the role of chance rather than deliberative political choice per se (Porter, 1990: 305–306).

This reductionist conception of politics and state power has been repeated in the application of Porter's microeconomic framework to attempts to measure national competitiveness. For example, the World Economic Forum's Growth Competitiveness Index (GCI) 'aims to measure the capacity of the national economy to achieve sustained economic growth over the medium term, controlling for the current level of development'. However, while its authors concede that the GCI provides but 'a "rough guide" to the potential for growth', it actually omits 'any special circumstances in each country'. In short, the importance of state power and the distinctiveness of domestic institutions are exogenous to this model of competitiveness (Cornelius, Blanke and Paua, 2003: 3–19).

Similarly, Porter's own Microeconomic Competitiveness Index (MCI), based upon a survey of 4700 senior business leaders in 80 countries, has acknowledged that 'a stable set of democratic institutions' is one of the prerequisites of a 'healthy economy' and that 'There are distinct roles for government in improving the business environment at the national, state, and local levels'. However, in drawing attention to the importance of government breaking up local cartels and monopolies to unleash the benefits of greater competition, and undertaking 'Bold steps to improve the quality of education and training', Porter has offered no insight whatsoever into how such policies are to be implemented. He has merely stated, 'The political will and public support to make real economic change will be elevated' if 'citizens see businesses reforming themselves and having to confront tough competitive challenges'. For then, 'they themselves will be more willing to live with personal sacrifices and less likely to side with anti-reform interest groups' (Porter, 2002: 23, 26).

Presumably, such groups will include trades unions seeking to defend their members' jobs and working conditions, but Porter sees no advantage in linking the importance of effective democratic political institutions for competitive advantage, with broader questions of political and social change. Indeed, the limitations of his own analysis are evident in his conclusion that 'Political stability, sound macroeconomic policies, market opening, and privatization have long been considered the cornerstones for economic development' (Porter, 2002: 29, 41). In truth, the emphasis upon the benefits of privatization has been a comparatively recent (rather than longstanding) and essentially contested development, but upon this analysis, the United Kingdom, given its political stability, recent macroeconomic performance and commitment to liberalization and privatization, should have enjoyed a prolonged economic boom rather than its longstanding relative economic decline.

3. THE COMPETITIVE DISADVANTAGE OF CENTRALIZED PRESCRIPTION

Despite the manifest limitations of Porter's framework for understanding national competitive advantage, he has been commissioned by both the Canadian and British governments to undertake analyses of the competitiveness of the Canadian and UK economies. Michael Porter's advice to the British concerned the necessity of making the transition to 'a new phase of development', namely an 'innovation-driven stage', where it competes on the basis of 'unique value and innovation' (Porter and Ketels, 2003: 5). However, Porter's limited and quintessentially technocratic conception of the political, in which the exercise of state power in enhancing competitiveness is acknowledged, but the myriad of competing calls upon the policy and resources of government is never recognized, has once again resulted in a preference for the discovery process of the market over that of elected government.

To make the transition to an 'innovation-driven' economy, Porter has conceded that 'Power needs to be delegated to new regional institutions', but he envisaged this process, not in terms of directly elected regional government, but in terms of less state control over 'critical elements of the competitiveness agenda', with the leading role yielded to 'others, mainly in the private sector' (Porter and Ketels, 2003: 44). This was deemed to be necessary to avoid both 'crowding out' the private sector and picking bad priorities. Paradoxically, this advocacy of the 'crowding out' of the democratic process was inconsistent with the study's earlier acknowledgement that 'Strong regions and regional institutions – from mayors to elected regional and state level administrators with significant decision rights – have proven to be an increasingly important factor for competitiveness in many other countries' (Porter and Ketels, 2003: 32).

Porter's study noted that 'In the UK only about 25 per cent of public sector expenditure is controlled by regional and local governments, below most other OECD countries including Germany (35 per cent) and the United States (42 per cent)'. Furthermore, the two key repercussions of such centralization for competitiveness were held to be, first, that 'Public spending is inevitably less well adapted to regional and local opportunities and needs', and second, that 'private sector leaders are less willing to engage in local and regional efforts, if important decisions affecting the quality of their business environment are made in the capital' (Porter and Ketels, 2003: 32). For Porter, it would appear that England alone, among the nations of the United Kingdom and the leading industrialized nations, should continue to suffer the competitive disadvantage of a centralized polity, with devolution confined to the market, and the individual as consumer and entrepreneur, rather than the individual as citizen.

Through the centralized prescription of the Treasury's biennial spending reviews, their accompanying Public Service Agreements, and the 'earned autonomy' underpinning reforms of the public services in England, control over policy and resources to duly take the long-term decisions for England has remained firmly under the control of the British state at Westminster and Whitehall (Lee and Woodward, 2002). Central government has identified skills, investment, innovation, enterprise and competition as the five drivers of productivity in England and its regions. In practice, policy affecting each of these drivers has remained either tightly constrained by centralized prescription or, in the case of investment, been devolved to foreign investors. Those investors, in any event, have increasingly preferred to locate in the most prosperous parts of England (London and the South East accounting for almost a third – 249 of 757 projects in 1999–2000, compared to one fifth in the mid-1990s), thereby accentuating inequalities in the territorial distribution of income and wealth (Her Majesty's Treasury/Department of Trade and Industry, 2001: 15, 19). Administrative autonomy over innovation policy at the regional level has had to be 'earned' by prior agreement to act within a national framework of detailed and centralized policy prescription.

The publication in December 1998 of the Blair Government's White Paper, *Our Competitive Future, Building the Knowledge Economy*, demonstrated its commitment to a competitiveness agenda in which competitive advantage in the knowledge-driven economy would be a key determinant of the UK's future prosperity (Department of Trade and Industry, 1998: para 1.2). In defining its agenda, the Government promised 'A new model for public policy' based upon two key principles. First, the UK's success in the knowledge-driven economy would be 'ultimately down to business'. Second, the Government could deliver a 'modern industrial policy', based upon a rejection of the 'interventionist policies of the past'. If modernity in the 1960s and 1970s had meant a belief in planning, the essence of modernity in the new millennium would be 'making markets work better' (Department of Trade and Industry, 1998: para 1.12–1.16). This would be accomplished by the state acting as an investor in capabilities to promote enterprise and stimulate innovation; the catalyst of collaboration to help business with competitive advantage; and promoter of competition by opening and modernizing markets.

The development of enterprise and a culture of entrepreneurship were also identified as crucial to competitive advantage in the knowledge economy while clusters were seen as a vital source and focal point for networking for competitive advantage (Department of Trade and Industry, 1998: para 5.13–5.17). At no point were the potential competitive advantages of political devolution at English regional level identified as a means to overcome the historic fragmentation and ineffectiveness of regional policies. There would be devolution to the market, the enterprise, the entrepreneur and the unelected administrator rather than any enhancement of the role of directly elected institutions in the policy process. This agenda was reaffirmed in the follow-up White Paper, *Opportunity for All in a World of Change, A White Paper on Enterprise, Skills and Innovation*. Devolution was once more conspicuous by its absence. The role of government was defined as the delivery of 'an active industrial policy', which was 'not about picking winners, propping up losers or running businesses from Whitehall', but about government as 'an enabling force . . . widening the circle of winners in all regions and communities'. Entrepreneurship, and the goal of the United Kingdom becoming acknowledged 'as the enterprise hub of Europe', lay at the heart of this agenda (Department of Trade and Industry/Department for Education and Employment, 2001: para 1.2–1.5, 5.4).

To achieve Whitehall's objective of 'regionally balanced growth, led by the regions themselves', policy for the English regions during the Blair Governments' second term would be based on two principles. First, that 'exploiting indigenous strengths in each area is likely to be the most effective way of strengthening the essential building blocks of growth-innovation, skills and the development of enterprise'. Second, that 'the best mechanisms for achieving this are likely to be based in the regions themselves, and so national Government must enable regional and local initiatives to work by providing the necessary resources within a national framework'. In this latter regard, the newly established Regional Development Agencies (RDAs) were identified as 'the key agents in driving forward this new industrial policy', even though, in the case, for example, of Yorkshire Forward, the agency for the region of Yorkshire and the Humber, the total RDA budget amounted to less than 1 per cent of total public spending and less than 0.5 per cent of GDP in the Yorkshire and Humber region (Her Majesty's Treasury/Department of Trade and Industry, 2001: 6).

For the Blair Government, the governance of innovation in England has meant the delivery of 'a new approach to regional policy' in which strong regions and communities are seen as 'a vital component of a strong national economy' and a source of 'greater opportunity for individual entrepreneurs and existing businesses' (Department of Trade and Industry/Department for Education and Employment, 2001: para 3.2–3.4). The key regional institutional innovation to deliver this agenda in the English regions has been the appointment of the RDAs and their allocation in the 2000 spending review of a larger and more flexible budget. In practice, the Blair Government has implemented an agenda which has widened and deepened its Conservative predecessors' commitment to the entrepreneur as the primary source of innovation and enterprise.

In so doing, the Blair Governments' innovation policies have manifested a number of significant continuities with those of its Conservative predecessors. First, a very high turnover of ministers at the Department of Trade and Industry (DTI). Second, increasing Treasury control of the enterprise policy agenda as part of a wider paradigm of centralized prescription over policy and resources. The media of the biennial spending reviews and the Public Service Agreements have been used by the core executive to both steer and row policy. Third, hyperactivity in policy development accompanying diminishing DTI budgets (as a percentage of GDP and total government spending). Fourth, the fragmentation of enterprise policy initiatives in England among the Treasury, the DTI, and a confusing landscape of bureaucracies and schemes, designed and controlled centrally but administered regionally and locally.

The key institutional innovations have been at the 'The New Centre' rather than through devolution. During the Blair Government's first term, the Performance and Innovation Unit and Regional Co-ordination Unit were created in the Cabinet Office. Thus, the latter's report, *Reaching Out*, which explored how to 'improve the coherence of national departmental policies delivered locally', concluded that a top-down strengthening of the Government Offices in the Regions' discretion was needed rather than political devolution to join up fragmented initiatives in a truly accountable manner (Regional Co-ordination Unit, 2000). Fifth, and most importantly, the identification of the entrepreneur (and not the region) as the prime agency of innovation in an enterprise culture nurtured by further privatization, market liberalization and deregulation-devolution to the market. Sixth, the continuing practice of picking winners, notably the financial services sector in the City of London, and the civil aerospace, pharmaceutical and defence manufacturing sectors. In short, the Blair Government has failed to deliver a decentralized political institutional context capable of fulfilling the institutional prerequisites of Porter's transition to an innovation-driven economy.

A very clear critique of the Blair Governments' governance of England has now emerged from successive parliamentary select committee inquiries and reports, customarily produced by committees with a majority of Labour Party MPs. The RDAs' strategies have been criticized for their tendency 'to be broadly aspirational', a measured evaluation of the incapability of sub-national political institutions to shape the governance of innovation at anything other than the level of service delivery, when operating within the 'earned autonomy' of centrally prescribed policies and output targets (TISC, 2001: para 9). An analysis of regional disparities in prosperity has further stated that 'Regional administration of national policies is not the same as regionally responsive economic strategies', and that even if regions vote for directly elected assemblies, those institutions will not have control over the budgets for key elements of policy affecting innovation, not least learning and skills, and business support (ODPMSC, 2003a: para 126, 155). Moreover, 'Responsibility is being devolved to the regions before power' and therefore the way to remedy this asymmetry is to ensure that future regional assemblies have control over key areas of innovation policy (ODPMSC, 2003a: para 164).

Far from delivering the promised 'holistic' approach to urban regeneration, including innovation policy, no fewer than 27 single-issue, area-based initiatives have confronted RDAs at any one time. This in turn has resulted in a lack of integration and accountability in policy, vividly illustrated by the Treasury's November 2002 designation of the 2000 poorest council wards in England as 'Enterprise Areas' without prior consultation of the Regional Co-ordination Unit, let alone the RDAs. Once again, as a counter to the ineffectiveness of central prescription, Members of Parliament (MPs) have identified devolution as the means 'to provide greater coherence and co-ordination' and to 'avoid the current counter productivity that exists between different delivery mechanisms, and provide greater accountability' (ODPMSC, 2003b: para 29, 52, 67).

Ironically, Porter's study for the DTI did actually state the case for further devolution. Throughout his study, the limitations of the RDAs were implicitly, if not explicitly, acknowledged. For example, while depicted as 'an innovative approach to strengthen regional policy in the UK', the RDAs were portrayed as having to surmount 'the inherent challenges they face in the given structure of UK government'. Indeed, the study concluded that 'The UK needs to further strengthen the regional focus of its economic policy', beyond the existing role of the RDAs, by action 'to empower regional and local leaders, develop actionable regional economic strategies, and, address specific issues such as land use planning and zoning' (Porter and Ketels, 2003: 33, 46). This conclusion would appear consistent with advocacy of devolution to directly elected regional government in England, but among the 'New roles for the existing players as well as a new set of institutions' advocated by Porter, only a stronger role for private-sector development was mentioned, even though this particular role would appear itself to be predicated on the presence of a platform of stronger regional political leadership.

4. CANADA AT THE CROSSROADS?

Michael Porter has also thrown down the gauntlet to the Canadian state, firms and people to mend their ways to meet the challenges of competitive advantage in the twenty-first century. In October 1991, a report from Porter was published by the Canadian Business Council on National Issues and the Government of Canada which asserted that Canada was at an 'economic crossroads, and that the core of its economic prosperity is at risk'. In short, Canada's competitive advantage was one based on 'comfortable insularity', being too dependent on its rich endowment of natural resources (accounting for 45 per cent of total exports), its proximity to US' markets (accounting for 75 per cent of Canadian exports), while possessing too few clusters of innovation-driven industries (Porter and the Monitor Company, 1991: 3, 151).

The report asserted that Canada's system of transfer payments to equalize public service delivery across provinces had 'artificially supported wages, resulting in higher unemployment and lower outward migration'. Cluster development had been bypassed mistakenly in the interest of employment creation and because of 'the persistent politicization of the policies needed to build clusters' (Porter and the Monitor Company, 1991: 271, 288). In January 2000, a follow-up study concluded that Canada's macroeconomic turnaround during the 1990s had been 'nothing short of miraculous', but could be accounted for in terms of 'a weakness in strategy, namely the pursuit of replication, not distinctiveness'. Therefore, 'Only by migrating from a replication economy to an innovation-driven economy will Canada prosper in the 21st century' (Martin and Porter, 2000: 2, 14). Given the emphasis placed in studies of best practice in competitiveness policy upon the importance of decentralized patterns of governance, the Canadian federal polity should be in a better position than England's centralized polity to deliver Porter's innovation-driven economy. This potential appears to have been realized in the formulation and implementation of Canada's National Innovation Strategy, outlined in February 2002 by the documents *Achieving Excellence, Investing in People, Knowledge and Opportunity* and *Knowledge Matters, Skills and Learning for Canadians* (Government of Canada, 2002a).

The presence of established, directly elected governments at the provincial level, allied to the existence of an effective and transparent mechanism for allocating public expenditure between the territorial jurisdictions of the Canadian federation, appears to have been instrumental in facilitating confidence and effectiveness in both the partnership created between the public and private sectors and the integration of policy at both the federal and territorial levels. In short, Canada appears to vindicate the thesis that devolution of control over policy and resources does constitute best practice in innovation policy. The discovery process of democracy and a devolved polity seems to have complemented, and acted as a necessary stabilizing corrective, to the inherent volatility and instability arising from the entrepreneurial risk-taking characteristic of the discovery process of open markets.

From the perspective of Porter's best practice in innovation policy, the most striking feature of *Achieving Excellence* lay in the recognition that the sources of competitive advantage are localized and that, within this devolved context, 'partnerships are key to expanding innovation and opportunities and mitigating risk'. This recognition duly resulted in the specification of the strengthening of communities as a fourth key innovation challenge. As a consequence, the strategy concluded with 'A Call For Action' that asserted that the Government of Canada would 'engage provincial and territorial governments and business and academic stakeholders to develop, and contribute to, a national innovation strategy' (Government of Canada, 2002a: 9, 72–77). The commitment to active engagement of provincial, territorial and local institutions was duly translated into a consultative policy process that enabled more than 10,000 participants from the private and public sectors (including 70 formal submissions from industries), academia and non-governmental organizations to contribute their thoughts to the innovation strategy, supplemented by 250 formal submissions and more than 500 questionnaires from SMEs. This consultation appeared not only to have helped to institutionalize commitment to the national strategy but also to have assisted the identification of regional and sectoral priorities. Furthermore, the whole process was undertaken in only seven months from May to November 2002, culminating in the National Summit on Innovation and Learning.

The Summit aimed to engage the participants in a partnership to both shape the priorities for *Achieving Excellence* and to seek commitment from all sectors for a Canadian Innovation and Learning Action Plan. This consultative process provided the opportunity for the innovation challenges confronting Canada to be evaluated; for national goals, targets and priorities to be proposed as a result of the consultation rather than as a top-down fait accompli; and for complementary commitments to be levered from the public and private sectors, NGOs and academia, rather than providing the opportunity for business associations to simplistically blame over-regulation and over-taxation on government. At the provincial level, each territory duly drew up its own innovation performance profile in accordance with the four principal innovation challenges identified by *Achieving Excellence*. The Canadian national framework attempted to create an inclusive policy process, in which the ideas and perspectives of the ten Canadian provinces and territories were taken into account in the very formulation of the national strategy, rather than suffering a top-down and exclusive process of central prescription. To minimize the potential for tensions between federal, provincial and territorial jurisdictions, a series of meetings was held between Allan Rock, Industry Minister, and those provincial and territorial ministers responsible for industry, science and technology.

In September 2001, ministers adopted principles to guide future action to advance innovation, while in June 2002 ministers had reaffirmed their commitment to the strategy and explained how their respective governments and communities were supporting innovation. This process appears to have helped to institutionalize confidence in and commitment to collaboration. Furthermore, the provinces and territories enjoyed a genuine autonomy in their implementation of the national strategy, rather than having to work within a framework of federal government prescriptions and priorities. The likely consequence was that, as with other aspects of Canadian public policy, there would be genuine plurality and innovation in policy-making, with the opportunity for provinces to share and learn from each other's best practice (OECD, 1999).

One particularly striking aspect of the devolved approach to innovation policy-making in Canada has been the participation and commitment of the private sector and business associations to the national innovation strategy, and the process of formulating and implementing its objectives. A study of 162 business associations found that no fewer than 90 per cent of associations were running programmes that addressed the four key innovation strategies. However, the study also found that cluster development was on the whole 'a relatively underdeveloped and disparate concept among private sector associations', with only 33.3 per cent running programmes to develop cluster facilities (Government of Canada, 2002b). At the same time, while the study found that associations in all parts of Canada were running programmes addressing *Achieving Excellence's* key themes, ranging from 87.0 per cent running programmes for strengthening communities to 93.8 per cent for enhancing knowledge performance, it should not be thought that the consultative process was without its degree of dissent, or that a policy process incorporating devolution and genuine autonomy was any form of panacea. Indeed, in its report on the National Summit on Innovation and

Learning, the Government of Canada acknowledged not only that 'Participants in all regions repeatedly raised the issue of lack of coordination between different levels of government in knowledge creation', but also that 'Significant levels of frustration were in evidence over perceived jurisdictional conflicts'. For their part, economic development organizations endorsed cluster development, but insisted that this 'must be a "bottom-up process", driven by community leaders'. Moreover, the proposed target of ten internationally recognized technology clusters by 2010 was criticized for being 'arbitrarily conceived', with the potential of 'spreading scarce human and capital resources too thinly across the country' (Government of Canada, 2002c: 14, 35).

Despite these and other concerns, for example, the viability of generating the additional $250 billion in sales to support a $26 billion annual increase in research and development (R&D) spending- – to achieve the goal of raising Canada from 15th to the top five of R&D investment spending by 2010, Canadian businesses and their representative associations appeared to have endorsed the principle that governments, not least those at the provincial and territorial levels, should 'Exercise policy leadership' (Government of Canada, 2002c: 37, 46). This was a clear departure from Porter's conclusion that the private sector should lead the process of innovation, and a much clearer commitment to the principles and practice of devolution to elected political authorities. However, the academic verdict on the Innovation Strategy was not universally supportive. One withering critique of innovation policy under the Chrétien Government suggested that the whole Innovation Strategy process 'has not resulted in anything resembling a strategy, an agenda, or a consultation'. *Achieving Excellence* was nothing more than an illusion, sacrificed on the altar of the leadership ambitions of three successive industry ministers – John Manley, Brian Tobin and Allan Rock, before sinking 'beneath the din of other policy and political chatter'. Moreover, since it was no less than the eighteenth major review or policy paper on science, technology and innovation in 24 years, 'to many "old policy hacks", it was just another case of déja vu' (De La Mothe, 2003: 173, 175).

The Strategy was based upon dubious and illusory assumptions. For example, the commitment in 2001 to move Canada from 15th to 5th in world performance of R&D alone would have required the 2001 annual (R&D) budget of $20.9 billion to have been increased by $25 billion annually (De La Mothe, 2003: 177). There has also been criticism of government policy in Canada for fostering entrepreneurship. A report from the Global Entrepreneurship Monitor (GEM) has noted that in 2003 'Canada experienced a significant decline in entrepreneurial activity', with total entrepreneurial activity (TEA) having fallen from a peak of 12.2 per cent in 2000 to, 8.8 per cent in 2002, and 8.0 per cent in 2003. While this figure compares unfavourably with the United States' TEA score of 11.9 per cent in 2003, it was nevertheless well above the G7 average of 5.6 per cent. Moreover, Canada was ranked 12th out 31 GEM countries in 2003, an improvement of one place from a year earlier (GEM, 2004a: 11–12).

5. THE COMPETITIVE ADVANTAGE OF DECENTRALIZED GOVERNANCE

By most measures of innovation, entrepreneurship and broader economic performance the Canadian economy has outperformed both its UK and English competitors during the past three decades. In terms of innovation, the OECD has described the UK's innovation performance as 'mediocre', identifying weaknesses in the reform of England's public services and the absence of intermediate and vocational qualifications, even among the current youth cohorts, as key supply-side constraints upon economic performance (OECD, 2005). In terms of entrepreneurship, and despite some limited criticisms among expert opinion about the quality of its government policies and regulatory environment for start-ups and small firms (GEM, 2003: 5), Canada has been described as 'one of the most dynamic industrialized countries in terms of entrepreneurial activity' (GEM, 2003: 11). Among G7 economies, it is ranked second behind the United States, in terms of the prevalence of nascent venture entrepreneurial activity, new firm formation and entrepreneurial motivation. While 6.6 per cent of the Canadian adult population were engaged in such nascent entrepreneurial venture activity in 2005, only 3.4 per cent of the UK population were similarly engaged. Equally, only 2.9 per cent of the UK adult population were new business owners in 2005, compared to 3.6 per cent of Canadian adults. Moreover, 7.4 per cent of Canadian adults were established business owners, compared to only 5.1 per cent of UK adults (GEM, 2005a: 18).

In overall terms, the UK's entrepreneurial performance has been described for 2004 as 'weak in comparison to Canada and the US' (GEM, 2005b: 8). This is largely a reflection of the weakness of England's weak regional performance. For example, in 2003, TEA in Yorkshire and Humberside was only 6.4 per cent of the adult population, 2.2 per cent below the UK average (GEM, 2005b: 1) and 0.1 per cent below the performance of the Canadian Atlantic Provinces, the worst performing Canadian region (GEM, 2004a: 22). However, in the North West, including the cities of Manchester and Liverpool, TEA was even lower, at 4.8 per cent in 2003 (GEM, 2004b: 1).

A major study of England's cities has concluded that their relatively weak performance, in international terms, in measures of innovation and entrepreneurship is attributable to a significant degree to the fact that 'the majority of strategic decisions are taken for cities by central government rather than by cities themselves. This is particularly true about the main economic drivers of competitiveness'. The result has been a damaging reliance upon 'weak governance arrangements such as voluntary collaborations and partnerships', compounded by the fragmentation of policy implementation among a large number of departments and agencies. The consequence has been 'multiple opportunities for disjointed policy making rather than joined up thinking and ensuring the consistent targeting of mainstream funding' (ODPM, 2005: 97). By comparison, Canada's cities have retained their top ranking, as the locations with the lowest business costs in the G7 countries, for the sixth consecutive year. Among large metropolitan areas, Montreal has achieved the top rating with a cost advantage of between 2 and 18 per cent over its US competitors (KPMG, 2006: 2).

The evidence of the failure of the Blair Governments' third way of devolution to the entrepreneur rather than the citizen, and centralized governance is now becoming increasingly apparent both for England. In 2004, six of its regions had an average Gross Value Added (GVA) per capita at current basic prices below the UK average of £17,258. London, the sole English region to enjoy limited devolution, had an average GVA of £22,204 (ONS, 2005: 1), but England's overall GVA was only £17,188, below the UK average (ONS, 2006a: 218). The disparities in territorial income within England have also increased during the tenure of the Blair Government. In 2004, six English regions had seen their income, measured in terms of GVA per head, fall further behind the UK average, compared to 1997. Only London, the South East and the Eastern region have seen their incomes increase (ONS, 2006a: 218).

In terms of annual average GDP growth, during the 1970s, Canada's growth of 4.4 per cent exceeded the UK's 2.4 per cent and the G7 average of 3.6 per cent. During the 1980s, Canadian growth of 3.0 per cent exceeded UK growth of 2.3 per cent and G7 average growth of 2.9 per cent. During the 1990s, while G7 average annual GDP growth of 2.4 per cent matched the Canadian average, once more the UK's 2.1 per cent failed to meet either the Canadian or the G7 average (ONS, 2004a: 335). More recently, in 2005, Canada recorded a current account surplus of $30.4 billion, up from $28.8 billion in 2004 (Statistics Canada, 2006a: 1). In contrast, the United Kingdom recorded a current account deficit of £31.9 per cent billion in 2005, equivalent to 2.6 per cent of GDP (ONS, 2006b: 1). Indeed, the United Kingdom has recorded a current account deficit in every year since 1984, and a deficit on trade in goods since 1982.

While there has been a UK and English surplus on trade in services in every year since 1966, since 1982 this surplus has been insufficient to offset the much larger UK's trade in goods' deficit, which reached a record £65.6 billion in 2005 (ONS, 2006b: 1). The United Kingdom last recorded a balance of trade surplus with Canada in 1994 (£108 million). The following nine years saw it accumulate a trade deficit of £3.922 billion over nine years (ONS, 2004b: 51). The UK's public finances are also now in decline. After recording surpluses between 1998–1999 and 2001–2002, since 2002–2003 the United Kingdom has reverted to the annual deficits in its public finances which occurred between 1991–1992 and 1997–1998. At the end of March 2006, public sector net debt was £459.0 billion, equivalent to 36.6 per cent of GDP, compared to a peak of 44.0 per cent in 1997 and a low of 29.8 per cent in February 2002 (ONS, 2006c: 1). By contrast, Canadian public finances remain among the most prudent in the G7. The federal debt-to-GDP ratio has fallen from its peak of 68.4 per cent in 1995–1996 to 38.3 per cent in 2004–2005, while the provinces and territories' debt-to-GDP ratio has also declined to 22.0 per cent (Department of Finance, 2006: 10).

The consistent strength of Canada's economic performance has been reflected in its climb from 8th place in 2000 to 5th in 2005 the influential Institute for Management Development's overall rankings for world competitiveness. By contrast, the United Kingdom has seen its ranking decline from 15th in 2000 to a lowly 22nd in 2005 (IMD, 2005: 40–46), largely as a consequence of the continuing weak performance of the six English regions beyond London and the South East. Paradoxically, the United Kingdom has narrowly outperformed Canada in the World Economic Forum's 2005 GCI. The United Kingdom was ranked 13th overall (down from 11th in 2002), just ahead of Canada's 14th place (up from 15th in 2004) (World Economic Forum, 2005: 7). In the narrower Business Competitiveness Index, the United Kingdom was ranked 6th, compared to Canada's 13th place (World Economic Forum, 2005: xxi). Once more, these rankings have only served to highlight the importance of bringing the domestic institutional determinants of competitive advantage back into the analysis of how globalization is mediated by the exercise of state power (Weiss, 2003).

6. CONCLUSION

This comparison of innovation policy in England and Canada suggests there is little if any evidence that innovation, or the fostering of an entrepreneurial spirit to accelerate that innovation, is best fostered by the maintenance and further strengthening of a centralized polity. Policy needs to be designed for local market-, sector- and enterprise-specific conditions. This cannot be accomplished if the provincial or regional decentralized framework for fostering innovation is purely administrative, fragmented and constantly in flux because of central machinations. While the political economy of England remains stranded on the common ground of the discovery process of entrepreneurship in open markets, the political economy of Canada continues to reflect a commitment to the discovery process of a more pluralistic and decentralized federal polity. When the Blair Government published its White Paper on devolution for the English regions beyond London, *Your Region, Your Choice, Revitalising the English Regions*, little attempt was made to place English devolution in a UK context, let alone to consider a broader comparison. As a consequence, constitutional arrangements in other countries were relegated to the brief afterthought of Annex E of the White Paper (ODPM, 2002: 86–97). England and its regions can and should learn a great deal more from comparisons, particularly in relation to competitive advantage of federalism which has been an implicit, but insufficiently acknowledged component of Michael Porter's work.

In their follow-up study to *Canada at the Crossroads*, Porter and Martin concluded that national innovative capacity depends on three key elements. First, the '*common innovation infrastructure*', i.e. 'the common pool of institutions and resource commitments that support innovation in many fields'. The evidence presented here suggests that, while far from flawless, Canada's devolved institutional and policy context for innovation has provided a more effective common innovation infrastructure than England's. Second, innovative capacity depends upon '*cluster-specific conditions*', i.e. 'circumstances in particular fields such as specialized inputs, unique demand conditions for particular types of products, and access to specialized suppliers'. Once more, aside from the unique microenvironment of the City of London's financial markets, Canada's territories and provinces appear to have a greater potential for developing clusters than England's regions, on account of their genuine autonomy over innovation policy and resources. Third, innovative capacity depends upon '*the quality of linkages*', i.e. the 'strength of the interaction between the common innovation infrastructure and cluster-specific conditions' (Martin and Porter, 2000: 12). England and its constituent regions appear to stand a significant competitive advantage because they lack the autonomy to be able to contribute to the design of the national framework for innovation and its subsequent integration with their own local conditions.

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ASSESSING THE GLOBALIZATION–DECENTRALIZATION NEXUS

Patterns of Education and Reform in Mexico, Chile, Argentina and Nicaragua

1. INTRODUCTION: A ROADMAP

At first glance, a chapter dealing with educational policy may seem out-of-place in a series devoted to the study of global governance and converging markets. While the literature on this subject often gives extensive treatment to the demands and pressures placed upon national economies, the demands being made upon national social sectors have received fewer considerations. Where the literature does attend to this matter, it often assumes, rather than demonstrates that social policy is governed by global processes and economic patterns. In educational policy, for example, the vast number of countries to have enacted large-scale, decentralization is often taken as evidence for globalization's effect on educational policy (Folwer, 1995; McGinn, 1997; Scribener and Layton 1995; Schugurensky, 1999). Here, converging trends in educational decentralization and economic restructuring appear as 'twinned outcomes of the new globalization' (Carnoy, 2002: xvi), policies which are seen as 'increasingly governed by similar [external] pressures, procedures and organizational patterns' (Schugurensky, 1999: 288). Viewed from this perspective, educational decentralization appears as a significant neo-liberal reform, an evaluation that appears quite problematic in light of new evidence.

Attending to national difference in social policy is, at the very least, as important as attending to the issue of global policy convergence. Although often overlooked in studies of global convergence, understanding why the educational institutions of some countries are more responsive than others in the face of common pressures to converge is crucial for understanding the true influence of global markets on national educational institutions (Carnoy, 2002). This study seeks to shed some insight into this question by examining why educational decentralization is more advanced in some Latin American countries than others. However, this task is made more complex by the diverse and often inadequate

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explorations of the linkage between education decentralization and 'neo-liberalism', a confusion that must be addressed.

The tasks of this chapter are twofold. First, to provide a more comprehensive understanding of educational decentralization, and its linkages, to broader processes of neo-liberalism. As this analysis demonstrates, decentralization, being the transfer of decision-making authority and policy responsibilities from central to lower administrative tiers, does not always coincide with neo-liberal preferences. Second, to identify the factors that have, in large part, determined why some countries are more responsive to these external demands. Here, several hypotheses are tested in order to isolate the factors that may have a patterning influence on a country's responsiveness to global policy preferences. While this analysis deals with educational decentralization as a general feature of global policy convergence, the specific points are illustrated by reference to Latin America's experience with educational reform.

The findings of this study present a challenge to the much lobbied critique of globalization, which pictures educational decentralization as externally imposed upon Latin America through the coercive power of international financial institutions and global markets (Schugurensky, 1999: 289). Instead, the conclusion drawn is that inherently structural views of educational decentralization miss the true scenario of educational decentralization in Latin America. This is because they fail to consider, for example, that education in Latin America is highly political; often involves intense political bargaining between national interests; and has historically served an important ideological function. These factors are shown in our analysis to have a critical, patterning influence on a country's responsiveness to global preferences. Instead, it is suggested that there is explanatory merit in variables informed by the theories of political economy and political bargaining. Specifically, the relative bargaining power of key actors at the national level is found to have an important patterning influence on the advancement of educational decentralization in Latin America.

This chapter is comprised of five sections. The first provides a roadmap for the study. The second provides a working definition of educational decentralization as a neo-liberal reform. The third examines the limitations of structural perspectives that attribute the global pressures as the primary cause of educational decentralization in Latin America. The fourth seeks to provide a better account of national difference in educational policy by evaluating several, key variables informed by both political economy. In the final section, we draw on these insights to offer some conclusions.

2. DECENTRALIZATION AS NEO-LIBERALISM: A WORKING DEFINITION

Despite the popularity of decentralization in education, its effects do not often filter down to the classroom (World Bank, 1999). This failure may have more to do with the conceptual confusion surrounding the term, rather than with a flaw in the theory of decentralization (Winkler, 1993). In short, several important questions remain unresolved: namely, what level of administration should have how much influence, of what kind, and over which educational factors (Elmore, 1993)? It is not surprising then to find that decentralization in education has come to be associated with many different things. These multiple meanings are best summarized by Tommasi, who finds the term to be associated with at least four different meanings (Galiani and Schargrodsky, 2002: 312). First, deconcentration (the dispersion of responsibilities within a central government to local branch offices). Second, delegation (where local governments act as agents for the central government, executing certain functions on its behalf). Third, devolution (where not only implementation but also the authority to decide what is done is in the hands of local governments). Fourth, privatization (where private actors are given complete authority over administrative matters). At this point, we do not wish to engage in discussion as to the most effective forms for decentralization, despite the obvious importance of such an undertaking. Rather, our intent is merely to show the multiple meanings that have come to be associated with decentralization, many of which have little in common with the principles of neo-liberalism.

In his opening address to the delegates of the 1988 Intergovernmental Conference on Education and the Economy, Secretary General of the Organization for Economic Co-operation and Development (OECD), Jean Claude Paye, makes two significant observations (Paye, 1989). First, he suggests that the traditional organization was now finding itself in a radically, new environment. Innovations in communications, technology, and expanding markets have changed organizational expectations to such an extent that the traditional organization is no longer capable of meeting its requirements. Second, Paye acknowledges the key role education is to play in formulating an adequate response to these new challenges, stating that education 'holds the key to possible progress [which] determines each country's medium and long-term prospects in world competition' (Paye, 1989: 1). In closing, Paye articulated *equity* and *efficiency* as the mutual goals of both education and economics; goals which according to the Secretary General are 'fundamentally compatible rather than conflicting' (Paye, 1989: 13). These comments reflect a general consensus surrounding education and the economy; namely, that which is considered to be 'education' is becoming less clearly distinct from that which is considered 'the economy'. A highly educated and skilled population, for example, provides a country with a comparative advantage in attracting foreign investment and capital flows, necessary for economic growth, which become even greater as capital preferences shift towards knowledge intensive services and industries (Carnoy, 2002). Developing states are well positioned to take advantage of this opportunity given their ability to provide highly educated labour at lower costs. This may suggest that neo-liberalism actually requires an active state to not only invest heavily in education, but also to direct the development of education towards market ends. This view is supported by the principles of the 1997 World Development Report, which states that 'In Europe and North America, the pressure from global markets is creating strong demand for local and regional governments that can provide the infrastructure and skilled labour force that multinational business needs' (World Bank, 1997: 120).

However, the incentive for the state to invest in and direct education may be offset by other pressures resonating from market competition. For example, while global capital demands better education, at the same time it argues for lower public spending to achieve it (Carnoy, 2002). While foreign capital may require a highly educated and skilled labour pool, it also demands that states reduce public spending, privatize state-owned industry, and effectively open-up investment opportunities for private investment. According to Carnoy, this apparent contradiction is eliminated when the problems of education are viewed through the lens of market ideology (Carnoy, 2002). From this perspective, public bureaucracy is seen as the major impediment to efficiency and performance in policy delivery because it is too distant from local users to be responsive, it tends to be a monopoly, and it lacks the competition needed to promote efficiency and quality. As a result, public bureaucracy tends to waste resources and produces poor quality education. By decentralizing the management of schooling, limiting the role of the state, and increasing the level of competition, market ideology suggests it is possible to achieve larger gains in efficiency, deliver cost-effect services, while at the same time attracting private capital and resource flows (Carnoy, 2002: xvi).

While the confines of this paper do not permit us to engage more fully the relationship between educational decentralization and market preferences, the above discussion allows us to identify at least three neo-liberal preferences for educational systems. First, it is clear that market ideology prefers educational systems that are cost-effective and do not consume a great deal of public finance. While the needs of foreign investment require governments investment in education and infrastructure, the market also expresses a clear preference for states to curtail their public spending, provide tax relief, and open channels for private investment opportunity. Second, market ideology prefers educational services to be delivered by local administrators and is fundamentally opposed to central bureaucracy. While it does prefer an effective state that can guide education towards market ends, it nevertheless prefers that the state's role be limited. Finally, market ideology prefers educational systems that promote efficiency through greater, school-level competition. As a policy feature, this preference may take the form of user fees or school vouchers. In Table 1, we demonstrate the extent to which educational policy in Latin America has reflected these three neo-liberal preferences.

3. EXPLAINING DECENTRALIZATION IN EDUCATION: GLOBALIZATION AND NATIONAL DIFFERENCE

The literature to examine decentralization in Latin America can be roughly grouped into two categories, or 'frame factors' (Kallos and Lundgren, 1979; Seddon, Angus and Poole, 1999). The notion of frames, introduced by Kallos and

Table 1. Degree of Educational Decentralization in National Restructuring Initiatives

	Mexico	Chile	Argentina	Nicaragua
Preference 1: Cost Effectiveness (as measured by Public/Private Share of Education)				
Public expenditure (% of GDP)	3.38 (1991) 4.21 (1998)	2.54 (1991) 3.73 (1998)	3.28 (1991) 4.04 (1998)	3.36 (1991) 4.99 (1998)
Private enrolment share (% of primary)	6.3 (1991) 7.4 (1999)	39.1 (1991) 45.5 (2000)	N/A (1991) 19.5 (1999)	13.3 (1991) 16.4 (1999)
Preference 2: Local Level Administration (as measured by Sub-national Control over Specific Educational Functions)				
Personnel	National	Municipal and National	Regional	School District
Planning	National	National	National	School District and National
Resources	National and Regional	Municipal	Regional	School District
Curriculum	National	National	National and Regional	National
Level of Community Participation	Low	Medium	Low	High
Preference 3: School-level Competition				
Features that promote competition for resources	None	Vouchers	None	User Fees
Extent to Which Policy Reflects Market Ideology				
Level of consistency with neo-liberalism	Least consistent	More consistent	Little consistency	Most consistent

Source: The above indicators are derived from Kubal (2003), Winkler and Gershberg (2000) and World Bank (2002).

Lundgren, provides a useful tool for distinguishing the tangible factors that constrain or direct the character of educational activity (Seddon, Angus and Poole, 1999: 31–32). Kallos and Lundgren identify 'higher order' and 'proximal frames', which exist at different levels and are thought to impact policy activity. 'Proximal frames' operate at the immediate level of the school and classroom and define the operational space for planning and action by teachers and other interested school-level actors. 'Higher order frames' derive from the decision-making matrixes which are outside the control of school-level actors, namely, the educational bureaucracy, and, ultimately the political, economic and global structures of which education is a part (Smith, 1985: 141–149). The research on educational decentralization, from the perspective of 'proximal frames', is replete with strategies and techniques for motivating workers, improving participation, etc. From this perspective, the issue of decentralization appears as technical issue. However, those familiar with Latin America's contentious history of colonialism, corporatism, economic transition, and democratic struggle might find the neglect of 'power' and 'politics' in this type of analysis to be disturbing. It is not surprising to find the majority of work on the issue of decentralization in Latin America is highly critical of any approach that does not give great attention to the constraining influence of 'higher-order frames', conceiving of decentralization as a political problem, rather than a technical problem.

Research on decentralization and 'higher order' frames focuses on a number of complex factors that are thought to direct or constrain educational activity. The most common focus of these investigations in Latin America centres on the constraining influence of 'globalization'. 'Globalization' has been referred to as a process involving two major aspects; namely, the broadening and the deepening of interactions and interdependence among societies and states throughout the world (Cohn, 2000: 10). It has been argued that the flow of new information and ideas has become increasingly fluid and the degree of friction posed by national boundaries, space and time is increasingly diminished. This perceived penetration of foreign ideas into domestic policy-making circles has led many policy analysts to argue that social policy decisions are increasingly the result of cultural imperialism exercised by international agencies that have imposed a 'neo-liberal agenda' on Latin American countries (Corragio, 1997; Beech, 2002: 415–427). In short, the majority of work to focus on educational decentralization as 'higher order' frames turns our attention to two facets of globalization which influence the agendas of education in Latin America; namely, the nature of global, market integration and the role and influence of international financial institutions, such as the World Bank. We consider these in turn.

The hypothesis of 'market integration' suggests that the liberalization of Latin America's financial markets during the 1990s created new opportunities for state and local governments to finance their expenditures and attract investors, wherein educational policy has an important, yet subservient function. In terms of domestic education policy, educational decentralization became part of a larger 'neo-liberal' reform, wherein educational policy increasingly turned towards a particular political-economic logic that emerged in most countries, but particularly those undergoing a weakening of state-led development models and the emergence of more market-oriented strategies (Montero and Samuels, 2003). The second hypothesis, linking educational decentralization with broader process of globalization, draws attention to the influence of international financial institutions, such as the World Bank and OECD. These international institutions are thought to have a crucial patterning influence on domestic, social policy for at least two reasons. First, recourse to 'conditionality' provides them with leverage to influence policy decisions. Second, the vast resources available to these institutes allow them to disseminate knowledge, information and discourses surrounding education. As a result, these institutions are often defined as a:

> Financial-intellectual complex, which pursues the trans-nationalization of knowledge and expertise using a community of experts for hire, in a process where there is a strong confluence of research and educational financing. This financial-intellectual complex has a pivotal role in the worldwide network of power and decision-making in education (Torres, 2002: 376–377).

The useful observations of these 'higher order' studies raise important and pertinent issues for those interested in the process of decentralization and educational institutions. First, an appreciation of global pressures draws our attention to such trends as the convergence of similar policies in a wide variety of countries with very different, historical features, suggesting the need to look beyond 'proximal' variables in order to explain this convergence. Second, these studies draw our attention to the possibility that education, and educational policy, is not an insulated policy field, but rather serves an important, economic function. Third, these approaches place important emphasis on the role of culture, ideas and ideology in explaining social change (Freire, 1974; Carnoy, 1984; Torres, 1998). To summarize this literature, the move towards educational decentralization is understood and explained as a response to the demands of market integration and the pressures of international financial institutions, which education policy is seen to serve.

If we turn from the analysis of converging policy ideas to an analysis of national difference, several broad shortcomings of the aforementioned perspective emerge. First, these approaches often fail to distinguish between different forms of decentralization, assuming, rather than demonstrating that the presence of a common idea equates to its common practice. Second, these approaches neglect the highly political context wherein a country's educational policy arises. Together, these shortcomings demonstrate the dangers of under-estimating the role of 'national politics' and 'national interest' in education. We see the role of national interest, noted only in passing by theories of globalization, as being much more central in the analysis.

A startling weakness in many studies of educational decentralization is that they fail to distinguish between the administrative, financial and pedagogical components of educational systems. Moreover, many studies also fail to distinguish between the administrative levels to which these responsibilities have been transferred. Without this distinction, something we have attempted to provide in section two, the reforms of Mexico and Nicaragua may appear similar in that they both transfer policy authority, when in reality, they are very different. By employing these distinctions, we show how neither the 'market integration' thesis nor the 'IFI thesis' can account for national difference.

Table 2. Level of Market Integration

	Mexico	Chile	Argentina	Nicaragua
Capital Account Liberalization	0.800 (1991) 0.875 (1995)	0.600 (1991) 0.745 (1995)	0.950 (1991) 0.986 (1995)	N/A
Average Annual GDP Growth (1990–1999)	1.58	4.80	2.96	0.28
Index of Economic Freedom (lower score = freer market)	74 (mostly not free)	11 (mostly free)	17 (mostly free)	116 (mostly not free)
Level of consistency with neo-liberalism	Least consistent	More consistent	Little consistency	Most consistent

Source: Morley, Machado and Pettinato (1999), World Bank (2002) and Chafuen and Guzman (2000).

Table 2 demonstrates the level of market integration in four cases. Capital account openness, which describes whether countries impose significant restrictions on capital account transactions, is used here as a simple way to measure international capital mobility. The second variable, average annual GDP growth, and the third variable, level of economic freedom, as scored by the 2000 Index of Economic freedoms, have been added to provide an overall indication of the level of market integration in each case. Of the four cases under review, Nicaragua demonstrates the least opened markets. Chile demonstrates the highest levels of market openness, with Argentina and Mexico located in between. There is little consistency between levels of market integration and educational policies that are consistent with market principles. In Table 3, the same method is applied, but substitutes the level of market integration with a measurement of World Bank Influence. Here, the second proposition linking World Bank involvement and influence with decentralization of educational policy is tested by constructing an overall measure of International Financial Institution (IFI) influence, from the total debt/GDP ratio and levels of World Bank Programme Disbursement. Although such a measurement may be inadequate for capturing ‘influence’, it may be able to capture some general trends, in the absence of other empirical indicators. Once more, there is little consistency between a country’s involvement with the World Bank and educational policies that are consistent with market principles. In all four cases, levels of World Bank influence are somewhat

Table 3. World Bank Influence

	Mexico	Chile	Argentina	Nicaragua
Total Debt/GDP ratio	30.9 (1992) 25.4 (2001)	45.7 (1992) 57.8 (2001)	29.9 (1992) 52.2 (2001)	N/A (1992) 159.7 (2001)
World Bank programme disbursements	1352	200	460	74
Level of consistency with neo-liberalism	Least consistent	More consistent	Little consistency	Most consistent

Source: World Bank (2002).

'inconclusive' as causal mechanisms for decentralization of educational policy. Total debt/GDP ratios seem to coincide with the overall level of decentralization following the reforms in Mexico, Argentina, and Nicaragua, where the relatively level of debt/GDP coincides with the overall levels of educational decentralization.

While this information clearly warrants greater attention, at this point, we merely highlight the analytical deficiencies that emerge when the dimensional complexities of educational policy are not appreciated. Evidence from Latin America shows that, despite the similar timing and direction of educational reform, decentralization policies have not been uniformly applied. In fact, reform outcomes have been markedly different across the region. Recent evaluations have shown that some political systems have introduced policy reforms that have re-centralized administrative decision-making authority at the national level, while others have re-distributed authority to regional government, while others still have stressed the municipal or school level (Winkler and Gershberg, 2000). While the simultaneous application of this decentralization policy blueprint across the region suggests a common international transmission mechanism of ideas (Stallings, 1994: 46), such ideas cannot alone explain the whole reform dynamic.

The view of educational policy as the result of global pressures fails to appreciate the dynamics of 'policy-making' and, more importantly, that it is a national process with important consequences for powerful actors. Yet, educational policy-making is a complex process involving multiple stages of policy design, negotiation and bargaining, legislation, implementation and evaluation. Control over educational resources can be an important source of political and/or financial capital for key actors, who have an interest in mobilizing to compete for and/or secure these resources. Yet, in some instances, control over resource allocation can also be a burden to groups; specifically, when these groups lack the financial or administrative capacity for effective resource management and allocation. Therefore, policy change creates 'winners' and 'losers' and the ability of each group to organize, initiate, block and compete for these resources is important for understanding the process of policy change and, moreover, why some countries are more successful in implementing and sustaining educational reforms.

A growing body of literature has identified several political circumstances and institutional arrangements that are critical in patterning the nature of policy-making and the extent and success of new policy paradigms in Latin America. For example, the accountability structure of political parties has been shown to have a critical patterning influence (Willis, Garman and Haggard, 1999). In addition, the relative power of the political executive has been demonstrated to determine the success of new policy ideas (Montero and Samuels, 2003). The entrepreneurial and political skills of persuasive leaders may also be a key in determining the success of new ideas (Grindle, 2002). Other studies have shown how organized interest groups may also influence what new ideas will be introduced and how quickly they will go forward (Nelson, 1990). We consider the possible influence of some of these factors in the following section.

4. FROM THE GLOBAL TO THE NATIONAL: EVIDENCE FROM LATIN AMERICA

In order to understand why some countries are more advanced than others, in terms of decentralization, the two conceptual shortcomings outlined above must be addressed. In this section, we rely on the conditions established in our definition of decentralized education as a neo-liberal reform (cost-effective, locally administered and competitive) in order to examine why decentralization is more advanced as a neo-liberal reform in some countries over others. It is proposed that the possibility that the approach governments take in educational reform, and hence their response to global pressures, depends on a key factor: relative capacity, or bargaining power, to pursue decentralization. It is suggested that politicians prefer educational designs that promote competition and transfer personnel and resource authority to lower levels, while retaining as much central control over curriculum and planning functions as possible. Their ability to pursue these preferences is constrained by the relative bargaining power National Teachers Unions who prefer educational designs that retain as much central control over personnel and resource authority, while transferring control over personnel decision and planning decisions to lower levels. The relative bargaining position of each group is determined, in large part, by the country's political institutions.

In almost every instance of educational decentralization in Latin America, the reform was initiated as a top-down process by national politicians, rather than a bottom-up process resonating from the grass roots (Nickerson, 2002). When a central body seeks to devolve policy responsibilities, it typically must engage in a process of legislative bargaining with other political actors. The ability of these other actors to block or shape the initiative will have an important influence on the success or failure of the original policy proposal. The relative power of these other actors to shape or block the national initiative is determined, in large part, by the structure of political parties and political institutions (Willis, Garman and Haggard, 1999). In Mexico at the time of reform negotiation, these structures strongly favour the political executive, providing few channels by which other political actors, such as opposition parties, regional politicians or civil society groups, could shape or block the national initiative. The Mexican Constitution, the convention of strong party discipline, and the Salinas government's control over both houses of government meant that there were few available legislative channels by which reform opponents could disrupt the ratification of the 1992 National Agreement for the Modernization of Basic Education (ANMEB) agreement or the 1993 National Education Law. In Pinochet's Chile, even fewer channels were available to those who opposed the educational reform initiatives of the early 1980s. Despite Argentina's formal political structure, its constitutional design and party system yields a more balanced system, where bargaining power fluctuates between national and provincial levels, where the relative bargaining power of national and provincial politicians fluctuates in accordance with legislative majorities and minorities. In Nicaragua, the victory of the National Opposition Union coalition in 1990 following the civil war opted to implement the 1993 Autonomous Schools Programme (ASP) through ministerial directive, rather than the legislative process. Therefore, was no formal ratification or approval process by which other political actors could oppose the ASP.

In Latin America, the historically consolidation of the state has depended on education as a means for political legitimacy. This has meant that education is not only necessary for the production of human capital, but it also serves as the principal source of values and norms conditioning the populace (Carnoy and Levin, 1986; Morales-Gomez and Torres, 1990). In Mexico, the state has effectively co-opted powerful social factions to work towards supporting the state, and the Mexican Teachers are no exception. Beginning with 1917 revolution, a highly bureaucratic and centralized system of educational administration emerged wherein the state took on the role of principal modernizer. At the political level, education was used to legitimize this corporatist framework and policies were carefully crafted to counteract radical trends within the spectrum of political conflict between the political elite and middle class, particularly in regard to distributive demands from several middle-class groups (Morales-Gomez and Torres, 1990). Salinas' overall reforms, including those in education, reflected the significance of the Teachers Union in this process. In the negotiations surrounding the new education legislation, the presence of the National Union of Education Workers, the *Sindicato Nacional de Trabajadores de la Educación* (SNTE), remained strong. In the negotiations, the SNTE won the guarantee from the federal government of signing a separate SNTE-state agreement with governors that essentially safeguarded the unions' power. The SNTE's power was not decentralized to state sections of the union, and, as a result, labour relations became extremely complex and never fully clarified under the ANMEB. These concessions to SNTE by the national government have greatly hindered the implementation of the ANMEB, but also provide evidence as to the significance and embeddedness of clientelistic networks in Mexico. As an important source of political capital, the Salinas administration could not afford to alienate the SNTE.

In Chile, beginning with the authoritarian period of deconcentration, the Pinochet administration sought to impose a centrally controlled, political administration, in support of market-based reforms through the implementation of a series of political and social sector reforms. By strengthening political control over the entire country, the Pinochet administration launched a process of administrative delegation aimed fundamentally at strengthening the national central authority and improving economic efficiencies. Hence, regional governments were given a role in political control where the *Intendentes* (regional heads), the mayors and the heads of community organizations became extensions of political surveillance by the national government (Angell, Lowden and Thorp, 2001). Social reform during this period featured the decentralization of responsibility for health and education to the municipalities. First, the military government sought to reduce the power of centralized political actors, such as Unions and the Ministry. Second, the reforms were intended to reduce fiscal expenditures through introducing competition for limited resources. The municipalities therefore competed with the private sector in education via a newly introduced voucher system. Within this system, party identification with the centre remained strong and widespread. A clientelistic system existed between the state and society, where regional actors who were usually appointed, played an important role as brokers between the centre and local recipients. Given the importance of the state-trade unions and professional organizations often sought benefits from legislative action sponsored by their party colleagues in Congress, rather than in collective bargaining with employers.

In Argentina, the constitutional design and party system has yielded a more balanced system, where bargaining power fluctuates between national and provincial levels. The relative bargaining power of national and provincial politicians fluctuates, particularly in accordance with legislative majorities and minorities. An examination of Argentina's 1994 Federal Education Pact demonstrates how this particular reform outcome reflects institutional determined lines of accountability, which subsequently favoured regional disbursements. Constitutional design, electoral rules and the evolution of the party system in Argentina have yielded a shifting balance between central and provincial powers. The congressional and gubernatorial elections of 1987 produced a *Partido Justicialista* (PJ) majority in the legislature and gave them additional governorships. Menem's rise within the PJ resulted from the ascent of a federalist faction, with which he aligned. His campaign slogan of 'Federalism y Liberacion' secured him the support of sitting governors (Willis, Garman and Haggard, 1999). The decentralizing measures undertaken by the Menem administration reflect the interests of this 'federal coalition' that supported him. The political bargaining process that occurred over the 1993 Federal Education Law reflects Menem's commitment to the 'federalist coalition' that supported him. The education law was negotiated between the federal and provincial governments. Menem's concessions to the provincial level, as contained in the 1993 reform, provided the political support necessary for the law's implementation.

In Nicaragua, the 1979 revolutionary overthrow of Anastaio Somoza initiated a period of high instability in the country. The incoming Sandinista leadership was highly unstable and marked the beginning of a ten-year civil war between supporters of the Revolution and a coalition of anti-Sandinista groups formed by former members and supporters of the Somoza regime. The victory of the National Opposition Union (UNO) coalition in 1990 introduced a new political orientation that was drastically opposed to the values of the Sandanista National Liberation Front (FSLN). The dominant groups of this coalition included modernizing industrial, commercial, and financial elites as well as technocrats oriented towards reintegrating the country into the world capitalist economy. The UNO's new agenda called for a major educational restructuring. The state's central role in the administration of education was to be diminished; political content was to be excised from the curriculum; traditional values were to be reintroduced; the power of the Sandinista-affiliated mass organizations, such as the National Association of Nicaraguan Educators (ANDEN) and the Federation of Secondary Education Students (FES) was to be reduced; the role of parents in school decision-making was to be increased; and the costs of education were to be borne by its users, particularly at the university level (Arnove, 1994: 32). The UNO set out to use education to consolidate its vision of the society and its historical project to accord priority to market mechanisms, traditional values, and parliamentary – rather than mass-based – forms of democracy (Arnove, 1994). The logic of the majority was to be replaced by the logic of the market, and values with a socialist orientation by Christian-inspired principles (Gershberg, 2002). The negotiation process in the design of the 1993 ASP was extremely limited. In fact, the ASP was not established in any national law. There was no ratification or approval process. Rather, the programme was governed by a series of ministry internal directives, many of which were not in the public domain. The ministry officials proclaimed that the reform process was one of *hechos no de derechos* (accomplishments, not laws) (Gershberg, 1999).

In Mexico, political power has been highly centralized through a constitutional and party structure that favours the political executive. The bargaining process surrounding the 1992 ANMEB and 1993 National Educational Law demonstrates the centrality of this system. Despite the concerns of state politicians regarding their ability to deal with both the administration of the reforms and to deal effectively with the Teachers Union, the reforms were passed over the span of two days in the legislature. In an effort to address growing bureaucratic inefficiencies and growing public dissatisfaction, the national government re-distributed certain responsibilities to the regional level. However, in order to maintain the critical support of the Teachers Union, it guaranteed a separate agreement for the Union. This had the effect of creating serious difficulties in the implementation process as well as undermining the ability of the state to collectively deal with the powerful Union.

The educational reforms in Chile during the 1980s occurred within a political framework that was highly centralized political system where the political power of the executive was dominant. The political project of Pinochet was intended to disrupt traditional lines of accountability, essentially excluding Unions from the decision-making process – a feat that stands in stark contrast to Mexico. The objectives of reform under the newly democratic governments of the 1990s have also been highly exclusionary, centring on key political elites in the coalition. In order to initiate the P900 law, the Aylwin administration offered concessions in the form of a teacher's statute, which allowed the government more room to manoeuvre.

In Argentina, the political and party structure creates a delicate balance of political power between the federal and provincial levels. The ability of regional politicians to control the Senate creates a situation where the political executive's ability to influence the reform process is greatly determined by majority and minority governments. The Alfonsin administration, in a minority government where the Senate was controlled by the opposition, entered a period of deadlock. The Menem administration gained a majority government in the subsequent elections, which might suggest a more centralized form of re-distribution. However, as has been demonstrated, Menem's obligation and commitment to his political supporters at the regional level gave way to political concessions, in the way of educational responsibilities to be re-distributed at the regional level.

Nicaragua's experience is perhaps the most interesting case. The new UNO administration intended to initiate a complete reversal of the Sandinista's educational programme. The Autonomous Schools Programme was a direct challenge to the existing educational order, which stressed values of community, commonality and the revolution. Instead, the UNO was able to implement reforms in education that stressed the individual, religion and the market. The bargaining process was non-existent as the ASP programme was implemented through a series of directives, as opposed to legislation (Gershberg, 2002). The infighting within the National Teachers Union prevented a strong, unified opposition – again, in stark contrast to Mexico. Second, because it was only a ministerial directive, the incoming opposition government in 1996 could have overturned the directive. However, newly elected President Aleman re-appointed the minister of education responsible for the ASP's implementation under the Chamorro government.

5. CONCLUSION: NATIONAL DIFFERENCE AND THE PRESSURE TO CONVERGE

The above analysis of educational decentralization in Latin America, and the variety of different responses to global pressures witnessed within the region, indicates that governments respond to globalization in fundamentally different ways. Although the governments of Latin America are increasingly being asked to respond to, and pursue market oriented strategies in education, we find that it is still these states that ultimately determine how education decentralization and neo-liberalism will play out within their borders. Viewed from this perspective, educational decentralization cannot be seen as solely responsive to market demand and international financial pressures, as implied unproblematically by more structural analysis. While decentralization may contain possibilities for more market-oriented strategies in education, this potential has been found to be severely curtailed by national networks of interests, which become evident when education is seen in its wider political context (Seddon, Angus and Poole, 1999). Specifically, this study has found that inherently structural views of educational decentralization miss the true scenario of educational decentralization in Latin America. They fail to consider, for example, that education in Latin America is highly political; often involves intense political bargaining between national interests; and has historically served an important ideological function, factors that are shown in our analysis to have a critical, patterning influence on a country's responsiveness to global preferences. Finally, in order to appreciate fully the true effect of globalization on education, the issue of national difference must be addressed.

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PART II: TRANS-NATIONAL POLICY PRESCRIPTIONS

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TRACKING NEO-LIBERALISM

Labour Market Policies in the OECD Area

1. INTRODUCTION

Under conditions of globalization neo-liberal policies are often advanced as the only ones that nation-states can pursue effectively. By embracing the deregulatory logic of the global market, it is argued, nation-states will be better positioned to achieve success than if they cling to outdated notions of state intervention. Thus states should be catalysts in promoting market adaptation. If they act in this way, their citizens will reap the benefits because their societies will be more competitive in the global economy. Arguments of this type are part of public discourse and are employed to promote, justify or legitimate the adoption of neo-liberal policies. To a surprising degree, given the simplicity of the case just advanced, and the widespread failure of neo-liberal policies referred to in the introduction to this book, these propositions continue to play a key role in the development of public policy and in the efforts of international organizations to influence the policies adopted by states. Consequently it is important to continue to interrogate the claims advanced on behalf of neo-liberal policy.

In this chapter, we examine the case of labour market policy, once a crucial site for welfare state promotion of income equality and social justice, now seen potentially as a key ingredient of international competitiveness. More particularly we investigate the role of the OECD in analysing labour market issues in its *Jobs Study* and in advancing a very detailed set of policy prescriptions in its *Jobs Strategy* (see OECD, 1994a, 1997b). Adoption of the OECD's strategy, it claimed, by increasing the flexibility of labour markets could solve the persistently higher unemployment rates that emerged in most advanced industrialized economies in the 1980s (see OECD, 1999). Likewise, the OECD also assumed that the *Jobs Strategy* would produce greater economic competitiveness in the world economy:

> In a world where trade in goods and services, as well as international investment flows, develop much faster than domestic economies, where technologies are

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> developed and diffused extremely rapidly, and where domestic markets are liberalized, competition is constantly increasing. To stay in the race, firms – and their staff – must continuously innovate and improve their efficiency (OECD, 1996: 5).

The 'innovation' and 'efficiency' essential to national economic competitiveness were also to be fostered by increased flexibility in domestic labour market policy (OECD, 1994a: 28–29). The case of labour market policy is interesting because the OECD has been both diligent and persistent in pushing its agenda for over a decade. It has released detailed reports that enable us to measure compliance with its recommendations and which can be compared to performance on other indicators. Since actual compliance with OECD recommendations varies considerably the example can illuminate both the posited convergence of public policies in the face of the competitive pressures stemming from globalization and the consequences of non-compliance with the neo-liberal model.

Two central questions are covered in this chapter; the degree to which the *Jobs Strategy* can improve domestic labour market performance, and the degree to which it can improve states' international competitiveness. The first question is whether adoption of the neo-liberal policy package is associated with good labour market performance? Assessing this question is complicated by the task of interpreting which performance measures are most effective for cross-national comparison. There are problems with all labour market indicators and choice of indicator can have a large effect on how the success or failure of neo-liberal policies is interpreted in this case. Here we focus on the employment rate since this is the least problematic of the available indicators as it provides the best approximation of the degree to which a society's labour resources are fully utilized. The employment rate is the percentage of the working-aged population that is actively employed. The OECD (1999: 24), despite attention to other indicators such as the non-accelerating wage rate of unemployment (NAWRU)-derived measures of structural unemployment, has argued that ultimately overall improvement in employment rates correlates most strongly with real declines in structural unemployment. Thus it is ultimately the employment rate against which the success of the Jobs Strategy should be measured.

Second, we ask whether addressing labour market problems in the way recommended by the OECD improves states' competitiveness in the global economy. Neo-liberal economics has maintained that high unemployment rates are caused by supply-side factors like the inflexibility of labour markets and the consequent failure of wages to adjust downwards (Lapido and Wilkinson, 2002: 35–36). One consequence of excessive protection of the labour market, in the words of international financier George Soros, would be that 'Capital will tend to avoid countries where employment is heavily taxed or heavily protected' (quoted in Standing, 1999: 62). At the enterprise level, interest in all forms of labour flexibility seems to have been driven by attempts to achieve competitiveness (Jacobson and Hartley, 1991: 5; Reilly, 2001: Ch. 4). And a key motive expressed by policy makers in their drive to transform social and labour market policy in the direction of greater flexibility has been 'the desire to make national economies more "competitive"' (Standing, 2002: 31).

2. THE OECD, LABOUR FLEXIBILITY AND IMPROVING FLEXIBILITY

The OECD's entrée into labour market policy came from the experience of high unemployment which succeeded the Keynesian era. The Economics Secretariat of the OECD was instructed to study the issue and make recommendations on policy reform. Its analysis, reported in the *Jobs Study* and *Jobs Strategy* (OECD, 1994a), was firmly grounded in neo-liberal economic theory (itself rooted in neoclassical economics). The perspective offers a clear explanation and prescription for poor labour market conditions. Embedded in the account are the concepts of a natural rate of unemployment – the rate of unemployment where the demand for and supply of labour are in equilibrium, notwithstanding any remaining amount of unemployment, and the concept of a 'non-accelerating inflation rate of unemployment' (NAIRU). The NAIRU is that rate of unemployment, determined by the supply side of the economy, at which the inflation rate will be constant (see Sawyer, 2004: 33–36, or OECD, 1999: 18).

These concepts have several implications. There is little role for traditional Keynesian macroeconomic policy interventions to improve employment levels. This is because there is an inflation barrier to full-employment. Beyond a certain level, further decreases in the unemployment rate can only be purchased by increased inflation. Any level of unemployment above the natural rate is caused within the labour market itself by market imperfections that reduce demand for labour or prevent the labour market from clearing. Examples include strong trade unions, labour market rigidities (employment protection legislation, social supports and unemployment insurance), which by this interpretation, far from achieving their goals, actually increase unemployment above its natural level (Kuhn, 1997). This led the OECD to identify most unemployment as structural rather than cyclical (see OECD, 1998: 7–9). In 1996 by NAIRU-based estimates, structural unemployment accounted for an average of 91 per cent of actual unemployment in OECD member countries. Only the residual amount might be considered cyclical. The policy implication of this, for the OECD, was that the vast majority of unemployment was impervious to macroeconomic management (OECD, 1994b: 66–69).

This led to a second implication. Indeed, the core hypothesis of the Jobs *Study/Strategy* in terms of policy implications was that 'malfunctioning' labour market policies were themselves, therefore, responsible for unemployment. The OECD report targeted labour market policy rigidities such as employment protection legislation or financial inducements which cushioned workers from changing market conditions (unemployment benefits, early retirement schemes and social programmes generally). The OECD argued these policies served ultimately to reduce employment and harm the workers they were intended to help (Kuhn, 1997). Thus grounded in neo-classical economic theory, the *Jobs Study* focused on greater labour market flexibility which was to be achieved by removing politically constructed obstacles to the unfettered operation of market forces:

> Structural unemployment grows from the gap between the pressures on economies to adapt to change and their ability to do so. Adaptation is fundamental to progress in a world of new technologies, globalization and intense national and international competition. . . . Policies and systems have made economies rigid, and stalled the ability and even willingness to adapt. . . . [Governments'] challenge will be to embrace change rather than succumb to pressure to resist it through protectionism or other measures to restrict competition. Governments are faced with designing and redesigning a range of policies across the economy and society in order to help foster – or in some cases, stop hindering – adaptation to evolving ways of production and trade (OECD, 1994a: 7).

There are a number of substantial theoretical and empirical criticisms of this neo-liberal model for labour market policy that provide grounds for scepticism about its claims. First, macroeconomic policy continues to regulate the labour market, notwithstanding its rhetorical rejection by neo-liberals and the NAIRU has been a poor guide to labour market performance. Indeed, central banks have tightly regulated labour markets through monetary policy in ways that make the achievement of full-employment difficult if not impossible (Stanford and Vosko, 2004: 12–13). Likewise, the assumption on which the NAIRU is based that there is a natural level of unemployment below which inflation will result seems invalidated by the experience of the United States in the 1990s. There, very low unemployment, considerably lower than the estimated NAIRU, was combined with stable and low inflation (Sawyer, 2004: 41–46). Second, the proposed supply-side policy response of 'flexibility' the meaning is imprecise and unscientific. The mainstream view of flexibility focuses on a narrow meaning that implies removing obstacles to the downward movement of real wages. A broader view of what it takes to ensure a truly flexible labour market would involve a quite different set of policy tools (Corsi and Roncaglia, 2002: 155–157). Some suggest that state interventions in the labour market can also supply 'flexibility' making it easier for employers to find skilled employees for example – these arguments support the emerging 'flexicurity' policy paradigm (Wilthagen, 2002).

Empirically, despite neo-liberal arguments, Palley (1998: 344–349) has argued that differences in US and European labour market performance have little to do with the flexible labour market in the US versus a rigid one in Europe. Rather the explanation lies in the more expansionary and counter cyclical fiscal and monetary policies pursued by the United States. A similar argument has been advanced regarding differences in Canadian and US labour market performance (Stanford, 2003). Entirely disregarding such criticisms, the OECD's Jobs Strategy contends that the rational response to high unemployment is to adopt more liberal, market-based set of labour market policies that decrease 'rigidities' and embrace flexibility. These arguments are buttressed by reference to cases like that of the United States as proof that adoption of market – friendly policies is the best path to economic growth and prosperity. Manning (2004: 209) notes that the OECD's analysis also 'echoed' the neo-liberal practice of labour market policy in the United Kingdom in the 1980s.

3. DOES FOLLOWING NEO-LIBERAL POLICY ADVICE LEAD TO GOOD LABOUR MARKET PERFORMANCE?

We turn here to consider how to translate compliance with OECD recommendations. We found it most convenient to utilize check lists which the OECD itself constructed identifying areas in which countries fell short of compliance with OECD advice. Essentially these consist of specific areas in which countries deviate from the template the OECD constructed and adherence to which, in its view, would produce the best labour market results. Based on its assumptions, the OECD outlined a broad, ten-point programme of action, or *Jobs Strategy* to be implemented in a 'coordinated manner' by member states. Governments were urged to:

- Set macroeconomic policy to encourage non-inflationary growth
- Create better frameworks for the creation and diffusion of technological 'know-how'
- Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers
- Eliminate obstacles to entrepreneurship
- Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers
- Reform employment security provisions that inhibit the expansion of employment in the private sector
- Strengthen the emphasis on active labour market policies and reinforce their effectiveness
- Improve labour force skills and competencies through wide-ranging changes in education and training systems
- Reform unemployment insurance and related benefit systems – and their interaction with the tax system – such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of labour markets
- Enhance competition within the economy

The OECD subsequently translated these principles into 80 specific policy recommendations which might be applied to each member government. The general tenor of the recommendations was deregulation, reflecting the OECD's belief that rigidities like union strength, social benefits, and legislation and regulations on employment conditions were responsible for increased unemployment in the OECD area. The OECD deemed that, 'governments . . . can introduce comprehensive reforms along the lines of the recommendations in the OECD Jobs Strategy which will expand employment opportunities and reduce structural unemployment' (OECD, 1997b: 7). The OECD ministers mandated the organization's Economic and Development Review Committee (EDRC) to examine the extent of implementation in each member countries with a view to exerting 'peer pressure on the policies pursued by individual OECD Member countries' (OECD, 1998: Foreword). The results were published in the OECD's regular country surveys. As well, special publications dealing with implementation have been issued (OECD, 1997a, b, 1998, 1999). Table 1 contains our summary of this material and generates both a compliance score for each country and a rank order.

How does compliance square with labour market performance? Using Spearman's *rho*, a rank randomized test, and Pearson correlations we found no statistically significant relationship between either the rank order comparison of the compliance score and the employment rate rank, nor were there any correlations among percentage compliant and employment rate change

Table 1. Compliance Scores and National Rankings

OECD Nation	Number of Recommendations	Number of Policies Being Monitored	Compliance Score*	Ranking*	Percentage Compliant
Australia	5	2	7	1	91.25
United States	7	0	7	1	91.25
United Kingdom	5	5	10	3	87.5
New Zealand	8	6	14	4	82.5
Ireland	14	0	14	5	82.5
Japan	12	4	16	6	80
Canada	12	4	16	6	80
Denmark	13	5	18	8	77.5
Switzerland	15	3	18	8	77.5
Greece	18	1	19	10	76.25
Italy	19	2	21	11	73.75
Sweden	23	1	24	12	70
Norway	21	4	25	13	68.75
Belgium	19	7	26	14	67.5
Netherlands	19	7	26	14	67.5
Poland	27	0	27	16	66.25
France	28	0	28	17	65
Austria	27	3	30	18	62.5
Finland	25	6	31	19	61.25
Spain	31	3	34	20	57.5
Germany	35	4	40	21	50
Max possible			80		

Source: Data derived from: OECD (1997a, 1998).

*For both the compliance score and the rank order, the lower the score, the more a state is in 'compliance' with the *Job Strategy*.

Table 2. Relationship between Compliance Score and Employment Rate of 21 Selected OECD Member Nations

Selected OECD Nations	Compliance Rank and Percentage	Employment Rate Rank	Employment Rate 2003	Rate Change 1994–2003
Australia	1 (91.25)	10	69.3	3.6
United States	1 (91.25)	9	71.2	–0.8
United Kingdom	3 (87.5)	7	72.9	4.1
New Zealand	4 (82.5)	2	76.1	4.7
Ireland	4 (82.5)	15	65	12.7
Japan	6 (80)	11	68.4	–0.9
Canada	6 (80)	8	68.4	–0.9
Denmark	8 (77.5)	4	75.1	2.7
Switzerland	8 (77.5)	1	77.8	3.3
Greece	10 (76.25)	20	58	3.9
Italy	11 (73.75)	21	56.2	5.3
Portugal	12 (71.25)	14	67.1	4.2
Sweden	13 (70)	5	74.3	2.8
Norway	14 (68.75)	3	75.9	3.7
Belgium	15 (67.5)	19	77.8	3.3
Netherlands	15 (67.5)	6	73.6	9.8
France	17 (65)	17	61.9	3.6
Austria	18 (62.5)	12	68.2	–1
Finland	19 (61.25)	13	67.4	7.7
Spain	20 (57.5)	18	60.7	14.2
Germany	21 (50)	16	64.6	–0.2

Source: OECD (2004).

(Table 2). There is no statistically significant relationship between adopting the OECD *Jobs Strategy* and obtaining good results on the employment rate.

			Compliance Score
Spearman's rho	Employment rate	Correlation coefficient	0.396
		Significance (2 tailed)	0.075
		N	21

Value	Asymp. Std. Error	Approx. *T*	Approx. Sig.
Pearson's R .393	0.124	1.861	0.078
	N		21

4. OECD COMPLIANCE AND INTERNATIONAL COMPETITIVENESS

Flexibility of labour markets is, of course, only one component of international competitiveness. Nonetheless it is interesting to compare rankings on compliance with the OECD's recipe, which include a number of other recommendations that should contribute to competitiveness, with rankings of international competitiveness. Here we report on the association with two such indexes both issued under the auspices of the World Economic Forum. The Forum issues an annual publication, *The Global Competitiveness Report*, and sees itself as ideally suited to make these assessments for two reasons (World Economic Forum, 2004: xi). First, it brings together leading business people and government policy makers in regular discussions of the determinants of economic success. Second, it conducts an annual Executive Opinion Survey in which business executives:

> assess the importance of a broad range of factors central to creating a healthy business environment in support of successful and productive economic activity. The tax and regulatory environment, labour market legislation, the overall macroeconomic environment, the prevalence of corruption and other irregular practices in the economy at large, the quality of a country's infrastructure and education are but a few of the areas covered by the EOS (WEF, 2004: xi).

On this basis the WEF publishes two indexes. The first is the Growth Competitiveness Index (GCI). This is a combination of three other indexes: one measuring the quality of the macroeconomic environment; the second, the state of a country's public institutions; the third, a countries technological readiness (all these being associated in the literature with competitiveness and growth). Using a combination of publicly available hard data, and information from the WEF Executive Opinion Survey (which, the WEF considers, 'provides more textured qualitative information on difficult-to-measure concepts'). These three pillars are brought together in the GCI. The relation between compliance with OECD recommendations and position on the growth index is outlined in Table 3.

The second WEF competitiveness index is known as the Business Competitiveness Index (BCI) and is intended to convey and evaluate the microeconomic conditions that affect wealth creation by companies (Table 4). Thus:

> The BCNI evaluates two specific areas, critical to the business environment in each country: the sophistication of the operating practices and strategies of companies, and the quality of the microeconomic business environment in which a nation's companies compete. The idea is that, without these microeconomic capabilities, macroeconomic and institutional reforms will not bear full fruit (WEF 2004: xiv).

There is no statistically significant relationship between compliance with the OECD labour market strategy and performance on either of these competitiveness indices. Once again, adoption of the Jobs Strategy and increased labour market flexibility does not seem to improve economic performance. This result is clearer when OECD states are clustered by labour market regime type.

Table 3. Rankings on Compliance Score and the 2004 Growth Competitiveness Index

OECD Nations	Compliance Score	GCI
Australia	1	11
United States	1	2
United Kingdom	3	8
New Zealand	4	14
Ireland	4	19
Japan	6	7
Canada	6	12
Denmark	8	4
Switzerland	8	6
Greece	10	20
Italy	11	21
Portugal	12	16
Sweden	13	3
Norway	14	5
Belgium	15	17
Netherlands	16	9
France	17	18
Austria	18	13
Finland	19	1
Spain	20	15
Germany	21	10

Source: World Economic Forum (2004).

			Compliance Score
Spearman's rho	GCI	Correlation coefficient	0.113
		Significance (2 tailed)	0.627
		N	21

Table 4. Rankings on Compliance Score and Business Competitiveness Index

OECD Nations	Compliance Score	BCI
Australia	1	11
United States	1	1
United Kingdom	3	6
New Zealand	4	15
Ireland	4	17
Japan	6	8
Canada	6	13
Denmark	8	7
Switzerland	8	5
Greece	10	21
Italy	11	20
Portugal	12	19
Sweden	13	4
Norway	14	16
Belgium	15	12
Netherlands	16	9
France	17	10
Austria	18	14
Finland	19	2
Spain	20	18
Germany	21	3

Source: World Economic Forum (2004).

			Compliance Score
Spearman's rho	BCI	Correlation coefficient	0.039
		Significance	0.867
		N	21

5. OECD COMPLIANCE VERSUS ALTERNATIVE LABOUR MARKET STRATEGIES

An earlier examination of the OECD's labour market advice concluded that patterns of labour market policy continue to conform to a modernized version of the typology of welfare state regimes developed by Esping-Andersen (1990) (see McBride and Williams, 2001). There has been a clear tendency for the original liberal welfare states (sometimes termed 'residual' welfare states) enthusiastically to adopt the OECD package. Indeed this is hardly surprising. There is evidence that countries amongst them like the United States and United Kingdom provided the model which the OECD itself adopted. The social-democratic states identified by Esping-Andersen were less inclined to adopt the OECD model and on a number of variables remain quite different from the countries in the liberal, OECD compliant cluster. To these social democratic countries can be added a small number of European states, which attempted to combine flexibility with a higher degree of security than accorded in the liberal cluster. These countries include Denmark and the Netherlands.

Indeed, for the most part the OECD compliance scores fall into groupings consistent with Esping-Anderson's categories (with the 'liberal' countries scoring lowest, the Scandinavian countries grouping in the middle and the European countries grouping at the high end). But there are a number of important exceptions. Denmark has a surprisingly high ranking on compliance with the OECD model. At face value this would seem to indicate that its labour market policies are similar to those of the English-speaking countries. However on closer inspection this is inaccurate. Denmark has significantly reformed its labour market programmes, and this perhaps explains its low number of policy recommendations from the OECD. However, this obscures continued high levels of government expenditure in areas such as unemployment assistance, early retirement programmes and special assistance to vulnerable workers (Cox, 1998: 411). Based on programme expenditure levels, Denmark, has more in common with the Scandinavian countries then it does with other Job Strategy compliers like the United States and Canada.

Thus, while the compliance scores may indicate both the general trajectories of individual nations and the relative degrees of continued divergence in policy – these broad trends must be combined with a closer scrutiny of individual countries' current labour market programmes. Isolated case studies of the trajectory of reform in both the Netherlands and Denmark have suggested that the welfare state/labour market policy paradigm emerging in those countries is actually an interventionist alternative to neo-liberalism. Evidenced by the size of program expenditures, this approach, which Cox called 'Activation.' has more in common with traditional Scandinavian approaches in which, '. . . the welfare state is an active entity, promoting re-entry into the workforce through retraining, and active involvement of women through the provision of publicly funded child care' (Cox, 1998: 400). From this perspective, far from retreating from the labour market, the state's role is expanded to provide stability and security in the face of globalization.

Wilthagen (1998; 2002) refers to this approach as the 'flexicurity' policy strategy that seeks synchronicity between the competing goals of economic competitiveness and social security. This concept links previously separate policies and combines measures to increase flexibility in and deregulate the labour market with others designed to continue social and employment security, perhaps in different ways. There is thus a concern for the negative consequences of flexible employment arrangements. Wilthagen's focus is on the Dutch model and includes, first, changes in the legal and security rights of core workers on the one hand and contingent or flexible workers on the other. Second, pursuit of 'win–win' outcomes via corporatist bargaining. Third, a shift from job security to employment security (i.e., from 'security within the job to security of a job'). He concedes this is rather vague but avers that it includes both increased flexibility in the labour market with the imposition of certain limits on that process. Indeed, the approach entails both corporatist arrangements of accommodation and widespread *active* state intervention in the labour market – approaches inconsistent with neo-liberal analyses.

Wilthagen and van Verzen (2004) refer to flexibility and security as the two main vehicles necessary to achieve the European Employment Strategy (EES)'s goal of adaptability. They claim that this idea of a new balance between 'flexibility' and 'security' underlies the EES goal of adaptability. Similarly the OECD Employment Outlook (2004) urges governments to continue to combine job strategies with other social objectives, including an individual's need for job security and work – life balance. The basic idea is that 'flexible labour markets need *more* rather than less security, be it different types of security, and that secure labour markets cannot be achieved without certain types of flexibility'. As attractive as this formulation may be its empirical and theoretical foundations have been challenged, at least as it applies to the EU (Jepson and Serrano, 2003: 4). More work needs to be done in comparatively examining the mechanics of this 'flexicurity' strategy and the countries that are employing it.

Despite the embryonic state of empirical work on the new 'flexicurity' strategy, grouping Esping Anderson's old 'social democratic' cluster of welfare states with those states attributed to the 'flexicurity' model of adaptation (both of which involve large state expenditures on active labour market interventions) provides some provocative insights into the relative success of the *Jobs Strategy*-compliant liberal states. Indeed, it suggests that neo-liberal labour market flexibility improves neither domestic labour market performance nor international competitiveness (Table 5).

Based on the most recent data, only in the case of *Jobs Strategy* compliance scores themselves do the 'liberal' countries score higher as a group then the alternative 'flexicurity' cluster. On all other indicators, the liberal countries continue to be outperformed. This despite the nearly 15 years of effort the OECD has put into promoting the notion that the liberal countries are pursuing the correct set of labour market policies. This reconfirms earlier findings that suggested much the same (McBride and Williams, 2001).

6. CONCLUSION

The implications of these findings are relatively straightforward. Cross-national comparison suggests that the adoption of neo-liberal labour market policies does not improve either domestic labour market performance or international

Table 5. Performance of Liberal and Flexicurity (Rankings)*

	Compliance	Employment Ranking	Employment Change Ranking	GCI Ranking	BCI Ranking
Liberal					
United States	1	9	19	2	1
Australia	1	10	12	11	11
United Kingdom	3	7	9	8	6
Newzealand	4	2	7	14	15
Canada	6	8	6	12	13
Average	3	7.2	10.8	9.4	9.2
Flexicurity					
Denmark	8	4	17	4	7
Sweden	12	5	16	3	4
Norway	13	3	11	5	16
Netherlands	14	6	3	9	9
Finland	19	13	4	1	2
	13.2	6.2	10.2	4.4	7.6

* Rank orders are based on the ranks of 21 countries used in previous tables. The rankings range from a score of 1 (indicating best performance) to 21 (indicating the worst).

competitiveness – this despite the oft-repeated assertion that it does. Where the OECD and neo-liberal ideologues habitually point to isolated case studies of the United States or Ireland to suggest that the *Strategy* can work, it is difficult to reach this conclusion based on the wider evidence. Where the OECD to base its recommendation on an examination of 'what actually works' it would seem advisable to investigate the Social Democratic/Flexicurity model in some depth and revise the *Jobs Strategy* accordingly.

This result suggests important avenues for further research. Firstly, more work needs to be done to identify the degree to which adherence to both the NAIRU and 'flexibility' model have worked in practice. As noted, this formulation is theoretically problematic and many claims of its success (in the United States for example) are simply empirically invalid. Thus, at a basic level, the onus is on supporters of neo-liberal policies to provide clearer evidence of how a narrow focus on removing labour market rigidities in combination with an emphasis on combating inflation can actually improve labour market performance. Second, more investigation needs to be done on the 'flexicurity' alternative to the liberal approach. The combination of corporatism and active labour market policies seems to be a source of enhanced economic performance in recent years. What mechanisms explain this? What are the broader labour market effects of this strategy? Where liberal policies seem to increase income inequality and poverty rates, do flexicurity models do likewise? More work need to be done.

Table 6. Cross Tabular Comparison of Spearman's Rank Order Correlations

	GCI	BCI	Compliance Score	Employment Rate Change	Employment Rate
Spearman's rho GCI	1.000	0.803	0.113	–0.380	0.686
Correlations coefficient					
Significance (2 tailed)	–	0.000	0.627	0.090	0.001
N	21	21	21	21	21
BCI Correlations coefficient	0.803**	1.00	0.039	–0.475	0.418
Significance (2 tailed)	0.000	–	0.867	0.030	0.059
N	21	21	21	21	21
CS correlations coefficient	0.113	0.039	1.00	–0.106	0.396
Significance (2 tailed)	0.627	0.867	–	0.649	0.075
N	21	21	21	21	21
ERC correlations coefficient	–3.80	0.475*	–0.106	1.000	–0.203
Significance (2 tailed)	0.090	0.030	0.649	–	0.378
N	21	21	21	21	21
ER correlations coefficient	0.686**	0.418	0.396	–0.203	1.000
Significance (2 tailed)	0.001	0.059	0.075	0.378	–
N	21	21	21	21	21

*Correlation is significant at the 0.05 level (2 tailed).
** Correlation is significant at the 0.01 level (2 tailed).

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SOCIAL ECONOMY POLICIES AS FLANKING MECHANISMS FOR NEO-LIBERALISM

Trans-national Policy Solutions, Emergent Contradictions, Local Alternatives

1. INTRODUCTION

While early assessments of neo-liberalism stressed its destructiveness in rolling back the institutions of the Keynesian welfare state, recent analyses have begun to assess how its consolidation involves creating new institutions and patterns of governance to extend market relations to new spheres of social life, and to stabilize emergent contradictions. Jessop has crafted the expression 'flanking mechanism' to describe attempts at shoring up neo-liberalism in the Anglo-American countries through various Third Way policies. These mechanisms may prove unsuccessful in their task should confusion persist over the proper form of support: is the solution to prop up neo-liberalism with institutions based on other logics, or is it to deepen the spread of market metrics ever more broadly over the social world? Moreover, what happens when both flanking strategies are employed at once?

This chapter tackles these questions by looking at one flanking mechanism that has been floated by supranational organizations, namely the social economy. It pays attention to how the social economy has been presented by the OECD as a policy solution to problems of social exclusion and social cohesion. It unpacks the friction in these policy proposals between an 'entrepreneurial' vision that attempts to extend market relations either by creating market-like signals in the social economy or by rolling back state provision and rolling out less expensive third sector provision, and the social capital/social cohesion vision of meeting unmet needs and promoting participation in voluntary organizations. Looking at evidence from several countries, the chapter argues that the tension between the entrepreneurial and social capital visions consistently recurs, and that the former frequently crowds out the latter.

The friction in the trans-national policy discourse about the social economy provides opportunities for alternatives, particularly since the mainstream policy discourse recognizes problems with neo-liberalism (e.g. loss of social cohesion),

S. Lee and S. McBride (eds.), Neo-Liberalism, State Power and Global Governance, 95–110.

yet has difficulty solving them. The state, having made the social economy a realm of policy intervention, is vulnerable to claims for a new set of policies to deal with the issues of work and care that are bound up in this realm. Therefore, the paper's final section will consider the example of how the women's movement in Québec, Canada, developed a counter-strategy of 'social infrastructures' to push the debate about the social economy beyond the flanking role of trans-national policy discourse to being part of a broader development strategy.

2. FLANKING MECHANISMS IN TRANSNATIONAL POLICY DISCOURSES

Studying the policy prescriptions of international organizations is useful, since these organizations develop trans-national policy discourses of broadly defined 'best practices' and 'ideas that work'. While the nation-state remains an important locus for policy-making, actors at this scale appear to be increasingly attuned to trans-national policy narratives and their portable, technocratic policy tools (Peck, 2002: 332). While the policy transfer literature exaggerates the importance of supranational policy actors as compared to the impact of national institutions and policy legacies (James and Lodge, 2003: 182–183), there is some evidence of broad policy perspectives (e.g. new public management), reform principles (e.g. around local workfare programming), and slogans (e.g. 'zero tolerance' and 'three strikes' in crime control) circulating in trans-national networks and contributing to some commonalities in reform trajectories, despite the persistence of national diversity (Howlett, 2000; Peck and Theodore, 2001; Jones and Newburn, 2002). The policy prescriptions of supranational organizations thus hold an interest for their contribution in setting agendas and disseminating generic reform ideas.

Organizations like the OECD, the IMF and the World Bank have been characterized as champions of neo-liberalism since the 1980s (Tickell and Peck, 2003: 174). In the case of the IMF and the World Bank, much has been made of the imposition of structural adjustment and of the Washington Consensus on the developing world. It is indeed in reference to these latter organizations that Dolowitz and Marsh apply the term 'coercive policy transfer' (Dolowitz and Marsh, 1996: 347–348). While liberalized trade and investment rules may play a similar 'coercive' role in the developed world, they have yet to reach into the definition of social and economic policy to anywhere near the same degree as the postulates of the Washington Consensus. However, other international organizations, such as the OECD, have played important agenda-setting roles in defining social and economic policy problems, and generic policy solutions. The OECD's 1994 *Jobs Study*, with its neo-liberal blueprint for reforming labour market and social assistance policies, is a much-cited example (McBride and Williams, 2001).

It has recently been remarked that the neo-liberal project put forward in the 1980s and early 1990s no longer plays such a dominant role in international policy discourse, with 'harder' versions of the Third Way becoming more dominant (Murphy, 1999, 293–295). For instance, the analysis of the OECD's *Jobs Study* was put into question by other directorates within the OECD with greater openness to corporatist adjustment strategies (McBride and Williams, 2001: 289). The World Bank's rediscovery of the state's role in ensuring a framework for accumulation, evident in its 1997 World Development report (*The State in a Changing World*), has turned the debate of states versus markets into one of developing state effectiveness in order to create the conditions for markets to flourish. A similar shift occurred in the North as new concepts and concerns like social capital, social economy and poverty entered the policy language of the OECD and the European Union. These changes point to a transformation in policy discourse from neo-liberalism to *something else*. In one view, this change involves a transformation in state form towards the 'social investment state'. Emboldened by insights drawn from endogenous growth theory, this state maintains the neo-liberal emphasis on regulating social and economic questions with market and quasi-market processes, but intervenes systematically on the supply-side in order to maximize efficiency gains. The state thus reconfigures its policy roles so as to emphasize programmes that will bring a good return. Social policy is charged with being productive rather than distributive or consumption oriented, especially by supporting individuals' capacity to adapt to change. A number of policies fit this mould, including activation and lifelong learning. However, the strategy of investing in children often takes central importance, as investments in early childhood development arguably have the 'highest returns' in fighting social exclusion over the life course (Jenson and Saint-Martin, 2003).

The social investment state argument potently underlines new outlooks and emphases in social policy since the mid-1990s and provides useful arguments about the patterns of governance animating these changes, but it is less clear that these changes amount to a new state form, as opposed to adjustments within neo-liberalism. New concerns about inclusion and investing in children mingle with important continuities in terms of maintaining flexible labour markets, opening public markets through partnerships with the private sector, and rolling back state provision in core health and pension programmes. It is more useful to see these policies as 'flanking mechanisms' stabilizing neo-liberal reforms, particularly in the Anglo-American democracies where neo-liberalism transformed the state much more fundamentally than in continental Europe (Jessop, 2002: 458). This is similar to Tickell and Peck's (2003) conception of a 'roll-out' stage of neo-liberalism, where new institutions and patterns of governance consolidate neo-liberal rule, following an earlier 'roll-back' stage that undermined the institutions inherited from the Keynesian era.

The 'flanking' metaphor, and the 'roll-back/roll-out' descriptors capture both the persistence of neo-liberal forms of rule and the *something else*. They nevertheless contain some ambiguity. On the one hand, flanking first and foremost appears to refer to policies that seek to shore up neo-liberalism in the face of its contradictions. On an immediate level, this might involve palliative measures to contain the opposition of those excluded by neo-liberalism. For instance, certain mechanisms, including those identified as part of the Social Investment State, may be used to reduce labour market inequality over the life cycle (Esping-Andersen, 2002). This flanking could also be portrayed as a means of addressing the contradiction between the growing importance of extra-economic factors of production (trust, networks, social capital, social cohesion) and the tendency of neo-liberalism to consume such factors faster than they can be reproduced (Jessop, 2000: 346–347). Concerns about social inclusion and social capital could thus also be brought under the flanking banner.

On the other hand, the idea of 'roll-out' neo-liberalism may equally refer to a *deepening* of the process, with the extension of market metrics and related patterns of governance into additional spheres of human existence. At an abstract level, this can be grasped in the growing importance given to concepts such as human capital and social capital. Nikolas Rose (1999: 481–483) notes how these terms capitalize 'aspects of human existence previously thought of as inappropriate for thinking of in terms of capital', such as social networks and relations promoting well being. Deepening can also be seen in other spheres, ranging from the development of new rules to govern the contracting out of state services, through to the remaking of individual subjectivities (Larner, 2000: 12–14).

These two faces of 'roll-out' may nevertheless prove incompatible. There is a tension between adopting 'flanking' measures on the one side that attempt to mitigate the anti-social consequences of neo-liberal policies by creating or protecting institutions embodying non-neo-liberal principles, and on the other side adopting policies and institutions that push market metrics ever deeper into the social world. Phrased otherwise, the degree of coherence between neo-liberalism and the *something else* may in fact be quite limited, limiting the ability of new policy solutions to prop up neo-liberalism's legitimacy and widen its social base.

This chapter seeks to demonstrate the friction between these two faces of roll-out neo-liberalism by considering one flanking mechanism being floated in transnational policy discourses, namely the social economy. There remains a great deal of disagreement among specialists concerning the definition of the social economy, not to mention of cognate terms like 'voluntary sector', 'third sector', and 'non-profit sector'. I will not cut through the knot of definitions here, but will take up Amin, Cameron and Hudson's (1999: 2033) view of the social economy as 'centred around the provision of social and welfare services by the no-for-profit sector'. It follows that 'social economy organizations are understood to represent a break from the 'binary choices' of conventional socio-economic strategies that present market and state as mutually exclusive spheres of economic growth and regeneration. This description highlights that recent use of the term refers to community organizations that have taken on greater responsibilities in providing social services in a context of state decentralization. The idea of breaking with the state/market duality suggests a similarity with the term 'third sector'. Indeed, most authors use 'third sector' and 'social economy' as virtually interchangeable (Vaillancourt, 1999: 25; Shragge and Fontan, 2000: 229).

While we will presently consider how the social economy has been framed in the discourses of the OECD, it is worth noting that it has generally been approached as a holistic solution for social exclusion. The social economy is felt to work on a variety of dimensions of exclusion. As Amin, Cameron and Hudson (2002: 19) note, it is argued to: encourage collective self-help and capacity building through socially useful production; humanize the economy, particularly by organizing economic activity to meet human needs; enhance democracy and participation by decentralizing policy to local communities; increase the coherence of local economies by jointly organizing supply and demand; and underline the interlinking of the economy with the environment, politics and society. Radical visions of the social economy have taken up these themes to propose extensive forms of local democratic control over economic and social development (for instance, through community full employment boards), and to imagine forms of work and consumption beyond the limits of the capitalist labour market (emphasis on use value over exchange value) and of gendered valuations of care, work and care-work (recognition of labour on basis of social value).

It is no surprise that the usage in policy circles is more prosaic. It is driven by the crises of employment and social care policies, wherein demand for jobs and care services have increased markedly while the state has attempted to reduce its responsibility for social provision or job creation. The social economy promises to square the circle by creating new jobs while meeting growing needs. Moreover this can be done while sparing the public purse because the social economy mobilizes previously untapped resources, promises to be more flexible, innovative and efficient than state services, and pays lower wages than the public sector (Ascoli and Ranci, 2002: 225–227). It even holds advantages over private provision, particularly in meeting the needs of those who are unlikely to provide a profitable market (Ranci, 2002: 30–31). Thus, despite the language of participation, humanization and meeting needs, Amin, Cameron and Hudson (2002: 29) emphasize that the social economy is constituted in official discourse as 'part of a new governmentality that seeks to defuse and control proposals for radical change rather than becoming a conduit for promoting such change'. It seeks to develop citizenship both in terms of mending social citizenship entitlements left in tatters by unemployment and government cuts, and in promoting avenues of democratic and civic participation, but within the limits set by the acceptance of the main tenets of neo-liberalism (Shragge, Graefe and Fontan, 2001: 109).

3. THE OECD AND THE SOCIAL ECONOMY

The OECD took up the theme of the social economy in a sustained manner in the mid-1990s. In 1994, the OECD's Territorial Development Service held a conference that resulted in the edited collection *Reconciling Economy and Society* (OECD, 1996). The collection's summary outlined the necessity of 'devising a more global paradigm' to counteract the spectre of 'social apartheid' tied to unemployment and social exclusion. It argued that the extra-economic costs and dysfunctions generated by the economic system were jeopardizing economic performance and threatening 'the whole of the social contract'. These negative externalities undermined 'the heart of the system'. The solution proposed by the volume's papers nonetheless did not propose 'a complete alternative to the dominant, market-based paradigm – which has a lot of valuable qualities – *but to expand it*', by putting the economy back in its place, by rooting out externalities at their origin, and by intensifying the link between economy and democracy (Sauvage, 1996: 10–11). In concrete terms, this involved developing a quaternary or 'quality of life' sector bringing together market resources, public financing and non-monetary resources to buttress the non-conventional economy, and to ensure it was neither 'ghettoized' as a second-class sector, nor marketized at the expense of its non-monetary dimensions. This required developing forms of project assistance and training to help launch locally based initiatives and to allow them to develop (or, in the report's fragrant metaphor, 'to allow the local "compost" to mature'). In addition, financing was required on a permanent basis in order to ensure the development and durability of projects, since the simple provision of start-up funds would only set up initiatives to fail (Sauvage, 1996: 16–18, 22–23).

The summary could scarcely be clearer in its support of a flanking mechanism that broke with a neo-liberal market emphasis. A number of the other contributions to the volume took the same tack. Marthe Nyssens (1996: 100), for instance, argued that against the 'widespread crisis in the state/market synergy as a mode of regulation', the social economy could stake out a place in the development process 'as the vector for a specific mode of socio-economic organization' which might eventually aspire to pride of place in societal development. Evers' (1996: 87–88) policy-focussed contribution noted the growing importance of reform experiments seeking to upgrade specific elements in the mixed and plural economy of care, but stressed dangers linked to developing this sector in a neo-liberal policy frame. These included reducing the sector to an instrument as a means of off-loading more care responsibilities on families and voluntary organizations without a corresponding increase in 'respect, rights and resources'. Evers distinguished policies that 'colonized' non-state economies of care as cheap resources, and 'developmental policies' striking a better balance and mix in the economics of care. The danger of the former lay in its tendency to 'use up' the social capital created in the social economy without looking after its reproduction.

By contrast, the two contributors affiliated with the Commission of the European Union provided a more entrepreneurial vision of the social economy. These contributors recognized the ethic of collective action in local development initiatives and underlined the importance of social cohesion in motivating these initiatives. Yet these initiatives were portrayed as buffers or transitional components of mainstream economies that should be brought into the mainstream through public policies. The policies they proposed did not show the same interest in shoring up economies of care or providing stable recognition and financing. Instead, the focus was on targeting public support to specific development projects (rather than sectors and clienteles) and on fostering entrepreneurship. One of the key financial instruments proposed were service vouchers, which create quasi-markets in care services since social economy entrepreneurs must compete for the business of individuals (Gass, 1996: 60–61; Jouen, 1996: 161–162).

These positions underlined how the OECD debates on the social economy interacted with parallel debates in the European Union (EU). The origin of EU interest in the social economy dates from 1993 and the White Paper on Growth, Competitiveness and Employment. This paper introduced the notion of 'new job sources' in the personal services, and created interest in local development and employment initiatives (LDEIs). Subsequent studies by the Commission highlighted the potential contribution of these initiatives for employment and for meeting unmet needs in the domains of daily life, quality of life, leisure and the environment. This led to a report in 1995 that resulted in proposals and pilot measures to suss out an appropriate policy agenda. LDEIs were also 'institutionalized' in the European Council's 1998 employment guidelines, being included as part of the pillar on promoting entrepreneurship (Jouen, 2000; ECOTEC, 2001: 2–3).

The emphasis on entrepreneurship is clear in the European Commission's (1998: 5, 9–10) report on 'tailor-made jobs'. The report championed using local personal services as a means of fighting high rates of unemployment, and in doing so in a manner that would not entail long-term public sector financial commitments. Personal and leisure services were favoured as centres for state intervention since they were closer to the market sector and thus less likely to require public funds beyond the launch phase. The report highlighted how local social economy initiatives reconciled 'solidarity, creativity and economic performance', but gave little attention to the democratic functioning of the sector or the creation of social capital. It took a top-down perspective in emphasizing the need to apply the 'good practices' of traditional gardening reproduction techniques (e.g. grafting, layering, propagation). Social economy organizations were left with little role in the strategic development of the sector, since few gardeners plan their gardens in democratic deliberation with their plants.

The Commission's slant complemented the OECD's emphasis, as part of its *Jobs Strategy*, on stimulating entrepreneurship in order to create jobs. Entrepreneurship in the social economy was touted as one form that this could take. After underlining the contribution of social economy activities in developing self-employment and providing responsive services, the OECD's (1998: 25, 28–30) *Fostering Entrepreneurship* report argued that experience in some countries showed that 'this sector can also benefit from a more dynamic and entrepreneurial approach'. Indeed, the non-profit sector was felt to support entrepreneurial activity in the economy at large even while dealing with social concerns. The associated policy guidelines included identifying and implementing 'low-cost and effective programmes with minimal distortionary effects on market incentives', and promoting an entrepreneurial non-profit sector by 'contracting-out where possible the delivery of public services' that meet pressing economic and social development needs. In the OECD's view, the distinction between non-profits and for-profits was the relative importance given to serving the common good versus making profits, such that approaches used for small business development could be applied with modifications to entrepreneurial non-profits. While special forms of financing and support might be required to support non-profits, this could be justified by their ability to tap new sources of demand by anticipating the needs of the most vulnerable. Some competition between non-profits and for-profits was deemed beneficial since it would encourage the professionalization of social economy organizations (OECD, 1996: 115–122).

The emphasis on entrepreneurship led to renewed support for 'social enterprises' as drivers of social and employment policy. These enterprises were seen to provide 'the type of economic development that enhances social cohesion'. A 1999 OECD report on these enterprises underlines the similarity with for-profit firms in their quest to become economically viable (if non-profit) businesses, but justifies providing subsidies to non-profits because they increase the efficiency of state services and help meet unmet social needs. In terms of policy instruments, the report stresses the importance of adopting a more professional approach, and of finding means of integrating these enterprises into the competitive economy on a ten-to-twenty year time frame. Indeed, it calls for further research on enhancing links between social enterprises and the private sector, for instance through reciprocal flows of staff (OECD, 1999: 9–10, 50, 58–60).

By 2003, the OECD partially stepped back from emphasizing market participation and quasi-market mechanisms, in an attempt to give greater space to issues of social cohesion and social capital. Its report on *The Non-profit Sector in a Changing Economy* underlined the sector's production of 'intangible goods such as social well-being, social capital, [and] social cohesion', not to mention 'relational assets' such as trust. The report noted with approval that the social economy has become more entrepreneurial and has adopted new management and commercial methods, but seemed less concerned with elaborating policies and mechanisms to accentuate this trend. It called instead for a 'strong dialogue' between policy-makers, practitioners and academics to improve 'our understanding of the differences the non-profit sector makes to the strength of our economies and the cohesion of our societies' (OECD, 2003: 10–11, 27).

The national case study chapters in the volume differed in the relative emphasis they put on entrepreneurship as opposed to providing greater autonomy to organizations to develop social capital and cohesion in their own manner. They all raised potential problems with exposing organizations to too much competition, such as squeezing the sector's social mission, increasing the scale of operations and thus reducing flexibility, innovation and responsiveness, and encouraging a more professional approach that reduces voluntarism (Borzaga and Santuari, 2003; Novak, 2003; Young 2003) The proposed policy responses were nevertheless standard ones of promoting the creation of private paying demand (tax allowances and vouchers), of better defining contracting-out and quasi-market strategies, of increasing the transparency and accountability of organizations, and of offering supply-side policies to enhance the capacities of organizations, their employees and managers. These ideas aimed to create market-like signals for social enterprises on the one hand, and to give them tools to succeed in this competitive environment on the other.

In sum, the OECD positions the social economy as a means of confronting neo-liberalism's problems of declining social capital, cohesion and inclusion. Its policy proposals nevertheless push an entrepreneurial social economy, encouraging the development of professional-led organizations that can participate in markets or quasi-markets. Little attention is paid to developing these organizations' democratic potential, or to providing opportunities for policy participation that might build social capital and citizenship. Questions thus remain about whether these policy solutions will deliver on their promise. However, the tenor of the OECD's analyses is that these questions are manageable within the broad approach adopted thus far.

4. EMERGENT CONTRADICTIONS

The OECD's confidence that rolling out entrepreneurial and quasi-market strategies for the social economy will serve to shore up flagging social capital and inclusion nevertheless runs into contrary experiences at the national level. In their study of social economy policies in the care sector in Europe, Ascoli and Ranci (2002: 9, 17, 233, 241) underline a number of tensions or paradoxes. For instance, the more that services are commercialized, the less the sector tends to innovate in meeting new needs and demands since competition heightens processes of organizational isomorphism. The autonomy that allowed social economy organizations to experiment with new services and new clienteles is squeezed out by the demands of competition or the strict accountability and productivity requirements of public funding arrangements. As the survival of social economy enterprises becomes tied to competitive success in markets or quasi-markets, the organizations become more professionalized and polarized between specialized staff and volunteers/members. Their democratic functions of mobilizing civil society in turn fall to the wayside. Even the evaluation of EU pilot projects questioned the assumed link between competition and efficiency, noting that open competition favoured larger, low-cost producers with fewer community links, and was thereby less likely to produce social capital (ECOTEC, 2001: 54–55, 69). This tension between developing the sector's capacity for service provision, particularly through market-making and developing social entrepreneurship, and encouraging its potential to create social capital and inclusion has been underlined in other contexts, such as Québec, Canada, and Australia (Shragge, Graefe and Fontan, 2001: 104; McDonald and Marston, 2002: 379–381; Scott, 2003: 150–152).

The British case further illustrates the tensions in the OECD approach. The Thatcher and Major Conservative governments used the voluntary sector as an alternative to public provision, subjecting it to quasi-market discipline through a competitive contracting regime. The Labour government nevertheless followed the European and OECD emphasis on social enterprise as a means of countering exclusion, and lauded social enterprises for bringing excluded groups into the labour market, encouraging 'a greater spirit of enterprise in our public services' and treating social and environmental issues as 'commercial opportunities, and drivers of business success, rather than as threats' (Department of Trade and Industry, 2002: 6, 19, 30, 42, 49, 63–64). The policy measures nevertheless mirrored those used for commercial small business development, with government helping social enterprises compete with mainstream businesses by opening access to expertise, training and financing, and by considering the role of the social economy in policy and procurement decisions. At the same time, New Labour recognized that the earlier contracting emphasis was undermining social capital and active citizenship, and sought to renew and improve the relationship between the voluntary sector and the state by negotiating national and local 'Compacts'. These Compacts were to create spaces unavailable under the contracting regime for voluntary organizations to fulfil their citizenship and empowerment roles through associational activity. The shift from contract to compact involved balancing efficient service delivery with involving communities in policy development and implementation (Alcock and Scott, 2002: 114–115, 118). However, developing local Compacts has been difficult as local authorities have often refused to adopt a broader appreciation of the voluntary sector, leaving the Compacts to languish as a low priority. The accountability mechanisms attached to public funds, and the continued emphasis on service delivery risk crowding out matters of democracy and participation, leading Alcock and Scott (2002: 120–23) to conclude that 'service delivery and social inclusion may not be *automatically compatible*'.

The tension between the roll-out of an entrepreneurial social economy and the goal of developing social capital and inclusion nevertheless creates openings for more radical alternatives in two ways. First, state intervention in the sector, whether it is for social cohesion or for service provision, renders the previously semi-private realm of community-provided care more public. Community organizations, and particularly those arising from the second-wave feminist movement that mobilized new forms of knowledge and expertise, have long sought recognition from the state, particularly in terms of financing. While state intervention has long been criticized for treating the sector as an instrument and appropriating expertise and resources, this 'misrecognition' still provides new spaces for claims-making. Intervention in problems such as violence against women, homelessness, labour-force insertion, or home care highlights care deficits, and politicizes unequal social relations.

The emphasis on social cohesion, particularly when it recognizes advocacy and policy participation roles, increases the legitimacy of the community sector's policy involvement and demands. Even where service provision roles dominate, the history of lobbying and coordination often creates a residue of representative associations and structures for elaborating shared goals and strategies. For instance, a recent report on the negative impact of governmental offloading on the democratic capacities and practices of Québec's community organizations underlines that while the community sector is under great pressure, it has never been so organized to manage and resist externally imposed stresses. In short, by intervening in the sector, the state has made it easier for actors in the sector to politicize their activities, organize, intervene and make claims (René, Fournier, Duval and S. Garon, 2001: 25–27; Smith, 2002: 90).

The second source of opening is financial. Where service provision programmes have been implemented, resources are already earmarked for the sector that can be re-deployed to meet community-based agendas. In other words, a financial base dedicated to the community sector exists such that changes can be proposed that involve little or no new money. Given these openings, it is worth asking how social economy actors seek to shape alternatives that go beyond the limited flanking mechanisms of roll-out neo-liberalism. While trans-national policy actors continue to circulate their best practices, alternative ones are being proposed on the ground (e.g. Silverman, 2004).

5. EMERGENT ALTERNATIVES

One such alternative is being developed by the Québec women's movement. The relationship of Québec's women's movement, and particularly autonomous services provided by women's organizations, to the state is one that predates the adoption of neo-liberal forms of governance. This has involved a process of seeking increased state financial support for the women's organizations' services and expertise, without compromising their autonomy and unique vision. Questions of representation and autonomy continued to be debated through the 1980s and early 1990s as the state increasingly relied on social economy organizations to provide services. This was particularly clear in health and social services, and led to a partial recognition of women's autonomous services and some policy access through annual meetings with the Minister of Health and Social Services. With the government's decision in the early 1990s to regionalize social and economic development policies, women's organizations decided to invest the new regional stakeholder institutions not only in health and social services, but also in regional economic development.

The women's movement concurrently elaborated projects to extend their participation in social and economic development. The movement criticized the province's proto-workfare programme as prescribing poverty, control and humiliation for recipients. It was particularly critical of how the programme used community organizations for work placements. Organizations were hard pressed to refuse what was free labour to them, yet were opposed to the plight (low-pay, maximum six months placement) of programme participants. It was also concerned about these measures' impact on wages and working conditions at the low-end of the labour market, and on the quality of services offered by community organizations (Bohémier, 1992; White, 1997). The women's movement came to demand that monies used for these placements be transformed into salaries for stable and lasting jobs in community organizations. The movement also began to underline the economic dimensions of what had traditionally been conceived of as social interventions. For instance, a provincial-level women's organization argued that women's centres were economic workshops, given the impact of interventions such as community kitchens, training programmes, and microbusiness development. Women's centres could be seen, among other things (such as sites for developing women's citizenship), as centres of economic activity and developers of community resources. Given the proper funding, women's organizations, and the community sector more broadly, could offer a solution to both high unemployment and the growth of unmet needs (D'Amours, 1993; Belleau, 1996: 22).

The confluence of these ideas led to the development of an autonomous economic strategy focussed on fighting the presence of poverty and violence in women's lives. This strategy was built around the idea of 'social infrastructures'. Inspired by recession-fighting public works programmes, the movement called for public investment into social services, both inside the state and the social economy, so as to consolidate and recognize women's unpaid or poorly paid and precarious work in caring services. In short, it argued that properly recognizing and remunerating the care-work taking place in the community and public sector would make a significant contribution to fighting women's poverty, and to meeting the needs of those left behind by economic change. The women's movement insisted that this investment lead to quality and lasting jobs, and not short-term work placements that kept the unemployed occupied until 'real' jobs were created. The general thrust involved turning spending on employability programmes into support for lasting, secure jobs. The social infrastructures strategy was supplemented with demands for: improved labour standards (such as increased minimum wages); employment equity; and access to training, housing, and non-traditional employment. Upgrading the labour market was a necessary part of the social economy package, so that women's groups and the community sector would participate in a broad based movement of social and economic development, and not simply end up managing misery for a cash-strapped government (David and Marcoux, 1995).

Instead of entrepreneurial strategies and the harnessing of community organizations to the government's service provision goals on a piecemeal basis, the women's movement proposed an integrated programme redistributing financial support to a wide range of state and social economy organizations that contributed to social and economic development by meeting needs. This strategy went beyond simple social capital or social cohesion strategies because the goal was not simply to counter the exclusions of neo-liberalism, but to define new economic practices that did not treat women's work and care-work as afterthoughts. Furthermore, although this programme required significant changes in government taxation and expenditure priorities, progress could be made by the re-allocating existing social assistance and health and social services expenditures.

It would be a gross distortion to claim that this programme of social infrastructures has transformed social economy policies in Québec. The main government policies have by-and-large followed the OECD's prescriptions in emphasizing entrepreneurship and small business development models at the expense of community action (D'Amours, 2001; Québec, 2003). While the strength of the movement's demands forced the government to create regional consultative committees on the social economy that strongly represented local women's organizations, public policies have sidelined the idea of social infrastructures and the view that care services are a central motor of development (Côté, 2001: 34–35; Toupin, 2001: 34–35). Social infrastructures have been pushed to the margins but the broader political economy implied in this project retains political currency, and finds expression in the various forums where the women's movement is represented. For instance, the submissions of regional women's groups to regional development councils continue to push for a broader view of economic development that considers 'quality of life' issues related to improving the level and conditions of access to collective equipments and services. Women's groups have therefore used the representation on regional development councils, won through struggles, to advance a broad and multidimensional vision of development that includes emphasis on caring services, anti-poverty measures, opening health and social services to women, and fighting violence against women (Masson, 2002).

6. CONCLUSION

The example of the Québec women's movement's social infrastructures raises anew the question of what comes after neo-liberalism. Whether we characterize recent changes in public policies as evidence of an emergent Social Investment State, or simply as the rolling-out of new institutions for stabilizing and consolidating neo-liberalism, there is a need to understand the strengths and limitations of these changes. This is particularly the case when they are promoted as generic solutions by supranational organizations. Social economy policies have been portrayed as flanking mechanisms that stabilize neo-liberalism by ensuring the reproduction of social capital, social cohesion and social inclusion. Yet while these policies speak to reproducing these inputs outside of formal market mechanisms, they also introduce quasi-market mechanisms into the community sector in order to stimulate the supply of these goods. The OECD has favoured this strategy, albeit with occasional reservations about how this may prove self-defeating. The available evidence indeed tends to support the idea that an entrepreneurial and quasi-market approach undermines the social economy's capacity to create and reproduce social capital and cohesion.

This result may push the OECD to shift its discourse towards measures that pay less attention to self-financing, entrepreneurship, and service provision, and more to developing the democratic capacities of social economy organizations. In the meantime, however, actors close to the social economy do have the opportunity to capitalize on the contradictions between the social cohesion promise of social economy policies and their contrary results to push for alternatives that go beyond neo-liberalism. The Québec women's movement offers one approach of using existing social economy resources and representation to push a radical political economy based on fighting poverty and on allocating resources to recognizing the developmental contribution of caring services provided by women in the community and public sectors. This political economy remains on the margins of social economy policies, but nevertheless has made some small policy inroads and continues to be heard in political debates. While trans-national policy solutions may prove influential in shaping flanking mechanisms for neo-liberalism, they come with their own limits and contradictions, and thus provide actors with opportunities to experiment with local alternatives.

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LINDA ELMOSE

ASSESSING THE CONVERGENCE THESIS OF LEGAL REFORMS IN EMERGING MARKET ECONOMIES

1. INTRODUCTION

This chapter argues that the post-Cold War era global phenomenon of proliferating transitional market economies are characterized by institutional diversity, rather than by neo-liberal convergence. The contention of diversity presents a direct challenge to the apparent ambition of the international community to engineer institutionally a neo-liberal economic world order, as reflected in the Good Governance development model orthodoxy. Two principal claims are made to argue why development scholars and practitioners should remain sceptical that institutional convergence is occurring or is likely to occur around the prescribed governance reforms. First, empirical evidence cannot confirm the view that these neo-liberal institutions are being progressively implemented by the fastest-growing emerging market economies. Second, and more theoretically, a set of faulty assumptions surrounding the neo-liberal conceptualization of state power and the state's role in institutional change can be linked to a paradox, or unintended consequence, which undermines the neo-liberal ambitions for institutional convergence.

The argument is elicited in the following sections. The first section defines 'good governance' and provides some brief points about its recent evolution and ascendancy since the mid-1990s. The argument is clarified in the second section, followed in the third section's assessment of the weak empirical evidence and the section four's elicitation of neo-liberal development policy's assumptions and one paradox of state power. The conclusion summarizes the challenges to the near-term attainment of the neo-liberal vision of institutional convergence and proffers a prediction for the long term.

The current neo-liberal development policy orthodoxy falls under the general rubric of the 'Good Governance' development model. Essentially, this development model stipulates that certain institutions prescribed by the neo-liberal development policy constitute the preconditions for market- and private-sector oriented growth and human development. Specifically, the wide-ranging set of

S. Lee and S. McBride (eds.), Neo-Liberalism, State Power and Global Governance, 111–123.

governance institutions (laws, policies, statutes, practices, norms, beliefs) of the Good Governance include reforms to formal economic laws, the legal system, and the rule of law generally, to bring these institutions more in line with those found in the western, liberal advanced democracies. These micro-level institutions are also expected to increase the governance capacity of states to implement the more traditionally emphasized neo-liberal macroeconomic policy prescriptions, namely, liberalization, privatization, deregulation and other forms of state retrenchment from the economy. While there is no singly accepted definition of 'governance' in academic literature or among development practitioners, a suitable working definition provided by the World Bank's *Governance Matters* defines 'governance' as 'the traditions and institutions by which authority in a country is exercised' (Kaufmann, Kraay, and Zoido-Lobaton, 1999: 1). Due to the vagueness of the term 'governance', it is helpful to understand the essence of the Good Governance development model by reference to the main institutions it prescribes. These include, first, a politically independent judiciary and stable legal system supporting the rule of law; second, the economic laws widely considered foundational to well-functioning market economies, including well-defined and state-guaranteed private property rights, contract, company, bankruptcy, and competition laws (EBRD, 1994: 69–77; Waelde and Gunderson, 1994: 355); and, third, improved public sector management, with reduced functions and size, increased accountability, transparency and participatory economic policy making, and reduced corruption. In contrast to the term 'governance', the normative concept of 'good' governance is much easier to define, since in the policy literature it is equated to the policies prescribed by the neo-liberal development policy orthodoxy.

The central argument in this chapter holds that the generalized and generic contemporary trend toward the establishment of market economies cannot be assumed to signify an emerging homogenization of market economy systems. The homogeneity, or convergence, of market economies appears to be occurring by virtue of the power of the prevailing development orthodoxy, the Good Governance development model. This development model is empowered by a widespread consensus on the part of most powerful actors in the global economy. The key to challenging the inflated confidence in the eventuality of a neo-liberal economic world order is to first establish that this ambition does, in fact, exist. While nowhere in the development agencies' governance-related publications or promulgations is it expressly stated, the existence of an underlying ambition to attain institutional convergence can be inferred from the global consensus surrounding the Good Governance agenda. The Good Governance development model finds overt support in the international development community, from multilateral development agencies such as the World Bank and the International Monetary Fund, western governments, their bilateral development agencies and their mouthpiece, the Organization for Economic Development and Cooperation's Development Assistance Committee. Support has also emanated from a myriad of non-governmental organizations, as well as other global governance institutions more peripherally involved in development issues, such as the World Trade

Organization (OECD, 2001; UNDP, 2002; IMF, 2003; Kaufmann, Kraay, and Mastruzzi, 2003; WTO, 2004). The consensus also includes the leaders of 192 countries who signed onto the United Nation's Millennium Development Goals, which highlights the importance of governance.

Having established the global support for the Good Governance agenda, the objective of the chapter is to provide two main reasons why development scholars and practitioners should remain sceptical about the likely eventuality of a neo-liberal institutional convergence as reflected in compliance with the Good Governance institutions. The first reason holds that the empirical evidence, taken from the World Bank's own indicators, does not support the view that compliance with the prescribed governance institutions is occurring. Nor does the evidence clearly and conclusively link the governance institutions to positive economic gains of the fastest-growing transitional economies. Without a persuasive causal linkage running from the governance institutions to growth, this latter finding suggests that developing countries could become reluctant to implement these reforms, thereby tempering convergence expectations.

A second and more theoretically based argument is raised to explain why scholars should be sceptical of the neo-liberal vision for institutional convergence. This argument centres upon a set of interrelated assumptions and one paradox of state power emerging from neo-liberal discourse. For institutional convergence to obtain, neo-liberal thinking needs to assume that the state is both capable and willing to institute the Good Governance reforms. Neither assumption can pass muster, at least not without further empirical evidence. The paradox (only one of many) of state power holds that the realization of institutional convergence under the Good Governance agenda is heavily reliant upon a strong, capable, and competent state. Paradoxically, this implied theory of a top-down, state-led approach to institutional reforms that has not proven effective in market economy transitions, and could be detrimental to the institutional convergence agenda.

2. WHY GOOD GOVERNANCE?

The ascendancy of the Good Governance model over the 1990s coincides with a number of contemporaneous events that influenced the shape of the real world and the development literature. In terms of the literature, the early 1990s rediscovery of institutions in the social sciences and the principal insight that 'institutions matter' in the study of the social order has significantly influenced the thinking behind the Good Governance model (North, 1990; Hall and Taylor, 1996). In terms of real-world events, governance capacity has evolved into being the new panacea for development problems in the wake of the successive failures of the neo-liberal reforms to bring about the promised growth, poverty reduction and socio-economic stability in both the developing countries undergoing

Structural Adjustment Programmes (SAPs) in the 1980s and 1990s and in the post-socialist transitional economies in the 1990s. The main neo-liberal policy insight from these two failures was that governance, or state capacity, was lacking, meaning that these developing countries were finding it difficult to install growth-inducing neo-liberal policies (World Bank, 1994). In this way, the Good Governance institutions were deemed as a set of 'second generation' reforms that would not only enable states to better implement neo-liberal macroeconomic policies (e.g. liberalization), but also were promoted *per se* as preconditions to market-oriented growth and development.

A final and more pragmatic real-world reason for the rise of the Good Governance model of development is that it has enabled the increasing cash-strapped bilateral and multilateral development agencies to 'produce results' in line with diminishing official development assistance in the 1990s and heightened western government concerns for aid 'effectiveness' (World Bank, 1998). By assisting the developing countries to undertake institutional reforms, principally via 'technical assistance' (expert advice) and various forms of knowledge sharing, the development agencies are able to 'do more with less' in the context of the harsh climate for development assistance (Wedel, 1998).

Therefore, the Good Governance model can be interpreted as an exercise in 're-branding' of a more benign version of the Washington Consensus, which was originally associated with the much-maligned SAPs (Willamson, 1990; Naim, 2000; Stiglitz, 2000). Unlike the SAPs, the Good Governance model appears to be much more demand-led, with many developing country leaders initiating reforms and approaching the development agencies for assistance in so doing. While the amount of 'choice' these states have in the wider context of the neo-liberal 'there is no alternative' (TINA) imperative is open to question, the image makeover of the Washington Consensus can be deemed a success by virtue of the relative dearth of criticisms levied against the governance model in the literature and in the real world.

3. MEASURING COMPLIANCE WITH GOOD GOVERNANCE REFORMS

Given overarching global support attributed to the Good Governance institutional model, either as a development model or as a set of global norms, the perception that the world's economic landscape is evolving toward an institutional convergence revolving around these governance reforms appears unassailable. Problematically for neo-liberal proponents, however, the empirical evidence does not support the notion that the governance reforms are being carried out by the most successful emerging market economies. Tables 1 and 2 display four of the six governance clusters (aggregates of variables), from the World Bank's indicators found in its *Governance Matters* publications (Kaufmann, Kraay, and Mastruzzi, 2003). These clusters are: (A) Government Effectiveness; (B) Regulatory Quality; (C) Rule of Law; and (D) Control of Corruption (two other governance clusters, voice and accountability and political stability are excluded). The data in both tables are the aggregate estimates (taken from a number of different sources) of the quality of governance based on the subjective views drawn from a wide array of polls, surveys, and commercial indexes. The estimates range from approximately (–)2.5 (low) to (+)2.5 (high). The quality of governance estimates are shown for even years from 1996 to 2002 for a select number of fast-growing emerging market economies. These cases were selected as the countries most likely to be capable of adopting the governance reforms. Table 1 presents the estimates for governance quality in four emerging market economies (China, India, Russia, and Chile). In Table 2, the same four clusters of indicators are presented as averages for the five fastest-growing emerging market economies by region (Asia, Latin America, and Central and Eastern Europe). In both tables, the estimates for the

Table 1. Fast-Growing Emerging Market Economies and 'Good Governance' Indicators

		2002	2000	1998	1996
China	A	0.18	0.24	0.18	0.11
	B	–0.41	–0.20	–0.07	–0.10
	C	–0.22	–0.32	–0.22	–0.43
	D	–0.41	–0.34	–0.20	–0.01
India	A	–0.13	0.05	–0.13	–0.16
	B	–0.34	–0.16	–0.08	–0.13
	C	0.07	0.23	0.21	–0.01
	D	–0.25	–0.21	–0.17	–0.19
Russia	A	–0.40	–0.61	–0.59	–0.48
	B	–0.30	–1.55	–0.37	–0.41
	C	–0.78	–0.86	–0.78	–0.80
	D	–0.90	–1.05	–0.69	–0.69
Chile	A	1.19	1.35	1.40	0.95
	B	1.50	1.35	1.22	1.28
	C	1.30	1.33	1.26	1.19
	D	1.55	1.54	1.18	1.10
USA	A	1.70	1.83	1.73	1.64
	B	1.51	1.50	1.51	1.31
	C	1.70	1.92	1.77	1.70
	D	1.77	1.77	1.95	1.60

Source: Kaufmann, Kraay, and Mastruzzi (2003).

Table 2. Good Governance Compliance as an Average of the Five Fastest-Growing Economies by Region

		A	B	C	D
Asia 5*	2002	–0.06	–0.20	–0.23	–0.50
	2000	0.00	0.05	–0.21	–0.49
Central & East	2002	0.56	0.30	0.30	0.02
Europe 5**	2000	0.25	0.21	0.26	0.05
Latin America 5***	2002	0.03	0.33	0.08	–0.05
	2000	0.31	0.68	0.09	–0.11
USA and UK****	2002	1.87	1.63	1.76	1.87
	2000	1.94	1.93	1.97	1.58

* Simple average of China, India, Indonesia, Philippines, Thailand.
** Simple average of Czech Republic., Hungary, Poland, Russia, Turkey.
*** Simple average of Argentina, Brazil, Chile, Mexico, Peru.
**** Simple average of United States and United Kingdom. GDP growth rates are taken from IMF's *World Economic Outlook* for 2003 and 2004.
Source: Kaufmann, Kraay, and Mastruzzi (2003).

quality of exemplary Anglo-American governance institutions are displayed for the sake of comparison.

Two major observations can be derived from the data presented in the two tables. Both observations raise doubts about the current strength and future likelihood of institutional convergence around the Good Governance institutions. First, there appears to have been very little improvement in executing the prescribed governance reforms over the 1996 to 2002 period. Taking China (the world's most successful market economy transition) as an example, its estimates for all four governance clusters have only marginally improved for 'government effectiveness' and 'regulatory quality' since 1996, while its 'rule of law' and 'corruption' indicators have worsened. The second major observation is that the actual subjective estimates of the quality of governance institutions are very low for all of the emerging market economies figuring in the tables, with the exception of Chile (Table 1). Many, if not most, of the scores are in negative numbers for the selected countries (again excluding Chile).

This data is meant only to provide an impressionistic, first-cut account of the success of the Good Governance development model for the given years. A number of possible interpretations can be derived from the tables, including that improving governance quality takes time and has yet to become obvious (a lag effect), or that states lack the capacity to reform, or that capable states are unwilling to undertake reforms. An alternative explanation, and the one favoured here, holds that the quality of governance simply cannot be decisively linked to market-based growth for transforming market economies. This alternative view is confirmed by Mukand and Rodrik (2002) who observe not only that China and India, as the most successful transitional market economies, do not abide by the prescribed governance institutions, but also that the countries making the greatest strides in implementing these neo-liberal reforms are either facing slow growth (e.g. Latin American countries) or confronting grave economic troubles (e.g. many post-socialist countries in Central and Eastern Europe and Russia) (Mukand and Rodrik, 2002).

The lack of a clear and decisive causal connection running from governance reforms to positive growth outcomes has a profound impact on the institutional convergence thesis. It can be hypothesized that state leaders and policy makers will only sustain the adoption of governance reforms if these are perceived to be economically beneficial (i.e. cost-minimizing or benefit maximizing). However, an alternative hypothesis holds that the Good Governance reforms could be subscribed to by developing country state leaders not as 'good economics' (as a path to growth) but as 'good politics' (obeisance to global norms, or 'standards of behaviour') (Krasner, 1983: 2).

Countering the alternative explanation proffered above, proponents of the Good Governance model are able to adduce a vast and growing number of statistical analyses to validate 'scientifically' a positive and statistically significant relationship between governance institutions and economic enhancements in growth, income, investment, living standards among other performance gains (Easterlin, 1996; Knack and Keefer, 1997a, b; Kaufmann and Kray, 2002). While these studies are important advances to the study of the institution-development nexus, they do suffer from certain methodological problems typically associated with statistical analyses. These problems include: the aggregate and non-detailed nature of findings available from these large-number, cross-country regression analyses; difficulties in assessing causal sequences and multicollinearity; and, the general absence of theory to specify and explain why, when or how a robust relationship exists between the governance institutions and positive economic outcomes. This latter point is especially important since the latter half of the twentieth century has already discredited two major theories (the Modernization Theory of the 1950s and 1960s and Law and Development Movement in the 1960s and 1970) which both were predicated on strikingly similar insights associated with the Good Governance model of development. For instance, both theories tried and failed to demonstrate the causal connect between various substantively and procedurally 'good' (read: western, modern, liberal) institutions, with positive development outcomes (Trubek and Gallanter, 1974).

Overall, despite its shortcomings the data presented in the two tables gives, at the very least, a preliminary impression that little support can be provided for the view that the convergence toward Good Governance is occurring (due to the slow implementation) or is likely to occur in the near future (due to the lack of a causal linkage between governance institutions and growth). As a challenge to the powerful and persuasive neo-liberal institutional convergence agenda, however, empirical evidence will continue to fall short. Empirical evidence showing how neo-liberal development policies have not fulfilled their promises of increased growth, prosperity, human development, economic and social stability, has not been able to dethrone neoliberalism from its three-decade long orthodoxy in development thinking. For example, it has become increasingly common knowledge that growth rates in the developing world have been lower on average in the past two decades of the Washington Consensus than they were in the pre-Washington Consensus years of the 1960s and 1970s. Rather than requiring empirical evidence to validate its policy prescriptions, the power of the neo-liberal development policy doctrine derives from its discursive power or strategy. This in turn is based upon two influential notions: the notion of inevitability toward a western, model teleological end as depicted in its barely veiled Modernization Thesis, and the TINA imperative (there is no other alternative), which de-legitimizes 'alternative' paths to development, even if the empirical evidence suggests a WHOA ('we have other alternatives') reality (Canova, 2000: 219, 222). It is in this light that the penultimate section moves beyond the empirical evidence to posit a more theoretically attuned reason, based on a set of assumptions and a paradox about state power, for why scholars should doubt the eventuality of the neo-liberal institutional convergence thesis as reflected in the Good Governance project.

4. NEO-LIBERAL ASSUMPTIONS AND A PARADOX OF STATE POWER

The contention is made here that the success of neo-liberal institutional convergence rests on the assumption that states (including governments and bureaucracies) in developing countries and post-socialist transitional economies are both capable and willing to implement, monitor and enforce governance reforms. The virtues of a strong Hobbesian/Weberian state possessing the monopoly over the legitimate use of coercive force is obvious; no other entity than the central state could wield the coercive power or legitimate authority to oversee the governance reforms in a rapid, complete and wholesale fashion. Absent such state power and coercive authority the successful implementation of the new institutions, laws and policies could be challenged by sub-states, political and economic elites with vested interests, and a plethora of local communities seeking to adapt the reforms to diverse local conditions and needs. Without such a strong, capable state the reforms would likely be undertaken slowly or in piecemeal fashion, thereby opening up space for contestation, debate and dissent, and therefore, institutional divergence (e.g. taking the form of partial or hybrid neo-liberal reforms).

A number of problems emerge from this strong, capable, and willing state. First, the capacity of states (their policy makers and bureaucracies) in developing countries and post-socialist transitional economies to implement, monitor, and enforce the highly complex Good Governance institutions is open to empirical question and should not be presumed. The presumption that states will have this capacity is likely due to the fact that the Good Governance development model was borne of the initial development community efforts in the early 1990s to foster the 'capacity' of states' governments and bureaucracies to implement neo-liberal reforms. Arguably, however, rather than build up capacity implementation and enforcement of the Good Governance institutions require pre-existing capacity (McAuslan, 1996: 34). A capable state is one that must be able to build up legitimacy for the reforms, rather than coercively imposing them. In this way, neo-liberal development policy doctrine tends to conflate erroneously 'legality' (state enactment of formal laws, policies) with 'legitimacy' of these laws. Legality does not ensure legitimacy on the part of private sector actors who may find the prevailing informal rules and norms more efficient and effective (Gray, 1991: 763), not least because these are better able to keep the state out of commercial affairs. Second, the willingness of states to implement the prescribed governance reforms cannot be simply assumed. The poor implementation record of Good Governance institutions by the presumably 'capable' fast-growing emerging market economies in Table 1 suggests caution in supposing that states leaders' and domestic private sector actors' willingness to accept the short-term adjustment costs of and uncertainties inherent to institutional reform. The issue of political will is not well addressed in neo-liberal policy thinking because non-economic considerations such as politics, both domestic and international, are largely missing from the analyses (Bates, 1998; North, 1990).

At the domestic level, a state's willingness to adopt governance reforms could be adversely affected by the adversity of powerful coalitions of actors, either within the state, the bureaucracy, or in the private sector. It is recognized in a number of Political Economy perspectives even the most efficient institutions are often politically unfeasible to adopt. Politics at the international level is also downplayed by the neo-liberal approach to institutional change, which assumes that developing countries will weakly submit to the Good Governance reforms. Ignored is the consideration that state leaders might be making reform promises by singing onto 'conditionality' (assistance in exchange for reforms) agreements with the development agencies without the intention of completely implementing or seriously enforcing these reforms. Mahon observed this behaviour in the case for legal and judicial reforms in a number of Latin American countries (Mahon, 2000: 16–17, 20).

A third and final problem stems from the neo-liberal assumptions of state power. This relates directly to the chasm between the neo-liberal discursive images surrounding the state and the reality. Over the 1990s the neo-liberal development policy discourse has depicted a 'market-friendly state' (World Bank, 1992: 131) that only intervenes in economic affairs where absolutely necessary and a state that has as its principal role the establishment an 'enabling environment' (viz. the Good Governance institutions) conducive to private sector actors and market economy activities (World Bank, 1997). This state, moreover, is normatively assailed as the main obstacle to growth because it is a potentially corrupt, rent-seeking, and inefficient entity that should be restricted in its involvement into economic affairs. The Good Governance model's prescribed institutions (economic laws, the rule of law, increased participation, and transparency) are all aimed at restricting the potential interventions of and expropriations by the state.

Problematically for Good Governance advocates, the discursively minimalist 'neo-liberal state' would not be able to institutionalize (implement, monitor, enforce) the governance reforms quickly, completely, and expansively throughout its own territorial jurisdiction. Equally at odds with the neo-liberal discourse is the difficulty faced in reconciling the rhetoric in neo-liberal policy espousing a democratic, participatory process of economic reforms with the reality that neo-liberal policy accepts only one set of pre-fixed, given governance institutions as 'good', leaving scant room for participatory debate or 'ownership'.

One principal paradox (in the sense of engendering unintended consequences) emerges from the neo-liberal conceptualization of the state. The importance of this paradox is that it could have a negative impact on the successful implementation of governance reforms, and thereby on the attainment of institutional convergence. As argued earlier, the installation of the Good Governance reforms relies upon the existence of a state that is at once strong (potentially coercive, relatively autonomous) and capable (competent, resource-endowed) in addition to willing to exert coercion to enforce reforms. The relatively minor problem associated with this requirement of Weberian state, discussed above, is that such a state contravenes the minimalist state portrayed in the neo-liberal discourse. The more serious problem, however, is that this model of the state necessarily implies a top-down, state-led 'visible hand' approach to institutional change. Recent experience and scholarship on market economy transitions reveals that this implied theory of institutional change has proved least likely to succeed in institutionalizing economic reforms. The research of two scholars, who privilege inductive and empirical studies of market economy transitions, are employed to support this point.

First, Chaudry (1993) documents how leaders in 'strong state' command economies in both Russia (in its 1921 New Economic Policy) and post-revolutionary China (1949–1953) tried and failed to create and maintain capitalist market-oriented economies. In each case, the central state's regulatory and taxation efforts were thwarted by resilient private sector merchants with vested interests in avoiding the new regulations and taxation policies desired by the strong central state. The state's objective to construct a fairer, law-based private sector economic activity failed, leading in both cases to the 'strong state' eventually deciding to nationalize the economy and move to planned economies. Second, in Pejovitch's (1996) more contemporary comparative analysis of market economy transitions the author argues that the 'visible hand' of state-led, top-down market reforms have failed to provide growth and stability in Russia's market economy transition as well as those of many of the newly independent Central and European countries. By contrast, China's remarkably successful market economy transition over the past three decades since 1978 has been achieved by the central state's 'flexibility' with regard to its society and sub-states, in addition to the gradualist trial-and-error nature of the institutional reform process.

The foregoing points do not at all suggest that a capable and centralized state is wholly unnecessary for the successful implementation of market economy reforms. China's central state has been an important factor in the construction of its vibrant and stable 'socialist market economy' under very challenging conditions. State power is often vital to the creation of economic and social order, and it has been argued that the coercive power of the state cannot be escaped even if the private sector actors are the driving endogenous forces of this transition (Platteau, 1994: 802). The main point being advanced, rather, holds that those with visions of planet-wide neo-liberal economic order should be wary of the kind of institutional change processes that are most likely to attain legitimate reforms over the longer term. The proponents of the Good Governance model and its implied theory institutional change based on state-imposed reforms need only to consider the model's similarities with a very recently failed experiment in social and institutional engineering: that of the communist command economy.

5. CONCLUSION

The objective of this chapter is to demonstrate that there exist both empirical and theoretical to be sceptical about the eventuality of a neo-liberal economic order inhabited by western-styled, law-based capitalist market economies. Despite the overarching sense that the world's proliferating number of market economies are following the Good Governance institutional model of development, the empirical evidence does not confirm that this transformation is underway in the most successful emerging market economies. This finding is not surprising since theory of the past half-century or more has been unable to elicit clearly and definitively the relationship between institutions and economic growth or development, notwithstanding the oft-confirmed robust correlation found in recent statistical analyses. The neo-liberal institutional convergence ambition is also mitigated by the Good Governance project's implicit reliance on a strong, capable state to impose reforms expediently and uniformly. This approach to institutional reform has been the least successful in recent studies of market economy reforms.

In conclusion, it should be recalled that the challenges herewith are directed at the expectation that convergence around Good Governance institutions is likely to occur in the near term. A convergence in the longer term is not out of the question, however. By reversing the causal sequence stipulated by the Good Governance paradigm (governance leads to growth), it is not implausible to think that market economy growth will force states to retreat from their hands-on approach to economic development and concomitantly empower private sector actors to demand such governance reforms. Hence, it is not possible to discount the Modernization Thesis holding that developing countries' institutions will ultimately emulate the institutions of western advanced countries as the sole path to development in the long run. But, then, in the venerable words of the economist John Maynard Keynes, 'In the long run we are all dead' (Keynes, 1924: 65).

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PART III: LABOUR: A SPECIAL CASE IN THE GLOBAL ECONOMY?

CHRISTINA GABRIEL

GOVERNANCE, TRADE AND LABOUR MOBILITY

1. INTRODUCTION

The Mexican government recently produced a 31 page pamphlet, *Guide for the Mexican Migrant*, directed at its citizens attempting to cross the Mexican–US border without legal documents. The introduction stated:

> The safe way to enter another country is to obtain your passport from the Mexican foreign ministry, and a visa from . . . the country to which you wish to travel.
> Still, in practice we see many cases of Mexicans who try to cross the northern border without necessary documents, traveling through dangerous terrain . . .
> By reading this guide, you can also find out about basic legal issues concerning your stay in the United States of America without the appropriate immigration documentation, as well as about the rights you have in that country, once there, regardless of your migratory status (English translation in New York Times, 2005).

It went on to offer practical advice regarding the symptoms of dehydration, the dangers of human traffickers, and what to do if arrested in the United States. The pamphlet attracted considerable attention in the United States. Some members of Congress and anti-migrant groups charged that Mexican officials were promoting illegal cross-border migration (New York Times, 2005; Migration News, 2005a). Yet the publication of the guide can be seen as one of several recent efforts by the Mexican administration to safeguard the human rights of its citizens whether in Mexico or elsewhere. More significantly, the guide also speaks to the seeming inability of the United States and Mexico to negotiate an effective means to liberalize and manage cross-border labour mobility.

Under Mexican President Vicente Fox's administration migration issues have emerged as a key priority area on the Mexico–US formal bilateral agenda for the first time (Wise, 2004: 149). Fox proposed, during his 2000 presidential campaign, an ambitious vision of a new North American community modelled on the

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European Union. This vision, embraced the free movement of labour across North American borders and the transfer of social funds from Canada and the United States to aid Mexico. As Fox put it, 'Our idea is to sell a long-term project where we can move upward from a trade agreement to a community of nations agreement or a North American common market' (Migration News, 2000). The label 'NAFTA-Plus', used to signify deeper economic integration, is often attached to this vision. In 2001, Fox proposed a more modest bilateral set of proposals (Ugalde, 2004: 125–127). Nevertheless, the deepening of the North American Free Trade Agreement (NAFTA) to address migration issues is still floated by the Mexican President (Migration News, 2005b). Fox's use of NAFTA and the proposed NAFTA-plus option raises the possibility of whether neo-liberal regional trade agreements can be strategic sites to pursue other objectives, such as liberalized migration, between member countries.

Today migration is governed not only by individual nation-states but also, in part, through cooperation at the regional and international level. In the case of the former, migration is associated with the familiar statist system and underwritten by conventional nation-based understandings of sovereignty and citizenship. Even within an increasingly globalized world the nation-state remains at the fore of migration issues. State sovereignty is exercised, in part, through the right of nation-states to control the entry and exit of people to a territorial space. But the management of migration is also of concern within regional arrangements. NAFTA, which grants the right of mobility to certain categories of businesspersons, offers a case in point. Other initiatives, such as the General Agreement on Trade in Services (GATS) Mode 4, also have the potential to liberalize access for some service providers. States are implicated in the construction of these frameworks and some countries in the global south have attempted to use trade forums as a way to address broader migration concerns. To date, global governance appears to facilitate and enshrine the movement of the 'high-skilled' and capital embodied in investor migrants. Regional and international trade agreements are cast as matters of trade policy that transcend the 'national' and are focused on reciprocal commitments and barriers to trade. In many cases these agreements, which are only directed at temporary entry, explicitly distant themselves from questions of permanent migration, citizenship and rights. In contrast, immigration policy, including existing temporary worker provisions, is assumed to fall under the rubric of the 'national/domestic' realm and concerned with national labour markets and standards, residence and citizenship matters. Yet, in practice, the dynamics of these two regulatory arrangements may intersect.

This chapter takes up the dynamic between immigration policy and trade policy as a starting point to consider the way in which the governance of international labour mobility is changing. Despite assertions to the contrary, international and regional trade agreements do challenge conventional understandings of governance and citizenship and, in some cases, prompt us to think about new forms of citizenship and territory. Drawing on the case study of NAFTA, and Mexico's particular experience, this paper considers the extent to which a regional trade agreement can address broader issues of labour mobility. Part I of the paper examines some of the ways in which the concept of citizenship linked to a nation-state-is being destabilized.

The chapter then proceeds to examine some aspects of the current international migration regime's architecture. This discussion frames the interrogation of the strategies that govern regional labour mobility in North America. NAFTA offers insights on how cross-border temporary flows of labour are managed (or not) under a neo-liberal model. Additionally and importantly, the agreement brings together two developed countries, Canada and the United States, with a developing country, Mexico. The migration concerns of the latter are distinctly different than the two other member states. Its ongoing actions can be read as an attempt to construct a nascent, denationalized form of citizenship.

2. CITIZENSHIP PROJECTS[1]

The concept of citizenship revolves around issues of inclusion and exclusion as well as membership, right and duties in and towards the community (Hall and Held, 1989: 175). Not surprisingly, all of these issues come to the fore when considering the cross-border movement of people. Foreign workers, students, visitors, asylum seekers and other migrants do not necessarily enjoy full membership, participation or access to citizenship rights when they are resident outside their home country. The International Labour Organization (ILO) estimated that migrant workers numbered some 80.9 million people (excluding refugees) (ILO, 2004: 7). The foreign labour force in OECD countries grew three to four per cent per year in the period 1995–2000 but the ILO notes that the highly educated workforce grew much more quickly, 'on average 35 per cent annually in the United Kingdom over the past five years, and 14 per cent a year in the United States' (ILO, 2004: 10). In a globalizing environment:

> The transnational existence of many migrants, evident in their continued citizenship affiliation in their home countries, their globally dispersed households and networks, international labour markets, internationalist politics and strategic reference to human rights suggests . . . global forces have significantly altered the spatial envelope of individuals' rights, entitlements and affiliations (Stasiulis and Bakan, 2003: 15).

As this section will highlight, modern understandings of citizenship, predicated on the territorially bounded nation-state, are being destabilized. Two related issues in connection to labour migration are of concern here. Firstly, despite claims to the contrary, regional economic blocs do affect citizenship rights insofar as they enact new rules regarding labour mobility and may grant rights to new economic actors and regional organizations. Secondly, as Stasiulis and Bakan point out, mobility rights, which are associated with rights that allow persons to cross borders and

[1] Portions of this section draw directly on material and arguments presented in Gabriel and Macdonald (2007) and Gabriel (2006)

access fundamental rights in different states, are of absolute importance to migrants. 'Mobility rights, unlike the other conventionally named categories of rights, are cross-national; they serve to de-link other types of rights (social rights, voting rights, etc.) from specific territories and nation-states' (2003: 37).

Zolberg has usefully pointed out that our understandings of citizenship are 'hyper-nationalist' insofar as citizenship and nationality are linked together as a stable and enduring arrangement. However, as many have argued, citizenship at any given moment is the outcome of struggle and negotiation. The current configuration of citizenship, according to Zolberg, is in fact relatively recent, dating to the turn of the twentieth century. He outlines how the construction of citizenship is linked to a particular understanding of national belonging and identity. These understandings 'provided the underpinnings for widespread acceptance of a conceptualization of citizenship grounded in a global system of mutually exclusive State jurisdictions' (Zolberg, 2000: 511–12). Consequently, membership within the political community (the basis of rights, privilege and the ability to make claims) is frequently predicated on the loyalty to one nation-state often expressed in terms of one's duty to the country. Yet, as processes of globalization affect political, social and economic arenas the issue of national identity becomes more complex. International migration flows are changing the racial, ethnic and national composition of many countries. The national cultures and national identities of the inhabitants of many nation-states are becoming pluralized (Hall, 1992: 306).

Zolberg further asserts that these 'hyper-national' versions of citizenship required nation-states to police the conditions of entry closely and to secure the borders of nation-states against foreign populations. International law recognized that individual states determined who would be considered a member of that state. It is in this respect that immigration itself became and remains central to the exercise of state sovereignty (Zolberg, 2000: 514). Through this power nation-states determine which cross-border rights, if any, will be bestowed on migrants (Stasiulis and Bakan, 2003: 38). Moreover, it is important to emphasize that states themselves are positioned differently in the global system. On the one hand, migratory pressures on people in countries in the south have increased. These pressures are rooted in the histories of colonialism and imperialism but are also related to neo-liberal globalization and structural adjustment. However, on the other hand, states in the global economic North with more developed welfare states and higher wages have moved simultaneously towards more selective policies and stricter entry and control measures (Stasiulis and Bakan, 2003: 26–28). These moves have been characterized as a form of 'global apartheid' (Richmond, 1994).

The movement of workers and other groups of people across borders, however regulated, pose a number of challenges to citizenship. It has been observed that increasing numbers of people have dual or multiple citizenship. Some people may have citizenship rights on the grounds of long-term residence and international law but do not hold formal citizenship status in the country in which they live. Others may be formal citizens but cannot access rights that the status confers

(Castles and Davidson, 2000: 127). The globalization of labour 'places them [migrants] beyond their state's legal reach, and means they often lack even formal citizenship or legal rights. This is more so where they enter another state illegally . . .' (Pettman, 1999: 213). What responsibilities do receiving states, who historically have treated citizens and non-residents differently, owe to trans-national labour migrants in the form of social rights? This issue becomes more acute as state themselves retreat from the provision of social rights to their own citizens (Pettman, 1999: 212). Furthermore, it is a question that has arisen in relation to trade and migration.

Hyper-national constructions of citizenship are increasingly questioned. What have come to the fore are other accounts of citizenship. Soysal has advanced one particularly influential account in her work *Limits of Citizenship. Migrants and Postnational Membership in Europe* (1994). Soysal does not reject the nation-state as a container of national identity and citizenship rights but she argues that it is not the only site in which citizenship is exercised. Claims making and activism, she suggests are taking place beyond the bounds of national membership:

> while collective groups increasingly mobilize around claims for particularistic identities, they connect their claims to trans-nationally institutionalized discourse and agendas of human rights . . . they appeal to the universalistic principles and dominant discourses of equality, emancipation and individual rights . . . the organizational strategies employed by collective groups increasingly acquire a trans-national and sub-national character. Their participation extends beyond the confines of a unitary national community, cover multiple localities, and trans-nationally connect public spheres (Soysal, 2001: 337).

In an attempt to further illuminate this concept Soysal is careful to maintain that postnational citizenship is an attempt to identify and explicate the ways in which rights and identities take place through 'multilevel discourses' and in 'multiple public spheres', of which the national is only one. Postnational membership, according to Soysal, is not a status, it is not the next evolutionary stage of citizenship nor does it suggest that the nation-state is declining in significance or disappearing. Rather, even as the legitimacy of rights may transcend the nation, 'rights and membership of individuals remain organized within nation-states [and it remains] a persistent depository of cultures of nationhood and still the most viable political organizational structure' (Soysal, 2001: 339).

Sassen has also attempted to examine the 'repositioning of citizenship' which she locates at the intersection of two key trends. The first is the impact on the national state of processes of globalization including economic privatization and deregulation. The second is the growth of actors, groups and communities, who as a result of these changes, do not necessarily identify with the nation-state automatically (2004: 191). Sassen acknowledges the currency of national and post-national accounts of citizenship. Each version, she notes, locates the realm where citizenship practice is enacted differently. However, she suggests a third possibility, citizenship as 'denationalized'. Here her focus remains on the nation-state but it is distinctly different than conventional nation-based citizenship theory. In denationalized accounts the 'focus moves to the transformation of the national, including the national in its condition as foundational for citizenship' (2004: 202). Consequently, for Sassen the national remains central but 'it is a referent of a specific sort: it is, after all, its change that becomes the key theoretical feature through which it enters my specification of citizenship today' (2004: 202). Of particular importance to her account is how the civil "rights" of citizens (those rights that allow them to make claims against the state) are being strengthened. However, simultaneously, nation-states have granted rights to a range of foreign actors including trans-national corporations, investors and business people (2004: 202–203). In the case of NAFTA, for example, Stephen Clarkson observes, 'The only "citizens" whose rights in Canada were extended by continental governance are corporations based in the United States or Mexico, which received a powerful new defence against governments whose regulations might reduce their earnings' (2002: 58). The arenas, in which claims are made and advanced, are not restricted to the national but also take place through regional bodies and international institutions. It is across this terrain, where old understandings of citizenship are being destabilized and new political spaces emerge that citizenship is being transformed. One of the sites in which to consider this transformation and the validity of post-national and denationalized narratives of citizenship is in the management of labour mobility.

3. GOVERNING INTERNATIONAL LABOUR MIGRATION: ARCHITECTURE

The regulation of international migration takes place through national immigration policy, bilateral and multilateral initiatives. The liberalization of the global economy, and the establishment of a robust trade regime to govern it, poses a sharp contrast to the mechanisms designed to address the movement of people (Overbeek, 2002: 81; Haus, 2001: 272). The ILO and the United Nations, while offering weak protections to migrant workers, do at least attempt to address social justice issues. Newer mechanisms within the ambit of trade agreements, such as the World Trade Organization's GATS Mode 4 and NAFTA, explicitly distance themselves from permanent immigration and citizenship questions. Ironically, and despite this, these questions continue to frame debates surrounding 'trade' provisions. This section briefly maps some of the architecture that governs global labour mobility. Recent developments suggest some of the most significant new measures to govern labour migration globally are taking place on the trade front. GATS, for example, is described as the 'only direct attempt to regulate (migrant workers) at a global level' (Sands, 2004: 1).

The post-war period was characterized by a lack of legal instruments to govern international labour migration (Pellerin, 2004: 5). Nevertheless, there were some organizations that are associated with the management of international migration. These include the ILO, the International Organization for Migration (IOM) and the United Nations High Commissioner for Refugees (UNHCR). It was through the efforts of organized labour that the ILO was founded in 1919. This tripartite body focuses on a range of social justice issues including 'freedom of association, collective bargaining rights and working conditions and welfare programs' (Haus, 2001: 278–279). With regard to migration, it has adopted a number of conventions including 'The Migration for Employment Convention' and 'The Equality of Treatment Convention'. Ratification of ILO conventions regarding migration has proven difficult. Some immigrant-receiving countries, such as France and Germany, have ratified some of them. "The United States has not ratified any of them" (Haus, 2001: 282–283). The IOM was established in 1989 and while much of its activities are directed at refugee issues it has addressed labour migration insofar as it has engaged in collaborative research and provide language training (Haus, 2001: 286). However, as Hollifield writes:

> ILO and IOM . . . have little regulatory or institutional capacity. For the developed states in particular, the costs of participating in a regime for international migration would seem to outweigh the benefits; and a short-term strategy of unilateral or bilateral regulation of migration is preferred to a long-term, multilateral strategy (Hollifield, 2000: 99).

In the late 1970s, developing countries lobbied for the UN General Assembly to become an arena in which migration issues and standards were addressed. They believed the UN would serve their interests more effectively than the existing ILO (Haus, 2001: 283). Subsequently, the UN General Assembly adopted the International Convention on the Protection of the Rights of all Migrant Workers and Members of Their Families, in 1990. This instrument guides most aspects of international migration and:

> enumerates the civil, political, economic, social and cultural rights applicable to *all* migrant workers and members of their families irrespective of whether they are documented or non-documented. These provisions are mostly specific formulations of the applicability of universal human rights to migrants (ILO, 2004: 81).

Immigrant-receiving countries in the North were reluctant to commit to a universal instrument. As of March 2004 its 25 ratifications do not include any of the countries in the global north (ILO, 2004: 166). However, the UN Convention is significant insofar as it is held up as the basis of a viable alternative to other attempts to manage international labour mobility (Bacon, 2004: 7).

The mechanisms within the ILO and the UN to address migration issues are at best weak. There is a tendency to assert that this situation developed because states, especially migrant-receiving countries, were concerned to safeguard their sovereignty. However, Overbeek has argued this explanation is somewhat inadequate because states never exercised absolute sovereignty and sovereignty concerns do not always prevail in cross-border movements such as trade. He suggests the more modest scale of twentieth century labour migration may account, in part, for the absence of a strong international regime (Overbeek, 2002: 81). Today, what is increasingly prominent at the global level is the link between international labour mobility and trade. Pellerin has pointed out that most multilateral measures directed towards the regulation of international labour migration emerge within the context of regional economic integration (2004: 6). She goes on to argue that one indirect outcome of this tendency is to construct migrants as 'mere commodities or objects to be transported, with the benefits and costs of the transaction being the only factors taken into account' (2004: 15). The WTO's GATS, which includes a provision governing migration, Mode 4, offers a case in point. As Sands has provocatively suggested:

> Today, national immigration policy is not only about the individual composition of a single state; it is also an economic policy that is directly linked to increased global trade capacity. Mode 4, despite being originally conceived to deal with trade, not migration, is therefore at the epicenter of national and international debate on the latter (Sands, 2004: 3).

The GATS apply to trade in services and is divided into four interdependent modes:

> Mode 1 covers cross border supply, e.g., an electricity company providing services in another country.
> Mode 2 covers consumption abroad, e.g., tourism.
> Mode 3 covers commercial presence, e.g., setting up a business or a professional establishment (such as a subsidiary corporation, branch or representative office in another country).
> Mode 4 covers the temporary movement of individuals, e.g. those entering another country's job market to provide services in that country (Sands, 2004: 2).

The 147 members of the WTO can choose to liberalize the cross-border trade in services and/or provide national treatment through formal requests. According to the OECD Mode 4 service suppliers generally:

- gain entry for a specific purpose;
- are confined to one sector (as opposed to workers who enter the country under general migration or asylum programs, who can move between sectors);
- are temporary – they are not migrating on a permanent basis or seeking entry to the labour market in the host country (2003: 2).

The prioritization on trade liberalization in respect to Mode 4 means that migrants' rights and interests are ostensibly sidelined (Pellerin, 2004: 15).

As noted above, in respect to the UN Convention on Migrants, the interests and concerns of developing and developed countries frequently diverge in terms of international migration issues.

The same is true of GATS Mode 4 provisions. Many developed countries fear that the provision will be used as a means for migrants to settle in host countries permanently and the perceived consequences that could stem from this development including pressures on welfare system. The attacks of September 11 have also raised security concerns vis-à-vis trade agendas that emphasize speed, flexibility and openness for businesspersons (OECD, 2003: 3). In contrast, for many countries in the global south, 'sending people abroad to work temporarily is seen as virtually their only export interest in services' (OECD, 2003: 1). Yet, while Mode 4 extends to service providers at all skill levels existing commitments are restricted to the high skilled. As a result, the commitments are not necessarily in the interests of many developing countries 'because their "comparative advantage" lies in low and medium-skilled services. Thus the less skilled have been markedly marginalized in trade negotiations' (Sands, 2004: 1). Further, sending countries have also raised the issue of social rights insofar as they have called for employment related protections for migrant workers and access to social security in host nations (Sands, 2004: 4). GATS Mode 4 has emerged as the 'most politicized' of the GATS provisions (Sands, 2004: 2), despite the fact that it accounts for the smallest mode of trade in services of the four modes. This is hardly surprising given that the debate embraces issues that transcend trade liberalization narrowly defined.

Labour mobility has become a 'test' of 'whether the negotiations deliver on the development promise laid down in the Doha Development Agenda' (OECD, 2003: 1). Whether GATS Mode 4 can address the various migration concerns of the global north and south is linked to the fate of the WTO talks themselves. The lack of multilateral progress since Cancun has led many to speculate that temporary labour movement within the context of free trade agreements will continue to be addressed at the bilateral or regional level (Sands, 2004: 5).

4. NORTH AMERICAN EXPERIENCES

The case of the 1992 NAFTA and Mexico's experiences with continental regional integration may provide some insights into the success or failure of GATS negotiations. Unlike the European Union, which established a broad right to labour mobility for the citizens of its member states, NAFTA's mobility provisions, like those of GATS Mode 4, are much more limited. Additionally, the Mexican administration has attempted to pursue a more comprehensive migration agenda under the trade umbrella. This section of the paper first examines the limited mobility provisions of NAFTA and, second, considers the ways in which cross-border labour mobility was subsequently addressed and managed over the first ten years of the agreement. North American economic space is marked by a number of different cross-border movements. Much of this movement is characterized by short-term visits for the purposes of tourism or business. Flows of labour take place at both ends of the skills spectrum. However, the circulation of temporary labour migration between Canada and the United States tends to take place at the higher end of the skills spectrum (Meyers and O'Neil, 2004: 46). Flows of labour migrants between Canada and Mexico remain small although the two countries have a bilateral seasonal worker program. Recent initiatives to address common migration issues and challenges, such as the 2001 Canada–US Smart Border Accord and the subsequent Mexico–US Smart Border Agreement, have been driven largely by US security pre-occupations in the wake of September 11 (Gabriel, Jimenez and Macdonald, 2003).

Mexican–US cross-border migration has a long history. Mexico accounts for significant legal and irregular labour movement to the United States at both ends of the skills spectrum, for:

> Neither the demand for low-skill workers in the United States nor Mexicans' desire to work there and to reunify with family members has been adequately accommodated or controlled by public policy. As a result, the undocumented flow of immigrants during the late 1990s may well have been over half a million, and perhaps as high as 800,000, close to the level of legal immigration (Meyers and O'Neil, 2004: 47).

The flow of irregular migrants from Mexico to the United States has risen sharply since 1994. 'By most estimates, the population of unauthorized Mexican immigrants in the United States more than doubled between 1990 and 2000 (with most of the growth after 1994)'. However, Papademetriou cautions against attributing this growth solely to the introduction of NAFTA. He argues that evidence suggests 'a picture in which the financial crisis and restructuring in Mexico that both preceded and followed the trade agreement's enactment' (Papademetriou, 2003: 40). But additionally, the Mexican economy has been unable to create enough jobs to keep pace with job demand. In this respect, migration to the United States functions as a 'safety valve' enabling Mexicans to seek opportunities north of the border (Purcell, 2004: 150). US industry is also dependent on migrant labour. However, migrant workers, especially those without status, become vulnerable to discrimination, may be subject to workplace violations and are unable to access many basic social rights. These issues are of growing concern to the Mexican administration. Lastly, and importantly Mexican nationals, in the United States, are also responsible for sending billions of dollars in remittances home.

Border security has also emerged as a source of tension in the bilateral migration agenda. The 1990s has been marked by what Andreas has termed a 'paradoxical dynamic' in which 'the expansion of cross-border economic activity . . . are paralleled by a rapid expansion of border policing and rising tensions over prohibited cross-border flows' (1998–1999: 591). The American administration has directed, and continues to direct, significant resources towards policing the southwest border to deter irregular entry to the United States. Campaigns with names such as 'Operation Blockade' and 'Hold the Line' have increased the numbers of border patrol agents and employed new technology in the form of surveillance cameras, night scopes, and motion sensors to police the border.

Additionally, steel fences have been erected at different border points (Andreas, 1998–1999: 595–596). The unintended outcomes of these initiatives, Andreas argues, is not only to drive migrants to use more remote and dangerous crossings but to encourage the growth of organized smuggling. Additionally, he notes, the intensification of border policing has changed the frequency of clandestine entry. That is

> The traditional pattern is that most Mexicans who cross the border illegally do not stay in the United States but rather go back and forth almost as a form of cross-border commuting. The increased risk and cost of crossing the border, however has also increased the incentive for many illegal immigrants to extend their stay and perhaps even remain permanently (Andreas, 1999: 601).

Since 1998, official reports indicate that more than 2000 migrants have died trying to cross the US–Mexican border (Garcia, 2004: 4). As Wise puts it, 'Bearing in mind that Mexico ranks as the United States' number two trading partner, this is far from a civilized 'good neighbour' policy between neighbours' (Wise, 2004: 148). A number of reforms, from the late 1990s onward, are indicative of the Mexican state's recognition of the growing importance of its nationals, and their needs, in the United States. In 1998, the Mexican Law of No Loss of Nationality came into effect. Under its terms, Mexican citizens could apply for dual nationality. Previously, Mexico did not permit those who became citizens of another country, such as the United States, to retain nationality. The 1998 reform, however, did not provide for full rights insofar as it did not bestow right to vote or run for political office (Wise, 2004: 149). This approach, Renshon has argued, was part of a strategic calculation by the Mexican state to foster and maintain ties to Mexicans abroad. There is a recognition not only of their significant economic power, in terms of remittances, but of their potential to act as a lobby, on behalf of Mexico's interests, within the United States (2001: 34–35).

5. GOVERNING NORTH AMERICAN LABOUR MOBILITY: NAFTA

NAFTA has been characterized as 'point of reference' for the course of bilateral relations in general and international migration in particular (Wise, 2004: 148). Mexico proposed free trade talks with the United States and as part of the liberalization agenda it hoped to address migration issues. However, its early optimism withered in the face of a powerful US domestic lobby fearful of an influx of Mexican migrants. The Mexican government of the day chose to consolidate its ongoing neo-liberal agenda within the terms of the trade agreement by putting migration issues to the side. Proponents of the agreement argued that the benefits to Mexico of increased economic integration would reduce migration pressures.

NAFTA provisions were modelled on the already existing Canada–US Free Trade Agreement. These terms accord the privilege of mobility to a small number of 'skilled', listed, and well-educated professionals, intra-company transferees, traders and investors and business visitors. Professionals, for example, moving between member countries are required to provide evidence of citizenship and indicate they are in a listed NAFTA profession to obtain a visa (Globerman, 1999: 9). Consequently, while most of the citizens of NAFTA member states are still place bound a small group enjoys significant additional mobility rights across a trans-national regional economic space (Gabriel and Macdonald, 2004).

In this respect, NAFTA would appear to typify Sassen's contention regarding denationalized forms of citizenship insofar as the three member countries of NAFTA granted new rights of mobility and employment to some cross-border actors. In a similar manner to the GATS Mode 4 there is not a broad right to mobility. NAFTA pre-dated GATS and its framework influenced the latter agreement (Nielson, 2002: 10). It 'provided the model for language in the GATS on temporary entry (e.g. for the negative definition of "temporary")' (Nielson, 2002: 6). On a global level, the groups of people, which enjoy these mobility rights, have been characterized as 'global nomadic agents' (Jordan and Duvell, 2003).

> Global nomadism explicitly rejects the notion that labour markets are national institutions, constructing relationships between citizens for the sake of equity as well as efficiency, and designed to absorb economic shocks as self-contained systems. It substitutes a version in which open labour markets allow agents with skills from all over the world to compete on equal terms, without regard to nationality. (Jordan and Duvell, 2003: 87–88).

This having been said, and despite the fact that the metaphor of 'global nomadism' is very compelling, a closer examination of NAFTA's mobility provisions suggests a more complex story. Canada, the United States and Mexico entered into the agreement as ostensibly equal partners and the limited mobility provisions in the agreement do not appear to discriminate among them. Yet in practice, the experience of Mexican professionals vis-à-vis temporary entry to the United States differed considerably from their Canadian counterparts. In 2002, Canadians received 72,000 employment related NAFTA visas compared to 2,000 Mexicans (Meyers and O'Neil, 2004: 46). This disparity is related to the United States regulatory regimes. For the first ten years of NAFTA it imposed a visa requirement on Mexicans and imposed a ceiling on the number of professionals who could use the provision. Neither of these measures applied to Canadians. In this case nationality materially functioned as a framework for the broader migration relations between the three countries. In terms of labour mobility NAFTA has re-inscribed and re-inforced already existing patterns of inclusion and exclusion (Gabriel and Macdonald, 2004).

6. DEEPENING NAFTA – NAFTA-PLUS?

The 2000 election of Vicente Fox ended the 71 year Institutional Revolutionary Party (PRI) administration and ushered in a new era in Mexican politics. Fox and his Foreign Secretary, Jorge Castañeda, hoped to secure a comprehensive package that would address Mexico's broader concerns regarding cross-border migration. As President-elect, Fox travelled to Washington and introduced his NAFTA-plus model in August 2000. He re-iterated it at the Ottawa Summit of the Americas later that year.

> Fox spoke of an integrated North American region loosely modeled on the integration experience of the European Union. His ultimate objectives included improved policy coordination, a common monetary policy, a common external tariff, mobile pools of labor and fiscal transfers from the industrialized North (i.e. the United States and Canada) to the developing South (i.e. Mexico) (Purcell, 2004: 149).

In this manner, Fox sought to deepen NAFTA, in the long-term, to a NAFTA-Plus arrangement. These proposals encountered a cool reception. The Bush administration was not in favour of either open borders or European-style transfer funds comparable to the investments in Spain, Portugal and Greece (Meyers and O'Neil, 2004: 47).

Additionally, the trade agreement itself is not popular with all citizens and civil society groups in the three member countries. For example, Mexican farmers and other groups protested the end or reduction of agricultural subsidies in 2003 and called for the agreement to be renegotiated (Purcell, 2004: 154) Some also questioned the utility of using the agreement to address key social concerns in the bilateral agenda and pointed to the apparent weaknesses of existing NAFTA side agreements around labour and the environment. There was little in the record to date, it was suggested – stalled migration talks and continuing trade irritants – that indicated Mexico could expect privileged treatment from its trade partners. But more significantly they questioned whether a regional trade agreement is the best forum to address 'non-trade' issues:

> Well-intentioned groups seeking to address the U.S.-Mexico migration crisis have suggested that by conceiving of labour immigration in terms of economic integration the U.S. might take it more seriously. But there is something chilling about reframing the human tragedy on the border in terms of "rationalizing labor flows". Urgently needed immigration reform in the United States is fundamentally a matter of human decency between neighbors rather than a factor in economic integration (Carlsen, 2003).

The rhetoric of 'NAFTA-Plus' that Fox deployed did embrace an idea of a North American community. That is, in arguing for free labour movement and social funds, Fox's nascent proposal implied that the fates of the three member countries are tied together in ways that go beyond the boundaries of a neo-liberal trade agreement. It raised the question as to what obligations citizens in one member country have to citizens in other member countries (if any) of the region. Do they share a common fate? His vision suggested that citizens of the member states enjoyed more than a national affiliation but also were bound by a regional tie as well. In this respect, regional economic integration prompts us to think about citizenship, community and identity in new ways. Thus, the *New York Times* writer, Anthony DePalma wrote, 'From 1993 to 2000, North America evolved from being defined solely as three separate nations divided by two borders to one continent to being recognized as a community of shared interest, common dreams and coordinated responses to problems that have no regard for borders' (2001: 354). This notion may well be too utopian at this conjuncture.

Fox subsequently proposed a more modest proposal around migration reform that would have seen some form of regularization for undocumented Mexicans working in the United States and an increase in the number of visas granted to Mexican workers (Purcell, 2004: 150–151). There were some promising moves in August 2001 as both sides studied common migration issues. The Mexican government's goal had always been some form of amnesty for undocumented Mexicans already in the United States combined with liberalization of cross-border mobility. However, it is questionable how far the United States would have gone to address both these objectives given the various different positions on the question. In the wake of the September 11 attacks all migration issues became more politicized. The attacks fanned anti-immigration sentiments in the United States, adversely affected US industry and employment. They also shifted the administration's attention to security in other parts of the world. Talks with Mexico on migration reform effectively were sidelined. The resignation of Castañeda in January 2003 signalled his frustration with the Bush government's policy towards Mexico (Purcell, 2004: 156–157).

In January 2004, Bush reopened the immigration debate in the United States when he announced his unilateral plan for a temporary guest worker program, the 'Just and Secure Immigration Reform for Temporary Migrant Workers'. This proposal supports 'earned legalization' for undocumented foreign workers, most of whom are Mexican. In other words, undocumented migrants would have to demonstrate that they have been employed for a certain period. Their status would then be regularized through the use of a new visa for guest workers. The Bush proposal does not contain a mechanism to attain either permanent residency or citizenship (Garcia, 2004: 1–2). This plan has been likened to the Mexican–US Bracero Program that was in place from 1942–1964 (Bacon, 2004: 2). Bush's unilateral proposal is a far cry from Mexican President Fox's initial vision that saw the three member countries of North America working towards a long-term package of sweeping migration reforms that built on the NAFTA relationship. The guest worker style plan has not been greeted with noticeable enthusiasm by organized labour or Mexican communities on either side of the border (Bacon, 2004).

7. CONCLUSION

Until now, Mexico's broad concerns regarding cross-border labour mobility remain largely unaddressed. Mexico's experience with NAFTA is not indicative that a neo-liberal regional trade agreement can provide the basis for a deeper and sweeping migration reform. Here the management of migration becomes of a secondary order to that of capital (Overbeek, 2002: 81). Questions of democracy, equity, and accountability are not on the agenda. Further, these neo-liberal mobility provisions privilege some groups (high-skilled workers, investors and business people) over others, but even these provisions are framed by the asymmetrical positioning of member countries. Paradoxically, the increasing presence of Mexicans and people of Mexican origin within the United States will ensure that labour mobility and rights will remain on the agenda in the NAFTA countries (Chacon et al., 2004). Civil society linkages forged during NAFTA negotiations and subsequently around the side agreement on labour have created new trans-national actors. These groups have directed their attention to the promotion of 'human rights, civic education, gender equality, and the promotion of democracy'. Labour organizations that previously had little contact now have significant cross-border linkages (Ugalde, 2004:120), due in part to the North American side agreement on labour. US unions, for example, in 2000 'unanimously passed a resolution that expressed solidarity with immigrant workers' calling for a bilateral mobility agreement and urged for an 'amnesty program and full workplace rights and freedoms for all workers – immigrant, native born, documented and undocumented' (Rozental, 2004: 97). Citizenship claims making takes on new dimensions and is enacted in a number of forums besides that of the national. Consequently, international organizations and trade agreements are but one site in which concerns about labour mobility will continue to be played out.

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HABIBA ZAMAN

NEO-LIBERAL POLICIES AND IMMIGRANT WOMEN IN CANADA

1. INTRODUCTION

Under neo-liberalism, commodification has emerged as a major issue of concern for those studying immigration and immigrants. The term 'commodification' refers to market relations where services are bought and sold. According to Burke, commodification under neo-liberalism shows 'an increasing reliance on the market' for the financing or delivery of services (Burke, 2000: 180). This is certainly true for Canada, where both federal and provincial governments increasingly rely on the global market for a constant supply of domestics, especially from the Philippines, for childcare and eldercare financed by private employers. Social democrats expect domestics' work to be a regulated arena. However, in Canada the absence of government regulations as well as the lack of private bonds and obligations has created an unregulated, neglected area where labourers are mostly at the mercy of their employers. Immigration statistics from 2001 show that under the Live-in Caregiver Program (LCP), about 4,000 workers entered Canada in 2000. The Vancouver Philippine Women Centre newsletter brings this statistic to life: 'As of 1996, there were over 50,000 Filipino women in Canada who entered as domestic workers under the Live-in Caregiver Program (LCP). Over 6,000 of these women work in the Lower Mainland area and most are between the ages of 20–35 with at least a two-year university level education' (The Centre Update, 1996: 1–2).

This chapter explores the socio-economic relationships between employers and female im/migrant employees in a private but commodified social sector, i.e., the family/household, in British Columbia (BC), Canada. The BC government's labour regulations are either inadequate or non-existent, and the federal government's controlled immigration rules make female im/migrant workers vulnerable in several ways and place them in exploitative situations. In 1992, the federal government, through the LCP, endorsed a two-tier immigration system. Those who are well educated, skilled, and privileged in wealth (i.e., entrepreneurs) are welcomed to Canada as independent immigrants and enjoy social rights and entitlements immediately. Im/migrants who lack these qualifications enter Canada as

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an underprivileged class, to be treated as second-class citizens. In the short run, the LCP transforms female im/migrant domestics into low-paid housewives and surrogate mothers; in the long run, the LCP puts up bureaucratic barriers that erode immigrant women's original skills and educational credentials.

To explore the consequences of commodification of immigrant women, this paper starts by looking at the meaning of commodification and examining underlying assumptions of various scholars who have analysed the concept. Then, the paper examines the different levels of commodification experienced by female im/migrant domestics originally from the Philippines. Next, the paper demonstrates the meaning of de-skilling, linking it to the commodified but invisible private sector, i.e., the family/household, where lack of government regulations is the norm. Finally, the paper reveals the multifaceted dimensions of de-skilling and the exploitative relations between many im/migrant domestics and their employers. Throughout, the paper also reveals several layers of the bureaucratic control mechanisms carried out by the federal and provincial governments.

2. WHAT IS COMMODIFICATION? ITS ORIGIN AND CURRENT USAGE

According to Esping-Andersen (1990), the concept of commodification is the centrepiece of Marx's explanation of the development of class; for Marx; the commodification of labour power indicates alienation. Many scholars overlook the distinction between the concepts of labour and labour power, but conventional Marxists distinguish between these two terms. Thus, Vosko argues that labour is 'the activity of work' and labour power is 'what workers sell to employers in exchange for money' (Vosko, 2000: 288). According to Vosko (2000), labour power is a commodity in conventional Marxist terms. Burke (2000) further argues that a commodity is not an object, but carries hidden social relationships. The narrations of women who came to Canada from the Philippines under the LCP make such hidden social relationships clear. As commodities, domestics enter into an exploitative social-economic relationship in a pre-, under-, and non-commodified sector that transforms them into captives of their employers. In the twentieth century, before the introduction of the Federal Domestic Movement Scheme and, later, the LCP, all households in Canada were either non-, pre-, or under-commodified; i.e., domestic helpers were recruited privately and temporarily without any government sanctions. The LCP has transformed some privileged households/families into commodified sectors where social relationships are based on state-authorized contracts rather than on private bonds and obligations.

Vosko also points out that the appearance of labour power in the market brings about the growth of 'free wage' labourers, meaning that these labourers have 'legal rights to dispose their labour power', but are not entitled to own the means of production (Vokso, 2000: 288). Ownership relations, according to Sen, are one kind of '*entitlement* relations' (Sen, 1981: 1). However, Esping-Andersen correctly points out that social rights eradicate labourers' status as commodities (Esping-Andersen, 1990: 47). Social rights, i.e., rights to education, training, government loans, and so on, give im/migrant labourers access to entitlements and eventually lead to the labourers' de-commodification.

Many proponents of conservative, liberal, and social democrat ideologies use the concept of social rights; however, their underlying assumptions vary significantly. While exploring the concepts of commodification and de-commodification, Esping-Andersen made clear distinctions between these ideologies (Esping-Andersen, 1990: 26–28). For this chapter, I refer to the concept of social rights the way social democrats do. Social democrats argue that reliance on the market fails to provide social rights to im/migrant labourers and thus, breeds inequality and social injustice. Social democrats also favour state regulation in both commodified, (i.e., referring to some families/households in this chapter) and de-commodified sectors (i.e., hospitals, elementary and high schools, government-regulated and -funded childcare, as well as strong state control). Esping-Andersen (1990) gives two fundamental reasons why social democrats favour parliamentary reforms: first, labourers need social resources, i.e., social rights and entitlements; second, to have economic efficiency, social policy is a required condition of what Polanyi (1957) long ago endorsed.

Burke finds that commodification increasingly devalues the national standard and fundamentally restructures the welfare state (Burke, 2000: 181–184). For example, in the names of efficiency, childcare, eldercare, health care, and education have all been significantly restructured and deregulated in BC. Indeed, the federal government increasingly relies on the provincial governments to provide these services, yet has made no provision for monitoring the maintaining of a national standard. Childcare and eldercare especially have been increasingly transferred from de-commodified sectors (i.e., government-regulated daycare, institutional residential care) to commodified sectors (i.e., private homes, individual care, and family care) due to increasing de-regulation and privatization in the name of restructuring and under neo-liberal policies.

McMurty correctly argues that neo-liberalism is constantly changing previously non- or under-commodified social sectors (McMurty, 2001: 5–21). For example, through the LCP, the Canadian state has transformed the household/the family, previously a non-, pre-, or under-commodified sector, into a commodified social sector. However, not all households have been transformed into commodified social sectors; only some privileged/upper- and few middle-class households enjoy this fundamental transformation. These questions thus emerge: How do immigrant women become commodified in a welfare state like Canada? Are there any variations of commodity status among immigrant women (i.e., partial commodification, full commodification, pre-commodification, under-commodification)? In addition, what are the implications of commodified household/family sectors for a welfare state like Canada?

3. VARIATIONS: FROM HOUSEWORK TO FULL OR PARTIAL COMMODIFICATION

In contrast to working-class white European caregivers in Canada in the first half of the twentieth century, current migrant caregivers/domestics usually come from a middle-class background in Asia, especially from the Philippines. Working-class people in most Asian countries can rarely afford the high economic costs (let alone psychological costs) involved in migrating. Anderson (2000) and Wichterich (2000) find that in terms of educational background and training, most im/migrant caregivers and domestics hold university degrees and have been trained in such professions as teaching, nursing, law, and computer technology. Further, most of these caregivers/domestics can speak English, as the transnational job market demands it. However, all too often low wages, lengthy work hours, the stipulations of immigration rules, and numerous forms of abuse and harassment in the workplace, i.e., private homes, result in the de-skilling of the vast majority of these domestic workers. Mies (1986) described this alienating, monotonous, and invisible process as 'housewifization', and Gorz described the processes as 'the transferring of what was traditionally regarded as "housewife's work" to an economically and socially marginalized mass of people' (Gorz, 1989: 156).

Due to de-skilling processes, domestics who enter the international labour market as commodities with aspirations of becoming de-commodified one day, instead become partially or fully commodified. After working as domestics for years and finally gaining permanent status, domestics establish their own households either through sponsoring families or through a new relationship. Most domestics after gaining permanent status perform daily activities in the non-commodified sector, i.e., their own households, but still pursue domestic tasks or caring jobs in private households, i.e., commodified sectors, because they no longer have the credentials to pursue other kinds of paid work. Thus, a combination of commodification and non-commodification transfers domestics into a partly commodified status. Indeed, few domestics after attaining their permanent status continue their work in the commodified sectors, i.e., the private households, without establishing their own, they thus consequently become fully commodified. The following narration is an example:

> I finally received my landed visa last August 2000. My children arrived last December 2000 [24-year-old son and 19-year-old daughter]. . . . I am going to work with another employer as a live-in still. I want to be a live out. . . . Of course, it is hard, especially since my kids are just new here. Sometimes I ask my employer if they will allow me to go home once in a while to my family since I only work from 7 until 5 [7 am to 5 pm]. They want me to live-in in case they have to leave the house early. It is only 30 minutes from my workplace to our apartment.

The above narrator's husband had died before she migrated to Canada as a domestic; consequently, she left her children in the Philippines with her relatives. Her precarious situation forced her to accept an offer that did not suit her own situation. This narration clearly indicates that for a de-skilled migrant worker, a live-out job is an important issue due to the frequent enclosure of domestics in a specified labour market. It is highly unlikely that any Canadian-born women or white im/migrant women perceived this as an issue while doing a job search!

4. DE-SKILLING AND ITS MULTIFACETED DIMENSIONS

In pointing out that labourers have nothing to sell but labour power, Vandermeer (1996) describes the increasingly reduced costs of production under capitalism. At the same time, the owners of machines (in this case the Canadian state) make decisions about the production processes by minimizing all the costs, including the labour cost (Vandermeer, 1996). If an efficient manager (the state) minimizes costs, the cost of replacing labour is zero. One perfect example of zero cost is the placement of migrant workers under the LCP, as labour is expendable under the contract. According to Vandermeer (1996), economic recession may favour employers. Labourers are forced to accept jobs with low wages and thus the costs of production are reduced. Debt crisis in the Philippines has unduly favoured Canada by reducing the social reproduction cost to a minimum and the training as well the replacement of labour cost to zero. Migrant labourers become de-skilled in the process and eventually get concentrated in low-paid jobs. The concept of de-skilling refers to the systematic and structural processes involved in eliminating educational and professional skills, whether by force, by constructing barriers, or by imposing government regulations/de-regulations. For example, due to high unemployment, political uncertainties, and the debt crisis at home, when Filipino women are forced to leave their country of origin to seek employment in Canada or other core/semi-peripheral societies, they are bound to forego their original educational qualifications and training.

Despite strong democratic traditions in Canada, immigration rules impose on migrant workers numerous restrictions that ultimately deter the upgrading of domestic workers' skills. Migrant contract workers are required to get student authorization forms every time they take a course to upgrade their skills. Furthermore, the rate for a student visa is currently $150. Consequently, a migrant worker who aspires to take several courses over a long period and from a wide range of institutions for upgrading may end up paying $150 several times for student authorization – on top of course fees. In short, workers are not free to upgrade their skills without going through immigration procedures – a time-consuming, costly process. The worker has to ask employers who usually work on weekdays for a weekday off to visit the nearest immigration office. By making the upgrading of skills very difficult through such stringent immigration rules, governance creates barriers to de-commodification and maintains an environment that produces re-commodification, full commodification, or partial commodification.

As McMurty rightly points out:

> It is not commodity production per se that is for Marx a necessary evil, but the development of an entire social structure which is predicated on this type of exchange which is exploitative. Once the commodity is conceived in this negative way . . . the entire problem comes into a different light and spaces for resistance shine forth (McMurty, 2001: 17).

Contrary to McMurty's prediction about resistance, few immigrant women file formal complaints because workers require release papers as well as references from their employers in order to get another job. Most of all, immigrant women feel strong pressure to complete the 24-month-long program so that they can file an application for permanent residency, i.e., achieve immigration status and hope to be de-commodified. Undoubtedly, the LCP perpetuates exploitation that ties a domestic worker to a private home, free from government's labour regulations. Earning less than minimum wage even after completing the two-year live-in requirement traps domestic workers in low-paid jobs, solidifies their commodification, and de-skills them as the savings they would use for upgrading goes to the Philippines to support families and pay off debts incurred during the costly migration process. As McMurty comments, 'the commodity producing process creates the social conditions which militate against a recognition of the conditions of exploitation as well. That is, what makes the worker more alienated from herself is the very thing which makes capital and the state stronger' (McMurty, 2001: 8). Although the range of exploitation is diverse, commodity-producing processes enslave Filipino women workers in Canada and eventually transform them into different kinds of commodities in the labour market. Gorz correctly sums up the situation: 'They [domestics] do what their clients [employers] would not have been able to do for themselves. Their labour enables their clients to save time and improve their quality of life' (Gorz, 1989: 138).

5. ELDERCARE AND OTHER EXTRA CHORES

Many migrant workers find that their contracts do not accurately describe the nature of flexible work hours or what kind of extra chores are involved, such as caring for the elderly and the infirm. The demand for caregivers for the elderly and the infirm at home will continue to intensify as the population in Canada ages and the social safety net erodes under neo-liberal globalization. This erosion is in effect in several provinces, including BC and Ontario two major provinces for migrant workers. The current BC government's plans to close residential care facilities and transfer seniors into assisted living units will accelerate the demand for caregivers. Thus, governance credits market criteria for services, i.e., commodified sectors, while it devalues non-market criteria, i.e., de-commodified sectors; in other words, in the name of efficiency, governance endorses commodification. Burke identifies this process as 'marketization of the state', and points out, 'Commodifying health is . . . a process that is much more vigorous, explicit and purposeful than is implied by the phrases privatization by default or passive privatization' (Burke, 2000: 182).

As the need for caregivers intensifies in Canada due to the restructuring and privatization of health care, it will be profitable to exploit highly trained, educated, migrant professionals as low-paid caregivers. Limiting migrant women workers' skills to the role of caregivers, the LCP not only denies the educational qualifications of nurses and other professionals, but also effectively de-skills them. This structural devaluation of credentials, skills, and training trap im/migrant workers, who eventually lose self-esteem and confidence, and suffer psychological stress. Childcare (or simply care) incorporates all kinds of 'no-name' activities. As Arat-Koc correctly comments, 'The state plays an active role in structuring and controlling not only the volume but also the conditions of these workers' (Arat-Koc, 1990: 97). To get permanent residency, i.e., immigration status, some workers stay in an exploitative environment for several years. For these workers, persistent demands on their services, lack of respect by the employers for their own schedules, and lack of labour regulations are the norms. Many domestics find that they have few rights. For example, many domestics report that although they pay $350 a month for board and food in BC, they rarely have any voice in selecting the food they eat. Not all employers can afford to hire domestics for the contract period and that the state fails to clarify labour standards and practices in private households. Lack of monitoring as well as enforcement puts many domestics in sub-standard, unacceptable situations.According to Gindin, the greatest victory of neo-liberalism has been the lowering of expectations (Gindin, 2001: 39). Despite lack of proper food and suitable accommodation, one domestic did not quit the job until she was forced to. Domestic workers' narration also confirms Arat-Koc's argument that hiring a domestic is often more affordable and cost-effective than placing children in a standard daycare (Arat-Koc, 1990: 83).

Offe comments, 'The welfare state has made the exploitation of labour more complicated and less predictable' (Offe, 1984: 151). Certainly, lack of effective monitoring has produced a proliferation of underground agents who control, manipulate and exploit im/migrant domestics in numerous ways. An underground agent system has emerged because neither the federal government nor the provincial governments enforce regulations. In two cases, the immigration system failed to scrutinize the validity of the employer/s. As a result, these domestics after arrival in Canada found themselves serving unauthorized people without pay and relying on their agents' good will. It is evident here that lack of a government monitoring system in BC created a situation where these workers could be both financially and psychologically exploited. As Esping-Andersen (1990) once argued, the worker, in order to survive, behaves as a commodity in a market that resembles a prison. Citing Marx, Polanyi, and Lindblom's works, Esping-Andersen (1990) further points out that the freedom a worker enjoys behind prison walls is fictitious. Domestic workers who migrated to Canada under the LCP and were supposed to be commodified in the private sector, i.e., household, while enjoying financial freedom might be imprisoned temporarily in another household because of de-regulation. Entering an un-commodified sector, i.e., where domestics are without pay and contract, transforms these workers' labour and freedom, as Polanyi (1957) has pointed out. The provincial government's failure to monitor labour conditions, i.e., length of work hours, nature of activities, wages, accommodation and food, and holidays, creates an inhospitable environment for many im/migrant workers. To make the situation tolerable, one domestic received help from her sister, who worked without salary. Another domestic worker literally puts in many extra miles to perform her job, which included riding two buses twice a day to take younger children to school.

6. CONCLUSION: 'DE-FAMILIZING' THE PRIVILEGED AND RE-FEUDALIZING' DOMESTICS

The LCP has freed many non-commodified, under-commodified upper/middle-class educated women (mostly white) in Canada from the private sphere, i.e., cleaning, cooking, washing, ironing clothes, and so on, and reproductive work, i.e., childcare and care of the elderly or the infirm. Esping-Andersen describes this process as 'de-familialization': A de-familializing regime is one that seeks to unburden the household and diminish individuals' welfare dependence on kinship. The concept of de-familialization parallels the concept of de-commodification; in fact, for women defamilialization is generally a precondition for their capacity to 'commodify themselves'. Hence, de-familization would indicate the degree to which social policy (or, perhaps, markets) render women autonomous to become commodified (Esping-Andersen, 1990: 51). In contrast, the LCP has forced many women of colour from the Third World, especially from the Philippines, to live in a precarious and unregulated work environment. In this way, the LCP re-feudalizes and commodifies the employer–employee relationship in the private sphere. The LCP recycles migrant workers' commodification, enclosing them in a racialized and genderized labour market. After attaining 'immigrant' status that facilitates their access to the entitlements of citizenship in Canada, the majority of domestic workers work as caregivers for the elderly or as live-out domestics or in minimum-wage, flexible-hours jobs. These workers become commodified again once they lose their original credentials and begin performing services that some activists describe as 'from stroller to wheelchair', i.e., from childcare to eldercare.

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PART IV: THE NEED FOR REFORM

JOHNNA MONTGOMERIE

THE LOGIC OF NEO-LIBERALISM AND THE POLITICAL ECONOMY OF CONSUMER DEBT-LED GROWTH

1. INTRODUCTION

In 2004, US households owed 119 per cent of their disposable income, UK households 155 per cent and 108 per cent in Canada (Office for National Statistics 2004; Federal Reserve Bank 2004; Statistics Canada 2005). The outstanding totals of consumer credit has been calculated in the United States as $769 billion (Federal Reserve, 2003), in the United Kingdom £157 billion (Office for National Statistics, 2004), and in Canada $288 billion (Statistics Canada, 2003). The escalating level of consumer indebtedness in these three countries has not gone unnoticed. There have been many important contributions to understanding the causes of this recent trend of household over-indebtedness. These can be put in three broad categories: those who believe the cause is over-borrowing by consumers, those that see the cause as over-lending by banks, and those who claim it is low interest rates. For those that ascribe to the first claim, it is usually the case of the hedonistic consumer, the decline of thrift in society, or the magical effects of a plastic card that does not allow for restraint that has caused escalating debt levels. For those who accept the second claim, it is that relaxed banking regulations, aggressive marketing campaigns, and millions of mail outs that have led to increased debt for households. While the rest simply believe that consumers are acting as rational economic units and responding to the stimuli of low interest rates.

Beyond the explanations of a culture of self-indulgent consumers or avaricious bankers is the political economy of consumer credit. This approach attempts to explain how these phenomena interact with each other to form a co-continuative relationship of lending, borrowing, profit, and macroeconomic expansion. Thus, the specific purpose of this chapter is account for the rising level of consumer debt from 1991 to 1992 until the present day from a political economy perspective. Using the common credit card as a lens we can trace the historical changes that brought about the current frenzied lending and borrowing and explain what purpose consumer credit has come to serve in the 'new

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economy'. This will allow a broader understanding of household borrowing that extends from the global governance of domestic macroeconomic policy to the most basic level of social and economic activity – the method of payment. Ultimately, it is argued that the consumer credit has become the lifeblood of most household consumption and macroeconomic expansion as a result of the neo-liberal strategy of non-inflationary growth.

The concept of neo-liberalism has a plethora of uses; it can be understood as a trend, a project, an ideology, or a particular phase of capitalist development. Here, neo-liberalism is considered a strategy of engagement with an established ideological standpoint and a tangible set of policy objectives that emerged in the mid-1970s as a response to the stagflationary crisis. The logic of neo-liberalism was to move the economy toward an investment based growth paradigm and maintain small sustained macroeconomic growth levels. This was meant to create a global economy based on continued prosperity with few business cycle fluctuations and less crises. This premise has evolved into a highly integrated and powerful set of state objective known as non-inflationary growth policies. Non-inflationary growth advocate the introduction of fiscal discipline, lower marginal tax, interest rate liberalization, competitive exchange rates, trade liberalization, and freeing of investment flows, privatization of government services and corporations, deregulation of labour markets, and long-term price stability.

This neo-liberal orthodoxy has come to pervade policy circles at all levels of business and government. Non-inflationary growth policies were internationally promoted through the G7 'nexus' (Gill, 1999) of ministerial meetings and associated policy channels, domestically implemented by participating member governments, and subsequently exported to developing countries under the auspice of the 'Washington Consensus'. It may be well known how neo-liberalism has informed the exercise of state power and the practice of global governance, but what is less obvious is how it has come to influence consumers. The governments in the United States, the United Kingdom, and Canada are isolated in this analysis because empirically they are identified as the countries with the most problematic levels of consumer indebtedness, and they form the consumer backbone of the global economy; moreover, they played a central role in the G7 in embracing and promoting non-inflationary growth principles. These countries were simultaneously trying to promote investment through the deregulation of investment flows and interest rate liberalization, while trying to stem inflation by withdrawing subsidies for unemployment, deregulating labour markets, and capping spending in the public sector. It is these governments' exclusive focus on stemming inflation that has led to slowed wage growth since 1991, it has affected wages directly through government labour contracts and labour market policy and indirectly through a consensus with business to keep wage inflation low. With household wages slowly eroding the response by households was debt-led consumption.

The central purpose of this chapter is to show how non-inflationary growth policies have caused households to rely on debt to fuel consumption. The concept of consumer debt-led growth is meant to draw out how the predominance of price stability caused a downward pressure on wages. This created a situation where consumers relied on credit to consume. Moreover, consumer debt-led growth is meant to capture how the US, the UK, and Canadian economies would be in decline if households did not incur the debt levels we currently see. However, with economic growth expanding and debt levels raising the household is feeling the pressure. With the possible punishment of bankruptcy it is the household that bears the social costs and market discipline while governments enjoy growth with low inflation, banks have record profits, and the consumer goods industry benefits from expanding markets. Therefore, this chapter begins by considering the two most prominent explanations for the consumer credit boom of the 1990s and how they do not provide a systematic explanation, but do illustrate the symptoms of the larger process of neo-liberal restructuring. The next section highlights the logic of the neo-liberal strategy through an examination of non-inflationary growth policies. The final section demonstrates how consumer debt-led growth has become the norm for most households and suggests the potential limitations of relying on credit to fuel mass consumption.

2. CONCEPTUALIZING CONSUMER CREDIT: A REVIEW

Credit is a form of social organization. It is simultaneously a material resource of money and a set of social practices 'a social invention in which fungible assets are exchanged for promises to pay . . . the idea and practice of credit, as a social system, is a resource that people, firms, and governments gain access to at the discretion of others, and at a cost established by others' (Germain, 1997: 17). Thus, when considering the functioning of consumer credit we must establish that although it is experienced by individuals it also exists as a part of larger structural relationships between global finance, state policy, and society.

Moreover, there are many manifestations of credit practices. Broadly speaking, there are four distinct types of consumer credit each with its own set of rules and associated social practices, these are: instalment credit, revolving credit, secured debt, and unsecured debt. Instalment credit is when a fixed amount of credit is extended for a particular asset and a predetermined amount is paid each month, total ownership is granted after the last payment. Revolving credit is where a credit is extended for a fixed amount of funds, but for unnamed items, and the borrower can either pay the bill in full at the end of the month or defer payment and only pay the monthly interest charge. Second, secured debt is where credit is extended for the value of the asset (meaning the lender can re-sale the asset for close to the value of the loan), while unsecured debt is when credit is given for items that have no actual re-sale value; therefore, the lender cannot recoup any costs if the borrower defaults. The focus of this analysis is on the increasing levels of unsecured-revolving debt. Credit, as a social practice, has coincided historically with most forms of commerce (Gelpi and Julien-Labruyáere, 2000; MacDonald and Gastmann, 2000). Of most significance to this discussion is how consumer credit evolved tangentially with the Fordist regime of mass production and mass consumption and, more specifically, why with the abandonment of Fordist/Keynesian principles in the mid-1970s and the adoption of post-Fordism and neo-liberalism has meant consumer credit expanded rapidly.

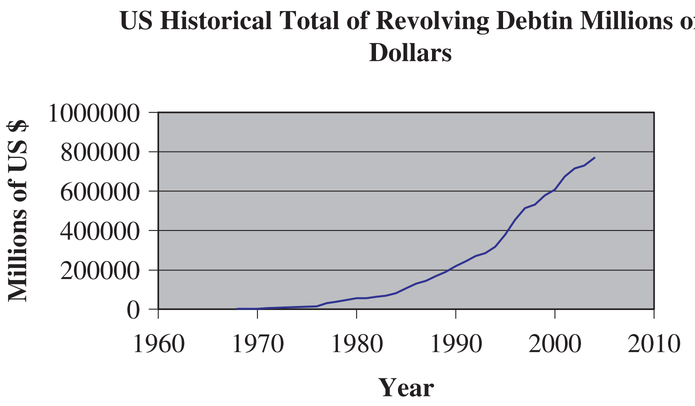
The emergence of a fledgling consumer finance industry began around the same time as Henry Ford developed his revolutionary production techniques. In 1910, Arthur J. Morris opened Fidelity Savings and Trust company, the first major commercial business devoted solely to personal lending (Medoff and Harless, 2000). The significance of this change was the move away from traditional banking that was concentrated among financiers whose business was to supplying credit to governments and on some occasions to major companies involved in heavy industries. Indeed, Fidelity Savings and Trust was part of a larger trend to focus on expansion through the consumer base. This was popularized with Ford's idea to increase productive capacity by paying workers enough to purchase the cars they produced. MacDonald and Gastmann claim, 'that it was only in the second and third decades of the twentieth century that this process of spreading credit down through the ranks developed' (MacDonald and Gastmann, 2000: 7). Furthermore, during the Great Depression, when most banks became insolvent, the Roosevelt administration took an active role in encouraging the creation of Credit Unions. They were charged with providing credit to the general population for the purchase of homes and automobiles through government-backed and guaranteed low-interest loans. Similarly, Keynesian policies of government demand management were implicitly linked to the democratization of credit.

Following the Second World War credit continued to expand rapidly through the creation of credit unions, the actions of commercial banks (aided by governments), and most significantly through the credit card. The first third-party universal card (or credit card) appeared in 1949, invented by Frank MacNamara and called the Diners Club Card, it allowed holders to dine at participating restaurants and be billed for it all at the end of the month. It was marketed to the new group of travelling businessmen, who were a product of the booming post-war economy. Diners Club made money by charging interest and fees on using the card to the borrower and the merchant in order to turn a profit. However, these cards did not offer the option of revolving credit, meaning that balances were due at the time of billing and could not be spread over time. The revolving credit market emerged in 1958, when two large banks launched credit card operations called Visa and MasterCharge.

Thus, consumer credit was prevalent since the beginning of the Fordist/Keynesian era and was used to facilitate the expansion of production and business, but also macroeconomic growth. Yet, the original growth of credit cards in the late 1950 and 1960s was marginal in comparison to the rapid growth of consumer borrowing and debt since the early 1990s. An overview of the consumer debt statistics in the United States, the United Kingdom, and Canada are clear that an increasing number of people are incurring more debt than ever before.

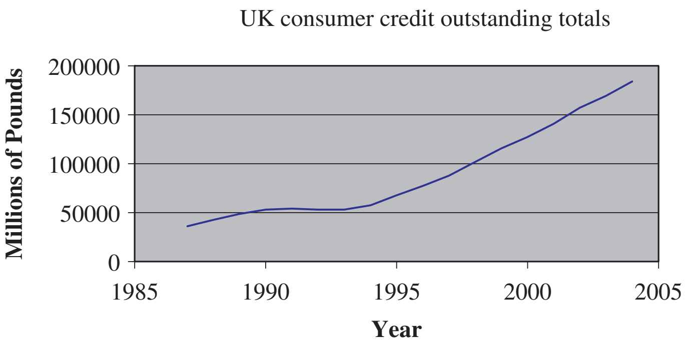
Table 1 illustrates the historical data, from 1968 to today, of US revolving debt and how it has grown almost exponentially from the 1990s onward (Federal Reserve, 2003).The statistical picture in the United Kingdom (Table 2) shows similar trends of massive increases in consumer credit totals outstanding from the 1987 onward (Office for National Statistics, 2004). Rowling and Kempson reported that in the United Kingdom during 1980s, on average, half of all credit cards in circulation were used regularly each month and the average balance outstanding on these cards was £450 (Rowling and Kempson, 1994: 14). By 1993, more than 79 per cent of credit cards in circulation in the United Kingdom were used regularly each month and the average balance outstanding was £1,876. In 2001, debt levels reported put total outstanding consumer credit at £14.2 billion

Table 1. US Revolving Debt



Source: Federal Reserve (2003).

Table 2. UK Consumer Credit Totals Outstanding



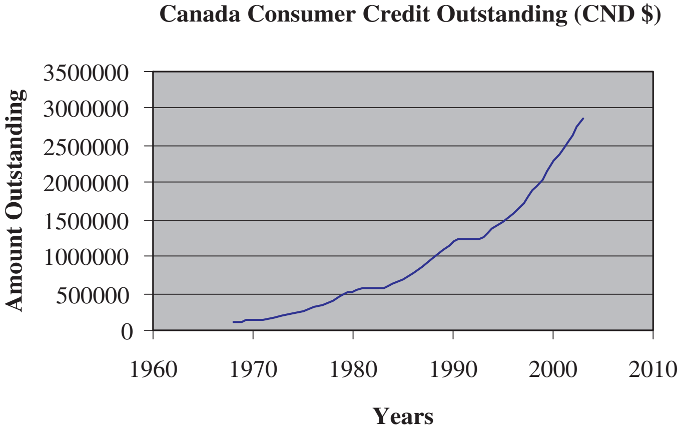
Source: The Economist (2003).

of which £6.2 billion was on credit cards with the mean average of four cards per person and an outstanding total of £10,648 (Economist, 2003). In Canada, we can see a similar trend of rising consumer credit borrowing and debt levels. Table 3 shows the historical total outstanding balances of consumer credit, from 1968 to present, and shows an almost exponential increase since the 1990s (Canada, 2003). The use of credit cards, in particular, has increased from $6 billion in 1990 to $45.5 billion in 2002 (Canadian Bankers Association, 2003).

Considering the staggering increases in consumer debt levels in recent years a sizable literature has evolved to debate the causes and consequences of such an escalation. Starting with the waves of personal bankruptcy in the 1980s to the trends of over-indebtedness in the 1990s, there is a widespread effort to try to understand why consumer debt has become a problem (Rowling and Kempson, 1994; Ritzer, 1995; Manning, 2000; Medoff and Harless, 2000). An extensive review of the nuances of this literature is impossible here, but the broad conclusions from these studies can be put into three categories. First, those who claim that the massive increase in consumer indebtedness is a result of bank over-lending. Second, those who believe consumer debt is a result of consumer over-borrowing. Third, those who point to the steady decline in interest rates as an explanation for consumers' increased borrowing.

For those who focus on the banking industry, such as Manning (2000), Rizter (1995), and Warren and Tyagi (2004), the tendency is to examine the ways in which financial institutions have prayed on households in order to expand profits. These authors point to the banking industries attempts to maintain economies of scale in order to reduce the marginal cost per card issued, which has translated into millions of mail-outs to households. These authors personify the banks collective behaviour to describe sinister actors that deploy sophisticated mass marketing campaigns to transform traditional attitudes toward debt while

Table 3. Canada Total Outstanding in Consumer Credit (Canadian Dollars – Millions)



simultaneously relaxing standards to allow for more people to get access to credit. Thus, the explanation is that the banks urge people to go deeply into debt while they make it easy for people to do so.

Meanwhile, for those who see the problem of consumer over-indebtedness as a consequence of consumer over-borrowing the focus is largely on the decline of thrift and the lure of consumer society. Medoff and Harless (2000), Clayton (2000), and Calder (1999) all look at consumer culture and the 'hedonistic' consumer who is unable, usually as a result of the mystical powers of the plastic card, to resist over-spending. These accounts emphasize deviance or behavioural flaws, such as the common association of high credit card debt with compulsive personality traits. The issue of over-indebtedness tends to be 'psychologized', where individuals are blamed for not saving enough or spending compulsively with no concept of consequence. Finally, there are those that account for the rising levels of consumer debt based on the declining interest rates experienced in the United States, United Kingdom, and Canada over the same period. Although this may offer a partial explanation for asset-based lending, for example mortgages, it is not adequate for explaining the increase in revolving debt. Simply put, interest rates on consumer credit have only gone up since the early 1990s and are at an average of 18 per cent (Warren and Tyagi, 2003).

The overall inadequacy of these three approaches is there descriptive, rather than analytical, explanations of consumer debt. Instead of dismissing these claims out of hand, it is argued that all three processes are happening simultaneously. This analysis accounts for the rising levels of consumer debt as part of a systemic shift away from the previous Fordist/Keynesian mode of political and economic organization to the neo-liberal order, specifically the policies of non-inflationary growth. The next section considers the rise of neo-liberalism and the global governance of non-inflationary growth policies through the G7. This system allows for the reinforcement and feedback between global consensus on neo-liberalism, the domestic implementation of non-inflationary growth policies, and the effects on the household and individual. Therefore, we will attempt to trace the concurrent adoption of policies of non-inflationary growth and rising consumer-debt levels. By examining the processes that creates the uniformity and obedience at the highest levels of global organization, as well as in the minutia of the household balance sheet, we can begin to account for how the forces of global finance are intrinsically linked to ubiquity of common credit card.

3. THE LOGIC OF NEO-LIBERALISM AND POLICIES OF NON-INFLATIONARY GROWTH

The logic of the neo-liberal project is for government to support economic growth through private investment. In order to achieve this, inflation must be stable and direct government intervention in the economy should be minimal.

Neo-liberalism emerged as a response to the stagflationary crisis of the 1970s. While at the time these objectives were guiding principles, today the logic of neo-liberalism has become a highly integrated set of policies that are internationally promoted, domestically implemented, and hegemonic among most governments. Non-inflationary growth policies are the central features of the neo-liberal economic model. The policy prescriptions for non-inflationary growth are: first, free trade, broadly defined as the abandonment of protectionist policies in favour of multilateral attempts to open economies to foreign trade and move toward export oriented policies. Second, the withdrawal of public subsidies in most sectors of the economy. Third, the privatization of state-owned enterprises. Fourth, to maintain price stability in order to keep value of profits constant, the main focus was to control wage-spiral inflation to keep inflation indicators at an absolute minimum.

Thus, the ascendance of neo-liberalism is understood in relation to, and as a reaction against, the Keynesian international order. From the end of World War II up until the 1970s there was international consensus in favour of demand-led Keynesian economic policies. It was consolidated internationally through the Bretton Woods Agreement but also through ideological pre-eminence of Keynesian-style macroeconomic organization. This meant the state made provisions for full employment and counter-cyclical spending during economic downturns. Moreover, high wages were seen as a stimulus to the economy by facilitating expansion through consumption. For workers this meant they received regular and significant wage increases every year, whether in the public or private sector, unionized or non-unionized because wages (or money multiplying throughout the economy) were perceived as the solution to most economic problems. This ended in the mid-1970s as a result of a stagflationary crisis. Stagflation, i.e. limited economic growth with high levels of inflation, was perceived as a fundamental problem for economic prosperity. The 1973 oil crisis drove prices up, while the growing US balance-of-payments deficit caused the Federal Reserve to react by increasing interest rates substantially to draw dollars back into the country (Parboni, 1981). Furthermore, the abandonment of the gold-dollar standard and related international capital controls, pillars of the Bretton Woods Agreement, signalled an end to most states' willingness to support international financial regulation.

The Group of Seven (G7) was formed in 1975, in the wake of the collapse of the Bretton Woods Agreement. Its emergence at this time when the global political economy is in flux made it the primary medium by which member countries could respond to the growing crisis and tensions (Kirton, 2004). The G7 had become the site of the global governance of neo-liberal objectives and promoter of non-inflationary growth policies. At the time of its inception there was a steadfast resolution by G7 nations to co-coordinate a strategy to combat slow growth and high unemployment, but 'explicitly rejecting a Keynesian macroeconomic response to these problems' (Webb, 1995: 25). The success of this strategy is obvious by the level of compliance of all members of the G7 to adopt non-inflationary growth policies. As early as 1976 the OECD issues the report titled, *Progress under the Strategy for Sustained Economic Expansion*, which was introduced and adopted at the 1977 G7 ministerial meeting. It stated:

> Ministers reaffirmed the strategy for a sustained expansion . . .. Member countries make further progress towards eradicating inflation. Further progress against inflation will not come about of its own accord. Determined action will be required to slow down the price/wage spiral. Some countries will need to pursue and some to reinforce vigorous stabilization policies (OECD, 1977: Clauses 11).

This is typical of OECD Ministerial Communiqués throughout the 1970s and 1980s, which are adopted yearly at G7 Ministerial meetings. Those communications put controlling inflation as a primary concern for governments. For example, in 1979 it is stated in clause nine of the communiqué, '*Inflation*. Ministers agreed that the most obdurate obstacle to faster growth and more jobs is the continuing high rate of inflation in many Member countries, and the risk that it may accelerate. Inflation undermines growth directly by creating uncertainty and inhibiting investment; it may also require governments to pursue restrictive demand management policies' (OECD, 1979: clause 9). By making inflation and wages the political battleground from which the economic and social prosperity will be determined governments have clearly moved away from Keynesian macroeconomic policies. Furthermore, Keynesian expansionary fiscal policy is also targeted in the fight against inflation since public sector wages are equated with the upward wage spiral throughout these economies. In the same communiqué, clause 16 (their emphasis) stated:

> Better price performance also requires further efforts to seek greater consensus and where appropriate modify wage and price setting behaviour to restore the profitability of productive investment, ease inflationary pressures caused by the wage-price spiral, and facilitate necessary changes in relative prices and the structure of wages (OECD, 1979: clause 13).

The G7 was a powerful nodal point in the global governance of non-inflationary growth policy with pronouncements on its multitude of potential benefits as well as procedures for monitoring country progress. By 1984, the use of non-inflationary growth in Ministerial Communiqués shifts from a targeted response to the high inflation environment of the 1970s to an all encompassing theory of economic development (OECD, 1984: clause 4). By the 1990s, neo-liberalism had become economic doctrine with non-inflationary growth at its core. It saw all economic solutions in price stability and low interest rates to attract investment, 'macroeconomic policy should emphasize price stability and fiscal consolidation . . .. High unemployment should be addressed by deregulation to make labour markets more flexible' (Group of Seven, 1993: 1).

4. THE POLITICAL ECONOMY OF CONSUMER DEBT-LED GROWTH

It is the logic of neo-liberalism and non-inflationary growth policies that has led to, what I have phrased, consumer debt-led growth. The primacy of price stability in non-inflationary growth policies created an environment where investment was allowed to flourish. However, concurrently it created a squeeze on the purchasing power of households through dampened wages. The international focus on price stability created a downward pressure on wages in most advanced industrialized countries, especially the United States, the United Kingdom, and Canada. Thus, the link between the rise of non-inflationary growth and the mounting levels of consumer debt is made based on the claim that because of stagnating wages households have used consumer credit facilities to fund consumption, and ultimately, economic growth.

The concept of consumer debt-led growth attempts to explain the link between the neo-liberal strategy of non-inflationary growth and the rising levels of consumer debt. The process of consumer debt-led growth is one where G7 states privileged price stability over wage-led stimulus and relied on growth based on borrowing, both for firms and household consumption. This is because the introduction of neo-liberal non-inflationary growth policies meant that wages were no longer considered a stimulus, instead they were relegated, objectively and ideologically, to a cost-of-production (Jessop, 1993: 20). This was reinforced through government contraction of fiscal deficits, which proved useful in fighting inflation on two counts: one, by capping wages in the public sector to prevent the wage-spiral inflation, this was accomplished often by citing international pressures to reduce deficits. Second, reducing state benefits to address 'long-term unemployment' and creating employment schemes where an unemployed person must accept a job after a fixed number of offers or benefits are repealed. These two objectives served to introduce more workers onto the labour market creating a downward pressure on wages.

The increase in consumer debt since the 1990s can be seen as part of the new strategy for households that have seen wages stagnate, employment become more insecure, and government services and subsidies decline, all while attempting to maintain the same standard-of-living and consumption patterns that were created during the post-war boom (Brenner, 2002: 14–15). With stagnating wages becoming generalized because of the pressure to keep inflation low, as well as the widespread availability of credit starting in the late 1980s, consumer credit becomes an important tool to allow consumption to continue while keeping inflation low. The examination of wage data from the United States, the United Kingdom, and Canada confirm that there has been a generalized level of stagnation as non-inflationary growth policies have become the norm. Based on the statistics from the Organization for Economic Cooperation and Development (OECD) the average percentage increase in wages (employee compensation) from 1976 to 1986 was much higher than the average increases from 1989 to 2003 (OECD, 2004). Tables 4 and 5 indicate that as non-inflationary growth policies become the model of economic growth across the advanced industrialized economies wage growth slowed.

Table 4. OECD Average Compensation per Employee (Percentage Change per Year)

	Average 1976–1986
United States	6.8
United Kingdom	11.0
Canada	7.4
OECD	8.1

Source: OECD (2004).

Table 5. OECD Compensation per Employee (Percentage Change per Year)

	United States	United Kingdom	Canada
1989	3.2	9.1	5.6
1990	4.6	10.0	4.3
1991	4.0	8.6	4.9
1992	6.2	4.8	3.2
1993	2.0	4.3	2.3
1994	1.8	4.4	0.5
1995	2.3	3.2	2.3
1996	3.0	2.5	2.9
1997	4.0	3.9	5.9
1998	5.4	5.9	2.9
1999	4.5	4.7	3.1
2000	6.8	6.2	4.8
2001	2.6	5.0	2.2
2002	2.1	2.8	2.7
2003	3.0	4.3	1.5

Source: OECD (2004).

A survey published in 1999 by *Business Week* magazine shows that there are vast disparities in wage growth between different parts of the US economy. The study claimed that average real wages in the New Economy industries (software, financial services, media, or consulting) increased by 11 per cent over the decade of 1990s, while in the rest of the economy real wages increased only by 3 per cent (Mandel, 1999: 90–102). When compared with statistics from 1988 real wages were down by 4.5 per cent. Other statistics from the United States suggest that wage rates were stagnant for almost the entire decade. For example, the employment-cost index, the US government's best measure of how workers are compensated, rose by only 0.4 per cent in 1999, the slowest in 17 years and on average throughout the 1990s output per hour was up 4.9 per cent, while unit labour costs fell 0.2 per cent (Bodipo-Memba, 1999). Similarly, in the United Kingdom a considerable proportion of wage-earners receive annual pay cuts (this proportion ranges up to 20% when inflation is low), with clear evidence that most nominal pay changes were at zero (Barker, 2003: 113–124). Furthermore, in Canada wages have stagnated in the overall economy from the 1990s onward, from 1993 to 2002, inflation increased by 16.9 per cent while wages in the private sector increased 15.5 per cent and in public sector 20.3 per cent (Jackson, 2004).

All three governments had fully adopted non-inflationary growth objectives and as a result wages stagnated. The importance of price stability was critical, in order to reduce wage-inflation all three governments adopted job creation as a central economic policy. This meant that the gains made in economic growth and increase employment did not translate into higher wages, often households had to rely on longer working hours or extra jobs to allow for extra income. For businesses, the wage slowdown in the 1990s contributed to gains in productivity and profitability as it helped businesses to control labour costs (Cooper and Madigan, 1999). Employers argued that 'the low-inflation environment meant they cannot pass on cost increases to customers and thus were pushing harder against wage demands' (Bodipo-Memba, 1999: A4). Therefore, despite the overall economic boom experienced in the 1990s many households encountered stagnating wages based on the international pressures to maintain price stability. Furthermore, if we look at how the general increase in revolving debt was distributed across income groups in the United States and the United Kingdom, we can see that the lowest and mid-range income groups had the largest increases in borrowing. Data published by *Demos*, from the US Survey of Consumer Finances from 1989 to 2001, show clearly that all income groups experienced an increase in levels of debt, but most considerable were all groups earning less than $100,000, or, the vast majority of society (Silva and Draut, 2003) (Table 6). These groups were also less likely to have participated in the booming stock market of the 1990s and more likely to have been those in the sectors experiencing restructuring and outsourcing.

Similarly, Table 7 shows a breakdown of revolving debt by income group in the United Kingdom based on the report given by the domestic finance division at the Bank of England between 1995 and 2000 (Tudela and Young, 2003). Even though it only spans five years, the trend is clear that all income groups experienced an increase in levels of debt as a percentage of income, but most considerable were all groups earning less than £50,000, again the majority of consumers. On average in the United Kingdom, households now owe 120 per cent of their incomes, households with an annual income of less than £11,500 owe 430 per cent of their incomes, up from 330 per cent in 1995; conversely, those earning more

Table 6. US Consumer Credit Borrowing by Income Group (Inflation Adjusted US Dollars)

	1989	1992	1995	1998	2001	Per Cent Change 1989–2001
All families	$2,697	$2,991	$3,454	$4,486	$4,126	53%
<$10,000	646	1,465	2,620	2,974	1,834	184
$10,000–$24,999	1,578	2,150	2,541	2,824	2,245	42
$25,000–$49,999	2,435	2,671	3,043	4,236	3,565	46
$50,000–$99,999	2,881	3,506	3,777	5,043	5,031	75
$100,000 and up	5,585	5,668	6,806	7,338	7,136	28

Source: Silva and Draut (2003).

Table 7. UK Unsecured Debt as a Percentage of Income (Households)

Household Income(£)	1995 Average Debt as Percentage of Income (%)	2000 Average Debt as Percentage of Income (%)
Up to 11,499	8.7	35.9
11,500–17,499	12.2	19.1
17,500–24,999	21.1	19.7
25,000–34,999	26.7	17.0
35,000–49,999	19.8	16.1
50,000+	11.5	12.6

Source: Tudela and Young (2003).

than £50,000 have seen their debts increase at a more modest pace, from 104 per cent of incomes in 1995 to 107 per cent today (Greenhill, 2003).

Therefore, the concurrent onslaught of non-inflationary growth policies and the escalating levels of consumer debt has meant that households, having seen traditional Keynesian sources of aggregate demand dismantled, have been using debt to drive the system forward virtually on its own (Brenner, 2002). The household has become 'the consumers of last resort', their largely debt-fuelled spending accounting for up to two-thirds of the economic activity in the 1990s (Pesek, 1997). This provides the link between, on the one hand, the international consensus on low-inflation, government efforts to co-ordinate policies to fight inflation and contract expansionary fiscal policy; with, on the other hand, stagnant wages, declining government expenditures and, concurrently, the increasing over-indebtedness of households.

What seems to have changed in the past 15 years is that families used to enjoy growth in real earnings and, if they borrowed, they did so to buy a house, a car, or finance a college education with the expectation that wage levels would continue to rise. Today, families borrow to maintain a lifestyle eroded by falling or stagnant wages; they owe money for the TV, refrigerator, restaurant meals, and their children's education. The growth of consumer debt since the 1990s has created a fundamental contradiction for households: if they reduce their debt-led spending then there will be a serious economic slowdown leading to recession or even depression, but if they continue debt-led spending they risk even further marginalization and bankruptcy.

5. CONCLUSION

This paper has attempted to illustrate the extent to which the coordinated efforts by the G7 members to introduce non-inflationary growth, and its implementation by member-states, created the economic foundations from which the mounting levels of consumer indebtedness are based. The primary goal of low-inflation meant that wage growth in the United States, the United Kingdom, and Canada slowed since the early 1990s. This often meant that households took advantage of consumer credit to continue purchasing goods and services. Thus, economic growth in the 1990s has heavily relied on consumer debt-led spending. Therefore, despite the claims made by advocates of neo-liberalism, policies of non-inflationary growth have not delivered enduring prosperity. Instead, the over dependence on private individuals to continue consuming to drive the system forward has led to new prospects for instability and crisis. The persistent reliance on consumer debt to fuel the global economy may be reaching its limits. Given the current position of most consumers, where amounts of incurred debt are becoming saturated, we may well see a slow down in consumption, which could create a structural tension within the neo-liberal monolith. Whether these developments, or the current levels of consumer debt, prove to be important to the overall evolution of the global political economy as we know it, is still unknown. What is obvious is that the issue of consumer debt, at least, merits closer consideration.

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DUNCAN CAMERON

WORLD TRADE AND WORLD MONEY

The Case for a New World Currency Unit

1. ONE WORLD

In an earlier world of formal colonies and imperial centres, the number of currencies used in international trade and finance was limited. Decolonization saw the widespread emergence of national monetary units, and also persistent and widespread current account deficits, which have to be financed through acquisition of internationally acceptable money or foreign exchange (Harrod, 1972a; Williamson, 1977; Grieve Smith, 1999). The balance of payments adjustment process routinely overwhelms democratic governance in weak or emerging economies. The efforts to meet human development goals (Sen) or even basic human needs are thwarted by a hostile world monetary order overseen by the International Monetary Fund. Could we not get closer to meeting the Millennium Development Goals of the United Nations by adopting a world monetary unit? This question provides the focus for this chapter.

Foreign exchange problems have characterized much of the efforts to promote international development in the post-colonial period. Keynes (1980a: 21) indicated that in the last 500 years only two of the various efforts to promote international monetary cooperation have 'worked' in promoting international trade. For the weaker countries, financial instability incapacitates efforts to eradicate hunger, promote social well-being, and human development. Recent examples of 'dollarization' indicate the lengths to which some countries have gone in trying to avoid foreign exchange difficulties (Mack, 1999, 2000; Cohen, 2002). Moreover, the gold standard, gold exchange standard, and key currency periods of world economic history have produced turbulence, international conflicts, and ongoing disagreements among national governments. For Polanyi (1957) international monetary affairs featured, centrally, in his telling account of the causes of the first and second world wars *The Great Transformation*.

For these reasons the idea of a world monetary unit remains an intriguing possibility, or at least worthy of further thought, reflection, and discussion. The successful launch of the Euro suggests that some monetary schemes of an over-arching

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nature can be realized. However, past experience suggests that one-currency schemes carry with them the limitations of any utopian ideas. It was not without full appreciation of the hazards associated with grand, somewhat implausible projects that John Maynard Keynes set out his ideas for an international clearings union, including a world money (bancor) for central banks. But his rational enthusiasm, as exemplified by his statement 'These advantages of the proposed International Clearings Union are surely so great that they overshadow most reasons of objection on lesser grounds' (Keynes,1980a: 47), could not overcome resistance to grand planning on a world scale.

The familiar concepts of a monetary unit are as a unit of account, means of exchange and settlement, and store of value. Not surprisingly, a world monetary unit has often been discussed in these terms. However, the conceptual issue of interest here comes under what is called the anchor problem: what shall constitute the main reference value for international transactions (Mundell, 1982: 3)? Or to change the metaphor, what should be the pivot point for world finance (Chesnais, 1997) Keynes was used to thinking about a world where London was the financial centre and the pound offered features of a world money. In drafting his post-war proposals he was conscious that only a fully multilateral system would allow the sterling bloc to operate and London to maintain its position in world finance, as restrictions would drive surplus members out of the bloc (Keynes, 1980a: 69–71, 93–94). A review of the much discussed current topic of globalization reveals that for most observers we already have one financial world characterized by integrated currency trading, money and securities markets, and massive capital movements across national boundaries (Eatwell and Taylor, 2000; Davidson, 2003). It appears therefore that the extent to which one world implies one currency is worthy of consideration.

The survey undertaken here cannot address all aspects of how a world currency might work. It does not include an enumeration or examination of the various attempts to think about a new world money or central bank (Blecker, 1999: 85–145; Smithin and Wolf, 1999). It does seek to assess whether the central bank money conceptualized by Keynes makes sense in this era, and whether we can think about the world using his categorization of the international monetary problem, keeping in mind, as he did, that a utopian outlook can be useful, if only to push the world a little closer to seeing itself differently (Harrod, 1972b). The short answer is that the vision contained in the international clearings union and the bancor proposal has contemporary relevance. Indeed, the conceptual framework developed by Keynes can be used to look at the issues that were neglected, or inadequately dealt with, by the practices since the Second World War. The adoption of a fixed gold price, the dollar exchange standard, the Special Drawing Right (SDR), the floating exchange rate system, and the Euro raise issues and questions similar to what did, and did not, figure in his thinking about a world currency, and an attempt needs to be made to see what went wrong since the Keynes plan, and what could be done to put things right. Overall his conception of a world money need to be understood in the context of the British Empire, and recast again in the era of American hegemony, and European supranationality.

2. WORLD TRADE AND MONEY

The world cannot have a balance of trade deficit. Since world exports equal world imports, they are two sides of the same coin, so to speak. As long as commerce remains within our one world, this must be true, at least until arrivals from other planets open other possibilities. As well, while individual nations in financial trouble struggle to meet requirements for external debt repayment, viewed from perspective of the world as a whole, international financial flows are equal. This necessary relation (a truism) is applicable to conceptual thinking about a world currency. Under the international gold standard, it was expected individual countries would have balanced trade, exports equalling imports, thanks to the movement of prices engendered by gold outflows or inflows. As Joan Robinson (1978: 213–214) noted, this equilibrium was assumed by the model, and those that propounded it as well. It was not how the world actually worked. Income and expenditure flows on current account did diverge on a daily basis. Since these flows included payments and receipts of interest, dividends and profits on foreign borrowings and investments, as well as for goods and services, there was no reason for them to be equal. Flows of capital could either compensate for an income deficit or accentuate it; they would not necessarily equilibrate the income account.

Positive balances could be built up by some countries in a financial centre such as London. Others could contract foreign loans. Gold could be moved around in bank vaults as well, but there was no automatic balancing of income and expenditure accounts. Keynes (1980a: 21) pointed out: ‘The problem of maintaining equilibrium in the balance of payments between countries has never been solved, since method of barter gave way to the use of money and bills of exchange’. Though the plan for an international clearings union, as devised by Keynes, went through various versions, at its heart was the idea of a central bank lending to deficit countries under specific banking conditions. The world money was not in the first draft and first appeared named Grammor in the ‘Appendix’ to his second draft of November 18, 1941(Keynes, 1980a: 61). Bancor appears in the all-important third draft of December 15, 1941(Keynes, 1980a: 68–94). Bancor accounts would be created in the form of overdraft facilities. Gold could be exchanged for bancor, but not bancor for gold. Interest would be charged to those who drew on their account, and in an innovation worthy of emulation today, surplus countries would also pay interest once they had ‘overaccumulated’ bancor.

The Keynes plan expected that daily financial business in member countries would go on as usual, but that central banks would deal with each other in a new way through the creation of the union (Keynes, 1980a: 125–126). Instead of outstanding balances being settled by gold shipments, or currency holding being redeemed for gold (or gold accounts being adjusted) overdrafts would be debited and credited with the clearings bank. Keynes saw national central banks in his international clearings union as in a similar position to British clearing banks with the Bank of England. They would relate to each other through a central bank or clearings union for central banks that could settle outstanding balances, and lend out surpluses to deficit banks. In his thinking Keynes made the point that the clearings bank could not itself get into financial difficulty, credits equalled debits within the bank, assets equalled liabilities: it was a closed system (Keynes, 1980a: 112). The advantage was that countries were in a deficit or surplus position to the union as a whole, not to each other. Multilateralism would replace bilateralism. Lending by surplus countries did not affect their capacity to produce or consume.

Keynes wanted the world trading system to eliminate its deflationary pressures (Keynes, 1980a: 112–114). A nation in surplus was accumulating gold, idling resources in the process. In the domestic banking system the equivalent was deposits which would generate loans. An international clearings union could serve the same end by lending to deficit countries. Within the international clearings bank, the use of overdraft facilities by deficit countries was a 'relief' to them, but did not create a 'real burden' for the surplus countries. Keynes thus gives international cooperation a definition: benefits arise without creating offsetting burdens for others (Keynes,1980a: 112). Central banks had their own monetary units, and their financial positions reflected national policies. To lend to them was to support those policies. Automatic lending amounted to approval in advance which was why Keynes had carefully thought out the terms of access to bancor. He argued that in international finance rules had to be thought out and agreed to in advance much more than in domestic banking where the individual lending practices of the banks could be counted upon to screen reckless borrowers (Keynes, 1980a: 45). Not wishing to hand money over to insolvent clients sharpened the attention of high street bankers.

The important difference between a purely domestic banking system and the proposed international clearings union was that domestic banks dealt firstly in a single national currency while the members of the clearing union each had their own monetary unit. As it was gaily announced by Dennis Robertson (1952: 173) in a celebrated ditty the role of a common currency in the currency union was not obvious. Was it to be accumulated, or spent quickly? Was it a reward or a punishment? How nations were to see it was not evident, and though it went unsaid, for those who wanted to bring bancor into being, like with any new endeavour, the intent of the creators, and the results in operation, were not necessarily going to be the same. The editorial preface to his posthumous article in the *Economic Journal* (June, 1946) described Keynes as 'one of the few' with the attributes needed to 'restore civilization' (Kafka, 1983). His plan was designed to bring about a civilized approach to international monetary relations. He described it as financial disarmament (Keynes, 1980a: 131). The world did get a cease-fire at Bretton Woods, but it was a temporary one at that.

3. BRETTON WOODS AND AFTER

Bretton Woods enthroned gold, and the dollar as international money. By fixing the dollar price of gold, the gold exchange standard as envisaged by the Genoa conference of 1922 was made the operative mechanism for establishing the unit of account for world reserves: gold at $35 an ounce, or dollars. The latter earned interest and had liquidity. Dollars were also in short supply in 1944, and for more than a decade to come. This ensured their value and added to their attractiveness for private agents, financial institutions, and central banks. What Bretton Woods did not do was make the IMF an operative lending institution. The IMF lent very little in its first years, and overall its resources were puny when compared to flows of international finance and credit. European monetary cooperation and Marshall plan and Dodge lending were at the centre of re-establishing international trade and finance, not IMF lending. American finance flowed bilaterally, outside the Fund. Magnitudes envisaged by Keynes were closer to what happened that those allowed for by the Americans at Bretton Woods.

For a skilled operator of the monetary approach to the balance of payments, such as Harry Johnson (Mundell, 1997a, 2000b), it was the fixed exchange rate regime which stood out when one looked back at what was agreed to in New Hampshire. In effect, to the extent that currencies traded against the dollar at rates established around a par value, the world could be said to have adopted a single currency. According to their analysis, the amount of liquidity in the system was set by the supply of new dollars flowing abroad. Thus the US balance of payments determined the potential rate of growth of reserves, and the amount of deflation or inflationary pressure in the world economy. The United States was busy establishing a trans-national empire based on direct foreign investment by US controlled corporations. In a sense, its publicly trade companies with their wholly owned foreign subsidiaries were the new East India Company or Hudson Bay Co. of a new era of open markets announced in the Atlantic Charter that was to replace the colonial era. The breadth and depth of the US money market meant that the United States was a recipient of large sums of short-term capital. Much like Britain earlier it was lending long and borrowing short. American investment abroad was very profitable. Routinely, in the twentieth century, inflows of interest, dividends, profits, and management fees outstripped outflows of new foreign direct investment (Levitt, 1970).

To the extent the gold exchange standard was a dollar standard, the dollar was the world money (Rueff, 1971), but there were some important questions left hanging, about the bank of issue, or the lack thereof, for example, and the amount of new liquidity available to finance world trade. Moreover, what about inflation or deflation? In the rest of the world monetary policy could target the price of the currency, but not if it was trying to control the quantity of money. For the global monetarists, the role of the Federal Reserve was crucial to determining outcomes. As well, balance of payments' flows depended on fiscal policy in the United States. Mundell (1982) argued that by sterilizing gold outflows the US Federal Reserve triggered the demise of the system. Gold became undervalued, the gold flow was going one way (outward from the United States) and it was irreversible.

It will be remembered that Keynes was preoccupied by deflationary tendencies due to the surplus position of the United States. These were addressed initially by post-war lending bilateral lending policy, and US military spending abroad. However, it was the growth of Euro dollar deposits, and subsequent lending and creation of new dollar liquidity that rapidly changed the nature of world finance.

Dollar shortage in the period before the movement to currency convertibility by the European nations in 1958 turned to dollar glut by 1968. In the wake of the establishment of US multinational corporations abroad, US financial institutions set up alongside European lenders. Centred in the city of London, the Euro markets privatized international credit creation. Prompted by American regulation Q which made it profitable to bid on deposits in US dollars, and still find borrowers, the flow of finance out of the United States triggered a crisis of confidence in the gold market. In March 1968, a two price system for gold was set up, and effectively the link between the dollar and gold was broken, though this was not officially recognized until August 15, 1971 when Nixon officially devalued the dollar (a default in essence) and closed the gold window. At that point, with the United States no longer selling monetary gold, the next step was for others, the European central banks mainly, to cease buying dollars (Mundell, 2000a, b).

4. THE DOLLAR STANDARD

The balance of payments adjustment process was fingered as the villain in the play that killed the Bretton Woods order. There was no way for the United States to change its par value without defaulting on its pledge to redeem in gold at the fixed price official holdings of dollars. This left the onus on surplus countries to revalue or to load up on surplus dollars. In effect the Europeans and Japan had done both. At the end of a futile search for new par values, generalized floating, accompanied by new efforts at European monetary cooperation ended the par value system, and the gold exchange standard (De Vries, 1976; Williamson, 1977). However, although the world was no longer on a single currency system, the dollar was still the main world money. The unit of account for most of world trade was the dollar, and most payments were made in dollars, though some diversification of official reserves was taking place.

If floating rates addressed the adjustment question, the use of a national currency as the world money was still a major outstanding issue. The SDR, conceived as a supplementary reserve asset at a time when the dollar looked to be in short supply, came into being when an inflationary crisis was brewing that would disrupt not only financial flows, but the very thinking known as Keynesian, and, eventually call into question macroeconomic policy itself (Beaud and Dostaler, 1993). SDRs were allocated in proportion to IMF quotas. As Triffin (1988) pointed out the rich countries looked after themselves. As a result the countries that could have used the drawing rights, the poor, deficit countries, went without, and the SDR failed to circulate to any great extent. But it did become the unit of account for the IMF, and it provided a standard against which the values of the currencies in the basket can be measured with respect to each other. The creation of the Euro adds yet another new currency to the mix. Unlike the SDR, which is purely central bank money, the Euro circulates replacing domestic monetary units.

Internationally, it represents a challenge to the supremacy of the dollar in international finance. Domestically, it represents an innovation: The Eurozone has a new central bank, but not an elected government to oversee its actions. Does the European Central Bank incorporate a deflationary or anti-expansionist bias? To the extent it does, it is far from respecting Keynesian principles. However, in some important respects, the world financial order now appears ripe for something similar to the Keynes plan, a renewed attempt at international cooperation.

5. BACK TO KEYNES?

Keynes told the House of Lords 'The common love of truth, bred of scientific habit of mind is the closest of bonds between the representatives of divers (sic) nations' (Keynes, 1980b: 21). In fact those thinking about world monetary problems are precisely divided between those who agree with Keynes that truth will out, so to speak, from discretionary action by informed participants in a commonly agreed, just, and efficient arrangement, and those who prefer automatic mechanisms, to be obeyed in practice. The automatic school is best represented by Milton Friedman (1953). His article arguing *The Case for Flexible Exchange Rates* is arguably as influential a contribution by an economist as was made in this past century. If one goes by the dollar value of economic activity engendered, his policy suggestion to free up the foreign exchanges wins hands down, but that begs the question as to what extent policy follows upon the advice of economists. James Meade is another who could make a claim for recognition as an early proponent of floating rates (Mundell, 2000b). However, since Meade wanted floating rates so as better to enact socialist planning, he qualifies poorly for the automatic school. In fact he represents the seekers of truth in deliberate action rather than the impersonal solution of price flexibility inside and outside favoured by Friedman.

Friedman did not foresee the foreign exchange markets soaring in volume. One of his arguments in favour of floating rates was that the extent of the market was limited. The main complaint today is the volatility of the rates, particularly those of the major currencies against each other. A blue ribbon panel of Americans has complained about the Yen/dollar rate moving so far, so fast (Council on Foreign Relations, 1999). The events of 2003/2004 show a fall in the dollar exchange against the Euro of some 50 per cent since its peak. This looks suspiciously like the return of competitive devaluation practices. Ever quick on his feet, Mundell (2000b) has argued for an exchange rate band linking the G3 currencies. His proposal highlights the reality of current exchange rate practices. In fact most countries have fixed but adjustable rates. The world resembles currency areas tied to major currencies. It may not be exact to speak of a Yen bloc, or a Euro area, or a dollar zone, but the idea that there are three key currencies linked to secondary currencies is a better representation of the world at the turn of the century than generalized floating. It is what represents the challenge to new thinking.

Mundell (1961,1997b) also gets credit for the optimum currency areas, a seminal contribution of economic thought, and one reason he has a Nobel memorial prize from the Bank of Sweden. If that was not enough reward in itself, in some quarters Mundell is hailed as the father of the Euro, since his line of thought is also credited with influencing European currency arrangements up to and including the Euro. Indeed, Mundell (1972) was arguing, 25 years after Bretton Woods, that the world could either bring the US dollar under international control through the IMF, or expect to see a rival currency emerge in Europe. His foresight was evident about 25 years later. His recent views include this statement (Mundell, 1997a):

> Imagine an agreement for the world economy modelled after the monetary union forged by the eleven countries of the Euro area. Instead of doing it for 11, do it for 200 countries. If everyone used the same currency, wouldn't that make a great improvement in the way in which prices are compared, transactions are effected, and payments are made? There would be no currency crises and the two trillion dollars worth of cross-border transactions that exist only because of uncertainty over exchange rates would disappear. Good riddance!

This belief in the expansion of economic space is in line with market liberalism. Unlike his earlier statement, it also fails to address the imperial role of the dollar. The United States now finds itself in the debtor position. It makes no sense for the rest of the world to be lending money to the richest nation in the world but that is in fact what has been going on in recent years. This indicates a 'fundamental disequilibrium' not just in the US balance of payments but in the flow of world finance.

Market liberalism or neo-liberalism of the type represented by the Washington consensus (Williamson, 1990, 1997) has failed to promote sustainable development in the poor countries. Quite the opposite is true. Overall world policy is further away from international policies designed to promote redistribution of wealth from rich to poor than it was in the first and second development decades. There is no escaping that amounts of public finance commuted for international development have fallen far short of what is needed. Furthermore, the hegemonic role of the dollar still makes national policymaking problematic especially for small countries. Importantly, the confidence of the world in the US dollar has grown more fragile following the Iraq invasion, and the continued build-up of huge dollar balances abroad.

6. LEARNING FROM THE KEYNES PLAN

In his thinking about the world, Keynes (1980a: 123) was used to seeing Britain and the City of London as being at the centre of an empire. The dominions and other members of the sterling area left deposits in London that were transformed into investments reaping interest and dividends abroad. In his own analysis, Keynes (1930, 1973) resented these capital exports, especially in the slump that followed the First World War, and affected Britain greatly, though not as much the rest of the world. This led to him writing about how finance should be national above all, goods should be homespun and ideas cosmopolitan and international (Beaud and Dostaler, 1993). Keynes was an opponent of laissez-faire. He understood the banking function of key currencies. Though he often appeared to favour the imperial view of the issues that arose, he was quick to show overall benefits to be gained from bringing the world together. In his model of international cooperation each nation could stand on its feet, and would not be swept away by international forces.

Keynes wanted to see a large clearings facility, a major commitment of resources to international cooperation. Ample access to resources meant that countries did not have to deflate or devalue at every cyclical downturn (Keynes, 1980b). Exchange rates did not have to be adjusted as frequently, if the surplus countries were recycling finance to the deficit countries. The IMF has never been successful in dealing with the big, rich members that control its activities. From the Keynes plan we need to retain the main idea: first, and most importantly, it is the rich countries that should adjust their policies to those of the poor (Keynes, 1980a: 7–31). The surplus countries need to expand; it is not the deficit countries that need to deflate. This is in sharp contrast to IMF policies, which promote the 'deflate and depreciate' solution to countries in balance of payments difficulties.

Shortly after Bretton Woods, the US administration made several moves to bring the IMF under American control including situating the Fund and the Bank in Washington (Keynes, 1980b). In the bid to obtain congressional support the United States established a cabinet level committee to oversee the Bretton Woods institutions, and protect US interests. Keynes had envisaged a joint Anglo-American run clearings banks with other nations to come in later. In fact, the IMF is now so closely identified with the US government that it seems incapable of acting with impartiality. Eatwell and Taylor (2000) have proposed using the Bank of International Settlements in Basle as a new world central bank perhaps for this reason. Restoring the IMF to international control is a prerequisite for any world currency centred on the SDR.

What Keynes did not incorporate when in his British-centric thinking mode was the world when looked at from outside Britain, from the end of the borrower, from the Argentine, Australia, South Africa, or India. When he did look at the world in his clearings union plan, he was not able to include both the British case of a debtor faced with liquidating its overseas investments, and the case of overseas borrowers of loan capital with deposits on account in London. In a sense, the current account surpluses were to be separated out and addressed in the union, with the capital account issues being addressed in the bank. In his well-know assessment Bretton Woods created a fund that it called a bank, and a bank that it called a fund. What is needed is an institution that can be both a fund and a bank, that can integrate the short-term deposit, and long-term loan functions. That argues for the establishment of a world central bank able to issue securities, and make loans at both the long, and short ends of the market.

Smaller nations are going to be the losers in the emerging competition between the Euro and the dollar. Keynes was acutely aware that in the 1930s the emergence of competition between the sterling area and the dollar zone was a factor in setting protectionist measure against protectionist measure, culminating in making a bad situation worse. He was worried about how Britain could restore its balance of payments after the war, and he was attuned to the development needs of the countries in the sterling area (Moggridge, 1992: 670–675). His thinking about a clearings bank can be applied to the problem of sustainable development. Much international competition in the form of competitive devaluations by the Euro against the dollar, and then the dollar against the Euro is not only wasteful, the smaller countries are sideswiped. In 2003 some 50 nations had their currencies fixed to the US dollar. For central banks of these and other countries, which have currencies that are not widely traded, the establishment of a multilateral clearings' facility through the IMF would make sense at this stage.

7. CONCLUSION: FINANCE IN ONE WORLD

Much of the talk about globalization coming from Davos or being written about in American academic political science envisages bringing the neo-liberal model to the world (Soederberg, 2002). Through its structural adjustment programmes, the IMF have been implanting a market model in which seemingly all states will simultaneously have export surpluses in order to make payments on foreign owned assets. Given the performance of this thinking, and faced with world wide protests against the new debt bondage by Jubilee 2000 and artists such as Bono, it is little wonder that groups such as 'Fifty years is enough' have emerged calling for the abolition of the IMF. This may be the case, but the look back at the Keynes plan suggests there is another way to look at what *one world* means other than from the point of view of neo-liberals, and other solutions than simply abolishing the IMF, World Bank and WTO.

Taking one world seriously means looking at it from the point of view of the small, weak, and poor deficit countries and designing world financial institution that serve their interests, not those of the large, strong, and rich foreign investors. The discussions within policy circles of 'financial architecture' (International Financial Institutions Commission, 2000; International Monetary Fund, 2000; United Nations, 1999; United States, Department of the Treasury, 1998) have not delved seriously into the question of who owns the financial house. Generally the assumption is the general IMF principle that he who pays the piper can call the tune. The former Minister of Culture of Mali has written a remarkable book about the impact of the IMF, Davos, and G7, neo-liberal thinking on Africa. It is called *Le viol de l'imaginaire*, or rape of the imagination (Traoré, 2002). It is a powerful account of what injustice means in daily life. At some point, the dominant way of looking at the world is going to be judged unacceptable in rich and poor countries alike (Robinson, 1973). When that happens, the ideas of the Keynes plan are worthy of further interest.

Naturally, it would be of some inconvenience to trans-national financial players to be forced to settle their foreign exchange dealing through a national central bank rather than with each other. They would certainly resent having to pay a Tobin tax on the foreign exchange commission charged for transactions or on the transaction itself (Frankman, 2002). None would appreciate having to pay withholding taxes on interest payments made to them as holders of securities. But these inconveniences and annoyances have to be set against the cost to humanity of the existing financial order. Keynes used the calm of war to prepare for the turbulence of peace (Skidelsky, 2000: 264). His ideas are still important for reflection about what it would mean to pursue global justice.

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MARC LEE

MULTILATERAL INSTITUTION-BUILDING IN A NEO-LIBERAL ERA

The Case of Competition Policy

1. INTRODUCTION

After years of discussion in working groups, competition policy became an official agenda item for world trade negotiations in November 2001 when the Doha Round of World Trade Organization (WTO) was launched. Less than two years later, competition policy was dropped from the negotiating table at the September 2003 Cancun WTO Ministerial. While most of the attention on the Cancun Ministerial had to do with North–South divisions on agriculture, the collapse of the ministerial had as much to do with the rejection by Southern countries of new disciplines in four areas (the Singapore issues), of which competition policy was one. For many trade observers, it may seem unusual for Southern countries to reject competition policy, an area of negotiations that would appear to be in their interest. Competition policy has historically been concerned with reining in the excessive market power of large corporations as manifested in cartels, restrictive business practices, and abuses of market power. Whereas international trade agreements to date have focused on restricting the capabilities of governments, competition policy could be seen as an important means of regulating the private sector at the international level. This is of particular interest given a wave of cross-border mergers and acquisitions in the 1990s.

This chapter looks at competition policy as a case study of multilateral institution-building. Competition (or anti-trust) policies are well-established as part of the institutional apparatus of the nation-state, at least in advanced industrial economies. As trade and investment expand the realm of commerce beyond national borders, and trans-national corporations become more powerful players in the global economy, many analysts suggest that competition policies are also needed at the international level. Yet, while competition policy appears to be an uncontroversial contribution to good governance, this is not the case. Transported to the international level, competition policy takes on a different character that is more consistent with the neo-liberal underpinnings of modern

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international trade agreements. Far from subordinating the activities of large trans-national companies, proposed competition provisions in the WTO would have deepened the market access privileges already embodied in the General Agreement on Trade in Services, the Agreement on Trade-Related Investment Measures, and other parts of the WTO Agreements. Shaped by the geopolitical interests of the North, competition policy negotiations became yet another means to pry open markets – whether the markets of developing countries, activities provided by the public sector or state enterprises, or specific industries given special treatment for public policy reasons.

Competition policy negotiations failed to address meaningfully the concerns of Southern countries about the market power of large trans-national corporations. As such, it was a *neo-liberal* competition policy that was rejected by Southern countries in the Doha Round. The position of the South is more accurately described as a rejection of a broader push by the North to shape (and constrict) domestic policy-making space, of which competition policy is a part. In this context, this chapter considers why competition policy negotiations became less about reining in abuses of market power (progressive competition policy), as in the case of national competition policies, and more about the territorial expansion of that market power (neo-liberal competition policy).The next section reviews the historical context of competition policy and comments on its limitations. In Section 3, the transition from national competition regimes to the international level with a neo-liberal twist is addressed. Section 4 assesses the consequences of neo-liberal competition policy for the South. Section 5 describes the rejection of competition policy in the WTO's Doha Round. The final section adds some concluding remarks on the prospects for a progressive competition policy at the international level.

2. COMPETITION AND COMPETITION POLICY

The first competition laws (or anti-trust laws) were pioneered by Canada (1889) and the United States (1890) in response to concerns about the excessive market power (and the resulting economic and political influence) obtained by a few exceedingly large conglomerates. These laws emerged during a period of unprecedented corporate merger and acquisition activity and the formation of trusts (a nineteenth century term for cartels). They were deemed necessary to protect a growing capitalism from its own worst excesses. Today, many national governments, through their competition authorities, enforce laws and administrative rules to maintain fair competition in the marketplace. These provisions apply to the private sector, relating to three broad areas. First, competition authorities investigate and discipline collusive agreements between companies (including cartels) that involve anti-competitive practices such as big-rigging, raising prices by limiting production, and splitting up markets. Second, competition authorities address abuses of dominant market position, where a leading company uses its advantage to drive out competitors through practices such as predatory pricing, limiting access to essential facilities, or tied selling. Third, competition authorities regulate mergers and acquisitions to prevent excessive market dominance that affects other companies or consumers.

Competition laws are one aspect of corporate governance frameworks by which the state regulates private sector activity. Because large companies can take actions that can have negative, even if unintended, consequences for the economy as a whole (e.g. the failure of a bank) or that impact on other economic actors and consumers (such as the abuse of a monopoly position), there is a need for many different tools to regulate the behaviour of corporations (Chang, 2002). The competitive process alone is not sufficient to make these protections, nor is the promotion of competition through competition laws and authorities. While competition policy remains an important policy tool for governments, the rhetoric of competition can be excessive, and the promises made for competitive markets overstated. There can be benefits from the rivalry of a competitive marketplace, but there is a gap between this simple point and the reality of capitalist economies as we know them. The *deification* of markets and competition ('market fundamentalism') in the words of Stiglitz (2002) can be a large obstacle to clear thinking about the actual *nature* of markets and competition, and therefore what role competition policy should play.

There is a danger in viewing competitive markets as a substitute for public interest regulation, redistributive policies, and public services and enterprises. Even perfectly competitive markets may be characterized by many undesirable outcomes, such as underproduction of basic research, pollution, resource depletion, and high levels of inequality. Asymmetries of information also impair the efficiencies of a competitive process. Moreover, the overwhelming dominance of a small number of large corporations in certain sectors is quite common in industrialized countries. Indeed, a number of features of capitalist economies lead to greater concentration in markets. First, size matters in order to achieve economies of scale at which production is efficient. This is true for traditional manufacturing industries and newer high-tech industries where upfront costs for research and development can be very high. Second, in many industries large advertising budgets are used to gain and preserve market share – a form of investment in corporate brand name and loyalty. Third, mergers and acquisitions reinforce these trends through consolidation.

When economic forces push in the direction of more concentrated markets, the best approach for policy to address market power may not be to impose greater competition in the marketplace, but to ensure strong regulation in the public interest or public provision on a monopoly basis. Choices around competition policy, even when strictly considered in the context of the private sector, are ultimately political in nature and involve trade-offs – there is no 'optimal' competition policy on a one-size-fits-all basis that can be specified *a priori* in strict, legal terms. There is also the increasingly important case of intellectual property protection. Most countries grant copyright protection for creative and artistic works and patent protection for advances in technology and innovation. These policy choices confer monopoly rights for a specific duration of time as a reward for the societal advancement of knowledge. The scope of competition policy ultimately reflects political decisions about how to organize and regulate economies, and this will differ depending on size of economy, level of development, the specific sector, and other particular circumstances. An over-emphasis on competition has a great potential for obstructing legitimate democratic choices about how to structure relations in particular economic sectors and the economy as a whole. Yet, this is arguably the principal aim of neo-liberal competition policy.

3. FROM NATIONAL TO GLOBAL: THE NEO-LIBERAL TWIST

Competition laws exist only at the national level, with a few sub-regional exceptions, such as the European Union and the Caribbean Community. Competition laws are a subset of competition policy, which in the broadest conception includes all forms of government policy, laws and institutions that affect competition in markets. Competition policy in the context of globalization also encompasses neo-liberal policies such as trade liberalization, loosening or eliminating restrictions on foreign investment, deregulation, and privatization of state enterprises. These measures expose domestic producers to foreign competition, which, in theory, increases competition and leads to lower prices for consumers, greater efficiency of resource allocation, and stronger economic growth. One reason why competition policy is being put on the table is the perception that formal commitments to market access in trade agreements are hindered by practices by governments and businesses inside the border. As emphasized by the World Bank, trade liberalization *per se* is not sufficient to ensure competition. After liberalization of government measures, the next bottlenecks to market access are domestic industrial arrangements, many of which are deemed to be the legacy of socialist governments or wrong-headed attempts to protect the domestic market (World Bank, 2002).

The rhetoric of competition can serve as a smoke screen for economic interests that stand to benefit from specific types of changes. For example, the United States has long wanted to ensure better access to the Japanese market, and even launched an unsuccessful WTO challenge to this end (Hoekman and Holmes, 1999). Competition provisions will be supported by more advanced countries to the extent that they facilitate market access for their corporations beyond existing levels. This is tied to investment liberalization, as constraints on foreign investors, by their very nature, limit market access and favour domestic corporations. As Vautier et al. (2002: 4) write: ‘a contestable market spanning more than one country requires both freedom of international trade and freedom of movement for foreign direct investment and national treatment for foreign investors in the host country’.

Another impetus for multilateral competition policy is the increasing cross-border movements of goods, services and investments by trans-national corporations

(TNCs). There is a desire to harmonize procedures in the wake of a 1990s boom in cross-border mergers and acquisitions. From a 1992 trough of US $79 billion, the value of cross-border mergers and acquisitions grew to spectacular heights over the 1990s, and hit a peak of US $1.1 trillion in 2000. The value of mergers and acquisitions in 2000 represented 77% of total FDI inflows of US $1.5 trillion (UNCTAD, 2002: Tables B1 and B7). Companies have found mergers and acquisitions to be an effective route to gain quickly market share in overseas markets, without the start-up costs involved with setting up facilities and distribution networks. Mergers and acquisitions have been viewed by trans-national corporations as the primary means of expanding global networks of production (Evenett, Lehmann, and Steil, 2000).

However, prospective global giants have found the regulatory hurdles emanating from different competition regimes cumbersome, due to their compliance costs and time requirements. Such concerns came to a head in July 2001, when the European Union (EU) blocked a proposed merger between two US companies, General Electric and Honeywell. The deal was already approved in the United States, and would have been the largest merger ever between two industrial companies. The European Union objected to the merger on the grounds that the combined entity would have anti-competitive implications for its aerospace products and industrial systems markets. Writing for the European Commission, Giotakos et al (2001: 5) note that: 'the combination of the leading aircraft engine maker with the leading avionics/non-avionics manufacturer would create/strengthen a dominant position in various relevant markets in which the merging companies are active'. Such games of international brinksmanship are rare, and generally reserved for the most powerful state players. Nonetheless, the frequency and size of mega-mergers, and the potential for major frictions, served to focus attention on developing more coherent competition policy rules and procedures at the international level. In general, Northern proponents of a competition policy regime want to streamline the international approval process for mergers and acquisitions rather than stop them *per se*.

4. NEO-LIBERAL COMPETITION POLICY AND THE SOUTH

Competition policy means different things to different people. The International Working Group on the Doha Agenda (2003: 1) outlines the following North–South division in how competition policy is viewed: When the industrialized countries in general talk of a competition policy framework, it is for the purpose of establishing domestic competition laws in the developing countries so that their national companies do not get privileged treatment. When the developing countries speak of the possibility of negotiating a competition policy framework in the WTO, it is for the purpose of curbing restrictive business practices at the national, regional and international levels. This division suggests underpinnings for neo-liberal and progressive competition policies based on the respective economic interests of the North and South, at least as far as global negotiations are concerned. A neo-liberal competition policy is consistent with efforts to spur the competitive process at the national level through privatization, deregulation and liberalization, while a progressive competition policy seeks to use competition policy as one of many tools employed by the state to keep a check on private concentrations of economic power. These positions are at odds with one another – one country's abuse of market power accusation is another country's enhanced market access. Given that the agenda of international trade negotiations is heavily shaped by richer and more powerful Northern countries favouring enhanced market access, there are grounds for scepticism that the priorities of Southern countries will be adequately addressed.

International negotiations on competition policy hold out the promise of disciplining abusive practices by increasingly consolidated trans-national companies, a prospect that many Southern countries would find appealing. However, to the extent that large trans-national companies wielding global market power can be disciplined, it is by the actions of large powerful state actors like the United States or the European Union. Scores of international cooperation agreements among the principal competition authorities have been negotiated and are in place, thereby facilitating information-sharing, coordination of investigations, and merger reviews, if mutually desirable. Thus, there are few incremental gains to be had on this front for those concerned about growing global corporate power. To the contrary, competition policy rules may further reinforce the rights of traders and investors at the expense of Southern governments and citizens. International trade agreements have steadily moved 'inside the border' through: the inclusion of disciplines on service industries that limit both public interest regulations and the expansion of public service monopolies; conditions and restrictions on foreign investment; and, the establishment of minimum levels of intellectual property protection. Competition policy at the international level would further privilege market access, while limiting the alternative policy options available to governments. Lee and Morand (2003) find that competition policy has important implications for the public sector, in particular for state enterprises and publicly-delivered services, most of which are not delivered on a competitive basis.

Even in more traditional areas of competition law that address concerns with the private sector, there are grounds for caution about a multilateral competition regime. As Stewart (2001: 14) notes:

> The distribution of benefits from a strong competition regime becomes more complex at the regional or international levels. The effects for weaker economies in the more widely defined market can be compared to that for weaker firms in the national economy, in that most competitive firms, usually powerful MNCs, would win large shares of the local market, weeding out less efficient local firms. But the emergence of entrepreneurs, increased investment, and more production may more likely take place in the more powerful economies.

Southern countries have increasingly been pushed or coerced by Northern countries into adopting binding international standards with regard to commerce, trade and investment (Kwa, 2003). One concern, in the words of Singh and Dhumale (1999: 7), is that 'the establishment of "level playing fields" would prohibit developing countries both from taking measures to shield their firms and industries from competition from massive foreign corporations and from pursuing measures to promote the growth of strong domestic corporations.' WTO rules already significantly limit the scope for industrial policies in Southern countries, and the addition of competition policy rules that favour the North would further undermine the capabilities that remain. There is a danger that international rules on competition policy will not take adequate account of the different needs and levels of development in Southern countries (Khor, 2002; Das, 2002). That is, that the model could become a one-size-fits-all prescription that does not provide the requisite flexibility Southern countries need to steer their own development. For instance, export cartels have been used historically (and, to some extent, to this day) by industrialized countries to gain benefits for their producers. Cartels were legal in Britain up to the end of the Second World War, and were actively encouraged in Germany's developmental phase (Chang, 2002).

It would be unreasonable for Southern countries to give up similar tools, at a time when they are already severely handicapped in trade relations with the North. A recent example is the attempt by coffee exporting countries to establish a coffee bean cartel to capture better prices on world markets by controlling supply. The cartel collapsed in early-2002 amid failed efforts to prevent coffee bean prices from falling to 30-year lows (BBC, 2001). Nonetheless, despite the failure of the cartel, such action is a legitimate response by producers to world market conditions in order to increase their incomes, given that most of the high retail prices for coffee in Northern countries goes to retailers, traders and distributors. Similarly, Southern countries may wish to use import cartels to counteract the pricing power of trans-national corporations (TNCs) when purchasing from abroad. Both import and export strategies could form part of an industrial strategy to develop national champions, or to provide a higher standard of living for workers (via higher export prices) and consumers (via lower import prices).

Policies that place restrictions or conditions on foreign investment or that support state-owned enterprises and trading organizations are also important to Southern countries. While in theory, enhancing competition would increase total welfare in the global economy, even if this is the case, the welfare gains are less likely to be in the South. The danger for Southern countries is what Stewart (2001: 23) calls 'excessive market entry' where the winners would be large foreign firms, and the gains sent out of the country. In a national economy, there is also a clear government role and (to varying degrees) capacity through redistributive policies to mitigate any damage done. At the global level, this is not the case.

Power imbalances between Southern and Northern nations, and between Southern countries and large trans-national companies, in the application of competition policy must also be considered in any multilateral regime. Investigation is a time-consuming and costly process. Even in Canada, a nation that has adequate financial resources, a litigated case by the Competition Bureau costs about CDN $1 million on average (SCIST, 2002). This is a huge sum of money for a Southern country that must be weighed against many other possible uses of public funds (Finger and Schuler, 2000). Southern countries also have great difficultly proving the existence of anti-competitive behaviour. Information may not be available for investigators, as corporate decisions are typically made outside their borders. They are not likely to receive cooperation from, say, the United States to prove anti-competitive behaviour on the part of a US-based company, when the object of US policy is to enhance market access for its corporations. Moreover, even if successful in proving wrong-doing, enforcement may be very difficult if not impossible (Singh and Dhumale, 1999). Hence, Southern countries may find that domestic competition laws provide powers to constrain domestic formulations, but not the market power exercised by foreign companies.

There is no obvious reason why a neo-liberal competition policy that privileges market access should be imposed on Southern countries. If individual countries decide that competition laws would be beneficial, their shape should be determined by appropriate democratic processes in response to particular political and economic circumstances. Competition policy should not be uniform – the marked differences in competition law and overall policy objectives among industrialized countries illustrates the desirability of allowing nations to adopt competition frameworks that suit their needs. At the international level, this does not mean that Southern countries have no interest in a multilateral competition policy, but that their interests lie more in a progressive variant, not the neo-liberal model proposed at the WTO.

5. THE COLLAPSE IN CANCUN

The dynamics described above played out in the Doha Round negotiations, where negotiations on competition policy were considered to be a first step towards a deeper overarching agreement to be developed in future rounds of multilateral negotiations. The launch of the Doha Round in November 2001 included preliminary negotiations on competition policy, as one of four ‘Singapore issues’ (the others are investment, transparency in government procurement and trade facilitation) that have been discussion items at the WTO since the 1996 Singapore Ministerial. The inclusion of the Singapore issues was sufficiently controversial that it was agreed at Doha that at the September 2003 Cancun Ministerial WTO members would decide by ‘explicit consensus’ on whether to go ahead with full-fledged negotiations on each of the Singapore issues for the remainder of the Doha Round (WTO, 2001).

Most Southern countries were resistant to put the Singapore issues on the table for official negotiations. They were still catching up to the already large scope of the WTO that emanated out of the Uruguay Round. Among other things, the divide between the North, who wanted to broaden the scope of rules under the WTO, and the South, who did not, facilitated the collapse of negotiations to launch a new round of negotiations in December 1999 in Seattle. In the wake of the terror attacks of September 11, 2001, however, Southern countries were not able to resist pressure tactics from Northern countries led by the United States to launch a new round of trade negotiations. Southern countries had opposed the launch of a new round in general and the inclusion of new topics for which they felt unprepared in particular, and were generally frustrated at the reluctance of Northern countries to address concerns Southern countries had about imbalances in existing international trade rules. But given the fragile economic and political situation at the time, the United States and the European Union were able to corral Southern countries into the new Doha Round.

A number of specific competition rules already exist in the WTO, although these apply to public sector monopolies and state enterprises, not to the private sector (Hoekman and Holmes, 1999). The GATS does recognize that certain business practices of service suppliers may restrain competition, but provides only for consultations with the other Member, rather than dispute settlement. This shows a clear double-standard, as restrictive business practices by private companies are glossed over, with limited recourse in the form of consultations, but state enterprises are subject to disciplines that can be enforced by dispute settlement. It has been argued that this imbalance is precisely what the competition policy negotiations seek to address, by bringing in restrictive business practices within the realm of the WTO (Jenny, 2002). However, while both the United States and European Union may seek to eliminate anti-competitive practices at home, their interest in competition policy negotiations at the WTO is driven by the prospect of further prying open other countries' markets to the benefit of their domestic companies. World Bank researchers, Hoekman and Holmes (1999: 5), note:

> The interest of the EU and US is to use competition policy disciplines as an export-promoting device and to reduce the scope for conflict in the approval of mergers between large firms; they are less interested in subjecting the behaviour of their firms in foreign markets to international disciplines that will benefit foreign consumers.

Competition policy disciplines should thus be seen as complementary to market-opening efforts in other negotiating areas. The GATS negotiations carry a strong deregulatory thrust as part of securing greater market access commitments. The rejected investment negotiations (another Singapore issue) also revolved around guarantees of market access. Competition policy was not the only game in town, but a completed agreement would have provided yet another avenue of attack for Northern corporations to better penetrate Southern markets. The market access intentions of the United States, European Union, and other Northern countries have strong implications for the development aspirations of Southern countries. Singh and Dhumale (1999) affirm that the development side of competition policy was largely absent from the post-Singapore Working Group dialogue on trade and competition at the WTO, and that addressing the issue through the framework of market access, national treatment, and other traditional WTO concerns is prejudicial to the development interests of poor nations.

The model for a WTO competition policy agreement was not the creation of a multilateral competition policy agency. The proposed structure was more consistent with that of the Agreement on Trade-Related Intellectual Property Rights (TRIPs), where countries would be obliged to implement a domestic competition authority, based on common negotiated principles at the WTO. Member competition authorities would essentially be required to police alleged non-competitive actions by domestic corporations. But the negotiations suggest that those authorities would have only weak capacity to address the anti-competitive behaviour of foreign corporations. The Doha Declaration specified the following areas for the negotiations: 'core principles, including transparency, non-discrimination and procedural fairness, and provisions on hardcore cartels; modalities for voluntary cooperation; and support for progressive reinforcement of competition institutions in developing countries through capacity building' (WTO, 2001). This type of approach may sound innocuous, but could be very far reaching. A key principle, such as non-discrimination in the context of a competition policy agreement, could amount to a blanket requirement that international trade in goods and services be unhindered, that no restrictions on foreign investment be tolerated, that regulations that restrict competition in any manner be eliminated, and that all foreign corporations be granted national treatment, unless specific exemptions were negotiated. Agreement on a 'simple' principle such as non-discrimination could impose legal and institutional obligations on countries that are breathtaking in scope.

Another substantial area for competition policy negotiations relates to provisions on hard core cartels (those that engage in international price-fixing, bid-rigging and market sharing arrangements). This is one area of the negotiations that had a more progressive bent. Southern countries are adversely affected by the pricing practices of international cartels, but are often in a weaker position at a national level to be able to address these concerns, whether in terms of proving wrongdoing when decisions are made outside their borders, or in terms of prosecuting the offenders (Levenstein and Suslow, 2001). However, even in this area, the United States and European Union were supporting a narrow definition of hard core cartels that would be limited to the domestic arena, not to export cartels. In the United States, for instance, both the 1918 *Webb-Pomerene Act* and the 1982 *Export Companies Trading Act* protect American export cartels from prosecution under US law (Levenstein and Suslow, 2001). It is unclear whether the United States would support stronger measures, particularly if they adversely affected US economic interests.

To the extent that a Southern country could have addressed anti-competitive behaviour on the part of a foreign company, they would have been limited by 'voluntary co-operation' provisions. While it is plausible that Southern countries would benefit from an agreement that compelled another country to investigate and prosecute the anti-competitive practices of its companies, such an arrangement was not on the table. When it is convenient, the United States and other Northern countries agree to work together to investigate anti-competitive practices, or to coordinate merger approvals. However, the United States has been reluctant to take on any *requirement* that they investigate a case at the request of another country, and also opposes the review of decisions made by competition authorities by WTO dispute settlement panels.

Because the United States exercises an effective veto power over such items of negotiation, the promise of disciplining trans-national corporations, or reviewing global mergers and acquisitions, is likely to remain illusory for Southern countries. They would not be able to ensure that their competition concerns were taken seriously. On the other hand, if Southern countries were required to put in place competition laws and authorities, the United States and others would be better able to pressure Southern countries to investigate the practices of their own companies. Hence, for Southern countries there was little to gain, and much to lose from the Doha competition policy negotiations. This explains why many opposed moving to a full negotiating phase (Yen, 2003). Competition policy provisions were rightly viewed as yet another set of institutional requirements to be imposed on them by more advanced countries that impede their ability to implement independent policies in their national interests.

6. CONCLUSION

The WTO negotiations on competition policy failed because they did not meaningfully address several international competition issues, such as the dominance of local markets by foreign trans-national corporation or foreign-controlled export cartels, that would have been of benefit to Southern countries. The dominant powers in international trade would be the major beneficiaries of a neo-liberal multilateral competition policy regime. They would gain the capability of asking (or requiring) Southern competition authorities to investigate and prosecute behaviours by domestic entities that may spring from companies' cultivation of distribution networks and other relationships, or that may spring from state-led industrial policy. Neo-liberal competition policy would buttress the market access ambitions of Northern countries. In contrast, most Southern nations need a lot of help if they are to target effectively anti-competitive practices by the most powerful global corporations. This is due primarily to an enduring lack of resources, lack of information from richer countries, and an inability to sanction effective anti-competitive behaviour. Credible threats by large corporations of withdrawals of foreign direct investment in the event of successful prosecution are also a factor. At best, a multilateral regime would enable national authorities to tackle practices by domestic corporations. Such authorities would then become proxies for Northern countries to ensure the prevalence of their corporations in the South. Because large corporations are disproportionately housed in the North, Southern countries have fewer local 'champions' to defend in Northern markets.

Ultimately, there is a case to be made for a progressive multilateral competition policy/authority. The global economy needs a multilateral body to address some of the substantive issues with regard to the dominance of global corporations, and global mergers and acquisitions, something that was not on the table in the WTO negotiations. Some UN agencies, such as the United Nations Development Programme (1999), and the United Nations Conference on Trade and Development (1997), have agued that there is a need for some form of multilateral framework to rein in the growing power and influence of TNCs, especially to prevent such companies from abusing their power in countries ill-equipped to deal with anti-competitive behaviour. A multinational competition authority, not housed at the WTO, that would ensure diverse product choice for consumers, and consumer welfare generally, and that would have the power to break up large global concentrations of private power, is an intriguing possibility. In the current political climate, however, such a formulation is wishful thinking, although the recent spate of corporate scandals in the United States could begin to roll back a tide that has been obsessed with restricting the public in favour of the private. In the meantime, the rejection of neo-liberal competition policy by Southern countries is a positive development that will contribute hopefully to a more equitable international trade order.

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THEODORE H. COHN

THE WORLD TRADE ORGANIZATION AND GLOBAL GOVERNANCE

1. INTRODUCTION

The General Agreement on Tariffs and Trade (GATT) completed its most ambitious round of multilateral trade negotiations (MTN), the Uruguay Round, in December 1993. The Uruguay Round resulted in a stronger dispute settlement system, multilateral trade rules for services and intellectual property, more multilateral discipline for agriculture and textiles, and the creation of the World Trade Organization (WTO). However, the seven years of negotiation required to complete the Uruguay Round were an indication of the enormous difficulties that would follow in the first WTO round. After failed efforts to launch a WTO round at the 1999 Seattle ministerial, the round was launched instead at the November 2001 Doha ministerial, partly because the September 11 terrorist attacks in the United States increased the determination of major traders to reach an agreement. Nevertheless, WTO members papered over serious differences in launching the Doha Round, and there were indications that 'this first step . . . [was] in fact the smallest one' (The Economist, 2001: 11). Thus, the 2003 Cancún ministerial which was to mark the halfway point of the Doha Round collapsed in disarray, and senior officials were able to produce a July 31, 2004 framework agreement to continue negotiations only by phrasing sensitive issues in highly general terms (WTO, 2004).

Despite widespread recognition of problems in global trade, there is a notable lack of consensus on the source of the problems. This chapter argues that we can arrive at possible solutions only by examining the diversity of views on global trade governance. Three sets of contradictory views are of interest here. First, the WTO's growing membership hinders expeditious decision-making versus WTO decision-making is undemocratic. Second, the North has dominated trade decision-making versus the North is providing inadequate leadership in the WTO. Third, the WTO is too powerful versus the WTO lacks authority to effectively perform its functions. The chapter concludes with suggestions for addressing these contradictory views and reforming the WTO to improve global trade governance.

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2. THE WTO: HOW DEMOCRATIC?

Some analysts argue that WTO decision-making is hindered by the need to reach a consensus among its 150 members, while others assert that the WTO has a democratic deficit. Those who maintain that it is difficult for WTO members to reach a consensus often contrast the WTO with the International Monetary Fund (IMF) and World Bank. Whereas the WTO is a one-nation, one-vote organization, the IMF and World Bank have weighted voting, with the Group of 5 (the United States, Japan, Germany, France, and Britain) having the largest capital subscriptions and largest number of votes. Although most WTO decisions are made by consensus, 'the legal structure of potential voting' has influence because negotiation occurs 'in the context of the participants' knowledge of the likely outcome [of a vote] if the negotiation breaks down' (Jackson, 1997: 69). With small developing countries having the same number of votes as major traders, WTO decision-making could become unmanageable.

The WTO's governing councils are also plenary bodies open to every member, and it has nothing comparable to the smaller IMF and World Bank executive boards. The closest GATT came to having an executive board was the *Consultative Group of Eighteen* (CG18), established in 1975 as a representative Group of 18 countries (increased to 22 in 1985) to facilitate discussion of trade issues (Long, 1985: 51). However, the CG18 was purely consultative and was composed of senior officials from capitals that met only about three times a year. GATT members that were not in the CG18 did not receive CG18 documents and were disturbed by its lack of transparency, and the CG18 held its last meeting in 1987 (Blackhurst, 1998: 49–50, Blackhurst, 2001: 302–303). The GATT/WTO also has had informal 'green room' sessions (initially named after a conference room adjacent to the GATT Director-General's offices), limited to the Director-General and important MTN delegations. Many developing countries resented being excluded from green room sessions before the 1999 Seattle WTO ministerial, and the Director-General indicated he would try 'to move away from the Green Room, and thrash out issues in the General Council' (Preeg, 1995: 132; Schott and Watal, 2000: 285–286; Anderson, Black hurst 2001: 1; Hoekman and Kostecki, 2001: 60–61). However, green room sessions continued in subsequent WTO ministerials.

The informal CG18 and green room sessions have been highly controversial, and calls have increased to create more transparent formal groups within the WTO to facilitate decision-making. For example, in January 2001 three former GATT/WTO Directors-General recommended that the WTO establish 'a management board' to take routine decisions, and a 'senior level policy consultancy group' to debate trade issues in a wider policy context (WTO, 2001: 7). Some analysts argue that a management board would be more acceptable than the green room sessions if it were representative of the WTO membership, transparent in its proceedings, and willing to communicate with the broader membership (Ostry, 2001: 292). However, until now, the WTO has not reached a consensus on the issue.

While developed countries consider the WTO's growing membership a hindrance to effective decision-making, developing countries and civil society groups often argue that WTO decision-making is undemocratic (Kahler, 1993: 296). Although the WTO is *formally* accountable to all its members, the South believes the WTO is in fact mainly accountable to the North. A major WTO function is to oversee MTNs, and the negotiation process ensures that the North has the most influence. For example, expectations of reciprocity in WTO negotiations ensure that developed countries are the key actors, because they are most able to provide and demand reciprocal advantages. WTO negotiations are therefore a pyramidal process, with agreements 'initiated by the major powers at the top and then gradually multi-lateralized through the inclusion of other parties in the discussions' (Winham, 1986: 376).

As discussed, the WTO also normally makes decisions by consensus rather then voting. Developing countries feel that consensus decision-making decreases their influence for several reasons. First, consensus decision-making requires that no member present at a meeting 'formally objects to the proposed decision' (WTO, 1995). However, poorer and smaller developing countries either have no permanent representatives in Geneva or have small delegations that cannot attend the numerous overlapping meetings. Second, consensus decision-making occurs through open discussion, but developing countries often fear the consequences of openly expressing their views. Third, the North uses the consensus goal as an excuse to hold small group meetings outside the WTO that exclude the South (discussed later in the chapter). After forming a consensus in these smaller groups, the North then presents a united front to pressure for a consensus in the broader WTO (Narlikar, 2002: 171–185). In sum, the South in fact has limited influence in the WTO.

Civil society groups also often criticize the WTO for a lack of internal transparency. For example, the Third World Network, Oxfam International, and other NGOs have called for an end to the green room process. These NGOs consider transparency and accountability to be particularly important, because WTO agreements such as the General Agreement on Trade in Services (GATS) and the Agreement on Trade-related Intellectual Property Rights (TRIPs) are delving into areas previously dealt with by national governments. Whereas citizens in the past could hold their national governments to account for policies in these areas, to whom is the WTO accountable? Global trade governance seems far removed from representative government, and this gap results in a 'democratic deficit' (Woods and Narlikar, 2001: 572–573).

Partly in response to NGO pressures, the WTO has adopted some policies to increase its transparency; for example, it has introduced a worldwide web site and guidelines for its relations with NGOs, and has made de-restricted documents available to the public more promptly. Nevertheless, many NGOs view these changes as superficial. Major NGO concerns are that WTO agreements establish formal rights and obligations only for member governments, and that WTO dispute settlement is formally open only to states. Although private parties have limited formal roles in some WTO dispute settlement cases, they have no *legal* *right* to these roles (Bello, 1997: 358; Esty, 1998: 140; Marceau and Pedersen, 1999: 32–36). NGOs argue that all stakeholders should participate in WTO activities. They have advanced several arguments for greater NGO involvement in WTO dispute settlement cases, including the following: Private business groups already have more access to governments in WTO dispute settlement cases; NGOs offer different perspectives than those of governments and private business; public confidence in WTO decisions will increase if NGOs are involved; and private groups such as environmental NGOs have access to information and expertise that governments lack. However, opponents of greater NGO involvement argue that this may lead to special interest group capture of WTO decision-making; that some NGOs are openly hostile to trade liberalization; that NGOs unlike governments are not accountable to an electorate; and that NGO environmental and labour interests often provide an excuse for protectionism (Dunoff, 1998: 435–441). In sum, whereas the North argues for smaller group decision-making in view of the WTO's growing membership, the South and NGOs maintain that WTO decision-making is not representative and accountable.

3. THE NORTH: DOMINANCE OR LEADERSHIP PROBLEMS?

Some analysts criticize the North's dominance of trade decision-making, while others attribute current WTO problems to a lack of leadership by the North. Those who discuss the North's dominance point out that GATT had the characteristics of a small club until the early 1960s; but with decolonization the South increased its membership in GATT and posed a threat to its small club-like atmosphere. As GATT membership grew, the North turned to smaller groups to preserve its influence and facilitate trade governance. Within GATT there were the CG18 and green room sessions. Outside GATT the North has relied on several institutions. For example, since the 1960s the Organization for Economic Cooperation and Development (OECD) has furthered the North's efforts to promote trade liberalization in such areas as export credit, government procurement, and trade in services and agriculture (Cohn, 2002). International trade has also been on the agenda of Group of Seven/Group of Eight (G7/G8) summits since they were established in 1975. Indeed, in 1981–1982 the Quadrilateral Group of trade ministers and officials (the Quad) from the United States, the European Union (EU), Japan, and Canada was formed specifically to deal with global trade issues (Putnam and Bayne, 1987: 13–20; Bayne, 2000: 62).

The role of the OECD, G7/G8, and Quad in setting the agenda for MTNs created resentment in the South, and many developing countries opposed WTO negotiations after the GATT Uruguay Round. It was only intense diplomatic pressure from the EU and the United States targeted at key developing countries that induced the South to agree to the Doha Round (Vina and Yu, 2002: 13). The South's influence has increased to some extent in the Doha Round, particularly since China joined the WTO in December 2001. For example, the Quad has become much less important, and mini-ministerials composed of developing as well as developed countries have been held to move the Doha Round negotiations forward. A Group of 20 (G20) developing countries led by Brazil, China, and India also successfully pressured the EU to agree to an end to agricultural export subsidies in the July 2004 framework. However, the EU did not commit to a specific date by which this would occur, and the North continues to largely dominate the negotiations; for example, the North can subject the South to pressure on trade issues by drawing linkages with bilateral aid, and IMF and World Bank loans (TWN et al., 2003).

Non-governmental organizations (NGOs) have also criticized Northern dominance in the WTO. For example, a coalition of NGOs have described the WTO consensus decision-making as clearly oriented toward the North's interests: 'When the major developed countries agree among themselves, an emerging consensus is said to exist, and all others are asked to 'join the consensus' (TWN et al., 2003). Furthermore, NGOs have viewed WTO efforts to incorporate more of the membership in its decision-making processes as inadequate. Although developing as well as developed countries have been included in mini-ministerials, a group of NGOs have described the mini-ministerials as a 'super green room system' that 'creates a non-elected steering committee in disguise and in the process excludes the vast majority of the membership' (TWN et al., 2003). In contrast to those who point to Northern dominance in the WTO, others believe the WTO 'must be led by a much smaller core group whose weight confers on them the responsibility of leadership' (Bergsten and Henning, 1996: 15). Thus, Robert Putnam and Nicholas Bayne argue that even states excluded from the G7 generally admit that it is 'better for those countries to meet than for them not to meet' (Putnam and Bayne, 1987: 149). Current WTO problems from this perspective stem from a leadership gap due to several factors: the decline of US economic hegemony, increased trade conflicts between the United States and the EU, and the North's decreased ability to provide collective leadership.

A striking characteristic of the current literature on hegemony is the disjuncture between those focusing on security and economic issues. Security scholars often argue that with the end of the Cold War 'bipolarity has been replaced by a uni-polar structure' headed by the United States (Mastanduno, 1998: 843). Although some writers view this as a 'uni-polar moment' that will soon give way to multi-polarity, most security analysts currently describe the United States as a 'lonely superpower' (Layne, 1993: 5–51; Huntington, 1999: 35–49; Layne and Schwarz, 1993: 5–23). Whereas scholars focusing on economic issues include 'renewalists' who argue that US hegemony persists, 'declinists' maintain that US economic decline is continuing in the post-Cold War period (Russett, 1985: 207–231; Strange, 1987: 551–574; Huntington, 1988: 76–96; Nye, 1990). For example, C. Fred Bergsten asserts that the creation of the EU's euro currency 'offers the prospect of a new bipolar international economic order that could replace America's hegemony since World War II' (Bergsten, 1990; Cohen, 2003: 575–595). Declinists often focus on trade because 'nowhere is America's hegemonic decline more evident than in changing trade patterns' (Goldstein, 1988: 179).

The voluminous literature criticizing hegemonic stability theory provides a warning against assumptions that US economic hegemony in the 1950s and 1960s was always conducive to trade liberalization. In some sectors such as agriculture and textiles, the United States in fact contributed to protectionism (Cohn, 1993: 17–38). Nevertheless, US hegemony in the early post-war years was *primarily* a force for trade liberalization. The United States dominated the first four rounds of GATT negotiations, but during the 1964–1967 Kennedy Round the European Community (EC) emerged as a major trader. According to one noted observer, if the United States and the EC 'could agree, the [Kennedy Round] negotiations would move forward; if they should fail to reach an accord, a serious and perhaps fatal crisis would undoubtedly follow' (Preeg, 1970: 5). In the 1970s the United States began to have chronic trade deficits, and the 1973 EC enlargement with the membership of Britain, Denmark, and Ireland bolstered the EC's bargaining power vis-à-vis the United States in the 1973–79 GATT Tokyo Round. Although some early initiatives leading to the Tokyo Round came from the United States, US–EC cooperation directed the negotiations. When the United States and the EC did not cooperate, the negotiations were deadlocked; and when they adopted a unified position, only the combined efforts of others had a chance of changing the outcome (Golt, 1978: 1; Winham, 1989: 289–290; McRae and Thomas, 1983: 70–71).

The United States was the main force behind the broad Uruguay Round agenda, including services, intellectual property, investment, and agriculture, and US pressure to include these areas 'was largely driven by American MNEs [multinational enterprises] who were market leaders in the services and high tech sectors' (Ostry, 2003: 124). However, US pressure to broaden the Uruguay Round stemmed from weakness as well as strength. In view of its chronic balance of trade deficits, the United States pressed aggressively for negotiations in areas where it still had a comparative advantage such as services and agriculture. The 12-member EC in 1986 was the world's largest trading power, but it also had major weaknesses. Although the European Commission can initiate and execute decisions for its members in global trade negotiations, its proposals must first be approved by the Council of the EU.

Although the United States was the main force behind launching the Uruguay Round, it provided less leadership in the early stages of the round. For example, the United States resorted to unilateral actions such as Section 301 cases, and the new US interest in regional trade agreements (RTAs) showed that it was less committed to non-discrimination in trade. Despite the US shortcomings, alternatives to its leadership were not apparent. The EC was reluctant to make specific agricultural offers, and its preoccupation with deepening and broadening regional integration raised doubts about its commitment to GATT (Paemen and Bensch, 1995: 93–98; Preeg, 1995: 110–113). However, the EU Commissioner Leon Brittan adopted a more assertive role in the latter part of the Uruguay Round, as growing US protectionism slowed the moves toward an agreement. North–South relations also affected the US and EU ability to lead. Although a US–EU consensus on critical issues was *necessary*, it was no longer *sufficient* for the Uruguay Round's success. More so than in previous negotiations, the South's approval was essential for completion of the round.

After failed efforts to launch the WTO round in Seattle, two factors contributed to US–EU cooperation in launching the Doha Round in November 2001. First, the September 11 terrorist attacks increased US determination to launch the round. Second, the change from a Democratic to Republican administration made it possible for the United States to drop its insistence that labour standards be included in the negotiations (Panagariya, 2002: 1205). However, the United States and the European Union papered over their differences in launching the round, and their cooperation proved to be illusory. Serious US–EU trade conflicts persist, and three former GATT/WTO Directors-General have warned that 'the spate of disputes and the large overhang of retaliatory actions – actual or threatened – between the United States and the European Union is one of the most troublesome barriers to securing leadership from the WTO's two biggest beneficiaries' (WTO, 2001). In view of the US–EU disputes, the ability of the OECD, G7/G8, and Quad to provide collective leadership have inevitably faltered.

The North is in fact demonstrating *both* a lack of leadership and the desire to dominate in its relations with the South. Although there are of course divisions within the South and the North, the South generally has a series of concerns regarding the Doha Round that it feels the North is not adequately addressing. First, the South is concerned about Northern pressures for expansion of the WTO agenda. For example, the EU and Japan first called for negotiation of the 'Singapore issues' (investment, competition policy, government procurement, and trade facilitation) at the 1996 Singapore WTO ministerial. Developing countries (often backed by NGOs) generally oppose including these issues because they lack financial and human resources to negotiate on a wide-ranging agenda, and fear that restrictions on their ability to regulate competition, investment, and government procurement would hinder their economic development (Panagariya, 2002: 1216–1218). Developing countries are also resisting Northern pressures to table new services trade offers for similar reasons. Second, the South has a range of demands that it wants the North to fulfil, including clearer provisions on special and differential treatment (SDT), and funds for technical assistance and capacity building to help them deal with the more complex issues being negotiated. The South would also like to negotiate an end to US and EU agricultural subsidies with which they cannot compete, and a revision of US and EU anti-dumping legislation which interferes with their exports. As discussed, the South's influence has increased to some extent, and this is having some effect on the Doha Round. Nevertheless, the North continues to largely dominate the negotiations. In sum, both Northern dominance and lack of leadership are presenting major problems for global trade governance.

4. THE WTO'S POWER AND AUTHORITY

Some analysts argue that the WTO lacks authority and financing to effectively perform its functions, while others describe the WTO as overly powerful. Those who argue that the WTO lacks necessary authority and financing often point to the small size of the WTO budget and staff. In 1995–1996 the WTO had only 510 professional staff, compared with 5700, 2200, and 1700 staff members in the World Bank, IMF, and OECD, respectively. The World Bank, IMF, and OECD administrative budgets in 1995–1996 were US $1375, US $470, and US $260 million, respectively, compared with a WTO budget of only US $55 million (Henderson, 1998: 102). The WTO secretariat's small budget and staff partly result from its functions. The IMF and World Bank are staff-driven organizations, in which staff members work directly with governments to prepare agreements with conditionality that they monitor and enforce. The WTO by contrast is a member-driven or network-based organization in which governments conclude multilateral trade agreements, leaving the WTO secretariat to provide administrative and technical support. Thus, the WTO secretariat and national delegations in Geneva work closely with large numbers of civil servants in member country capitals. If the total size of the network is included, the WTO is much larger than the size of its secretariat would seem to indicate (Hoekman and Kostecki, 2001: 55; Woods and Narlikar, 2001: 573).

However, the small size of the WTO secretariat also stems from 'the nebulous and uncertain legal status that GATT . . . had from its beginning' (Jackson, 1997: 150). When GATT was formed it was not even authorized to establish its own secretariat, and the Interim Commission for the International Trade Organization (ICITO) which had created a small staff to prepare for the ITO was to service GATT staff requirements. After the failure to establish the ITO, the ICITO legislation provided the legal basis for creating the GATT secretariat; but the belated creation of the GATT secretariat restricted its development and limited its capacity to conduct research. Reliable investigations and reports are essential for developing trade policies, and 'one can only speculate as to the contribution that a larger GATT secretariat could have made over the years in formulating . . . necessary background studies' (Jackson, 1997: 150). As a result, the GATT has often relied on organizations such as the OECD and World Bank which have considerable resources for conducting research on international trade issues.

Despite these deficiencies, the North has been reluctant to increase the WTO budget for staffing and research because of its dissatisfaction with WTO decision-making: its lack of an executive board, and its one-nation, one-vote system. The WTO budget depends mainly on the North, because each member's contribution is determined by its share of world trade. Although the Uruguay Round agreement greatly expanded the WTO's responsibilities, the North has not provided adequate administrative resources for dispute settlement cases, trade negotiations, trade policy reviews, accession negotiations for new members, and technical assistance to the South (Schott, 2000: 10–11; Ostry, 2003: 129–130) As an indication of continued under-funding, salaries of WTO officials in December 2002 were:

> lagging behind rates for UN staff in Geneva and . . . [were] well below those paid by the European Commission in Brussels and the Organization for Economic Co-operation and Development in Paris. Senior International

> Monetary Fund officials in Washington [earned] nearly twice as much, according to a consultancy report commissioned by the WTO secretariat and the staff council (Williams, 2002: 16).

Those who argue that the WTO lacks authority also point to the fact that it does not have a mechanism for enforcing its dispute settlement decisions. If a WTO member does not implement a decision against it and refuses to provide adequate compensation, the WTO's only recourse is to authorize another WTO member to retaliate. However, it is problematic for a smaller state to retaliate against a larger state, and retaliation does not address the basic problem. If a state wins a case regarding product A and retaliates by putting trade restrictions on product B, the problems regarding product A are not necessarily resolved – and retaliation may simply worsen relations between the two states.

In contrast to those who lament the lack of WTO funding and authority, are those who view the WTO as too powerful. The WTO's authority goes far beyond GATT's in several respects. First, GATT focused on 'negative prescriptions', designed to prevent governments from imposing trade barriers, discriminating among trading partners, and discriminating between domestic and imported goods. The WTO, by contrast, also focuses on 'positive rule-making'. It requires governments to adopt and implement specific policies and procedures that 'reach well behind national borders and engage public policy issues that transcend the relationship between national economies and the global economy' (Dymond and Hart, 2000: 22). A second closely related change is that the WTO 'created a new set of binding commitments on member states, which extend . . . into many areas of domestic legislation' (Woods and Narlikar, 2001: 569). The extension of WTO authority into newer areas, such as services and intellectual property, and older areas such as agriculture, touches on politically sensitive issues that many states view as domestic. Third, dispute settlement procedures are more binding and timely under the WTO. Whereas a single member could block the adoption of a GATT panel report, a consensus of members is required to block a WTO panel report, a highly unlikely possibility. A WTO member may appeal a decision, but if the Appellate Body agrees with the panel report, the member must implement the recommendations or pay compensation. If a member refuses, the Dispute Settlement Body can authorize the complainant to retaliate (Hoekman and Kostecki, 2001: 74–99). WTO dispute settlement has resulted in some highly controversial decisions, raising concerns that the WTO can force consumers to accept imports with little attention to their customs and preferences (Woods and Narlikar, 2001: 569–572). A number of NGOs also claim that the WTO has forced 'open markets for the benefit of trans-national corporations at the expense of national economies', and they therefore 'oppose any effort to expand the [WTO's] powers' (TWN, 1999: 1). In sum, whereas some analysts argue that the WTO lacks authority to effectively perform its functions, others view the WTO as an overly powerful organization that is increasingly engaging in positive rule-making and intruding into domestic issues.

5. CONCLUSION

This chapter has shown that analysts and policy-makers have highly contradictory views on global trade. An examination of these contradictions provides us with a basis for prescribing necessary reforms in global trade governance. In relation to Contradiction 1: The WTO's growing membership hinders expeditious decision-making versus WTO decision-making is undemocratic, this chapter has outlined the difficulties in reaching a consensus in trade decision-making among 150 WTO members. However, the answer to this problem is not to have informal, non-transparent meetings such as the green room sessions, since most developing countries are denied a voice in the deliberations. Many NGOs also oppose the more recent moves to hold mini-ministerials that lack transparency and accountability. To address the problem of decision-making in the larger WTO it may be necessary to have some smaller issue-based meetings. However, these meetings should be formally constituted, and should address concerns of the South and civil society groups that they are sufficiently representative of the WTO members, and transparent and accountable. As one coalition of NGOs has argued, these 'group meetings should be designed to facilitate consensus building, rather than to take decisions behind the back of a large number of Members' (TWN et al., 2003).

As for consensus decision-making in the broader WTO, there should be many more formal meetings of the WTO General Council and Trade Negotiating Committee, which are open to all WTO members. The consensus system should respect the views of all members, and developed countries should not use trade preferences, bilateral aid, and the dependence of developing countries on IMF and World Bank loans to exert leverage in trade negotiations. The need for the WTO to increase its transparency and accountability is especially urgent, because it is far more involved than its predecessor the GATT in 'behind-the-border' measures that could infringe on the rights of citizens and civil society. How far the WTO goes in opening its decision-making process must depend on a compromise between NGOs and civil society interests on the one hand, and WTO members' willingness to accept greater NGO participation on the other. States continue to be the main actors in the WTO, and changes in this regard can only proceed at a pace that the community of nations will allow.

In relation to Contradiction 2: The North has dominated trade decision-making versus the North is providing inadequate leadership in the WTO, this chapter has pointed to a leadership gap in the WTO, which has resulted from a decline of US economic hegemony, serious disagreements between the United States and the European Union, and the decreased ability of Northern institutions to provide collective leadership. These problems will be partly addressed if the United States limits its unilateralism, and other major traders such as the European Union and Japan assume more responsibility for collective leadership. However, the major developed countries must also address more fundamental issues regarding *where* they are leading the WTO, and whether they are engaging more in leadership or domination. As to where they are leading the WTO, the United States, the

European Union, and Japan have tended to favour an expansive agenda, first moving beyond trade in goods to trade in services and intellectual property, and more recently to the Singapore issues: competition, investment, government procurement, and trade facilitation. The 2003 Cancún ministerial collapsed partly because developing countries opposed negotiating the Singapore issues, and in the July 2004 framework the North therefore agreed to limit negotiations to only one of these issues – trade facilitation. However, conflict over the Singapore issues is likely to continue, as is conflict over an expansion of services trade regulation. A number of these issues are less directly related to trade, pose threats to the South's development plans, and infringe on domestic groups and interests. It would therefore be wise for the WTO to achieve a genuine consensus before negotiating these issues further.

The WTO must also address two other issues if the Doha Round is to be in fact the 'development' round: SDT, and technical assistance and capacity building. After the Uruguay Round, SDT became a highly contentious issue with developing countries demanding that SDT provisions be clarified and strengthened, because they were disillusioned with the Uruguay Round results, and it was difficult for them to implement their WTO obligations. Developing countries want four changes to the SDT provisions: Exemptions from trade rules because of their development status and their difficulty in implementing agreements; stricter rules to ensure that the North provides increased market access to the South; technical assistance to enable the South to implement WTO agreements; and procedures to monitor and enforce SDT. The South, however, wanted early negotiations on SDT before it had to provide concessions in return, whereas the North wanted to use SDT as a bargaining chip to induce the South to agree to other parts of the Doha agenda. Before offering specific SDT benefits, the North also wanted an agreement on *which* countries would benefit. The North is calling for differentiation, because it is more willing to offer SDT to poorer and smaller developing countries than to major traders such as Brazil and India. However, developing countries are reluctant to address the divisive issue of differentiation among themselves, until the North offers them significant concessions on SDT. An agreement on SDT 'lies at the heart of the [Doha Round] agenda', because the South has linked SDT with its willingness to negotiate issues of interest to the North (Hart and Dymond, 2003: 395, 407–409). The North must therefore be more forthcoming in offering SDT, and then it has a right to expect some action by the South on the differentiation issue.

Although the North had promised technical assistance to help the South fulfil its Uruguay Round commitments, the amount it actually provided was disappointing. Trade negotiations have become much more complicated than they were when tariff reductions were the main preoccupation. For example, countries require substantial monetary and human resources to implement agreements in complex areas such as customs valuation, sanitary and phytosanitary standards, and intellectual property. To develop sanitary and phytosanitary standards, a country must improve its food safety regulations, establish animal vaccination programs, and build inspection and quarantine facilities. Thus, the South required additional time to fulfil its Uruguay Round commitments, and it wants more assistance before agreeing to additional commitments in the Doha Round (Finger, Michael and Schuler, 2001: 58–71; Hart and Dymond, 2003: 407–409). Although the North has taken the technical assistance issue more seriously in the Doha Round and the WTO has established a Global Trust Fund to help build the South's capacity to participate in the negotiations, more technical and capacity building assistance is necessary – especially for the least developed countries.

Finally, the South has had only limited influence in the WTO despite the organization's one-nation, one-vote system, and its lack of an executive board. The North's predominant influence stems from the process of negotiations and consensus decision-making, and the role of groups within and outside the WTO such as the green room sessions, the G7/G8, the Quad, and the OECD. Realistically, developed countries will continue to have the most influence in the WTO as a reflection of their role as major traders. However, the growing economic power of developing countries such as China, India, Brazil, and Indonesia has led to strong Southern demands for increased influence, and the break-up of the WTO ministerial in Cancún demonstrates that the North must be more willing to share decision-making with the South.

In relation to Contradiction 3: The WTO is too powerful versus the WTO lacks authority to effectively perform its functions, the chapter has shown how different groups have argued that the WTO is too powerful and intrusive, and that the WTO lacks necessary authority to perform its functions. As early as the 1960s, Richard Cooper argued that growing economic interdependence 'negates the sharp distinction between internal and external policies that underlies the present political organization of the world', and circumscribes 'the ability of nation-states to achieve their desired aims, regardless of their formal retention of sovereignty' (Cooper, 1968; Cooper, 1972: 179). As interdependence has increased, it is inevitable that the WTO will delve into areas that were previously viewed as domestic. However, it is understandable that states, civil society groups, and individuals want assurances that the positive rule-making of the WTO does not threaten their ability to adopt policies that reflect their basic political, social, and economic customs and preferences. Once societies decide on the degree of WTO involvement in domestic affairs they are willing to accept, it is of course essential that the WTO secretariat be given adequate authority to perform its functions.

This chapter has examined three major concerns about global trade governance that relate to democratic decision-making, Northern dominance and leadership, and the power and authority of the WTO. The chapter concludes with a prescription for change that would help address all three of these concerns: the adoption of a 'multi-stakeholder model' by the WTO (Shell, 1996: 359–381; O'Brien, Goetz, Scholtze and Williams, 2000; Hocking, 2004: 3–26). As discussed, GATT initially operated like a small club, with developed countries dominating trade negotiations (Hocking, 2004: 11–13). After developing countries began to join GATT in greater numbers, the North continued its dominance, partly by turning to smaller groups within and outside GATT such as the green room sessions, the OECD, the G7/G8, and the Quad. Business groups have also always had a special place in the GATT/WTO, but other non-governmental groups are generally not represented. With the extension of WTO negotiations to behind-the-border issues, and the change from the GATT's negative prescriptions to the WTO's positive rule-making, the GATT/WTO's traditional mode of decision-making is facing increasing opposition. To build a consensus among a much broader group of affected actors and address the growing opposition of civil society groups, it is necessary to broaden the WTO decision-making process by shifting to a multi-stakeholder model.

Whereas Brian Hocking indicates that the key feature of the multi-stakeholder model involves the addition of civil society representatives to the decision-making process, the term 'multi-stakeholder' here refers more broadly to any actor with a significant stake in the outcome of the negotiations that is under-represented in the decision-making process. First, the model would recognize the need to provide greater representation for the South in WTO decision-making, not only because of the South's increasing influence with emerging states such as China, India, and Brazil, but also because the WTO should be devoting more attention to the implications of its policies for economic development. The multi-stakeholder model should also take account of divisions of interest and power within the South and should provide more representation to the least developed countries in sub-Saharan Africa and Asia. Finally, the multi-stakeholder model would include NGO and civil society representatives in the decision-making process. O'Brien et al. describe the inclusion of these non-governmental representatives as 'complex multilateralism', in recognition of the 'movement away from an exclusively state based structure'. Some would argue that the movement of the WTO toward a multi-stakeholder model is not feasible, because many states in the WTO would not accept it, many NGOs are ambivalent about trade liberalization, and the large number of actors involved would make decision-making impossible. Nevertheless, with the broadening reach of WTO policies to behind-the-border measures and positive rule-making, the problems of global trade governance can only be addressed if 'rules of engagement' between developed and developing countries, business, and NGOs and civil society groups are developed.

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COLIN TYLER

HUMAN WELFARE AND THE FUTURE OF THE WORLD TRADE ORGANIZATION

Rethinking the International Institutional Architecture

1. INTRODUCTION

The 2004 report of the Consultative Board to the Director-General of the World Trade Organization (WTO), entitled *The Future of the WTO*, was bullish regarding the correlation between trade liberalization and human well-being:

> It is argued by some that freer trade is being pursued for its own sake and, instead, should be judged in terms of its impact in the quality of human life. **In fact, the case for freeing trade is made very definitely in terms of enhancing human welfare – nowhere better than in the preamble to the Marrakesh Agreement that established the WTO**. It is true, however, that the broad objectives of opening markets to competition – and not least their impact on poverty in reducing the prices of basic consumer goods – are seldom mentioned by the proponents of such policies or negotiations. It is assumed – often wrongly – that we all understand trade is a means to an end, not an end in itself (Consultative Board, 2004: Section 11).

It is encouraging that the Board's fundamental value is personal well-being and that it is assumed that each individual's well-being should be weighted equally. Yet, some may see the Board's very familiar argument that the vigorous working of 'the invisible hand' will raise standards of living and quality of life for all societies through 'trickle down' as rather too simple and lacking a certain awareness of the world. Some may even be a little sceptical about the Board's motivation for coming to this conclusion. This scepticism may intensify when one realizes that the chair of the 'independent' Board is Peter Sutherland. In addition to being a former chairman of the General Agreement on Tariffs and Trade (GATT) and the WTO, he is now the chairman of both BP plc and Goldman Sachs, as well as sitting on the boards of at least two of the world's largest international banks

S. Lee and S. McBride (eds.), Neo-Liberalism, State Power and Global Governance, 217–230.

(Consultative Board, 2004: 7). Yet more doubts may arise when one actually reads the preamble to the 1948 Marrakesh Agreement. In spite the Board's assurance, in reality the latter says absolutely nothing about the importance of raising the quality of life of the contracting parties. Nevertheless, the Board at least does appeal to the derivative importance of trade liberalization and raised standards of living. Section 10 asserts that, 'Plainly a WTO, dedicated to the freeing of trade among its principal objectives, would merit inclusion in an international institutional architecture that is designed to enhance the welfare of humanity only if liberalization of trade were indeed a beneficial policy' (Consultative Board, 2004: Section 10).

There is a vast literature on the effects of liberalized trade on human welfare. Yet, even among those who are sceptical about the tendency of a relatively free market to improve the welfare of the earth's population, there is a widespread belief in a direct correlation between financial resources and personal well-being (Lenter, 2004; Ougaard, 2004). The first section of the present chapter questions the uniqueness and ultimate priority of this link between material goods and personal well-being. The second section sketches a general theory of the derivation of the goods upon which human well-being relies, via a critique of Michael Walzer's alternative to the Rawlsian theory of primary social goods. It is argued that, for all of his many insights, Walzer misses at least two things. First, he fails to recognize that the processes presupposed by his alternative are unlikely to specify with sufficient precision social goods for a particular community. Second, he fails to consider how the principles that generate social goods can gain authoritative practical embodiment. The third section uses Bosanquet's conception of 'institutions as ethical ideas' to overcome these problems, exploring the ways in which institutions can define the hermeneutic context of social goods. The chapter then draws out the institutional implications of these processes for the fostering of human well-being by the international institutional architecture. The chapter concludes with some remarks about how such a fundamental change may be brought about.

2. HUMAN WELFARE AND THE PRESSURES OF CAPITALIST SOCIETIES

My argument starts from the Consultative Board's premise that a social, political or economic system is valuable only to the extent that it enhances the welfare of the people participating in, or subject to, it. Before going any further, therefore, I should indicate what I mean by 'welfare' or 'well-being' (terms that I use interchangeably here). The foundations of human well-being lie in the fulfilment of the basic material needs for nutrition, shelter, warmth and health. These surely uncontroversial needs are extended by various psychological conditions. First is the need to feel secure in the supply of means of satisfying the material needs.

Second, this sense of security is mirrored in the need to understand the environment of one's life (in its natural, epistemic and normative dimensions) as being broadly coherent and predictable. Third, in order to flourish a normal human being requires a sense of self-respect. Fourth, the individual must have the capacity to identify with her cultural environment: that is, she must value, and be justified in so valuing, her interpersonal and intrapersonal worlds of meanings and values (cf. Saharso, 2000: 222–224). Fifth, self-respect relies upon, necessarily but not sufficiently, the perception that one's own self-understanding is appreciated by other persons whose judgements one values, and that it is appreciated on non-instrumental grounds (specifically, grounds that are not reducible to the interests and needs of those others) (Taylor, 1994: 25–26, 36–37, 84–88). Sixth, such self-respect and recognition are possible only to the extent that one expresses oneself in the world, for it is only this way that one can manifest one's sense of oneself not merely as a person, but as a person with a particular, relatively stable (although not static) identity.

What form self-expression should take is culturally-conditioned: Sartrean autonomy may be appropriate for some, while rigid adherence to tradition may be needed by others. The acceptable range runs from one extreme to the other. What determines the practical acceptability of any particular option is the extent to which the individual freely feels at home with (is in harmony with) any particular form of self-expression. It is important to emphasize that such harmony presupposes freedom in the sense that the individual faces social norms in the mode of what MacIntyre calls 'an independent practical reasoner'. That is, she must be able, first, to evaluate and revise both her reasons for action and her desires, by standards internal to the remaining meanings and values in her hermeneutic landscape; and, second, to recognize herself as a being with a present and past, and a future that is relatively open within the bounds of the worlds that are imaginable for her given that landscape (MacIntyre, 1999: 71–75). It is always going to be a great struggle to satisfy all of these needs (for nutrition, shelter, warmth, security, self-respect, free identification, recognition and self-expression). Material needs cannot be met by those in absolute poverty or in poverty relative to the norms of their hermeneutic landscape. Inhabitants of hostile territories lack security even if currently they are able to meet their basic needs. Finally, even material affluence and security are mixed blessings if they sustain an individual only to be the butt of abusive relationships or to suffer a cramped life.

To satisfy her various needs and therefore to live a full life, the individual must possess the appropriate capabilities (Saharso, 2000) and the resources, or 'goods', to make use of those capacities. Which specific types of goods are required is dependent on the type of need to be satisfied. Basic material needs have a special affinity to primarily material goods, ensuring that traditional economic relationships must be indelible elements within every human life. Yet, these relationships manifest only one type of relationship in which humans can interact, and, as many critics have noted, over-emphasis of their importance makes impossible certain other forms of life and value. This is particularly so when these relationships are mediated through money-exchange. Economic relationships tend to privilege material aspirations and material measures of success such as financial wealth. As they have developed in Western Europe and North America, they favour an individualistic conception of the self, an increasingly structured and segmented conception of time, and the normalization of geographical mobility. The technological consciousness associated with every major form of contemporary capitalism entails the prioritization of linear forms of logic and an overblown confidence in research aiming at quantification. Frequently, this gives rise to a belief in the purely instrumental value of nature and in the legitimacy of exploiting it, as well as an associated sense of the artificiality and malleability of social, political and economic relationships themselves. Such transformations tend to be underlain by a denuding of the individual's relationship to the external world, in the latter's both natural and human forms. In some instances, such denuding is a beneficial force (I am thinking here primarily of certain aspects of the growing realization of the artificiality of social relationships). Yet there are also very significant losses, again not least in the realm of social relationships, where, adapting Thomas Carlyle's memorable phrase, increasingly '*Cash Payment* . . . [grows] to be the universal sole nexus of man to man' (Carlyle, 1971: 193).

Often the greatest cost imposed by this economic scheme of meanings and values and what I shall call 'functionalizing' transformations is the destruction of depths and dimensions that previously enriched the individual's life. Consequently, it becomes impossible for him or her to conceive even of, let alone to engage in, certain forms of existence and action. Even where the transformations are not functionalizing, in that they replace one form of life with another that is just as full (specifically, one which fulfils just as many needs or employs just as many of the individual's capacities), from the original perspective the transformations may well destroy as many valuable modes of existence as they create. In these cases, the world is homogenized. In both cases, an alternative to the propagation of this ethos is required if one is to realize a plurality of valuable forms of human life in the world.

3. WALZER AND RAWLS ON PRIMARY GOODS

There have been many attempts to accommodate a plurality of beliefs, values and therefore goods that are capable of bringing well-being to individuals. One of the most influential attempts to extend the conception of goods (and so of poverty and wealth) beyond the purely material is the Rawlsian notion of primary social goods. Rawls emphasizes his intension that the list of such goods should act as 'a practicable public basis of interpersonal comparisons based on objective features of citizens' social circumstances open to view, all this given the background of reasonable pluralism' (Rawls, 1993: 181). His very influential starting-point is the contention that the basic principles of social organization are just to the extent that they accord respect to all citizens as free and equal persons. He goes on to argue that the quality that makes an individual worthy of respect is her capacity to formulate and pursue rational plans of life, and to do so in concert with other people, or at least to do so while interacting with others. From this, Rawls infers that there exist some 'goods [which] normally have a use whatever a person's rational plan of life', and these he calls 'primary social goods' (Rawls, 1972: 62; Rawls, 1993: 181). As he put it towards the end of his life, these goods are required by 'free and equal beings' who possess 'a sense of justice' and 'a capacity for a conception of the good' (Rawls, 2001: 18–19) and who seek to pursue their goals light of certain 'general facts and requirements of social life' (Rawls, 2001: 57–58).

Rawls gave several similar lists of such goods in his various works. *Justice as Fairness*, for example, details five types of primary social goods (Rawls, 2001: 58–59). The first three cover freedom of thought, conscience, movement and occupation, as well as 'powers and prerogatives of offices and positions of authority and responsibility'. The fourth includes 'Income and wealth, understood as all-purpose means (having an exchange value) generally needed to achieve a wide range of ends whatever they may be'. Yet it is the fifth which Rawls recognizes to be the most fundamental type of primary good, namely: 'The social bases of self-respect, understood as those aspects of basic institutions normally essential if citizens are to have a lively sense of their worth as persons and to be able to advance their ends with self-confidence'.

For all the force and ingenuity of Rawls' arguments, his theory faces significant problems. In addition to problems in the determination of the ranges of primary goods that are appropriate to particular cultures, there is the no-less-significant problem of determining the appropriate relative weights of the various primary goods. Furthermore, different individuals and groups may agree, for example, that freedom of expression is a crucial societal norm, yet disagree about what classes as a mode of 'expression' (does pornography count?), or in which instances it is appropriate to curtail such freedom in the name of another value such as respect for another's deeply-held beliefs (should one close a play because it offends sections of the Sikh population?). It seems difficult for Rawls' theory, in its own terms, to resolve such issues. In fact, such limitations are manifestations of a deeper problem that faces those Rawlsians who seek to foster the conditions of self-respect and interpersonal recognition. This problem originates in the natural fluidity of personal identity and finds clear articulation in Hermann Hesse's observation that,

> it appears to be an inborn and imperative need of all men to regard the self as a unit. . . . In reality, however, every ego, so far from being a unity is in the highest degree a manifold world, a constellated heaven, a chaos of forms, of states and stages, of inheritances and potentialities (Hesse, 1965: 71).

In part it is this very fluidity which necessitates recognition by others. Ongoing recognition presupposes and sustains sets of practices that give substance to one's otherwise abstract and largely inchoate capacities. Recognition, as the familiar phrase has it, gives contours to one's life. Counterfactually, a mental environment without external features – the life of Rousseau's 'noble savage', say (Rousseau, 1984: part 1) – would make recognition literally inconceivable and would make it literally impossible for the individual to develop and sustain a sense of personal identity. In short, even though certain basic material needs must be satisfied if one is to survive physically, a relatively stable system of social practices is also vital if one is to be able to act with self-consciousness. Only this type of environment can provide a horizon of significations in which recognition by others and one's self can be communicated in such a way as to help each party to become a person. It is especially important to be clear on this point. Reflecting a debt to MacIntyre (1985: 187), as it is used here the word 'practice' denotes any 'socially-established' collective enterprise that is governed by a complex set of internal rules, with that set of rules itself being orientated around a notion of the intrinsic good of that activity. Individuals become persons by playing an active role in practices due to the fact that such participation tends to manifest certain virtues and valuable states within and for those who participate in them.

Extending this line of thought, Michael Walzer has argued that, 'All goods with which distributive justice is concerned are social goods'. By this, he means that any particular set of relevant goods can only be delineated and sustained by particular concrete processes of inter-subjective recognition, instantiated in the actual lives of particular communities. Such processes are self-sustaining in that the constitution of who we understand ourselves to be is necessarily tied to the hermeneutic context of goods which are or can be distributed to and by us: 'Men and women take on concrete identities because of the way they conceive and create, and then possess and employ social goods' (Walzer, 1983: 8).

The implications of this approach for the notions of poverty and wealth are profound. In conscious opposition to Rawls' universalism (Walzer, 1983: 10), Walzer concludes that, 'There is no single set of primary or basic goods conceivable across all moral and materials worlds – or any such set would have to be conceived in terms so abstract that they would be of little use in thinking about particular distributions' (Walzer, 1983: 8). Any single object carries with it multiple connotations, thereby ensuring that there will be no set of universally valid criteria that should be applied when one is deciding precisely which of these connotations should be prioritized in the specification of their social significances. Walzer even goes so far as to argue that what counts as the necessities of life is determined in significant ways by cultural factors (Walzer, 1983: 8).

It is not simply the production of such inter-subjective goods that is 'social'. The appropriate principles for their distribution are likewise determined through inter-subjective processes: 'it is the meaning of goods that determines their movement' (Walzer, 1983: 8). Consequently, free exchange may be the appropriate principle of distribution for one type of good within a society, and desert may be appropriate for another, need may be the appropriate principle in a third sphere while status may be reserved for a fourth. Counterfactually, for example, in many cultures neither sex nor governmental decisions should ever be bought or sold. The nature of the goods to be distributed will depend on the cultural structures in which they are conceived then, as will the principles upon which they should be distributed, and as cultures change so do the natures of the primary goods and the appropriate principles of their just distribution.

The following brief points should be made regarding the implications for anyone working on international distributive justice. To the extent that there is no global cultural consensus, Walzer's theory helps to undermine the hope of finding an adequate and realistic cosmopolitan response. While this hermeneutic approach does not deny that absolute poverty is clearly a, if not the, main problem facing the institutional architecture, it does highlight the flaws inherent in both the neo-conservative imperative to extend and entrench capitalism around the global, and those development theories which see industrialization as always a precondition of social progress. Moreover, Walzer's theory highlights the bounded applicability of various liberal responses such as those inspired by Rawls, Sen's capabilities approach and Dworkin's resource-based theory, (Sen, 1985, 1993, 1999; Dworkin, 2000). It indicates that these are perfectly legitimate-indeed, imperative subjects for debate *so long as these debates are carried on within hermeneutic contexts that reflect and respect the cultures of those to be affected by their outcomes*.

As it stands, Walzer's theory is far from a panacea for the normative problems of distribution. Unfortunately, Walzer seems to have avoided the homogenizing tendencies of universalist theories (of which Rawls' theory is one type) only to fall into the opposite error. Remember that for theories of the Walzerian cast,

> the principles of justice are themselves pluralistic in form; that different social goods ought to be distributed for different reasons, in accordance with different procedures, by different agents; and that all these differences derive from different understandings of the social goods themselves – the inevitable product of historical and cultural particularism (Walzer, 1983: 6).

For all of his emphasis on the social nature of social criticism, which he calls 'reiterated social construction' (in a crucial sense, it is criticism *by* as well as *of* society), ultimately Walzer underestimates not only the fluidity of social meanings (and therefore of social goods), but also the need to consciously articulate and authorize stable and definite values and meanings, to produce sets of social goods that can form a basis for workable policy discussions (Walzer, 1983; 1987). Alternative approaches have been suggested, for example, by Bhikhu Parekh who looks to the community leaders to determine the shape of their culture (Parekh, 2000). Yet, Walzer rejects this approach, which he calls 'diffusion from an authoritative centre', on the ground that it gives too much power to an elite of rather dubious authority (Walzer, 1993: 171; Tyler, 2004: 28–31).

Yet, a third route by which to derive privileged meanings and values for primary goods can be found in GDH Cole's twin works *Social Theory* and *Guild Socialism Restated* (Cole, 1920a, b). Cole combines Parekh's elitism with Walzer's reiterated social criticism, and is far more sensitive than either to the role played by sub-state associations on the one hand and the deliberate exercise of power on the other in the constitution of an economic system of the type under consideration here. Cole's argument begins with the claim that spontaneously generated and obeyed associations are crucial to the determination of the identities and will of their members. The underlying thought should be familiar: individuals construct their identities from the conceptual contours which they inherit from the collective life of social purposes. The next step is the partial ossification of these purposes into social functions, for 'Social purposes are . . . the raw material of social functions, and social functions are social purposes selected and placed in coherent relationship[s]' (Cole, 1920a: 54). In other words, initially a social purpose simply 'emerges' in the daily life of the community, but then power must be exercised to ensure that 'the main lines of demarcation' of 'the most vital forms of association' are articulated 'most carefully and exactly' (Cole, 1920a: 55–6). In this way, Cole shows that he appreciated something more than spontaneity is needed to provide, adopting Hegel's words, an authoritative 'criterion of discrimination and . . . the ability to raise its own substantial aspect to [the level of] determinate knowledge' (Hegel, 1991: Sections 316–319). That is, something more than Walzer provides, or indeed seeks, is needed to give definition, relative permanence and justificatory force to the meanings and values internal to social goods.

This is not the place to consider Cole's thought in depth. Yet, it is important to notice that critics have been rightly concerned by the weakness of the state in his model (Runciman, 1997: 173–176). Hegel, on the other hand, did recognize that a definite authoritative centre that is required to co-ordinate the crystallizations of social meanings. Unlike Cole, Hegel resorted to a form of corporatism (Hegel, 1991: Sections 250–256, 289, 300–315). While one might well baulk at the excessive statism that seems to be implied by this move, I will argue now that there is something to be said for certain, restricted facets of this latter type of approach.

4. INSTITUTIONAL IMPLICATIONS

The core of Hegel's conception of corporations as the embodiment of rationalized social commitments is expressed in Bernard Bosanquet's theory of 'institutions as ethical ideas' (Bosanquet, 1923: Chapter 11). By this Bosanquet means that the building blocks of social organization possess a 'threefold character'. They are simultaneously 'facts', 'ideas' and 'purposes'. Social institutions gain a centre of gravity from their embodiment of particular ideas that are shared by their members. Hence, the institution of a traditional monogamous family presupposes that the members of a culture in which this type of family exists share ideas of what it is to be a good husband and wife say, or to have children, and to be under a duty of mutual life-long sexual fidelity. As well as being 'ideas' in this sense, institutions are 'purposes' in that they are understood as serving a higher goal or goals. Hence the traditional family embodies values such as trust, certain types of interpersonal intimacy, the good of propagating the species within a stable and loving environment, and so on. In order to fix these meanings in a relatively definite and permanent form however, they must find formal and external articulation (for example, in a wedding ceremony, matrimonial laws, or the like). Institutions are ethical ideas then in that they are Durkheimian social facts which embody shared meanings, and promote common goals and values.

When combined with a proper understanding of the social construction of primary goods, the preceding characterization of institutions makes it easier to envisage an international institutional architecture that monitors and where necessary regulates the hermeneutically-sensitive distribution of the resources required to foster a free life (Tyler, 2006, chap. 1; Morris, 2005). Specifically, it indicates the need to create a complex multilevel federal structure, the discrete institutions of which are legally authorized and empowered to decide which meanings and values are to be privileged in constitutional and public policy discussions in their respective spheres, with authority being distributed according to the principle of subsidiarity.

It is a prerequisite in this context that each institution should operate with norms of public reason that are appropriate to its level and the hermeneutic structure of the people whom it governs. (In part, its operations consist in the privileging of primary goods for its people.) In asserting this, I take a group of individuals to constitute 'a people' to the extent that they share hermeneutic ground with each other, feel themselves to form a group because of that commonality, are willing to work together freely to maintain their existence as a group, and are willing to bear freely the burdens that naturally follow from that common pursuit. For Rawls, 'the idea of public reason specifies at the deepest level the basic moral and political values that are to determine a constitutional democratic government's relation to its citizens and their relation to one another. In short, it concerns how the political relation is to be understood' (Rawls, 1999: 133). By 'public reason', I mean the particular set of beliefs and values as well as standards and modes of argument which fulfils the following two conditions. First, it is able to fit coherently into the hermeneutic landscape of a particular people, and, second, the people agrees that it should validate debates and their decisions about the future character of their collective life, both in terms of its guiding notion of the good or the right as well as in its particular facets. The size of the overlap of hermeneutic fields tends to reduce as more individuals try to form one people. Hence, the conceptions public reason and the primary goods with which institutions are concerned, become increasingly basic, abstract, and procedural the further one moves from intimate, small-scale communities.

In the present context, this transforms the vertical dimension of the institutional framework into a continuum in which the responsibilities and powers of the different levels may look as follows. At the local level, there should exist a plurality of relatively small-scale associations which identify and seek to solve concrete problems within their respective areas. One key task will be to distribute the appropriate goods to members of their locality. These institutions should work mainly through social sanctions, as they cannot possess sufficient formal accountability to those citizens with whom they deal to exercise legitimately harder coercive powers that are independent of the authority of the higher levels.

The national level is tasked with the determination of the relative weights of the various particular, concrete social goods, with decisions being made and implemented in accordance with the rule of law (and may use hard punishments on recalcitrant members). The institutions operating at this level are likely to take the form of states, although with borders that reflect the borders of peoples in the sense outlined above. The 'fuzziness' of the borders of these states will reflect the 'fuzziness' of the people they govern. Whether we call them states or something else, these institutions must possess, adapting Robert Jackson's words, 'juridical statehood' (to a degree compatible with the 'fuzziness' of their respective populations) and 'the political will, institutional authority and organized power to protect' rights and policies that will foster the well-being of those over whom they exert that power (Jackson, 1990: 21).

The primary function of the equivalent institutions at the regional level is to foster the production of appropriate and relatively concrete social goods. Institutionally, this third level is managed by reformed versions of such organizations as the European Union and the African Union. Globally, an organization is required to perform two primary functions. First, to set certain minimum rights and obligations (ranging from basic rights of all individuals and groups, to the rights and obligations of the different levels of the institutional architecture). Second, to enforce these minimum rights and obligations, thereby functioning as a global supreme court charged with applying a global charter of human rights and obligations. In order to play this role successfully, it would have to determine which basic, abstract social goods would be privileged, as well as setting the relative weights of these most basic (specifically, universal) goods. Moreover, it would enforce framework legislation of the type underpinning Paul Hirst's associative democracy, in an effort to ensure procedural propriety within the system as a whole (Hirst, 1993: 117–119; Hirst, 1994). Just as importantly, it would act as the final court of appeal in disputes between levels, with cases being made and heard using a variety of modes of public reason. I have in mind something like the intercultural negotiations endorsed by James Tully:

> Each negotiator participates in his or her language, mode of speaking and listening, form of reaching agreement, and way of representing the people, or people for whom, they speak. . . . When the multicultural negotiations end for the day and transcripts and translations are checked, this is only the beginning of the dialogue. The negotiators must turn to their diverse constituents, explain what has transpired, listen to their objections in their terms, reach agreement in the appropriate way on an acceptable response, and then return to the negotiations. This can take many forms (Tully, 1995: 129, 130).

Finally, either directly or through the maintenance of appropriate redistributive procedures, the global institution would be responsible for ensuring that every major institution had the material resources that it required to fulfil its role in the system, whether these resources were generated within the institution's own constituency or were redistributed from other wealthier sectors. Its demanding guiding objectives would be to ensure justice, to ameliorate excessively powerful strains within the system as a whole, and ultimately to foster the well-being of every person.

There is, of course, an unsettling side to this line of argument, which comes into stark relief in the following passage from the great elite theorist, Robert Michels:

> In all the affairs of management for whose decision there is requisite specialized knowledge, and for whose performance a certain degree of authority is essential, a measure of despotism must be allowed, and thereby a deviation from the principles of pure democracy. From the democratic point of view this is perhaps an evil, but it is [at least] a necessary evil (Michels, 1959: 88).

The dangers are clear, and stem mostly from the fact that the natural condition of one's life-world is to be in a state of change rather than equilibrium. First, by their nature privileged meanings deny some lived meanings of certain citizens. Second, whether privileged or not, no set of categories, relations and weights that constitute a hermeneutic landscape is, or can ever be, completely adequate to the lived reality of those within it. That is, it can never enable the individual to articulate the full depths and subtleties of the world in which she feels herself to live, or to express her sense of her own identity, even to herself. Hence, all elements of the hermeneutic landscape are always subject to critique, reinterpretation and revision. Third, these categories, relations and weights are always one step behind the new feelings and beliefs that continually arise within the individual. Again, they are always subject to revision as part of our ongoing need to articulate these new beliefs and values and to accommodate them within our hermeneutic landscape.

For these reasons, it is crucial to remember that the best indicator we have of an individual's level of well-being is the extent to which she freely identifies with her particular self (her habitual beliefs and values), life, actions and social environment. Counterfactually, the sign that an individual lacks well-being is her alienation from these things. For this reason, the people must engage in free, frequent and vigorous popular scrutiny of the actions of the institutions acting in its name and must be similarly robust when pressing for reform where there is a belief that revision is necessary. There must be, in other words, effective monitoring and opportunities for effective disputation of formally-privileged meanings and values, even if only the formal institutions are authorized to amend the terms of public reason and policy in their sphere. Such monitoring and contestation are needed because no set of authorized social meanings possesses authority sui generis, hence none is above dispute. At the extreme, as Walzer writes, 'sometimes [social meanings] provide only the intellectual structure within which distributions are disputed' (Walzer, 1983: 314). Instead, in practice social meanings gain whatever authority they have from the subjective endorsement that they enjoy by the members of the particular hermeneutic community over which it is proposed to enforce them.

It is important not to forget where we started. The legitimating goal of the institutional architecture is to foster the conditions for personal well-being, something which implies that the legitimate fundamental principles of any society should respect all of its individual members as free and equal persons. Remember as well that no set of authorized social meanings is above dispute. Furthermore, even prior to one's reconsideration of them, it seems likely that old meanings and values will need to be periodically rethought in line of changed circumstances.

The key difficulty is to combine popular endorsement with an ongoing careful review of policy. Hence a concern to foster substantive freedoms implies a number of mechanisms with which to check the potential abuses of the system. The most obvious are, first, open government. The second mechanism is freedom of exit for individual citizens, particularly at the local and national levels. Third, bodies made up of former statesmen and other experts. Members should be closely monitored and removed in cases of corruption or subsequent mental or physical incapacity. These bodies should be formally authorized and empowered to mirror the legislative institutions. Their primary tasks would be to scrutinize policy proposals and suggest revisions of bills presented by the legislative institutions and organizations. Such bodies would have the power to force the elected bodies to justify publicly their proposals although they would not have the power to veto any proposals or bills. In that such an arrangement would possess only one point of ultimate decision, this arrangement would be more akin to the United Kingdom's House of Lords than, say, the US Congress. Fourth, a plurality of civil society organizations with formally recognized and facilitated means and rights to monitor the various levels of the institutional architecture. Fifth, a deep-rooted convention of carefully scrutinising those meanings and values from which citizens express their alienation, which implies the creation of effective wider non-formalized mechanisms through which populations can protest against the institutions affecting their interests (social movements, non-governmental organizations, and so on). Finally, remember that in practice ultimate sovereignty resides in the governed and the system's legitimacy is expressed in their free compliance with its procedures and policies. Hence, the architecture outlined here will be legitimate and stable only to the extent we have robust global political and civic cultures founded upon, firstly, deep and pervasive commitments to the multifaceted conception of human well-being outlined at the start of this chapter, and, secondly, the notion of individuals as free and equal participants in their respective societies.

5. CONCLUSION

How such a fundamental shift could be achieved is a matter for social activists and politicians rather than academics. Obviously there will be great resistance from many powerful interests (not least the WTO) (Tyler, 2007a and 2007b). Even if these interests can be gradually overcome and the new international architecture created, tensions will remain both between and within the different hermeneutic groups seeking representation. To a certain extent these tensions will be mitigated by the system's federalism. Nevertheless, conflict will be endemic to the system, which has great benefits as well as costs. Conflict, and in absence of the system itself, even violent conflict, is likely to be unavoidable. Yet, the justification for the struggle originates in the normative assumption of the Consultative Board itself: a social, political or economic system is truly valuable only to the extent that it enhances the well-being of the people subject to it. People have a reason to endorse and obey that system only to the extent that it is valuable to them, and they have a legitimate reason for seeking to resist, reform or overthrow it to the extent that it harms their welfare.

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RICHARD WOODWARD

THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Meeting the Challenges of the Twenty-First Century?

1. INTRODUCTION

Since 1961 the Organization for Economic Co-operation and Development (OECD) has assisted states in managing intensified interdependence. The OECD spends the majority of its time engaged in prosaic, yet valuable, tasks including surveillance, providing a forum for policy dialogue, identifying and analysing emerging issues, and supporting government bureaucracies and other international organizations. However, the OECD and its predecessor, the Organization for European Economic Cooperation (OEEC), have played a pivotal, if frequently unacknowledged, role at some of the critical junctures in post-war economic history. Initially the OEEC oversaw the implementation of the Marshall Plan while the OECD was a crucial intermediary in the resolution of the 1973 oil crisis. More recently, the OECD's path breaking analytical work on agricultural subsidies was vital to the completion of the Uruguay Round (Cohn, 2002: 181–185) and it has played a major part in assisting the transition of the former communist countries of Eastern Europe from centrally planned to market oriented economies.

Despite its achievements the OECD is now confronted by formidable challenges which threaten its very existence. This chapter briefly outlines the OECD's principal functions before going on to look at how changing circumstances are testing the organization's ability to deliver them. Next, the chapter sketches the strategy being employed by the OECD to tackle these challenges concentrating in particular on enlarging the membership and reconsidering the OECD's relations with civil society. Finally, the likely impact of the proposed reforms is reviewed. The chapter concludes that the OECD's response is understandable but that sown within the reforms are the seeds of further problems that may ultimately prove the organization's downfall.

S. Lee and S. McBride (eds.), Neo-Liberalism, State Power and Global Governance, 231–244.

2. THE OECD AND GLOBAL GOVERNANCE

Most major texts on global governance allude to the importance of the OECD as a source of rules for governing global economic, social and political activity. Nevertheless, although there are abundant approbations to the institution's significance there are remarkably few substantive analyses of precisely what it is the organization does and the extent of its influence on global governance (see Woodward, 2007: 59–61). With 'no widely agreed raison d'ètre, no clear purpose, few very precise commitments which governments were pledged to carry out, and no simple goals which commanded public understanding' (Camps, 1975: 10), the remit of the OECD is the least well defined of the key international economic institutions. Rather than seeking a rigorous distillation of the OECD role many authors simply apply vague soubriquets to the institution including 'rich man's' or 'rich country club', 'consultative forum', 'think tank', and 'pool of statistical and economic expertise' (Woodward, 2004: 114). None of these labels provide a synoptic view of the OECD's undertakings.

This chapter adapts the insightful framework developed by Marcussen (2004) (see also Woodward, 2008) in which he argues that the OECD draws upon three interrelated modes of governance – cognitive, legal, and normative. In addition, it is argued that the OECD has a fourth mode which, for want of a better phrase, is referred to as 'palliative governance' whereby it greases the wheels of international decision making by providing an assortment of 'support services' (Woodward, 2004: 115) to other international bodies and plugging gaps in existing structures of global governance. The OECD's role in *cognitive* governance consists of its ability to generate amongst its members a shared set of values, perspectives, and discourses about global governance. This engenders a sense of community and cohesion among OECD member countries defining who and what they are and identifying the 'the others'. Theoretically, OECD membership is open to any country committed to the principles of the market economy and pluralistic democracy. Today, these two conditions are less uncontested, but originally this was a deliberate ploy to disbar membership of communist countries. Effectively the OECD was the economic equivalent of NATO (OECD, 2004b: 8) representing the largest group of non-communist industrialized countries and standing 'as a colossal, and colossally successful, challenge to Soviet and Chinese Communism' (Sullivan, 1997: 33).

From the outset the OECD symbolized a consensus about the superiority of capitalism and democracy as the organizing principles for global governance. However, the OECD recognized that rules were a prerequisite for states to prosper in an increasingly interdependent capitalist system. The promulgation of international rules and standards, '*legal* governance', is the one for which the OECD is probably best known. The OECD has passed Acts across an entire range of economic activities (see Table 1). The standards established by the OECD are generally held in high regard. Notably, many of the rules that begin life at the OECD

Table 1. OECD Acts by Type and Subject, June 2003

	Decisions	Recommendations	Others	Total
Agriculture	4	3	0	7
Capital Movements	1	0	0	1
Competition Law and Policy	0	9	0	9
Consumer Policy	1	6	0	7
Current Invisibles Operations	1	1	0	2
Development Assistance	0	4	9	13
Education	0	0	1	1
Employment, Labour, and Social Affairs	0	2	2	4
Energy	1	0	0	1
Environment	14	45	4	63
Financial Markets	0	6	0	6
Fiscal Affairs	0	15	1	16
Information, Computer, and Communications Policy	0	4	4	8
Insurance	1	3	0	4
International Investment and Multinational Enterprises	5	7	4	16
Nuclear Energy	1	4	3	8
Public Management	0	3	0	3
Scientific and Technological Policy	0	3	2	5
Shipbuilding and Maritime Transport	0	2	4	6
Steel	0	0	1	1
Tourism	1	2	0	3
Trade	0	3	2	5
Total	30	122	37	189

are subsequently adopted as best practice by states, international organizations, and the private sector. The OECD's *Principles of Corporate Governance*, for instance, has been designated as one of 12 key standards for ensuring sound financial systems by the Financial Stability Forum (FSF). The OECD is to be commended for forward looking nature of its rule-making. The organization has proved adept at concocting benchmarks for emerging problems and has regularly been the progenitor of what later came to be seen as the conventional wisdom. By the early 1970s for example, the OECD was already examining issues surrounding the notion of 'trade in services' (Cohn, 2002: 159) and preventing illicit payments to public officials in international business transactions.

Currently, the OECD is the leading player in a number of cutting edge areas. In 2003 it agreed guidelines on online security, the control of unsolicited e-mail and is developing best practice guidelines for handling and licensing human genetic data. Nevertheless, the OECD's importance as a standard setter should not be overstated. The OECD is hardly prolific, promulgating just 189 Acts over 43 years. OECD rules are also concentrated in three areas with environmental standards alone accounting for one-third of OECD Acts while together fiscal affairs and international investment make up a further sixth. Furthermore, OECD standards are legally and geographically constrained. *Only* those OECD Acts described as Decisions and Conventions are legally binding and *only* on OECD members. A mere 36 Acts passed by the OECD are legally binding and members retain considerable latitude when translating these Acts into national law. The OECD also lacks the coercive tools to discipline recalcitrant states and therefore compliance, even in areas covered by binding provisions, relies predominantly upon 'soft' mechanisms. The remaining Acts have the status of 'soft law' whose implementation and enforcement depends on moral suasion exerted through surveillance and peer review. That its rules apply only to members places restrictions on the geographical scope of the OECD's authority. Occasionally non-member states voluntarily submit to OECD regulations and obey them as if they were full members. For instance Argentina, Brazil, Chile, Estonia, Latvia, Lithuania, and Slovenia have agreed to adhere to the *OECD Guidelines on Multinational Enterprises* while Argentina, Brazil, Bulgaria, Chile, and Slovenia have ratified the *OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*. However, as the ill-fated Harmful Tax Competition initiative demonstrated, the OECD lacks the legitimacy and legal authority to forcibly make non-members party to its rules (Woodward, 2005).

The OECD's overwhelming reliance on soft law and informal mechanisms to ensure compliance is testament to its engaging in *normative* governance. Normative governance refers to the formation and dissemination of key ideas and expected standards of behaviour resulting from repeated social interactions (Marcussen, 2004). Countries observe the strictures of the OECD not because of the threat of formal sanctions but because of the loss of reputation amongst their peers that would result from departures from agreed and accepted practice. The final form of governance, *palliative* governance, refers to the OECD's capacity to facilitate the process of global governance and the work of other international forums, principally the WTO (Cohn, 2002) and the G7 family. The OECD fulfils many unglamorous tasks that maintain the momentum between the meetings of major institutions of global governance. Bayne (1987: 30) aptly described the organization as 'a Cinderella among international organizations . . . it does not always go to the balls like its grander sister organizations, though it often runs up their dresses and sometimes clears up the mess after the party'.

The OECD provides a forum for negotiation amongst leading players in key policy areas. Cohn (2002) has exhaustively documented the part played by the OECD in facilitating negotiations in the global trading regime. The OECD has innate advantages over some of the larger international organizations. The triumph of normative and cognitive governance means that negotiations are not burdened with reconciling fundamentally different visions of global governance. Moreover, it is easier to achieve a consensus amongst a smaller group of countries, especially when that group comprises all the major players in given area, confronting a common problem and who should all benefit from a mutually agreed resolution. States also tend to be more malleable at the OECD because negotiations are staged in private and outcomes are non-binding. In public negotiations, states are often less willing to compromise as they do not wish to be seen to capitulate to international opposition, while the non-binding nature of commitments made at the OECD give states flexibility in how they interpret and implement them. For instance, at the WTO Ministerial Meeting in Cancun several countries objected to the inclusion of the 'Singapore Issues' (investment, competition policy, and government procurement), yet have since discussed these matters at the OECD (OECD, 2004a: 83). By eliciting a degree of consensus amongst leading traders, the OECD has helped overcome problems proving intractable within the framework of the GATT/WTO and smoothed the path for previous GATT and WTO Rounds. In addition, the OECD Secretariat provides much of the statistical information and analytical muscle essential to the work of other international bodies. The WTO Secretariat lacks the resources and the level of expertise required to tackle some of the more intricate dilemmas of the global trading system. In areas like agricultural trade, export credits, and competition policy the WTO is highly dependent on the OECD's research and experience. Moreover, the OECD provides an ideological prop for the WTO by disseminating reports and research purporting to demonstrate the benefits of trade liberalization (see OECD, 2003a: 31–37, 2004a: 55–60). The other main beneficiary of the OECD's assistance is the G7. Despite the growing burdens on the G7 machinery the leaders of member states have resisted the temptation to institute a G7 Secretariat. Instead the G7 is increasingly orchestrating the work of other bodies, particularly the OECD. Indeed the OECD appears increasingly to be acting as the de facto G7 Secretariat through responding to specific requests for work or, as with the WTO, providing intellectual foundations for the G7's neo-liberal crusade.

3. CAST ADRIFT IN GLOBAL GOVERNANCE? CHALLENGES TO THE OECD

Given the attributes sketched out previously it is sometimes asserted that if the OECD did not exist an analogous organization would be invented. This notwithstanding, there is a perception, not least from within OECD (OECD, 1997, 2003b) that the organization's authority is being compromised by a combination of intensified institutional competition, geopolitical and economic upheaval, and high profile policy failures. The absence of a precisely defined mission has contributed to the resilience and longevity of the OECD. This has conferred upon the organization the capacity to transform itself to meet the changing demands of member states and to colonize new issue areas. Paradoxically, the absence of a clear statement of purpose also makes the OECD highly vulnerable. First, because the OECD roams across almost every facet of economic life it is not clearly owned by any of the powerful domestic Ministries or Departments. This lack of bureaucratic ownership in national capitals weakens the OECD's position and its potential funding vis-à-vis other, more clearly delineated, international organizations. Second, and related to this, the OECD faces the constant threat of its functions being usurped or duplicated by other institutions.

The OECD is now facing stiffer competition from other mechanisms of governance in particular the 'gaggle of Gs' (G8, G20, and so on) (Culpeper, 2000), the expanding European Union (EU) (see Dostal, 2004), think tanks, international meetings such as the World Economic Forum (Julin, 2003), and private structures of authority. In most cases these institutions are deeply tinged with the neo-liberal economic ideology and, in rhetoric at least, a commitment to the principles of democratic accountability prevailing at the OECD and therefore do not directly challenge the organization's role in cognitive governance. However, these bodies are mimicking the OECD's other modes of governance. In the legal domain for instance OECD standards are increasingly jostling for attention with those promulgated by other international institutions and the private sector. Other institutions are also adopting the kind of normative and soft law practices pioneered at the OECD. In short, the uniqueness upon which the OECD's comparative advantage is based is being eroded. This is not to say that the OECD cannot coexist with these institutions or that they are locked into a zero-sum battle for supremacy. However, this does not disguise the fact that the OECD is being squeezed by newer institutions and there are now fewer substantive issue areas and fewer modes of governance where the OECD can claim to be the undisputed leader.

A second group of challenges arises from the changing contours of political and economic power (OECD, 2004b). The biggest single upheaval was the collapse of communism which sparked an identity crisis at the OECD. During the Cold War it was enough for member states to coalesce around the big ideas of free markets and democracy. The end of the Cold War dissolved the 'other' against which the OECD had guarded. While the conclusion of the Cold War grabbed the headlines more subtle underlying transformations were occurring. Writing in 1967 Aubrey (1967: 97) stated that 'as the most inclusive grouping of industrialized countries . . . the OECD marshals some formidable and unique capabilities. Here, among its members, is the most massive accumulation of savings available for investment not only at home but potentially in the rest of the world. Its members control all the key currencies, too. Thus, by way of capital supply, exchange availabilities, and financial expertise, the group represents an unmatched capacity for capital exports. Since goods and funds go together in many guises, the OECD membership weighs heavily in the three spheres of world production, trade, and finance. Today, OECD countries remain highly significant, accounting for 60 per cent of the world's Gross National Income, 76 per cent of global trade, and 95 per cent of official development assistance (OECD, 2004a: 8). This cannot conceal that, as a group, OECD countries are less important than they once were and current processes seem certain to accelerate this trend.

This has negative ramifications for the OECD's position in global governance, especially in the legal domain. In the past, the OECD has provided a venue where industrialized countries could thrash out problems proving insoluble elsewhere. This made sense when most, if not all, systemically important industrialized countries belonged to the OECD. However, the absence of systemically important industrialized countries such as China and India has undermined the OECD's claims to be an effective forum where industrialized states can resolve their differences. The OECD has tried to surmount this by inviting selected non-members to participate but it can neither compel them to attend nor to be party to any agreements reached. The second dilemma relates to a lack of legitimacy. The economic dominance of OECD countries persists but they are home to only 19 per cent of the world's population (OECD, 2004a: 8). This disenfranchisement of the majority of the world's states and their citizens has contributed to an image of the OECD as an elitist and exploitative institution. Non-members do not see why they should be constrained by rules developed by an organization of which they are not a member and that they have had no part in framing. As the chapter will detail below, non-members have strongly opposed the OECD's attempts to impose their rules upon them. The OECD is perfectly entitled to establish rules for its members but its aspirations to become a genuinely *global* standard setting body is handicapped by the absence of legitimate authority in the wider world.

Finally, the authority and reputation of the OECD has been tarnished by high profile policy failures. The most famous of these was the OECD's abortive attempts to introduce a Multilateral Agreement on Investment (MAI). Essentially the MAI was a framework of rules to govern international investment. The talks were derailed by the misgivings of certain OECD members who felt the proposals would eviscerate the power of states to protect their own economies, the reluctance of non-OECD members to abide by regulations they had not helped design, and by the opposition of civil society groups who argued that the MAI was tantamount to an investor's charter which rode roughshod over the concerns of consumers, workers, and the environment (Rugman, 1998). The OECD's Harmful Tax Competition (HTC) initiative also encountered obstinate opposition. This project was designed to compel both OECD members and non-members to improve the transparency of their financial systems and to exchange information to cut down on tax avoidance. Failure to apply OECD demands carried the threat of 'countermeasures' by OECD countries. Several OECD members opposed the proposals. The most virulent internal opposition emanated from Luxembourg and Switzerland who insisted on maintaining banking secrecy. Later, opposition to the plans was bolstered by the diminished enthusiasm from the US Bush Administration. External opposition was orchestrated by many small states whose livelihood depended on the provision of offshore financial services, and by an unholy alliance between a coalition of US based free market, libertarian think tanks and groups concerned about the developmental implications of the OECD's scheme (Woodward, 2005). The HTC proposals still exist but the project is deadlocked. The travails surrounding the MAI and the HTC exposed the limitations of the OECD as a mechanism of global governance. It demonstrated the inability of the OECD to disseminate and enforce its standards outside its membership. More worryingly, from the OECD's point of view, it demonstrated how the organization can be incapacitated by the failure of its own members to reach agreement. The result is 'diminished interest in capitals to make use of the OECD as a practical means to bring about institutional and policy change' (OECD, 2004c: 7). Taxation and investment are areas which, as the EU has discovered, states guard jealously. However, these are the kinds of issues that seem likely to dominate the agenda of global economic governance in the years ahead and which member states may look to the OECD to resolve, but the evidence suggests that it is ill-equipped to do so.

4. OECD REFORM

By the mid-1990s, the concerns outlined in the previous section were sufficiently serious to warrant the Annual Ministerial Meeting to request that the OECD should 'accelerate the process of structural change ... with a view to further enhancing the relevance, efficiency and effectiveness of the Organization' (OECD, 1996). This request corresponded with the appointment of Donald Johnston as the new OECD Secretary General. Under his stewardship the OECD embarked upon a reform strategy designed to reassert its legitimacy and authority (see OECD, 1997). The initial focus concentrated on overhauling the internal workings of the OECD including streamlining the committee system, financial and budgetary reforms, and the abandonment of the inveterate attachment to an administrative approach in favour of a more professional output-oriented system of management (OECD, 2003b, 2004b). These internal reforms were a valuable undertaking resulting in a committee system better able to cope with the exigencies of a rapidly globalizing environment and placating members who needed to demonstrate concrete outputs to justify expenditure on this obscure international organization. Nevertheless, internal reforms did not attend to the fundamental problems facing the OECD. Thus, a cycle of more substantive reform was proposed, the centrepieces of which were enlargement of OECD membership and strengthening relations with non-members and civil society.

Enlargement is a 'tried and tested tactic' (Woodward, 2004: 123) for the OECD when faced with changing external circumstances. Since 1961 the OECD has steadily, albeit slowly, expanded its membership. The OECD continues to exude a transatlantic bias but does now boast members from all but the African continent (see Table 2). In the past expansion was an ad hoc process seemingly driven by the geo-strategic imperatives of the United States. The result was an

Table 2. Membership of the OECD (Progressive)

Country	Date of Ratification of OECD Convention
Canada	10 April 1961
United States	12 April 1961
United Kingdom	2 May 1961
Denmark	30 May 1961
Iceland	5 June 1961
Norway	4 July 1961
Turkey	2 August 1961
Spain	3 August 1961
Portugal	4 August 1961
France	7 August 1961
Ireland	17 August 1961
Belgium	13 September 1961
Greece	27 September 1961
Germany	27 September 1961
Switzerland	28 September 1961
Sweden	28 September 1961
Austria	29 September 1961
Netherlands	13 November 1961
Luxembourg	7 December 1961
Italy	29 March 1962
Japan	28 April 1964
Finland	28 January 1969
Australia	7 June 1971
New Zealand	29 May 1973
Mexico	18 May 1994
Czech Republic	21 December 1995
Hungary	7 May 1996
Poland	22 November 1996
South Korea	12 December 1996
Slovak Republic	14 December 2000

organization whose composition ‘owes more to history than logic’ (Bayne, 1987: 27). The time was ripe for a more pro-active approach to OECD accession. In November 2002 a ‘Working Group on the Enlargement Strategy and Outreach’ was established with a mandate to assess the implications of enlargement for the character and working methods of the organization. Their report *A Strategy for*

Enlargement and Outreach (OECD, 2004c) was presented to the Annual Ministerial Meeting in May 2004.

The central thrust of this document was that there is a strong case for, and a broad underlying consensus about, enlargement and some baseline agreement about the yardsticks for assessing applicant countries and processes through which they must pass. There are nevertheless a number of issues on which the views of national delegations vary widely, in particular how and by whom expansion would be funded and how decision making structures should evolve to take into account the growth of membership. The Working Group couched their case for increasing membership in terms of the four modes of governance previously identified. The OECD would continue to represent the big picture retaining 'fundamental concepts like market-based economy and democratic principles' (OECD, 2004c: 16) as key criteria for any fresh member. A more inclusive membership would enhance the status and widen the legitimate applicability of OECD rules contributing to the organization's function as a legal governor. New members would bring novel perspectives inspiring insightful and imaginative debates in the OECD committee system and reinvigorating normative governance. Finally, the report argued that enlargement was a central prerequisite if the OECD was to rediscover the influence it once had in other international organizations.

Enlargement will bring some of the benefits predicted by the Working Group but these benefits may be overstated and there are downside risks. The OECD's success hitherto has hinged on it being a small, tightly knit alliance operating by consensus. Despite the insistence that new members should be likeminded the importation of significant numbers of new members still threatens to dilute this consensus resulting in the ossification and paralysis which plague more universal international organizations. Moreover, the delivery of the OECD's palliative, normative and legal functions is critically dependent on the efficient functioning of the committee system. New members are likely to result in a more protracted and cumbersome decision making process nullifying the gains made by the streamlining of the committee system. These issues were acknowledged by the Working Group but little concurrence exists on how the problem can be rectified. One proposal, introduced on a limited trial basis in 2004, is qualified majority voting to allow decisions to be taken where a consensus could not be secured. It seems doubtful that members will allow this to be rolled out on an OECD-wide basis and it seems certain that there will be further haggling over the weightings of votes and the size of the majority needed to make a decision. In summary, the price of inclusivity is inflexibility.

There is a second, more practical, set of stumbling blocks. The first is where to draw the line about whom the OECD admits to its portals. According to the OECD, 16 states have expressed some sort of interest in acceding (OECD, 2004c: 7) bring the total membership to 46. The problem is that the point of the exercise is to respond to the emergence of new players. The OECD seems to be assuming that once enlargement has taken place these issues will not recur.

Enlargement is a temporary solution but in another 15 years there will be a new group of nations clamouring for membership. Taking on more universalist character will lumber the OECD with the difficulties encountered by other international bodies but without the coercive powers to resolve the tensions while simultaneously undermining the uniqueness lying at the heart of its comparative advantage. The second issue relates to specific countries, especially those which the OECD refers to as the 'Big Six' systemically significant economies presently outside the OECD (Russia, India, China, Brazil, South Africa, and Indonesia). As they are presently constituted, there are barriers to the accession of all of these countries. China, and to a lesser extent Russia, and Indonesia lack the democratic credentials. India steadfastly refuses to dismantle capital controls. Brazil lurches from crisis to crisis and South Africa's human rights record is abysmal. The OECD is trapped between competing visions. The admission of these countries is a prerequisite if the OECD is to buttress its capacity to influence the international economic order but admitting them will blight the like-mindedness of the membership. Alternatively, the OECD may ascribe greater prominence to protecting the like-mindedness of its members but at the cost of being seen as increasingly irrelevant to global governance because of the absence of some major industrialized economies. Finally, there are financial considerations. In 2002, the OECD's annual budget was 227.7 million euros (OECD, 2004b: 29) but voluntary contributions constitute a growing proportion of this figure. In 1995, the OECD received 13.5 million euros in voluntary contributions, 6.3 per cent of the total budget. In 2002, the OECD received 40.2 million euros in voluntary contributions, 17.7 per cent of the total budget (derived from OECD, 2004b: 29). The OECD concedes it 'has come to rely heavily on voluntary contributions to accomplish its work programme' (OECD, 2003b: 7). The initial costs of new accessions will be borne by applicant states (OECD, 2004c: 27). However, each new member is estimated to add 1 per cent to OECD expenditure because of the recurring costs of surveys, surveillance, monitoring and peer review (Financial Times, 2003) placing additional strains on an already overextended budget.

The second central plank of the OECD's strategy is to cultivate and fortify links with civil society. The OECD has had some institutionalized links with civil society almost from the beginning with the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) constituted as forums where business and trades unions could have a direct input into OECD work. The 1999 Annual Ministerial Communiqué, seeking to avoid a repeat of the MAI fiasco, entreated the OECD to maintain collaborative links with civil society noting that 'political, economic and social challenges of the next century require informed and actively participating citizens. Ministers recognize their heightened responsibility to ensure transparency and clarity in policy-making, and looked to the Organization to assist governments in the important task of improving communication and consultation with civil society' (OECD, 1999a).

Most reforms undertaken at the OECD with regard to civil society have been procedural (more informal communication, collaborative analytical work, regularized consultation, and occasionally employing the expertise of groups to help monitor OECD rules) (OECD, 2002). However, the principal innovation was the instigation in 2000 of the Annual Forum. The Annual Forum is a setting for ministers, heads of government, international organizations, civil servants, representatives of business, and NGOs 'to impart and share information, improve communication, and foster a climate of enlightened policy making' (OECD, 1999b). To maximize its impact each Forum is held immediately prior to the Annual Ministerial Meeting. The Forums have proved popular with the five held so far attracting over 6000 delegates from nearly 90 countries.

The OECD is bullish about the Forum with Johnston (2001) referring to it as a 'landmark in the life of the organization'. They believe input from civil society will demonstrate that the OECD is listening to a broader constituency conferring broader legitimacy on OECD rules and monitoring processes. The wider range of perspectives beholden to civil society groups may enhance the normative aspects of OECD governance by generating new policy prescriptions. However, while the Forum has attracted new participants, the majority of delegates are drawn from the OECD. Almost three quarters of the delegates at the 2002 Forum hailed from ten OECD countries (Woodward, 2004: 120). The bias is even more pronounced if speakers at the Forum are examined. Since 2000, 602 presentations have been made at the Annual Forum with over 90 per cent made by deputies from OECD countries while there have only been seven speeches made by representatives of African nations. The Forum is sponsored overwhelmingly by big business and although there is a reduced conference fee for non-profit organizations, at 500 euros this is beyond the means of NGOs working on shoestring budgets (Table 3). The Forum theoretically makes the OECD more receptive to alternative opinions but in practice it appears to have been used as

Table 3. A Breakdown of Speakers by Country of Origin at the OECD Forum 2000–2004

	2000	2001	2002	2003	2004	Total	%
Speakers							
From OECD members	92	112	137	107	95	543	90.2
From non-OECD high/ middle income countries	12	9	14	3	7	45	7.5
From non-OECD low income countries	4	6	3	1	0	14	2.3
Total	108	127	154	111	102	602	100

Income groupings are drawn from the World Bank (23 August 2003); http://www.worldbank.org/data/countryclass/classgroups.htm.

a pulpit from which to preach that market forces are the panacea for the world's ills. There are also fears that greater penetration of the OECD by civil society groups may further clog up the committee system and make decisions more difficult to reach. The collapse of the MAI and the impasse faced by the HTC initiative may be salutary indications of the future.

5. CONCLUSION

The OECD inhabits a world radically different to that in which it originated. A growing body of opinion has suggested that the organization has not evolved sufficiently in response to change, questioning the ability and suitability of the OECD to execute the functions for which it was conceived. Faced with the spectre of becoming a marginal player the OECD sought to enhance its appeal through streamlining its internal organization, an expansion of the membership and reaching out to civil society. This chapter has argued that these are worthy and necessary responses. The problem is that these alterations are beset with contradictions making this a self-defeating reform strategy. To take an example, if the OECD has pretensions to promote its standards globally the expansion of OECD membership is essential in order to bestow greater legitimacy upon them. However, with more countries involved such accords may not be possible in the first place. The OECD's recommendations deal mainly with the legitimacy of its role as a legal governor but any benefits arising from these changes are likely to be outweighed by the difficulties that will result for the normative and cognitive roles on which its legal governance depends. The OECD is to be commended for its efforts to become a more inclusive organization but the cost of being inclusive is inflexibility. However, it is difficult to envisage a scenario in which the OECD would cease to exist. While it is untrue to say that international organizations never die the mortality rate amongst major international organizations born since 1945 is virtually zero, and most leading states seem to accept that an OECD-type body is worth retaining. Therefore the tentative conclusion is that the OECD has a future, but its shape and significance seem likely to be diminished by the tensions and ambiguities inherent to the OECD reform programme.

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SIMON LEE AND STEPHEN McBRIDE

CONCLUSION

The Need to Rebuild the Public Domain

1. ONE SIZE DOES NOT FIT ALL

The contributors to this volume have attempted to demonstrate that the exercise of state power and the pattern of global governance that has developed during the era of the hegemony of neo-liberalism have not followed a single, 'one-size-fits-all' trajectory. On the contrary, far from institutional and policy convergence, in the face of an irresistible tide of neo-liberal globalization, there has been great diversity in the responses to the exigencies of the Washington Consensus. Michael Whittall and Simon Lee have demonstrated that in Germany, England and Canada, national capitalisms have responded in markedly different ways to the pressure exerted by global competition. In the realm of developing economies, Michael McNamara has shown how the divergent experience of Latin American economies has illustrated the continuing importance of institutional differences in explaining the capacity of countries to adapt to the pressures of neo-liberal globalization. This analysis has been reinforced by Linda Elmore's discovery that the degree of convergence in the legal reforms undertaken in emerging market economies has been overstated, and by Christina Gabriel's conclusion that state sovereignty is still to the fore in the global governance of international labour, not least because of the competing interests of countries in the North and the South. Such conflicts have also been widespread during the first decade of the operation of the WTO, as Ted Cohn's analysis has shown. At the same time, Habiba Zaman's study has shown the human cost of embracing neo-liberal prescriptions in the domestic labour market has been extremely high for immigrant female workers. However, as Peter Graefe has demonstrated, in the face of neo-liberal pressures to dismantle established models of economic development, welfare provision and social cohesion, there is the possibility that neo-liberalism will itself be outflanked by the growth of community based organizations.

In the realm of global governance, a similar pattern of diversity in institutional performance and widespread neo-liberal policy failure has emerged from our contributors. Stephen McBride, Kathleen McNutt and Russell Williams have

S. Lee and S. McBride (eds.), Neo-Liberalism, State Power and Global Governance, 245–263.

identified major flaws in the neo-liberal fixation with 'flexibility' that has underpinned the OECD's 'Jobs Strategy'. Such flaws have reflected wider failings in the OECD's operation which Richard Woodward has concluded can be remedied only major reforms, including an enlargement of the OECD's membership, and an improvement in the links forged with non member states and civil society groups. Moreover, in the field of the governance of global financial markets, Johnna Montgomerie has identified how the financial liberalization promoted by neo-liberalism has resulted in consumer-led debt and fiscal instability rather than fiscal prudence and macroeconomic stability. As a possible remedy for such instability, Duncan Cameron has outlined the case for a new world currency unit to alleviate the financial shortcomings bequeathed by neo-liberalism. In a similar vein, Marc Lee has explored the case for a multilateral approach to competition policy, to address the interests of developing countries that have been neglected by neo-liberalism. For his part, Colin Tyler has pointed towards the need for a wholesale reform of the international institutional architecture, an abandonment of the simplistic pursuit of specific universal neo-liberal goals, such as trade liberalization, in favour of the creation of regional forums within the architecture to enable conflict resolution, and the development and enforcement of broad procedural rules for the exercise of state power.

The pattern that has emerged from our volume is consistent with a broader context of growing recognition of the deficiencies of neo-liberalism. Even John Williamson, the creator of the term 'Washington Consensus', has acknowledged the shortcomings of the neo-liberal agenda for state power and global governance. He has conceded that it has become 'something of a damaged brand', in that 'It failed to warn countries about some of the risks that they encountered. It neglected institutional reforms. And it was too narrowly focused on growth' (Williamson, 2003a: 329). However, rather than departing from the neo-liberal basis of the Washington Consensus, Williamson has concluded that 'The way forward is to complete, correct, and complement the reforms of a decade ago, not to reverse them' (Williamson, 2003b: 18). Reflecting upon the failure during the 1990s of Latin American economies to achieve more than half the economic growth they had recorded between 1950 and 1980, Williamson has contended that this disappointing economic performance has not resulted from the pursuit of neo-liberal policies per se. On the contrary, he has asserted that it was caused by a failure to push through the ten reforms advocated by the Washington Consensus, allied to a series of exogenous shocks, including the 1997 East Asian crisis and the 1998 Russian crisis. Since the institutional basis for the implementation of an ambitious programme of policy reform was weak, and because 'civil services, judiciaries, and the teaching profession were ill adapted for the modern world', Williamson has advocated a new generation of 'second-stage reforms' agenda for state power. Rather than developing an industrial policy, the state should confine its role to 'the key functions that it alone can fulfil: providing security, the institutional infrastructure of a market economy, and public goods; internalizing externalities; and looking after those members of society least able to care for themselves' (Williamson, 2003c: 308–309).

Therefore, rather than abandoning neo-liberalism, state power and global governance should seek to implement an agenda of 'crisis proofing' of economies; complete the first-generation reforms of the Washington Consensus; instigate 'aggressive second-generation (institutional) reforms;' and distribute income and empower poor people through a more progressive taxation system, and the provision of assets, i.e. education, land and credit, that will 'enable them to earn a decent living in a market economy' (Williamson, 2003c: 321). This conclusion is not shared by many other influential commentators and policy-makers. Dani Rodrik has asserted that even a new, refurbished version of the Washington Consensus will not offer poor countries an effective blueprint for state power and global governance. As an alternative to the neo-liberal orthodoxy of '"best practice" institutions + openness to trade and capital flows = economic growth', which Rodrik holds is 'likely to disappoint again', Rodrik has proposed an approach which emphasizes 'experimentation – both in the institutional and productive sphere – as an important driver of economic development' (Rodrik, 2002: 8). This is because neither good institutions nor technology can be acquired without significant domestic adaptation led by 'a pro-active role for the state and civil society, and collaborative strategies that foster entrepreneurship and institution building' (Rodrik, 2002: 8). For state power and global governance in the twenty-first century, Rodrik has therefore asserted that what is needed is 'less consensus and more experimentation', with scope for 'institutional imagination and participatory politics to devise development strategies that respond to and are appropriate to local needs' (Rodrik, 2002: 8).

Rodrik has asserted more recently that 'nobody really believes in the Washington Consensus anymore. The question now is not whether the Washington Consensus is dead or alive; it is what will replace it' (Rodrik, 2006: 974–975). Rodrik has based this claim upon the publication of a series of reports from international organizations, of which the World Bank's *Economic Growth in the 1990s: Learning from a Decade of Reform* (World Bank, 2005a) and UNCTAD's *Trade and Development Report, 2006* (UNCTAD, 2006) are the most prominent, in which the virtues of neo-liberalism and the Washington Consensus have been called into question. Indeed, while the Vice-President of the World Bank has acknowledged that 'there is no unique universal set of rules' (World Bank, 2005a: xiii) for development, in the case of UNCTAD, an alternative agenda for state power and global governance has been proposed. It is the potential for such an alternative agenda to emerge, based upon a rediscovery of the public domain, which this chapter seeks to explore.

2. THE PROJECT FOR A NEW COSMOPOLITAN CENTURY

The United Nations Development Programme (UNDP) has suggested that 'The challenge of globalization in the new century is not to stop the expansion of global markets, but rather to locate 'the rules and institutions for stronger governance – local, national, regional and global – to preserve the advantages of global markets and competition, but also to provide enough space for human, community and environmental resources to ensure that globalization works for people – not just for profits'. To this end, the UNDP has called for globalization with ethics, i.e. 'less violation of human rights, not more'; equity, i.e. 'less disparity within and between nations, not more'; inclusion, 'less marginalization of people and countries, not more'; human security, i.e. 'less instability of society and less vulnerability of people, not more'; sustainability, i.e. 'less environmental destruction, not more'; and development, i.e. 'less poverty and deprivation, not more' (UNDP, 1999: 2). Previously, the UNDP had argued that the central fallacy in the old ideological debate about the state and market was that they were 'necessarily separate and even antagonistic – and that one is benevolent, and the other not', when in practice, 'both state and market are dominated by the same power structures' (UNDP, 1993: 52–53). To make markets more 'people-friendly', there was a need to increase people's participation in 'the economic, social, cultural and political processes that affect their lives', because 'Participation, from the human development perspective, is both a means and an end' (UNDP, 1993: 21).

Following three decades, during which neo-liberalism has become the orthodoxy underpinning the process of global governance, it is now evident that there is little prospect of either giving globalization a human face or making markets 'people-friendly' until neo-liberalism itself is supplanted by a different ideological approach. At the very least, if the liberalism underpinning global governance is too entrenched to be challenged, or widely deemed the least worst approach to human development, then the 'neo' prefix needs wholesale redefinition. The role of the state must be broadly defined than simply building institutions for the market. Institutions also need to be built for society. Therein lies the problem (for the pessimist) and the challenge (for the optimist). The World Bank has argued that public sector governance, and the improvement of governance in general, is in many ways 'the biggest challenge facing developing countries' (World Bank, 2005a: 55). However, the biggest challenge facing the richer, developed countries is to rediscover the public domain as an arena of citizenship and collective action for the public good. In short, the key to the redefinition of state power and the reform of global governance lies, first, with the reintroduction of the concept of power to the very heart of politics. This is necessary to expose the full extent of the unaccountable power exercised by private market actors, notably TNCs. Second, there needs to be a re-balancing of the roles played respectively by the public domain of the state and citizenship, on the one hand, and the private domain of the market, consumer and entrepreneur, on the other, so that the balance is tipped in favour of the former. Only with this re-balancing will a greater sense of participation, legitimacy, transparency and accountability be possible in the conduct of global governance. During the early 1970s, what eventually came to be described as the New Right moved beyond technocratic debates about public administration by reintroducing the state into debates about politics and policy. It is now time for the concept of governance to be transcended in a similar fashion by the restoration of government and the public domain. While it may have provided a very useful means for capturing, in a descriptive sense, the sheer complexity and plurality of contemporary state–market relations, governance has also, perhaps unwittingly, served both to conceal the exercise of power by democratically unaccountable actors, notably TNCs, and to dilute the prescriptive element of political economy.

Among certain influential academic commentators, the key to the discovery of an alternative model, to displace the 'market fundamentalism' of the neo-liberal orthodoxy, has been located in the concept of the public domain. It is this domain, rather than the liberalized, private market domain of entrepreneurship, consumerism, profit and competition, that affords the possibility of delivering global social justice and effective public policies. The rediscovery of the public domain has been led by prominent social democratic thinkers, notably David Marquand, Will Hutton and David Held in England and Daniel Drache in Canada. Following the genocide and ethnic cleansing perpetrated in Rwanda and Kosovo, the series of major financial crises from Mexico through Asia and Russia to Argentina, and the trauma of 9/11 and its bitter aftermath of aggressive unilateralism (Lee, 2007a), Will Hutton has cautioned that 'The lesson of the last decade, a warning for the twenty-first century, is that the world needs an order that is more subtle and more sophisticated'. Indeed, because 'Security, prosperity are global public goods', they 'cannot and should not be provided as any one country dictates, or as a by-product of what it considers its interests'. As an alternative to the principles of American neo-conservatism, Hutton has advocated that the provision of global public goods must be both international and 'predicated upon an acknowledgement of interdependence' (Hutton, 2002: 11). For the effective exercise of state power in the United Kingdom, and Britain's broader role in global governance, Hutton has concluded that, while different cultures and approaches to capitalism must be allowed to flourish, the United Kingdom much choose European social democracy, and its traditions of social partnership and collaboration, over American neo-conservatism. The latter can only offer a nasty predilection for unilateralism, and a damaging portrayal of the realms of the social, the collective and the public domain 'as the enemies of prosperity and individual autonomy' (Hutton, 2002: 6).

The need to rediscover the public domain has been given increased urgency by the meteoric rise of the Chinese economy, and the development of major imbalances in the global economy, notably the current account and budget deficits in the United States, and the parallel surpluses in the current accounts of East Asian economies. Hutton had identified how the concept of the public realm, that flowed from the late eighteenth century European Enlightenment, is now vital for the future exercise of state power and global governance. In particular, the institutions, principles and processes of the Enlightenment, namely 'The rule of law, the independence of the judiciary, the freedom of the press, the scientific and research processes in independent universities, or the very idea of representative, accountable, checked and balanced government' (Hutton, 2007: x) must be embodied in the exercise of power by the Chinese state. For China to participate in the knowledge economy, it must construct the institutional structure, welfare system and property rights which form the basis of a pluralist capitalist economy and society (Hutton, 2007: 331). At the same time, to avoid the danger of a counter-productive slide into divisive protectionism and the narrow pursuit of national self-interest, a common sense of public purpose must be restored to global governance. This in turn is possible through a revival of the 'soft infrastructure of capitalism', and a collective recognition of the benefits of 'international action legitimized by a multilateral commitment to the rule of law and a self-confident rather than defensive, anxious West' (Hutton, 2007: 194, 345).

For Marquand, the revival of the public domain, and the retrieval of the 'confused, inchoate, but nevertheless unmistakable republican or civic humanist tradition' upon which it draws, constitutes nothing less than 'The central question for the politics of the twenty-first century' (Marquand, 2001: 83). The exercise of state power and global governance must be based upon the discovery of 'a twenty-first century equivalent of the Gladstonian "public conscience"', which in turn presupposes the rediscovery of 'a common culture, based upon a common moral code' (Marquand, 2001: 83). The public domain must be distinguished from the public sector because it is not a sector at all. On the contrary, it possesses four distinctive characteristics. First, it is 'an arena of social life, with its own norms and decision rules, cutting across sectoral boundaries: as a set of activities which can be (and historically have often been) carried out by private individuals or even private firms as well as by public agencies'. Second, it possesses its own values 'of citizenship, equity and service and the notion of a public interest, distinct from private interests'. Third, in it 'citizenship rights trump both market power and kinship bonds'. Fourth, in it 'Professional pride in a job well done, a sense of civic duty, Gladstone's "benevolence" or a mixture of all of them replace the hope of gain and the fear of loss as spurs to action' (Marquand, 2001: 74). To achieve this restoration of the public domain, Marquand asserts that social democratic renewal, the central objective of both Tony Blair and Anthony Giddens' conceptions of the 'Third Way' (Blair, 1998; Giddens, 1998) will not be sufficient. Instead, greater accountability must be sought, not through the price mechanism in the private market domain but through greater participation and openness. This in turn will only be accomplished through the application of principles of subsidiarity and pluralism to smaller scale organization rather than the 'bureaucratic centralism and top-down statism' of larger scale units characteristic of much of twentieth century social democratic politics (Marquand, 2001: 82).

In a similar vein, Daniel Drache has identified the need to rethink governance because of the absence of any provision at the global level 'for elementary social justice, the provision of social goods globally and other non-income objectives' (Drache, 2001a: 2). For Drache too, the public domain lies at the intersection between the state, market and civil society. The public domain is an arena characterized by consensus, co-operation and public discourse, but also by power, ambiguity and paradox. In short, the public domain 'is an arena of social life, with its own rules, norms and practices, cutting across the state and market and other public private agencies' whose values 'are those of citizenship, services and the notion of the public interest' (Drache, 2001a: 4). What distinguishes the public domain is that it is insulated from the private domain of market forces, such that citizenship rights rather than market power govern the allocation of social goods (Marquand, 1997: 5). Drache has asserted that governments have to discover ways to empower their citizens so as 'to improve public services, reduce public bads and introduce new regulatory instruments to act as a counterweight to global instability' (Drache, 2001: 37). However, this task must be based upon a less simplistic perspective on markets, a more realistic perspective on governance, the promotion of collective goals and the revitalization of public institutions (Drache, 2001b: 39). What this means for state power is not a state-less world, where the power and the authority of the state is constantly withering away in the face of the rolling forward of the frontiers of the market-through privatization, deregulation and liberalization. On the contrary, it means redefining the role of the state or 'state-ness' to create 'the appropriate model, strategy and resources for maintaining public authority in contrasting market economies' (Drache, 2001b: 40). For Drache, it is the public domain which will supply civil society with vitality and much of its organizational capacity (Drache, 2001b: 66).

At the level of global governance, David Held has sought to define a social democratic alternative to the neo-liberalism of the Washington Consensus, based upon the creation of a Global Covenant. Based upon a 'new internationalism', the Covenant would embrace eight fundamental cosmopolitan values and ethical principles, namely equal worth and dignity; active agency; personal responsibility and accountability; consent; collective decision-making about public matters through voting procedures; inclusiveness and subsidiarity; avoidance of serious harm; and sustainability' (Held, 2004: 171). The aim would be to promote the rule of international law; greater transparency; a deeper commitment to social justice; the protection and reinvention of community at diverse levels; and the transformation of the global economy into a free and fair rules-based economic order. To implement this agenda, priority measures for global governance would include the establishment of a representative UN Security Council and the creation of an Economic and Social Security Council to coordinate poverty reduction and global development policies. Longer-term measures would include democratization of national and suprastate governance to establish multilevel citizenship; a global constitutional convention to explore the rules and mandates of new democratic global bodies; the creation of a new international tax mechanism; the establishment of negotiating arena for priority issues, such as a world water court; and enhanced provision of global public goods (Held, 2004: 161–169).

There are two critical weaknesses in the social democratic agenda which Held has advanced which will need to be addressed if it is to challenge the neo-liberal orthodoxy in global governance. First, the very reason why neo-liberalism was embraced in the first instance during the mid-1970s was because of the perceived failure of social democracy. Neo-liberalism was popularized by Margaret Thatcher and Ronald Reagan as a reaction to and a critique of the perceived failure of the political economy of Keynes and Beveridge. If sceptical electorates are to be persuaded to once more embrace the principles of a social democratic agenda, its advocates have to provide a more persuasive explanation of why it now offers the solution to problems in the twenty-first century, when it was unable to provide convincing solutions to the stagflation which arose in the aftermath of the Oil Crisis of 1973–1974. Second, the project of a Global Convenant has yet to explain why it is that, in relocating vital questions of public policy from the national, international and supranational levels to the global level of governance, the customary intractable constraints imposed upon state power by conflicting interests and rival agenda for the control of policy and distribution of resources will magically disappear.

3. CHALLENGED FROM WITHIN: THE QUESTIONING OF THE WASHINGTON CONSENSUS

However, eminent the contributors, there is nothing novel in the presence of a well-developed academic critique of the Washington Consensus. However, what has added to the prospect of there being an eventual successor to neo-liberalism, as the basis for the exercise of state power and global governance, has been a series of reports from within the IMF and World Bank highlighting evidence of the failure of neo-liberalism. Prominent among these reports have been those emanating from the IMF's own Independent Evaluation Office (IEO). It has exposed significant flaws in the political economy of the neo-liberal approach to development, which the IMF has championed in its own policies. For example, the IEO has concluded that the prolonged general use of IMF resources tends to be associated with 'a negative impact on growth' and 'an overoptimistic bias as regards projections of real GDP growth and (for users of concessional facilities) export growth'. The IEO has further found the IMF's approach to structural reforms to have been 'often characterized by insufficient emphasis on fostering the deep institutional changes needed in critical areas'. The IMF has accorded insufficient priority in its programme design 'to a proper assessment of the implementation capacity constraints that a programme might face, be they related to political feasibility or to administrative capacity' (IEO, 2002: 11–12).

Consequently, the IEO has advocated that 'The IMF should strengthen the ability of its staff to analyse political economy issues in order to achieve a better understanding of the forces that are likely to block or enhance reforms and to take these into account in program design' (IEO, 2002: 15). Indeed, one IMF research paper has concluded that, while international financial integration should in principle help countries to reduce macroeconomic volatility, in practice, 'The available evidence suggests that developing countries have not fully attained this potential benefit. Moreover, the process of capital account liberalization appears to have been accompanied in some cases by increased vulnerability to crises' (IMF, 2003: 5). Although this has yet to be acknowledged in official IMF policy, this marks a considerable departure from the IMF's September 1997 Annual Meeting, when the IMF was seeking an amendment to its Articles of

Agreement to permit it to promote freedom of capital movements (Lee, 2002: 286). Furthermore, in its 2003 Annual Report, the IMF conceded that 'While derivatives could play a positive role in contributing to a more efficient allocation of risks in financial markets, these instruments could also be used to avoid prudential safeguards and take on excessive leverage' (IMF, 2003: 14). This is a frank admission of the limits to the IMF's capacity to govern liberalized financial markets. The principal constraint on the IMF's foresight remains the inherent uncertainty and volatility which characterizes liberalized financial markets and the constant capacity of unfettered entrepreneurship to produce new, innovative financial products. Since it also can only exhort the world's largest debtor economy, the United States, to reform its own fiscal policies, the IMF has the power neither to stabilize private markets nor to reform the conduct of macroeconomic policy in major economies, notably the United States and Japan.

The IMF too has reluctantly, or unwittingly, acknowledged the contribution of state power to Korean recovery from the damage wrought by the Asian financial crisis. In particular, the role of the Korean Asset Management Corporation (KAMCO) has been vital in addressing the 118 trillion won (equivalent to 27 per cent of GDP) of Non-Performing Loans (NPL) which had arisen during 1997–1998 as a result of the Asian financial crisis. KAMCO has led the process of restructuring Korea's financial markets by purchasing distressed assets from banks and other financial institutions, which in turn enabled lending to resume even though liquidity was scarce. By purchasing 44 trillion won of NPLs between March 1998 and December 1999, and thereby creating a market for distressed assets, the state was addressing and effectively overcoming the very same informational and coordination problems which had inspired state-led industrial modernization during the 1960s and 1970s. To facilitate the market to recover, the Korean state had to inject 85 trillion won into 14 commercial and three specialized policy banks, thereby increasing its overall control in the sector from 33 per cent of banking sector assets at the end of 1996 to 54 per cent by the end of 2000. The state also sold of assets to foreign investors, such that by the end of 2000, they held 32 per cent of commercial bank assets (IMF, 2002: 101–102). In effect, the Korean state had cut out irresponsible domestic private investors and placed the rescue of Korea's financial institutions firmly in the hands of the state and foreign investors. By November 2002, KAMCO had sold two-thirds of the assets purchased by KAMCO's Non-Performing Asset Management Fund. Indeed, by the end of 2003, the Korean state had recovered 63 trillion won of the total of 157 trillion won of public funds (equivalent to 32 per cent of GDP during 1998–2000) devoted to the restructuring of the financial sector (He, 2004: 3–6).

The role of KAMCO, a centralized publicly-owned asset management company, itself created in April 1962 during the era of the nascent Korean developmental state, has demonstrated the continuing importance of state power in governing liberalized markets. Indeed, the very scale of the cost of intervention by the Korean state has demonstrated the dangers that liberalization, privatization and deregulation can generate if private market actors are given the license to pursue their own self-interest at the expense of national development and prosperity.

The irony is that the IMF has continued to be in denial about the importance of the role of the state and the public domain. For example, it has criticized the state for its encroachment into commercial banking for creating 'an uneven playing field in the otherwise competitive commercial banking sector' (IMF, 2002: 104). Paradoxically, it has then called upon the Korean state to use a centralized decision-making process in the privatization of banks assets (IMF, 2002: 107). IMF staff have also recommended the sale of government-owned shares in KAMCO to the private sector to 'ensure a commercial orientation, thereby creating incentives to focus on core competencies, economize on operating costs, and maximize profits and efficiency' (He, 2004: 21). However, the very evidence assembled by the IMF has shown that, without the strategic interventions of the state, there would no longer be a competitive commercial banking sector. The market has been shown to be incapable of self-regulation because of its proclivity, if left insufficiently governed, for contagion, volatility, panic and moral hazard.

The IMF is not alone in having published a series of major reports that have been sceptical about the benefits of neo-liberalism. Since the onset of the Asian financial crisis in July 1997, the World Bank has become more markedly sceptical about the virtues of liberalized financial markets for macroeconomic stability. For example, in its first major evaluation of the Asian crisis, far from advocating a strategy of state disengagement from the market to give private actors the freedom to recover from their mistaken investment and reckless borrowing, the Bank recommended a policy of state-led bank restructuring. This would maintain investor confidence, and be based upon 'a deliberate policy of picking winners among banks and corporations' (World Bank, 1999: 44–51). Indeed, the Bank suggested that weakened private banking systems might receive infusions of public funding equivalent to as much as 30 per cent of GDP (World Bank, 1999: 87). Furthermore, in its second major study of the aftermath of the crisis, the Bank did not advocate rolling back the frontiers of the state. As an alternative, it identified a new role for public intervention in sustaining a new set of micro-economic fundamentals, or strategic initiatives for institutions and growth, by 'managing globalization, revitalizing business, and forging a new social contract' (World Bank, 2000: 142). In short, the Bank had learnt from the Asian financial crisis that 'any attempt at a one-size-fits-all policy agenda is ill-advised' (World Bank, 2000: 110).

However, it is with the publication of *Economic Growth in the 1990s: Learning from a Decade of Reform* that the World Bank has provided the most extensive evidence of the dubious benefits of undiluted neo-liberalism for the role of the state and global governance. In reviewing the experience of the 1990s, the World Bank has concluded that 'Unquestionably, macroeconomic stability, domestic liberalization, and openness lie at the heart of any sustained growth process'. What needs to be conceded is that 'the options for achieving these goals vary widely', and 'Which options should be chosen depends on initial conditions, the quality of existing institutions, the history of policies, political economy factors, the external environment, and last but not least, the art of economic policy making' (World Bank, 2005a: xii). This is an extraordinary conclusion for the Bank to draw for a number of reasons. First, in effect the Bank has acknowledged the importance of context, both internal and external, and history and politics in shaping institutions, policies and economic performance. The problem for it is that, if 'political economy factors' are then to be taken seriously, what must be recognized, and not just from recent history, is that state power has been used to pursue a wide variety of paths of modernization, of which the neo-liberal variant is but one. Indeed, the history of ideas in political economy as a discipline has included major figures, such as Friedrich List and John Maynard Keynes whose work was founded on heterodox solutions which challenged the assumptions of the existing orthodoxy.

The second reason why the Bank's conclusions are extraordinary is that they have revisited the same tensions which accompanied the publication of its report *The East Asian Miracle* (World Bank, 1993). It attributed the exceptional performance of East Asian economies to macroeconomic fundamentals and sustained investment in education, but refused to accept that state-led industrial policies had governed the market in Japan and South Korea. Once more, the Bank has repeated its view that East Asian economies had confirmed 'the importance for growth of macro-stability, of market forces governing the allocation of resources, and openness'. However, on this latter occasion, the Bank emphasized that 'these general principles translate into diverse policy and institutional paths, implying that economic policies and policy advice must be country-specific and institution-sensitive if they are to be effective' (World Bank, 2005: xii). Third, the Bank has conceded that there were 'several negative surprises' during the past 15 years, namely, 'transition recession' in the former Soviet Union and Eastern Europe; continued stagnation in Sub-Saharan Africa; financial crises (in Mexico, Korea, Malaysia, Thailand, Indonesia, Russia, Brazil, Turkey and Argentina); a delay in recovering growth, particularly in Latin America; and the collapse of the hard exchange-rate peg in Argentina (World Bank, 2005: 8).

At this juncture, it is important to acknowledge that the World Bank has placed some major caveats upon its critique of neo-liberalism. While acknowledging that 'there is no one right way to achieve development', the Bank has also insisted that '"one size does not fit all" should not be interpreted as "anything goes"'. What is needed instead is 'not less economics but more and better economics, to identify the exact set of policies and institutional changes needed to address binding constraints on growth, based on first principles in each instance' (World Bank, 2005: 267). For example, the Bank has maintained that 'the basic economic principles behind most of the reforms of the 1990s were correct', even when conceding that there is a need for greater emphasis upon 'common principles, along with a more pluralistic approach to implementing those principles' (World Bank, 2005: 253). In short, rather than modifying or abandoning neo-liberalism, the Bank has proposed to strengthen and further entrench 'market fundamentalism' around 'common principles'. Moreover, the Bank has claimed that 'while reforms in the 1990s focused on increasing the role of markets and decreasing the role of the state, they tended to neglect the role of institutions' (World Bank, 2005: 10). Thus, the Bank's fixation remains ensuring the same limited but effective role for the state which it famously identified in its 1997 report, *The State in a Changing World* (World Bank, 1997). The principal threat to development remains the unchecked power of the state, and, consequently, it has insisted that government discretion needs to be managed and checked, for 'on balance, the costs of failure outweigh the benefits of discretion in the workings of an activist, developmental state' (World Bank, 2005a: 14).

The Bank has remained reluctant to acknowledge any form of market failure. For example, in relation to privatization, it has claimed that 'contrary to some perceptions, privatizing utilities did not hurt the poor. Consumers with access (a few of them poor) paid more when prices were raised, but they benefited when service improved, as it did by any physical measure of performance'. However, even the Bank has had to concede that 'Expectations on the role that the private sector could play in infrastructure clearly proved unrealistic' and that 'The 1990s experience shows how difficult both privatization and regulation are. There is no universally appropriate reform model. Every restructuring and privatization program needs to consider explicitly the underlying economic attributes and technology of each sector and its institutional, social, and political characteristics' (World Bank, 2005a: 165, 195). Despite its insistence that liberalization remain one of its core principles, the Bank has had to concede that 'the growth benefits of the financial and non-financial reforms in the 1990s were less than expected' (World Bank, 2005a: 207). It has suggested that 'Perhaps the most important lesson of the 1990s for finance is that the financial sector's contribution to development depends not just on resource mobilization but also on attention to institutions: intermediaries, markets, and the informational, regulatory, legal, and judicial framework' (World Bank, 2005a: 226).

The Bank has claimed the weaknesses of institutions 'were no just a technical issue: they reflected the difficulty of changing the previous state-led development system and more fundamentally, its underlying political-economic basis within a short period, while restraints on markets could be and were quickly lifted' (World Bank, 2005a: 226). If this is the Bank's conclusion about the difficulty of institutional reform, it raises the question of why it has insisted that openness remain one of the central pillars of the neo-liberal model. The consequences of exposing weak institutions to the full rigour of international capital might result in detrimental volatility and instability, as had been proven in Mexico, Russia, Turkey, Brazil and Argentina. Furthermore, the Bank has concluded that 'Government is needed to support better markets, without intervening excessively in them, backed by an open political process that limits the distortions of finance in favour of well-connected parties' (World Bank, 2005a: 235). However, this market-based approach continues to discount the instability and volatility which may arise from the actions, not of politics, but the market itself, in the form of rogue traders and the very volatility, mania and panics characteristic of open, liberalized financial markets.

In contrast to the World Bank's reluctance to face up to the full implications of the findings of its own reports, the United Nations (UN) has been much more prepared to contemplate a major departure from neo-liberalism. For example, the United Nations Millennium Project (UNMP) has identified a key role for the state and the public domain in the achievement of the Millennium Development Goals (MDGs). Public investments have been portrayed here as being vital for 'a "private-based" market economy'. Indeed, neither governance failures and poverty traps will be surmounted, nor the ladder of economic development scaled unless the specific public investments in infrastructure and private sector promotion are made. Consequently, the UNMP has advocated four stage, and 3-to-5-year MDG-based poverty reduction strategies as part of a broader 10-year framework to achieve the Millennium objectives (UNMP, 2005: 31, 57). At the same time, the UNMP has identified a seven point agenda for nurturing the private sector to create a successful long-term MDG framework (UNMP, 2005: 121–124).

A central flaw in the UNMP analysis is that, in calling for increased public investment by poor countries in health, education, public administration and governance to foster a '"private-based" market economy', it has neglected one of the principal reasons why these economies have struggled to finance their development. This is the difficulty in raising tax revenue to finance public expenditure from both trans-national corporations (TNCs), equipped with complex transfer-pricing and accounting systems, and an impoverished local population. The UNMP has conceded that 'almost every dimension of governance is highly correlated with income', and that 'poorer countries with low levels of human capital are less able to afford good governance' (UNMP, 2005: 110–111). In identifying a two-way causation between growth and good governance, which posits that 'good governance can contribute to economic growth and bad economic governance can certainly impede growth' (UNMP, 2005: 112), the UNMP's call for 'a broad-based strategy' to meet the MDGs simply cannot escape the question of the overall distribution of resources between rich and poor countries. To simply state that 'The private sector long ago learned that good management requires resources', and that 'the same holds in the public sector' (UNMP, 2005: 114) is to overlook the root causes for the lack of resources in the first place. Freed of much of the fiscal burden of the costs of defence and security incurred during the Cold War, the richest industrialized economies sooner or later will have to confront the same scenario that was presented to them at the Earth Summit in 1993. In short, neither global poverty nor global warming will be alleviated unless the most affluent economies are prepared to finance the overwhelming majority of the requisite investment.

In this regard, the UNMP has identified the costs of achieving the MDGs. Having stood at $65 billion in 2002 and $69 billion in 2003, global official development assistance (ODA) needs to reach $135 billion in 2006 and $195 billion by 2015, because to meet the MDG goals in all countries by 2015 will cost $121 billion in 2006 and $189 billion in 2015. The global MDG financing gap, between total MDG investment needs and domestic resource mobilization, will be $73 billion in 2006, rising to $135 billion by 2015 (UNMP, 2005: 240, 246, 249). For some of the poorest economies in Sub-Saharan Africa, the infrastructure financing gap has been estimated at between $7 and 12 billion a year or around 4.5 per cent of GDP between 2005 and 2015 (World Bank, 2005: 54). To meet the MDGs in all countries with adequate governance will cost 0.44 per cent of OECD countries' gross national income (GNI) in 2006 and 0.54 per cent in 2015, well below the 0.7 per cent of GNI (UNMP, 2005, 252–253). The problem is that the international community is now failing to deliver the resources. Although official development assistance (ODA) increased by 5 per cent in real terms in 2003, at 0.25 per cent of donors' average gross national income, it stood at only three-quarters of the level of the 1970s, 1980s and early 1990s, and around only half of the level of the 1960s (World Bank, 2005b: 154).

To make possible the achievement of the MDGs, Jeffrey Sachs has called for a Global Compact to end poverty, based upon the proposal from the UNMP for a MDG-Based Poverty Reduction Strategy. The Strategy would be composed of five elements. First, a '*Differential Diagnosis*', to identify the policies and investments necessary to achieve the MDGs. Second, an '*Investment Plan*', to identify the size, timing and costs of the requisite investment. Third, a '*Financial Plan*', to finance the Investment Plan, including the MDGs' Financing Gap which the donor states would have to fund. Fourth, A '*Donor Plan*', to identify the multi-year donor commitments necessary to close the MDGs' Financing Gap. Fifth, a '*Public Management Plan*', to identify the means of governance and public administration that would assist the implementation of the public investment strategy in the poor countries. Under the Compact, poor countries would have the right to receive development assistance only if they delivered their commitments to good governance. (Sachs, 2005: 265–274). Following the UN Millennium Project methodology, Sachs has estimated that increasing net ODA flows to $135 billion in 2006 and then to $195 billion per year in 2015 would amount to an increase from about 0.44 to 0.54 per cent of the richest states' GNP. This sum is well below the UN benchmark of 0.7 per cent of GNP, which would deliver $235 billion per year (in constant 2003 dollars). More importantly, as Sachs has noted, the MDGs can actually be financed from within the confines of the ODA that has already been pledged by donor states (Sachs, 2005: 299).

4. REPLACING THE LADDER OF DEVELOPMENT BY LEARNING FROM HISTORY

The problem with Sachs' analysis and agenda for global governance, as with all recent work that has focused upon the importance of re-introducing institutions to the political economy of development, is that it would require institutional re-engineering on an heroic scale. Without the prior replacement of neo-liberalism, such action would be futile, even if it was feasible. As both the IMF and World Bank's analysis of the effects of privatization, liberalization and deregulation upon economic growth and human development during the 1990s have shown, what is now needed is not 'more and better economics' to refine neo-liberalism, but an alternative political economy. The Bank in particular remains trapped within a narrow, technocratic mindset that has reduced politics to the engineering and re-engineering of institutions. There are two vital omissions from this analysis. First, this institution-centric analysis has omitted any consideration that the neo-liberalism animating the digits of the invisible hand of the market and the visible hand of the state might be seriously flawed as an ideology of industrialization and development, because it is too dependent upon actors which are inherently risk-prone, volatile and subject to moral hazard and contagion. Second, this analysis is ahistorical, in that it has omitted any reference to the pattern of industrialization experienced by the richer economies themselves. In so doing, as Ha-Joon Chang has argued, the rich, developed countries have effectively kicked away the ladder of development which enabled them to climb to the top. A common denominator of the pattern of industrialization experienced by Britain, the United States, Germany, France and Japan, Korea and other Asian developmental states was that all of these economies systematically nurtured their own infant industries, and did not rely upon the kind of institutional structures which are now advanced as the foundation of 'good governance'. Nor was there a single pattern of intervention. Many different strategies and policies were adopted, depending upon the particular internal and external circumstances of the economy involved. However, all were united by the preparedness of the public domain to build institutions for development and industrialization, rather than for the global market and the tenets of good governance (Chang, 2002: 10, 65).

In effect, today's lesser developing economies are being entrapped into a political economy of development which has diverged sharply from that which their more developed rivals experienced at a similar stage of their development. As an alternative route to development, what these economies need to do is 'to learn from history', specifically that of the riches industrial economies. Furthermore, Chang has argued that, because today's lesser developed economies have to surmount a much greater productivity gap to catch up with the more advanced economies, they actually need to impose much higher tariffs than those who industrialized much earlier to have any prospect of successfully nurturing their own infant industries (Chang, 2002: 67, 70). At the same time, the very notion of 'good governance', with its accompanying range of institutional and policy prescriptions, has itself ignored the fact that, when the more advanced economies were themselves industrializing during the nineteenth and early twentieth centuries, they were not encumbered with the costs of liberal democracy until these could be afforded or were demanded by an increasingly well-educated population. As Chang has concluded, many of the institutions which are now regarded as tenets of 'good governance' were the results rather than the causes of economic development (Chang, 2002: 129). Moreover, it should not be forgotten that even the most rapid processes of industrialization, such as that which occurred in South Korea, took several decades. In their desire to impose their institutional engineering upon the poorer economies, the technocrats of the World Bank and IMF appear to have forgotten how little is still understood about the relationship between institutional development and overall economic performance. They have also forgotten how long it took economies to industrialize, and the extent to which that process was the subject of trial and error, historical accident and factors peculiar to each specific country. There is a need for very much more of the emphasis upon 'humility, for policy diversity, for selective and modest reforms, and for experimentation' that Rodrik has identified in the World Bank's own evaluation of the lessons of the 1990s (Rodrik, 2006: 975).

In its *Trade and Development Report, 2006*, UNCTAD has outlined the basis for an alternative developmental paradigm to neo-liberalism. This agenda has been given greater salience by the fact that UNCTAD's Secretary-General, Supachai Panitchpakdi had previously served as Director General of the WTO between September 2002 and 2005. He had witnessed at first hand the failure of the WTO's Doha 'Development' Round because of the inability of the rich, industrialized economies to persuade developing economies that a neo-liberal approach to trade governance would offer them an effective platform for growth and development. Panitchpakdi has noted that 'although liberalization and deregulation may have generated efficiency gains, these gains did not automatically translate into faster income growth. Instead, they often led to growing inequality' (Panitchpakdi, 2006: v). States have been encouraged by neo-liberalism to embrace capital account liberalization, but this has proven both 'theoretically flawed' and misleading in practice (UNCTAD, 2006: 134). At the same time, in the global economy, there are global imbalances which, to a significant degree, reflect and are a consequence of 'vital systemic deficiencies', notably the absence of 'a viable multilateral financial system' (UNCTAD, 2006: 10). As a consequence, UNCTAD has advocated 'a fundamental reorientation of policy' that recognizes that 'The unsatisfactory outcomes of the market-oriented reforms pursued in a majority of developing countries since the early 1980s may largely be due to the reduced number of policy instruments available to policymakers under the development paradigm of the past 25 years' (Panitchpakdi, 2006: ix).

What is needed is policy innovation, by broadening the range and kind of policy instruments available to developing countries beyond those sanctioned by neo-liberalism. Market forces alone have not delivered 'the pace and structure of productive investment and technological upgrading necessary for catch-up growth and sustained poverty eradication' (UNCTAD, 2006: 42). The result or the pursuit of the neo-liberal orthodoxy was that Latin America achieved annual average GDP growth of only 1.8 per cent during the 1980s and 3.3 per cent during the 1990s, while Sub-Saharan Africa failed to achieve an average of 3 per cent during either decade. Indeed, per capita incomes actually fell during the 1980s by an annual average of 0.3 per cent in Latin America and 0.4 per cent in Africa (UNCTAD, 2006: 45–46). If developing economies are to replicate the near 9 per cent growth averaged by East Asian industrializing economies during the 1960s and 1970s, and the more than 7 per cent averaged during the 1980s and 1990s, they must embrace an alternative political economy.

To rectify the developmental deficit, UNCTAD has sought to move the debate about state power and global governance beyond the Monterrey Consensus. It has rejected the Sachs' report's implicit endorsement of neo-liberalism's reliance upon the invisible hand of the market for human development. Instead, UNCTAD has pointed towards the World Bank's own acknowledgement that '"there are many ways of achieving macroeconomic stability, openness, and domestic liberalization"', and that in the successful industrialization of East Asia, '"The role of activist industrial policies is still controversial but is likely to have been important"'(World Bank, 2005: 12, 83, cited in UNCTAD, 2006: 59). Therefore, if it is to be deployed effectively, state power must recognize that successful developmental strategies have been based upon 'investment-friendly macroeconomic policies, the use of a broad array of fiscal and regulatory instruments in support of capital accumulation, technological upgrading and structural change, and the existence of effective institutions to support and coordinate private and public-sector activities' (UNCTAD, 2006: 64). In short, the lessons of East Asian developmental state-led industrialization must be brought to the fore, including the importance of directing credit towards 'long-term investment financing and cheap export financing, while restrictions were placed on consumer credit and the financing of real estate and stock market speculation' (UNCTAD, 2006: 131). Developing economies must look to 'a broader industrial strategy', one that 'combines temporary protection with public support that nurtures the innovative capabilities of domestic private enterprises and increases their rate of investment and technological upgrading' (UNCTAD, 2006: 157).

Rather than always looking to the neo-liberal prescription of 'more market, less state', policies must be devised that 'combine private initiatives with public support' (UNCTAD, 2006: 164). This redefinition of the role of the state will not be successful unless the external framework provided by global governance is also refashioned, so as to allow developing economies the necessary policy autonomy to implement proactive trade and industrial policies. However, such a transformation may not be possible until there is a change in policy and personnel in the White House, and the abandonment of a foreign policy based upon pre-emption, aggressive unilateralism and the flouting of international law (Lee, 2007a, b). The first social democratic 'Washington Consensus' was drawn up at Bretton Woods in 1944 because the United States understood that the post-war recovery of the economies of both its allies and enemies, that was duly facilitated through the Marshall Plan, was essential to its own prospects of lasting prosperity. The second neo-liberal Washington Consensus was forged because the US' national interest was perceived to lie in the dismantling of the first. If the vital global public goods of security, prosperity and environmental sustainability are to be delivered in the twenty-first century, it is to be hoped that George W. Bush's successor will see the advantage in forging a new, third, post-neo-liberal consensus about state power and global governance, but in a public domain more extensive than the corridors of Washington. Hope for the future resides in the reflection of one presidential candidate that 'The IMF and World Bank need to recognize that there is no single, cookie-cutter formula for each and every country's development'. Indeed, 'No country has a bigger stake than we do in strengthening international institutions – which is why we pushed for their creation in the first place, and why we need to take the lead in improving them' (Obama, 2006: 318, 320).

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