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## Whither the State? Pressures from above, below and the flank

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### Abstract

*Un point de vue commun est de dire que , selon une approche traditionnelle, le pouvoir de l'État-nation est en voie d'érosion, du fait de la mondialisation par le haut , et par le bas, par la déliquescence. Ce document examine l'influence limitative des forces contradictoires sur l'État, à savoir la globalisation et les institutions mondiales et régionales par le haut et la diversité et la décentralisation des forces venant d'en bas. En dehors de ces deux fortes pressions, la réduction des effectifs de l'État à la suite de la privatisation et du transfert horizontal des compétences pour le secteur non gouvernemental a aussi une influence importante. Le document tente également d'évaluer le développement de la société civile et de sa valeur dans le discours.*

*En tentant d'aller au-delà de la thèse selon laquelle la mondialisation rend obsolète l'État-nation, la politique peu pertinente et la souveraineté nationale une coquille vide, cette étude aborde également la question de savoir si la mondialisation rend les États-nations inutiles. Est-ce le prélude à un ordre post-westphalien?*

**T**he distinctive historical transformations of the state in the late twentieth century is reflected in a set of megaprocesses characterised by changes in the global production systems, new technologies, a spatial reorganisation of global capitalism, the end of the Cold War etc. These have contributed to the reshaping of the limits of state sovereignty, if not outright a decomposition of the state. States today are subject to triple pressures. From above, there is the impact of global standard-setting that is eroding national

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competence (World Bank, IMF and the WTO). Domestically, smaller government and privatisation are compounding this further as the state cedes to the civil society and the private sector. The third pressure is from below in terms of devolution to local bodies, and special safety nets for minorities and the disadvantaged within the polity. In some cases, regional languages and cultures are enjoying a renaissance. In short, the power of the nation state is eroding from above, by globalisation, and from below, by devolution. The third factor is more horizontal and is related to globalisation working at the domestic level to erode the competence of the state.

Decades ago, in his book "The End of Ideology", Daniel Bell asserted that the state was becoming too small to handle really big problems and too large to deal effectively with small ones. Canadian economist and public servant Sylvia Ostry feels that Bell's vision, perhaps, is now manifest. In any event, she holds that the accelerating pace of structural transformation of the global economy places increasing strain on the adaptive capacity, and hence legitimacy, of governments and international institutions. The basic problem of policy lag is now different by a quantum degree. She speaks of two clocks ticking - the clock of accelerating interdependence and the clock of domestic and multilateral decision-making, without there being any sign of synchronisation.<sup>1</sup>

We take on first the issue of erosion from above, by globalisation although the devolutionary pressures are not entirely independent phenomena. The challenges presented by globalisation have now spawned a new "space" - the virtual country<sup>2</sup>. This was no doubt inevitable with the earlier success of the famous "end of history" intellectual fad that greeted the fall of the Berlin Wall. In a world of virtual countries, so the story goes, there is only one hegemon - capitalism. This updated version of the end of history, albeit equally simplistic, does however rest on an important fact - the growing ubiquitousness and power of the main agent of globalization, the multinational enterprise (MNE). The initial part of this section attempts to sketch out, after Sylvia Ostry, the key features of investment-led globalisation and then to describe some of the implications of globalisation for the new international agenda of deeper integration.

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<sup>1</sup> See Sylvia Ostry, "Globalisation and the nation-state: erosion from above" (Timlin Lecture, University of Saskatchewan, Feb 1998); "The deepening integration of the Global Economy" (Havana, January 1999); "Globalisation and Sovereignty" (J.R. Mallory Annual Lecture, McGill University, March 1999); "Globalisation: what does it mean?" (G-78 Annual Conference, Econiche House, Ottawa, October 1999)

<sup>2</sup>Richard Rosencrance, "The Rise of the Virtual State," *Foreign Affairs*, July/August 1996, pp. 45-61.

It must however, be borne in mind that the MNEs, powerful as they are, are not the only new global actors challenging the power of the nation state. The international non-governmental organisations, or INGOs, are also playing an increasingly important role in policy-making - both domestic and international. The main features of this important, but little understood, development will also be dwelt upon in the subsequent subsections. In the concluding part, some of the arguments which question the benefits of globalisation will be briefly reviewed. The growing backlash which is now emerging in the rich industrialised countries has not yet spawned a coherent policy response to the deepening integration of the global economy - not surprisingly since the debate has only begun. But judged in the light of history, it would be unwise to ignore the new signs of discord.

## I

### **Pressures from above**

It is only appropriate that this discourse begin by tracking the globalisation process. This could provide the context for understanding, even prognosticating, the trajectories along which states would evolve, reshape and reorganise competencies, and recreate common identities for their citizens.

The international economy was beginning a process of dramatic transformation almost precisely at the time that the Uruguay Round (the eighth round of multilateral trade negotiations since the GATT) was launched in September 1986. The term globalisation was first used in 1986 and was spawned by the investment surge of the second half of the decade which involved all the leading countries of the OECD and not, as in the earlier postwar period, just the U.S. Most of it was in capital- and technology-intensive sectors and services. Hence, technology flows (as captured from the very inadequate measure of royalties and fees) also exploded, increasing from an annual negative growth rate of 0.1 to 22 percent between the first and second half of the decade. After a slowdown in the early 1990s (because of recession in the OECD countries), investment flows started to pick up again, but this time with a difference. No longer overwhelmingly dominated by the OECD countries of the Triad (Europe, Japan and the U.S.), non-OECD countries, especially China, are now increasingly important host and home countries. Further, a new type of "investment", in the form of strategic technology alliances (STAs), also proliferated during the 1980s and 1990s. Although data are scarce, there is enough evidence to show that some, albeit a minority, of these alliances involve both Triad and non-OECD firms.

The growing importance of foreign investment is highlighted by a few facts. In 1995, worldwide sales of foreign affiliates were over \$6 trillion - 30% higher than world exports. Between 1985 and 1996, investment outflows increased by nearly 20 percent, twice the growth rate of exports or output. The total global stock almost quadrupled - from \$679 billion in 1985, it rose to \$3.2 trillion in 1996. Trade and investment are increasingly linked. An estimated one-third of exports are intra-firm, but that global average is far higher for capital and technology-intensive industries and 70 percent of technology earning are intra-firm transactions. Thus for the U.S., nearly half of manufacturing exports and over 60% of imports flow within the firm. Once licensing and royalty payments as well as franchising fees are taken into account, in the mid-1990s, 80% of earnings for U.S. goods and services sold abroad are linked to the activities of American multinationals.<sup>3</sup>

Most of the intra-firm trade is in intermediate goods and reflects the creation of vertical intra- or inter-firm global networks which link different parts of the value-added chain. Even within service industries, rapid developments in information and communication technologies (ICT) have increased tradability and enabled firms to allocate portions of the production process to foreign affiliates. With international rivalry intensifying, global integration of production will grow as firms seek to capture the economies of geographic diversification. Their ability to do so is enhanced by the ongoing revolution in ICT, which is both an enabling factor and a driver. Moreover, in industrial sectors where product customisation is essential for market penetration, horizontal integration, which involves geographic differentiation of products, is now of growing importance, especially in the rich industrialised countries of the OECD. Thus, if we think of linkages among countries in terms of successive stages of global integration, the postwar linkages were strengthened by successive rounds of trade liberalisation which reduced the border barriers of interwar protectionism. The second was the linkage by vastly increased financial flows spurred by the recycling of the OPEC surpluses of the 1970s and the wave of deregulation of the 1980s. And the third is investment-led globalisation which is leading to global production networks. Hence, the use of the term "deeper integration".

Before going into some of the policy implications of deeper integration, it is worthwhile to look into the role of the ICT revolution in the globalisation process. While previous technological revolutions had profound effects not only on the economy but on the broader society, there is a plausible case for the claim that the ICT revolution is the "biggest technological juggernaut that

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<sup>3</sup> UNCTAD, World Investment Report, 1995, p. 38.

ever rolled."<sup>4</sup> The convergence of information, communication and computer technologies differs from previous techno-economic paradigms, both because of the speed of transformation and the pervasiveness of impact, not only on manufacturing but, for the first time in economic development, on many services industries, including governments, the biggest service provider of all.

In the manufacturing sector or more traditional industrial production, which would include services such as transport, wholesale and retail trade, the impact of ICT on both enterprise and industrial organisation has been to reduce the "middle layers". The result has been flatter organisations with fewer middle managers, the spread of just-in-time production systems and closer integration of production with demand thus reducing storage and inventory costs as well as intermediaries such as wholesalers. This shake-out restructuring has proceeded much further in the U.S. than elsewhere, but the ongoing job loss has been mitigated by growth stimulated largely by investment in ICT equipment. In other countries, where the full impact of restructuring is yet to be experienced and investment in ICT has lagged, the effects of job loss are likely to be more serious. Finally, in the manufacturing sector, the ICT revolution has made it cheaper and easier to manage far-flung and widely dispersed production networks leading to, as already noted, the ongoing vertical integration.

The impact of ICT on services has been to increase their tradability - in effect to make services more like manufacturing. The traditional notion of services highlighted their immaterial, intangible nature which required that they be consumed when and where produced. Because ICTs rest on the "codification" and storage of information, they provide the means of separating by time and space the production and consumption of a large number of service activities such as financial services, consulting and engineering, professional services, international reservation services in air transport and hotels, research and development, education and health services etc. This permits more tradability and more transnational networking.

However, it is easier to codify information to be embodied in material goods - dishwashers, robots or cars - and routine information management tasks in any sector than those "soft" skills crucial to the information services which require talent, creativity and continuous learning. There is thus an inherent tendency to widening inequality in the technology (in entertainment and in financial services innovation, for example, with the "winner takes all" income

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<sup>4</sup>The term, adapted from George Gilder, as quoted in Chris Freeman and Luc Soete, "Work for all or mass unemployment?", London, 1994, p. 44. The analysis of the new information revolution is comprehensively documented by the authors.

paradigm). Finally, this move to a new growth trajectory driven by the soft rather than the hard side of ICT clearly enhances the comparative advantage of the U.S., for a variety of reasons including its dynamism, flexibility, and English language. This strongly affects the policy dimensions of deeper integration.

#### ▪ *The Deeper Integration Policy Agenda*

The "shallow integration" of the GATT was focused mainly on transparent border impediments (or proxies for such impediments) to trade flows. Reducing these barriers through successive rounds of negotiations clearly involved some degree of constraint on governmental freedom of action but, based as it was on the exchange of roughly equal offers of tariff reductions, or broad reciprocity, this constraint was limited. Indeed the original, if implicit, concept underlying the GATT was the preservation of national diversity and a variety of "interface" mechanisms were included to ensure that domestic priorities could be balanced with international obligations.

The erosion of national autonomy took a different form in the second stage of interdependence - the liberalisation of financial flows. Policy autonomy at the macro level, i.e. monetary and fiscal policy, began to shrink at a rapid rate when deregulation of financial markets and the acceleration of the ICT revolution spurred a torrent of round the clock financial flows which vastly outweigh trade flows among countries. The flows of foreign exchange have been estimated to be over one and one-quarter trillion dollars a day and fear of capital flight has made the foreign exchange market far more powerful than any finance minister or central banker. Ostry argues that efforts to mitigate the impact of these flows so as to provide governments with more room to manoeuvre, especially in implementing fiscal policy, have led to repeated calls for some form of tax on short-term spot transactions.

In response to the Mexican crisis in 1995, these proposals were revived before the 1995 Economic Summit in Halifax, but rejected as unworkable in a global economy where new technologies can create offshore sites almost instantaneously. New forms of surveillance for the IMF were, however, adopted as a result of Halifax, as a means of preventing further crises. Their first test - in Thailand in the summer of 1997 – failed, and criticism of the IMF grew as the currency turmoil in Asia spread. According to Ostry, the Asian crisis was, however, of a fundamentally different nature than the Mexican, centred not on sovereign debt and macro policies, but on "soft infrastructure" – basic structural issues which include regulatory deficiencies, corporate governance, legal regimes and political governance. The genie was out of the bottle. Thus, the second stage of interdependence has and will continue to

severely constrain national room for macro policy, whether for good or for evil.

The third stage of interdependence, to which the term deeper integration or globalisation has been affixed, however, is of a different nature and order of magnitude. In large degree, this relates to the role of the MNEs and their policy influence, especially in the U.S. Market entry by means of trade and investment is essential for MNEs, especially in high-tech sectors and services. The two modes are complements rather than alternatives, and market presence by investment is a two-way channel for both technology diffusion and technology access. Most importantly, impediments to market access by either mode of entry are no longer confined to overt border barriers to trade or explicit restrictions that limit foreign investment and would thus also prevent access to advancements in knowledge generated by universities or research laboratories. Rather, impediments to effective access can often arise from domestic regulatory policies, legal cultures, private sector actions, the structure of financial markets or innovation systems which have an exclusionary effect by accident or design - by system differences in the broadest sense of that term which encompasses institutional arrangements and historical legacies. The agenda of deeper integration therefore, must cover both trade in goods and services as well as investment; and will involve an intrinsic pressure for harmonisation. In a meaningful sense, the destination of the path of deeper integration is a global single market. This directional push is reinforced by locational competition for investment so that the MNEs building production networks around the world can exert greater pressure on governments to lower taxes, provide fiscal and other incentives and reduce transactions costs associated with different regulations and legal regimes.

The full impact of the ICT revolution clearly has some distance to go and a fourth phase of global integration is now visible in the growth of electronic commerce. This new world of cyberspace, reflective of the underlying shift in the technology trajectory from "hard" to "soft", and the growing importance of "network markets" - especially telecommunication - literally eliminates borders so that the term "domestic policy", according to Ostry, could become an oxymoron. Be that as it may, the main issue for the subject at hand is that the steadily deepening integration of the global economy is in effect creating a momentum to a global single market. Of course, we may never arrive at that destination, but the pressure for system convergence - harmonisation of domestic policies and institutions - will be fed by locational competition for investment, regulatory arbitrage by MNEs, rapidly changing communication modes, and international economic policy in both multilateral and regional fora.

In sum, the deeper integration agenda is far more intrusive and erosive of national sovereignty than the founders of the GATT could have ever imagined. The original GATT mode of negotiation by broad reciprocity will be less and less relevant. Ostry also argues that because of system differences, which include structural asymmetries of access, with the U.S. being the most porous, deregulated and transparent in the legalistic sense, the new protectionism will take the form of system friction, as the US-Japan high tech battles of the 1980s so amply demonstrated. More broadly, with a wide diversity of inherited legal institutions in Asian countries - from indigenous or colonial regimes, system harmonisation seems unlikely and it will take patience and skill to negotiate rules which spell out the lines between "efficiency" and "sovereignty". And it will require considerable reinforcement of the World Trade Organisation (WTO), seriously ill-equipped to "govern" a global single market. Moreover, changes are now underway in both the IMF and the World Bank that will increasingly target soft infrastructure, which in turn, will require better coordination between these two institutions and the WTO.

#### ▪ *New global players: International NGOs*

The deeper integration agenda at present largely reflects the agenda of the MNEs, but there are also other new global players of growing significance - the International Non-Governmental Organisations or INGOs. Virtually non-existent at the onset of the century, they grew to over 500 by 1990 with most of the growth taking place after the Second World War. By way of comparison, intergovernmental organisations and states numbered around 300 and also grew, although at a far slower pace, after WWII as a result of postwar reforms in international policy and the demise of colonialism. So the INGOs are a relatively new but increasingly pervasive institutional phenomenon.

The INGOs are very diverse in nature but have certain characteristics in common. They are flourishing today in part because of ICT which permits rapid and inexpensive global networking. And they are very skilled in dealing with the media, especially television. Sylvia Ostry terms them also as "transformational coalitions" that are less concerned with traditional interest group issues like the division of the pie than with the recipe for making it, and thus their agenda is often at odds with the other players - governments and the MNEs. In a sense, they are post-Enlightenment, linked less by a rule of reason than by a rule of morality or values. The most prominent INGOs at present are the Greens and their influence was already evident at the Marrakesh meeting which concluded the Uruguay Round in April 1994 and also established a Committee on Trade and Environment to report to the first WTO Ministerial Conference in Singapore in December 1996.



It is no accident that the Greens were the first to play a role in trade policy at the launch of the renewed multilateral rules-based trading system. In 1994, the implementation of the North American Free Trade Agreement (NAFTA) included specific environmental provisions: the first in trade history. And the 1994 United Nations Conference on Environment and Development (UNCED) - the Rio Earth Summit – because of its endorsement of the INGOs' role in international policy-making, has been described as a watershed event for nongovernmental organisations. It would be recalled that they were actively involved in the preparatory process, in national government official delegations, and in drafting. New international alliances were launched, thus expanding their transnational scope.

Perhaps most importantly over the longer-run, UNCED requested the UN's Economic and Social Council (ECOSOC) to formalise the rules for INGO participation in the policy process of the United Nations institutions. The Report of the Working Group on the Review of Arrangements for Consultations with Non-Governmental Organisations was issued in July 1996 and spells out in considerable detail the status and role of NGOs in the U.N. system. The effort to draw a fine line between the role of member governments and the NGOs is reflected in the complex and detailed drafting during what were no doubt a highly contentious series of meetings. Nonetheless, the report marks a potentially major transformation of the postwar international policy-making architecture.

While the environmental groups are the most prominent and most active in the global arena, they are part of a much broader phenomenon now receiving increasing attention under the rather broad and perhaps ill-defined term "civil society", to include all manner of non-governmental institutions or even informal group interactions from philanthropic bodies and professional societies to community sports clubs. A distinction is sometimes made between community-based associations organised around mutual social interests, and mass membership organisations – like the environmental, human rights, women's groups - based on single interests and more akin to the traditional business and trade union lobbyists. These latter groups are, by definition, policy oriented and thus more relevant in the context of the issue at hand. But even within this category of non-market, non-governmental organisations, the World Bank differentiates between advocacy NGOs, both national and international and operational NGOs engaged in the delivery of services largely at the local level. The World Bank, Ostry notes, is increasingly engaging with both these institutions as it has been under sustained attack to incorporate environmental considerations into its overall policy framework and to utilise NGOs rather than government agencies in recipient countries

for service delivery as a means of building "social capital", another ill-defined, but currently in vogue term.

It should be stressed that the influence of the INGOs, as exemplified by the environmental groups, has been greatly enhanced by the ICT revolution, both by agile and skilled use of the media (especially television) and by the low cost and global span of communication linkages such as e-mail. While the environmental movement is decades old, their impact on policy has been gathering force only in the past few years. Rio, NAFTA, Greenpeace's stunning victory over Shell in 1995;<sup>5</sup> and the equally stunning impact that same year of animal rights groups in the U.K. on the long-standing European Commission policy with respect to the transport of live animals - provide plausible evidence to support this assertion of growing policy impact. Of course, such "victories" can be matched by equally significant "defeats", such as the growing dismay that the post-Rio policy results have been less than expected. There is an ongoing struggle within the environmental movement between the more radical activists and the more pragmatic "realists" that promise to intensify and the outcome is by no means clear. The "realists" have formed alliances with business in some sectors to add to the weight of "green" approaches in policy formation and to explore technical solutions to environmental problems. This of course has been derided as "collaboration" by their more assertive colleagues. Further, since the most powerful INGOs are based in the OECD countries, and especially in the English-speaking countries, it is also not clear how "universal" their messages really are. For this and other reasons, indigenous INGOs are proliferating in some Latin American and Asian countries.

Finally, the media-based advantage of the radicals - the attraction of apocalyptic messages in the age of sound bites - has produced the inevitable backlash from another INGO, the scientific community. The so-called Heidelberg Appeal, signed by 218 scientists from different countries, including 27 Nobel Prize winners, issued on the eve of the Rio conference, is illustrative. While asserting support for the objectives of the Earth Summit, the declaration stated: "We are however worried, at the dawn of the 21st century, at the emergence of an irrational ideology which is opposed to scientific and industrial progress and impedes economic and social development."<sup>6</sup> For "irrational and ideology", Ostry prefers the more neutral "post-Enlightenment". Descartes said, "I think therefore I am." The new

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<sup>5</sup>See "Shell to consult pressure groups," *Financial Times*, March 17, 1997, p. 19. The high-profile event involved abandonment of years of planning by a powerful MNE and forced a fundamental change in corporate strategy by including environmental and human rights groups as formal advisors on new projects.

<sup>6</sup> *Wall Street Journal*, June 1, 1992, p. A12

information age equivalent, according to her, could be: "I'm on the Internet, therefore I am."

The view that there is a fundamental conflict between a paradigm of faith or values and that of science or reason as the fundamental basis for policy discourse and practice demonstrates how difficult it will be to integrate these new transnational actors into the "establishment" which has dominated the Western world for two centuries. In a broader sense, the proliferation of NGOs and INGOs does reflect an often inchoate and implicit reaction to the impact of globalisation in, for example, the erosion of national sovereignty by global market forces and of the legitimacy of political parties. And no doubt, the end of the Cold War and the demise of the Soviet state have diverted the energy of dissent into new "causes". In fact, one reason for the popularity of the NGOs in the OECD countries is the sense of "empowerment", which implies a further intrusion into state authority. In developing countries, operational NGOs are seen as a substitute for "incompetent or corrupt" governmental institutions. Finally, the ongoing crisis of the postwar welfare state in all the OECD countries, rightly or wrongly attributed to the forces of globalisation, has no doubt added to the attractiveness of both advocacy and operational NGOs. Thus, Ostry argues, that the increasing power of non-governmental actors in both the domestic and international arena, in part at least, is indicative of a growing backlash to globalisation.

#### ▪ *Globalism Revisited*

The triumphalism which greeted the fall of the Berlin Wall and the demise of the Soviet state is beginning to sound quaint as the pictures of the "new world disorder" and the return of history flood the television screens and choke the internet. In the field of international economics, a torrent of new books questions the benefits of globalism or decry its malign effects. Part of this outpouring no doubt simply reflects millennial angst as we embark on a voyage into the alien territory of the 21st century. Part of it is also a reaction to the triumphalism which equates globalism with Nirvana and a sense that something is missing. Ostry, however, would not dismiss the angst and anger as overheated rhetoric which insists that globalism is Armageddon. She points to several substantive features of this debate which has only just begun.

One of the more questionable assertions about globalism is that it provides a unifying set of norms, principles and values - the new hegemon capitalism. Apart from the fact that the Cold War acted as a powerful constraint on trade disputes by creating a spillover from "high" to "low" policy and that in the future, with the disappearance of the "evil empire", the spillover may be reversed, this single hegemon thesis is vapid in other important respects.

Market models may vary significantly from country to country as do institutions and historical heritages and the pressure for convergence to one model - the "unique" American model - has and will continue to generate system friction. More to the point, as was clear in the development of American trade policy in the 1980s, this will sometimes generate aggressive unilateralism which undermines the multilateral rules-based trading system. This is not to suggest a likely replay of the protectionist upsurge of the 1930s with its disastrous economic and political consequences. Rather, the more likely outcome would be continuing instability and uncertainty and an undermining of global growth.

But a protectionist backlash stemming from system friction and unilateralism is only part of the story. The investment-led globalisation trend is, as argued earlier, pushing in the direction of a global single market. The compelling arguments for a global single market are economic. Consumers would be able to buy the best products at the lowest prices anywhere and everywhere. The gains stem not only from the static, once-and-for-all efficiency gains from eliminating barriers but also, and more importantly, from dynamic efficiencies which would increase growth and create new jobs as global competition forced firms to restructure, network, and innovate. A global single market would, in other words, de-link the economic optic of the nation state and the global corporation. Global distribution of production would blur the national identity of any particular product. "Global" growth would increase, "global" consumers would benefit, but the distributional effects of these gains, the distribution of winners and losers both among and within countries, would affect the immobile factors of production - the land and, most of all, the labour of the nation state. It is, indeed, the impact of globalisation on labour markets which lies at the heart of much of the recent attack on globalisation. Since the mid-1980s, the demand for less-skilled and less-educated workers has fallen in all OECD countries. In Europe, this has resulted in increased, long-term unemployment while in the U.S., it has shown up in a decline in average real wages at the bottom of the scale and a huge rise in earnings inequality.

Since these labour market maladies are unlikely to be short-lived and both the economic and political consequences will be serious, the basic causal factors have been the subject of a growing number of studies both by academics and by international institutions such as the OECD.

At the risk of oversimplification, most mainstream economists have argued that technological change, which is biased in favour of the highly skilled and highly educated, is the main factor explaining these developments, with trade playing a very minor role. More recently, however, a number of new studies present a strikingly different scenario. First, by taking into account not just

trade but also immigration and investment flows, globalisation contributes to a much more significant proportion of the increase in earnings inequality. And, more importantly, because an increasing number of unskilled jobs can be shifted to other countries (whether developing or developed), the demand for labour has become far more elastic and this has and will continue to bring downward pressure on earnings.<sup>7</sup> So far this effect is most apparent in manufacturing; but, as has been noted, intra-firm global networks are now being established in a number of service sectors where the jobs are not unskilled in the traditional "blue collar" sense but require considerably higher levels of technical expertise. Only the most educated and most skilled - who are also the most mobile and can therefore, command the highest rewards - are likely to be immune to this globalisation effect. As time goes on, Ostry asserts, it will not be so easy to sneer about "globaloney"!

She is quick to state also that it would be wrong to dismiss the impact of continuing technological change as a factor. The new technologies require higher levels of cognitive and interactive skills. And, although there are industry variations, the new technologies both reduce the skill content and share of low-skill jobs, while increasing the skill content and share of high-skill jobs, especially in service industries - the main source of new jobs in the future and especially those jobs with non-codifiable information characteristics. The fastest growing jobs in services will be at the high end, which requires non-codifiable talent and creativity and at the low end in retail, healthcare, domestic service, gardening, janitorial work, etc. which are likely to increase significantly because of demographics. Thus, the new technology will be a continuing source of inequality in the future.

As noted earlier, until now, this mismatch between the relative demand for and supply of the unskilled has had different outcomes in Europe and the United States. The basic reason usually provided for the difference is that in Europe, labour market institutions set a floor for real wages and unemployment results, while in the U.S., real wages are remarkably flexible and declining earnings are the outcome. The contrast however, is more complex. The transatlantic difference in labour market maladies is but one, albeit profoundly important, aspect of far broader systemic differences between Europe and the U.S. The American paradigm - fluid, flexible and disposable, with a far greater tolerance for inequality and far greater scepticism (or hostility) to government - is deeply rooted in America's historical origins. The continental European model includes a far more extensive welfare state inherited from the postwar period and indeed

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<sup>7</sup>For a review of published and unpublished studies as well as analysis of the demand elasticity argument see Dani Rodrik, *Has Globalization Gone Too Far?*, Institute for International Economics, Washington, D.C., 1997.

created largely because of the bitter experience of the interwar years. The contrast between the U.S. and Europe has been characterised as a contrast between Exit and Voice.<sup>8</sup> An Exit paradigm is far more adaptable in a period of rapid change because in Exit, social change is ensured through an anonymous mechanism that ensures victory for the most efficient - winners are rewarded and losers appear to disappear.<sup>9</sup> But when losers have a Voice and governments must engage in a long and difficult process of political renegotiation of the postwar social contract, the "rigidities" which were not terribly important when growth was high, and moving in established channels become powerful impediments to adaptability in a time of ongoing and pervasive transformation. The renegotiation of the European postwar social contract which would be formidable even in the best of times is made far more difficult today because of slow growth, fiscal and monetary constraints and the erosion of the tax base by locational competition for jobs. One logical and expected response to these explosive political pressures would be to round up the usual suspects - foreigners, whether immigrants or traders or countries with lower wages. And this is now a feature of the European scene - the backlash against globalisation.

What is more significant - being more surprising - is the backlash building in the U.S. As the NAFTA debate illustrated, the losers seem to have found a Voice, or rather a strange collection of voices including, for example, Ross Perot and Pat Buchanan on the right and, among many others, Ralph Nader on the left. Nader attacked "unaccountable transnational corporations": Buchanan railed against "amoral behemoths". The failure at the end of 1996 to achieve approval for a renewal of "fast track" - the right to negotiate trade agreements which require an up or down vote by Congress - may have been an early warning signal.

So where does all this leave us? Globalisation is presented as an unstoppable force and it no doubt is. But the search for some set of policy options which would seek to maximise its undoubted benefits, but also mitigate its equally undoubted damaging effects on the losers, has really not begun. The transatlantic discord on the "best" model, while muted, is growing, not receding. The widely proclaimed death of the Asian model which is being

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<sup>8</sup> A. Hirschman, *Exit, Voice and Loyalty*, Cambridge, 1971 and Alexis Jacquemin and David Wright, *Corporate Strategies and European Challenges Post-1992* Journal of Common Market Studies, December 1993.

<sup>9</sup>An excellent example of the dynamic adaptability of the American model is the new retailing strategy to maximise the growing bifurcation of the consumer market into the wealthy top and the poorer bottom (60%) - the "Tiffany-Wal-Mart" strategy. If the middle-class is disappearing, why bother trying to sell to them? See "Two-Tier Marketing," *Business Week*, Mar. 17, 1997, pp. 82-90.

heralded in the American media will hardly help. So consensus on a policy approach is remote in the absence of vigorous policy leadership. Ostry sees an obvious paradox here. The demands on countries for policy innovation at home and for more effective international policy cooperation and coordination are far greater in the world of deeper integration than they were in the postwar years when the role of government was expanded and the postwar international institutions created. But that was the golden age of growth when OECD growth rates were two or three times the current trend rates. As already noted, adapting to change, especially change which involves wrenching adjustments in the lives of many citizens, is far easier in a growth-friendlier environment. The challenge is magnified because these citizens, especially in democratic societies bombarded by sound bites, daily perceive the decline in national authority and this continues to undermine the credibility of governments and feeds the erosion of social cohesion. So the real question here is not whether the nation state is becoming a minor bit player on a global stage where the starring roles are assigned to the MNEs, and the INGOs are mounting larger and louder demonstrations outside the theatre, but whether there is the political will and skill to re-invent government and global governance. If there is, Ostry sees the heralding of not the end of history but the beginning of a new future. If there is not, the triumphalist tenor of the original assertion, she insists, will sound increasingly foolish, if not worse.

## II

### Pressures from below

The formal political system today faces a new geography of power. Globalisation and the new technologies have contributed to the shrinking of state authority and the explosion of a whole series of new actors engaged in governance activities.<sup>10</sup>

Professor Saskia Sassen of the University of Columbia sees in the current phase of the world economy significant discontinuities with the preceding periods and radically new arrangements. This becomes particularly evident in the impact of globalisation on the geography of economic activity and on the organisation of political power. There is an incipient unbundling of the exclusive authority over its territory that has long been associated with the nation-state. The most strategic instantiations of this unbundling she identifies as:

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<sup>10</sup> Sassen, Saskia; *Losing Control?: Sovereignty in the Age of Globalization* (Columbia University Press, 1996)

- a. the global city, which operates as a partly de-nationalised zone for economic, political and cultural activities; and
- b. the Internet as a space for civil society that escapes all conventional jurisdictions and is also incipiently de-nationalised.

At a lower order of complexity, the transnational corporation and global markets in finance can also be seen as such instantiations through their cross-border activities and the new semi-private transnational legal regimes which frame these activities.

Briefly, the major dynamics leading to these new conditions are the following. Privatization and deregulation - two key features of economic globalisation - have shifted power away from public bureaucracies and onto the world of private corporations and markets. Shrinking state functions linked to social welfare broadly understood have relocated a growing range of responsibilities in this domain onto civil society. The weakening of international public law and the strengthening of market forces in the international system have produced growing inequalities in the socio-economic situation of people worldwide and a diminished will and fewer resources in the formal political system to address these. A growing number of international and non governmental organisations have stepped in. Finally, the enormous growth of the Internet represents an expanding zone where most established jurisdictions (i.e. various state authorities) are neutralised.

In her reading, the impact of globalisation on state authority or sovereignty has been significant in creating operational and conceptual openings for other actors and subjects<sup>11</sup>. At the limit, this means that the state is no longer the only site for sovereignty and the normativity that comes with it, and further, that the state is no longer the exclusive subject for international law and the only actor in international relations. Other actors, from NGOs and minority populations to supranational organisations, are increasingly emerging as subjects of international law and actors in international relations. The growth of the Internet keeps strengthening the options of non-state actors.

The ascendance of a large variety of non-state actors in the international arena signals the expansion of an international civil society. This is clearly a contested space, particularly when we consider the logic of the capital market - profitability at all costs - against that of the human rights regime. But it does represent a space where other actors can gain visibility as

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<sup>11</sup> See Sassen, Saskia; *Globalisation and Its Discontent* (1997); New York: New Press.



individuals and as collective actors, and come out of the invisibility of aggregate membership in a nation-state exclusively represented by the sovereign. There are two strategic dynamics that Sassen isolates here, viz.:

- a. The formation of conceptual (including rhetorical) and operational openings for actors other than the national state in cross-border political dynamics, particularly the new global corporate actors, NGOs, and those collectivities whose experience of membership has not been subsumed fully under nationhood in its modern conception, e.g. minorities, immigrants, indigenous people, and many feminists.
- b. the fact that this dynamic brings with it an incipient de-nationalising of specific types of power that used to be embedded in the national state and have now been relocated, at least partially to global corporations and markets, NGOs, international organisations and sub-national structures, particularly global cities, and transnational spaces, particularly the Internet.

She identifies the large city of today emerging as a strategic site for these new types of operations. It is one of the nexuses where the formation of new claims materialises and assumes concrete forms. The loss of power at the national level produces the possibility for new forms of power and politics at the subnational level. The national as container of social process and power is cracked. This cracked casing opens up possibilities for a geography of politics that links subnational spaces. Cities are foremost in this new geography.

One question this engenders is how and whether we are seeing the formation of a new type of transnational politics that localises in these cities but is part of a transnational network of such localisations. The local is today part of cross-border networks rather than simply the bottom or smallest level in the conventional spatial hierarchies that have dominated formal political systems, i.e. local-national-international. The Internet plays a strategic role in this re-positioning of the local.

There is little doubt that the Internet is an enormously important tool and space for democratic participation at all levels, the strengthening of civil society, and the formation of a whole new world of transnational political and civic projects. But it has also become clear over the last few years that the Internet is no longer what it was in the 1970s or 1980s; it has become a contested space with considerable possibilities for segmentation and privatisation. We cannot take its democratic potential as a given simply

because of its interconnectivity. We cannot take its "seamlessness" as a given simply because of its technical properties. And we cannot take its bandwidth availability as a given simply because of the putative exponential growth in network capacity with each added network.

This is a particular moment in the history of digital networks, one when powerful corporate actors and high performance networks are strengthening the role of private digital space and altering the structure of public digital space. Digital space has emerged not simply as a means for communicating, but as a major new theater for capital accumulation and the operations of global capital. But civil society - in all its various incarnations - is also an increasingly energetic presence in cyberspace. The greater the diversity of cultures and groups the better for this larger political and civic inhabitation of the Internet, the more effective the resistance to the risk that the corporate world might set the standards. From struggles around human rights, the environment and workers strikes around the world to genuinely trivial pursuits, the Internet has emerged as a powerful medium for non-elites to communicate, support each other's struggles and create the equivalent of insider groups at scales going from the local to the global.

The political and civic potential of these trends is enormous. It offers the possibility for interested citizens to act in concert across the globe. It signals the possibility of a new form of politics, namely, local politics with a difference - simultaneous action in multiple localities or local action with an awareness of many other localities struggling around similar issues. We are seeing the formation of a whole new world of transnational political and civic projects.

These developments in the transnational networks that connect cities and in the digital space of the Internet bring with them a series of new interactions between what has been constituted as the private and the public, the domestic and the international. The public can now operate through the private and the private through the public. For instance, markets are taking over many of the functions that used to be in public bureaucracies and so are NGOs. On the other hand, market forces and corporations can now influence public agendas to a much larger extent than was the case twenty years ago - powerful corporations always did influence public policy, but what we are seeing today is on another scale. Similarly, NGOs have grown in number and in influence. The large international organisations such as the World Bank now are expected to consult with NGOs and large western donors now often prefer to fund NGOs in developing countries for development and public work rather than the governments.

### ▪ *Civil Society and the Future of the Nation-State*

Non-governmental organisations (NGOs) have been around for fairly a long time. Today, however, they occupy centrestage due to their diversity, breadth of coverage, and, perhaps most interestingly, the transnational networks that they are forming. One issue that has emerged forcefully in recent years is that of NGO influence on states. Recent research reveals that it is only a small minority of mostly the very large western NGOs that lobby states. Some of the lobbying has a global circuit. Further, we also see innovative strategies for influencing governments that go beyond western style lobbying. For instance, NGOs delegating part of their staff to governments and trying to change the government position on specific issues from the inside. There are also joint venturing with state agencies, which is another way of shaping a government's agenda on specific issues. These cases also represent the increasingly ambiguous distinction of private/public in the contemporary context.

Evidence shows that NGOs can effect power redistribution even though they do so slowly and often at micro scales: e.g. micro-credit extended to women has done more to empower them than government legislation and Bureaus of Women's Affairs. More generally, today NGOs often directly engage questions of democracy, empowerment and redistribution in a way that they did not in the past.

There is an emergent hyper-critique of NGOs today, focused particularly on the large western NGOs that are well financed, operate globally and have basically technocratic organisational standards. They are basically depoliticising the motivations and objectives of NGO activists and, more broadly, depoliticising international political movements<sup>12</sup>. The large, well-funded NGOs have developed multiple standards that they implement in their work and expect compliance with on the part of workers and beneficiary communities all over the world --and embedded in specific cultures. They have the effect of "westernising" what they get engaged with; they do so through the implementation of organisational standards and codes across borders and through imposition on people who may have a very different experience or perspective on an event or notion of politics. This leads to the formation of an elite stratum of NGOs that become the favourites of large Western donors and set the standards for other NGOs if they are to be funded.

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<sup>12</sup> Cooley, A and Ron, James (2002); *The NGO Scramble: Organisational Insecurity and the Political economy of Transnational Action* (International Security, vol. 27, issue 1 pp 5-39)

In addition, this world of NGOs is often seen as a part of the West's hegemonic project - by instituting standards and aiming at strengthening western style liberal democracy, they have the effect of making places safe for western-style capitalism. These elite NGOs often by-pass national governments in developing countries arguing that they want to institute standards and western style democracy in places where the national and local governments are not oriented in this manner.

A lot of NGOs may have started in opposition to the state, but have become mutually constitutive with it. Today, they wind up augmenting the capacities of states, providing the equivalent of welfare services, generally subcontracting "state work." Consider the case of ISO-14000 (the environmental protection series of standards in the International Standards Organization). In the US, it deploys more inspectors going from factory to factory checking on compliance with standards than the government's Environmental Protection Agency (EPA). But one question is whether there is capture of national environmental agendas by specific interests, notably corporate interests embedded in the state. By acting as enforcer of national law, ISO does not function as a critic, potentially in opposition to the state, but merely as an entity augmenting the inspection capacities of the state.

Some of the depoliticisation of NGOs evident in the above series of examples is emblematic of a broader pattern of depoliticisation of power generally, e.g. the privatisation of public bureaucracy functions and relocation of these functions onto the world of corporate agendas.

But some of these developments may also be pointing to new forms of the political, forms which are not embedded in state forms or privatised forms. The distributed power made possible by the Internet and the types of NGOs that can benefit from this do represent, it would appear, a new world of the political. Securing distributed power, its reproduction, its diversification, its growth and multiplication will mean we need to invent new forms. There are crucial examples of this inventing, notably open-source operating systems and "insurgent technologies." This line of thinking does also raise a question about the need to find new ways of naming what it is that we are describing when we speak today of the world of NGOs, with their enormous diversity, resources and relations to the formal political apparatus. It is clear that simply saying NGOs has become inadequate because we are grouping many different political projects, some related to existing power and others in opposition to it. In this regard, the concept of Post-governmental Organisations (PGOs) is an intriguing one.

▪ ***Civil Society and the Future of the Nation-State: The other view***

Civil society is a broad term denoting the wide range of organisations operating outside the governmental and business sectors. It has taken on greater significance in a world in which the state is increasingly beset from within by armed rebellions and ethnic tensions and from without by the border-leaping forces of globalisation. Civil society has come, simultaneously, to be thought of as encompassing everything that is not the state and as exemplifying a set of inherently democratic values. And hence, the dogma holding that strengthening civil society is the key to creating or sustaining a healthy polity has come to dominate the thinking of major charitable foundations, as well as human rights and humanitarian organisations<sup>13</sup>. In the framework of development aid in particular, the shift from channeling assistance to governments, as had been the case well into the 1980s, to offering it to local nongovernmental organizations (NGOs) has been justified not simply as the inevitable prudential response to states misusing aid but as a way of building civil society.

That this emphasis on local “capacity building” and on fostering civil society arose at exactly the moment when development aid from most major donor countries was plummeting (in many countries, including the United States, they are now at historic lows) may, of course, be coincidental. But in the development sphere, at least, ideological commitment to making states “responsive” to civil society seems to have been accompanied by a determination to cut funding. Viewed from this angle, to David Rieff, the idea of civil society begins to look less like a way of fostering democratic rights and responsive governments and more like part of the dominant ideology of the post-cold war period: liberal market capitalism. A perfect example of this synthesis of emancipatory sentiments and faith in free markets can be found in the pivotal role assigned to civil society in the prevention of deadly conflict in strategic thinking in the late 1990s. One such report reads: “Many elements of civil society can work to reduce hatred and violence and to encourage attitudes of concern, social responsibility and mutual aid within and between groups. In difficult economic and political transitions, the organisations of civil society are of crucial importance in alleviating the dangers of mass violence.”<sup>14</sup> The paragraph then argues, without break or transition, into the following assertion: “Many elements in the private sector around the world are dedicated to helping prevent deadly conflict.”

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<sup>13</sup>David Rieff, *The False Dawn of Civil Society* (The Nation 1999)

<sup>14</sup> Executive Summary of the 1997 Carnegie Commission on Preventing Deadly Conflict

Obviously, the communitarians, human rights activists and liberal foundation executives who first raised the banner of civil society were no more interested in helping refurbish liberal capitalism's ideological superstructure than was the human rights movement in making its cause the quasi-religious faith of the international new class, but this is nonetheless exactly what they have done. Reiff argues that it is a safe assumption that any term that can be embraced as warmly by the Clinton Administration and the European Commission as "civil society" has been, threatens no important vested interests in the rich world.

Again, there is no question of a subterfuge. The idea of civil society simply coincides with the tropism toward privatisation that has been the hallmark of these post-cold war times. Far from being oppositional, it is perfectly in tune with the Zeitgeist of an age that has seen the growth of what proponents like Bill Clinton and Tony Blair are pleased to call the "Third Way" and what might more un sentimentally be called "Thatcherism with a human face." As these countries go about privatising prisons, or development assistance and are in the process, Reiff apprehends, of privatising military interventions into places like New Guinea, Sierra Leone and Angola by armies raised by companies like Sandline and Executive Outcomes, so also the notion of privatising democracy-building. The thesis is to give up on the state's ability to establish the rule of law or democracy through elections and legislation, and instead give civic associations - the political equivalent of the private sector - a chance to do their thing.

The fact that all this comes couched in the language (and the imaginative framework) of emancipation does not, in and of itself, make it emancipatory. Indeed, there are times when writers like Reiff wonder if the advocates of civil society are the useful agents of globalisation. In further undermining the state, they undermine the only remaining power that has at least the potential to stand in opposition to globalisation (Reiff chooses to call it "the privatisation of the world").

All the major nations seem to have emerged from the cold war weaker and more incoherent than they were when they entered it. And for good reason. The course of the world economy has been deeply subversive of the established structures of power. Such perceived and real loss of power has been followed by a loss of legitimacy. It is now politicians who are the supplicants and corporate executives who are viewed as the dispensers of wisdom and authority and the holders of real power. The European Union countries were not able to muster the resolve to end the Bosnian war, but they were able to launch European monetary union at the behest of corporate Europe - an event that in many ways was European capitalism's end run

around a half-century-old social contract between capital and labour, now seen to be interfering with the corporate bottom line.

In the United States, a renewed ethnic consciousness has led to what seems like a flowering of a multiplicity of allegiances; in Western Europe, the subsumption of nation-states in the project of the European Union, as well as the arrival of large numbers of nonwhite immigrants for the first time in several centuries, has produced similarly subversive effects on the legitimacy of the nation. Faced with such confusions, David Reiff wonders if the ideal of civil society, which does not seek to oppose this fragmentation but rather to capitalise on it, should have become so important.

Reiff also sees in this blend of economic and democratic determinism the easy combination of a deep fatalism about the future of the nation-state. Political scientists constantly assure that we have been going through the most profound change in international relations since the establishment of the Westphalian order. Nations have been clearly less and less able to affect investment flows and have thus been judged to be turning into hollow shells. And the future of supranational institutions like the UN system is seen as being, if anything, bleaker still. Better make a virtue of necessity and insist that the new medievalism of civil society, with the NGOs playing the role of the guilds in fourteenth-century Italy, would be an improvement over a world of etiolated nation-states in which even that *sine qua non* of state power, a monopoly on violence, is in many cases no longer assured.

Proponents of the effectiveness of civil society point to examples of the successful opposition of popular action to repressive regimes or state policies. Civil society is less equipped to confront the challenges of globalisation than nations are, and more likely to be wracked by divisions based on region and the self-interest of the single-issue groups that form the nucleus of the civil society movement. Viewed coldly, the concept of civil society is based on the fundamentally apolitical, or even antipolitical, concept of single-issue activism. And yet, surely one person's civil society group is another person's pressure group. When it is said that civil society must be recognised as a new force in international politics, what is meant is a certain kind of civil society - in other words, a certain kind of political movement.

In any case, to make the claim that civil society is bound to be, or is even likely to be, a force for good is roughly akin to claiming that people, at least when left to their own devices, are good. In contrast, proponents of civil society are often mesmerised by the depredations of states and seem to assume that states, by their nature, are malign or impotent or both. But there are other predators besides government officials, other ills besides those unleashed by untrammelled state power.

One other issue is that of democracy. Leaders of associations, pressure groups and NGOs - unlike politicians in democracies - are accountable to no one except their members and those who provide them with funds. That may seem a minor question to adherents of a particular cause. Does it matter that Jody Williams was never elected to lead the campaign against landmines? Perhaps it does not. But proponents of civil society are claiming that it offers a better alternative, or at least an important additional voice, to that of governments and parliaments, not just on a single issue but on all the pressing questions of our time. And leaders of such groups, unlike politicians, do not have to campaign, hold office, allow the public to see their tax returns or stand for re-election. It is, indeed, the new medievalism, with the leaders of the NGOs as feudal lords.

This, of course, is hardly what most advocates of civil society have in mind. And yet, as things stand, it is this unaccountable, undemocratic congeries of single-interest groups that is being proposed as the only viable alternative to the nation-state. Those who aspire to the better world that the magic bullet of civil society is supposed to engineer would, in Reiff's consideration, do better to fight the political battles they believe need fighting in the full knowledge that we do not all agree on what should be done or how societies should be organised, and we never will.

### III

#### **Pressures from the flank**

States' control over their domestic societies and economies is waning. For much of the 19th and 20th Centuries, states "grew." They took on more and more economic activities and social responsibilities. Some states, under Communism, assumed exceptionally large control over their societies, but states' growth trend proved nearly universal. From modest beginnings with tax and military authorities in centuries past, states later added postal services, police forces, water authorities and school systems. More recently, they added central banks and took control of many industries and financial institutions. And they offered social protections like unemployment insurance, pensions, public health services, universities, public transportation and much more.

According to World Bank data, government spending in the world's richest states (OECD members) grew on average from less than 10% of Gross Domestic Product (GDP) in about 1870 to 20% by 1937 and 47% by 1995. (These figures include local governments as well as social security funds for



pensions, health care and unemployment.) From 1937 to 1995, government spending in the United States grew from 9% of GDP to 34%, in the Netherlands from 19% to 54% and in Sweden from 10% to 69%. Though the Bank may be inclined to exaggerate the trend, the general pattern until recently was unquestionably sharply upward.

Increasingly, though, the pressures of global capital on the tax system have drained states' resources, reducing the funds available for social and economic programs. At the same time, powerful conservative ideology has gained the upper hand, persuading officials and parliamentarians that states are inefficient and private markets more cost-effective and consumer-friendly. And intense pressure from the World Bank, the International Monetary Fund and other multilateral financial and trade institutions has forced governments to cut social spending and privatize state companies.

In a frenzy of downsizing, governments have sold off thousands of public companies and privatized state services that represent very large economic sectors. Mexico, for instance, had 1,155 public sector enterprises in late 1982 when it signed a loan agreement with the IMF with privatisation measures as a basic condition. By July 1996, only some 252 companies remained in state hands and some of those were already on the road to partial or complete privatisation.

Since the mid-1980s, governments in nearly every country have downsized and privatised. Even major countries like Germany, Britain, France and the United States have followed this course. States have sold off manufacturing enterprises like steel, petrochemical and automobile companies as well as raw material extraction and refining corporations in fields such as coal, mineral ores, and petroleum. They have shed utilities such as electricity, telephones, gas and coal, as well as such core utilities as water supplies and postal services. They have privatised transport including state airlines, railroads and ocean shipping lines, as well as urban trolley and bus services. They have sold public housing and office buildings built by public authorities and privatized major financial institutions like banks, postal savings and mortgage lenders.

In many countries, governments have privatised public pensions and they have partially privatised health services too. In a few cases, governments have experimented with privatisation of schools and the substitution of private mediation services for civil courts. More and more, public safety is insured by private guard services rather than public police. Governments are even experimenting with contracting out their prison services, social services, air traffic control, garbage collection, computer record-keeping and even tax

collection. In the UK, the computer records of the Inland Revenue (tax service) and the county court system have recently been taken over by EDS, the giant US-based computer services company founded by Texas billionaire Ross Perot.

Along with these trends are parallel moves: to reduce or eliminate state regulation of private markets and to abolish (or radically downsize) public research and regulatory bodies that oversee workplace safety, food safety, environmental and public health, financial market probity, product safety and the like. The UK has closed its government laboratory on the environment, for example, while the US has scaled back its Occupational Safety and Health Administration. Radical free-market theorists, backed by corporate money, argue that near-total elimination of regulation would be best for "human freedom."

States are also beginning to charge fees for public services previously free - like education and health care. An initiative by the World Bank has forced fee-based services on many poor countries, on the theory that fees provide more "consumer control" over public services at the local level. In practice, however, fees often mean that the poorest people cannot afford these services at all. Consequently, after decades of progress, school enrollment percentages are beginning to fall in many countries.

States are even dismantling their own tax base - creating a variety of new tax exemption opportunities for corporations and high-income individuals - like tax-free zones, employment "incentives," reduced top-rates for income and capital gains; drastically reduced inheritance taxes and so on. These weaken the state's finances, forcing further cuts in public services to ordinary citizens.

Quite visibly, the state is shrinking, often quite dramatically. Harvard political economist Dani Rodrik speaks of "receding government, deregulation and the shrinking of social obligations." And there can be no question that those at the bottom are paying a high price. But at the same time, states should not be idealised. Although privatisation has often had negative results and led to the erosion of democracy, it has occasionally reduced costs and provided services more effectively than before. Telecoms and airlines may be cases where overall results have been positive. In some cases, while citizen "consumers" may have benefitted, public workers have had to pay the price. Many have lost their jobs or been forced to accept pay cuts in post-privatisation downsizing. Meanwhile, wealthy investors have made huge profits from privatisation and the number of the super-rich has claimed dramatically in most countries.

In many cases, privatisation has directly hurt citizen beneficiaries, especially the poorest. Privatisation of public pensions, health services, water utilities and schools may be the most striking examples. Privatisation in other sectors has led to greater unemployment, more economic instability, and a reduced capacity of the state to manage the national economy. Rising income polarisation also seems to be a result of privatisation.

But ordinary people have not been passive observers in this process. As state-sponsored social protections have disappeared, citizens have mounted protest movements on a scale unknown since the 1930s. Public protests have also targetted the unprecedented wave of corruption and malfeasance that has engulfed even states previously known for the probity of their public officials. More and more, democratic elections have seemed merely contests of big money interests. Enormous public scandals rocked France, Italy, Spain, Japan and Britain in the mid-1990s, while criminality and mafia-style politics engulfed the former Soviet Union and most of the other states "in transition." Public cynicism and declining participation in elections resulted. Corruption and scandal even seriously tainted the judiciaries, the most respected and "non-political" branch of government. After a serious scandal in Belgium in 1996, public polls showed that less than 10% of the population still had faith in the courts.

While state activities in most areas are on the wane, one area remains robust - the military and police forces. Worldwide, these budgets have declined only slightly from peaks in the mid-1980s. In fact, most of the decrease in global military spending can be attributed to the swift decline in the budgets in just a few countries - the former Soviet Union and its Warsaw Pact allies. Some observers think that in the post-welfare-state future, military and police will be more important than ever as "defenders of the status quo", and bastions against gathering public protests. Why else, they ask, would these instruments of official violence remain so enormous even though the cold war is over and few enemies are in sight? And since the cataclysmic nine-eleven, security exigencies of states have overtaken everything else, including values and ideologies that were for them articles of faith.

## IV Epilogue

The paper looked at the restricting influence of opposing forces on the state, viz. globalisation and global/regional institution building from above and of diversity and devolution from below. Apart from these two pre-eminent pressures, there is also the downsizing of the state as a result of privatisation

and horizontal transfer of competencies to the non-governmental sector. It also attempted to assess the rise of the civil society and its value in the discourse. And now the question as to whether globalisation is indeed making nation states redundant.

Noëlle Burgi and Philip S. Golub refer to Europe's politicians from Gerhard Schroder to Tony Blair and the apostles of the Third Way and how they go on and on about less government and the weak state. They also point to scholars who argue about the nation state being a thing of the past. Burgi and Golub, on the contrary, consider these to be high sounding myths that do not stand up to analysis. They go somewhat further in search of the new configuration of power in the international system and how these myths lend legitimacy to the "antisocial policies" accompanying globalisation.<sup>15</sup>

They trace the linkage of the nation state with capitalism over the last 200 years. It emerged, they assert, in the form of national markets, was based on national territories and relied on the state for support. Two nation states - Britain in the 19th century and the United States in the 20th - successively formed the hegemonic core of capitalism: each of them set the technological pace, set the rules of trade and production, and imposed the constraints of the world system. The current thesis (with which Burgi and Golub take issue) is that the bond between the nation state and capitalism is now coming to an end. Globalisation is said to be making the nation state obsolete, politics irrelevant and national sovereignty an empty shell.

This "demise" of the nation state and national sovereignty is part and parcel, they argue, of the universalist claims of contemporary capitalism. For the first time in history, capitalism has spread its reach to the remotest parts of the world and posits itself as a global system. Neither British capitalism in the 19th century nor even the American post-1945 version was truly universal. Today, capitalism is said to have finally broken away from its national moorings. It has become, as it were, extra-territorial, rootless, identity-less. And hence the thesis - the withering away of the nation state. Reduced to a managerial role in which it strives to cope with economic constraints that are beyond its control, the state now watches helplessly as the balance of forces swings towards the global markets. Within its historical borders it has ceased to be the locus of political action and identity, of social cohesion and the general interest. Beyond its frontiers it often retains only the formal attributes of sovereignty. In short, the state is supposed to have become, at best, just one among a number of otherwise private players in the international system;

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<sup>15</sup>Noëlle Burgi and Philip S. Golub, *Has Globalisation Really Made Nations Redundant* (Le Monde Diplomatique, April 2000)

at worst, to have lost control altogether and to be no longer capable of influencing the course of events.

Globalisation, they argue, is tearing apart this post-war social contract. They note that the creation of a worldwide free market is rooted in a series of decisions taken by the US over the last 30 plus years which dismantled the post-war international monetary system, liberalised world markets and granted the financial sector an autonomy and power unparalleled since the golden age of British finance. The US began by abandoning the system of fixed exchange rates established by the Bretton Woods Agreements in 1944<sup>16</sup> and introducing a system of generalised floating exchange rates. The floating exchange rate system provided a flexible and efficient monetary tool that enabled them to avoid the adjustments that would otherwise have been required by America's new situation as a debtor. The new system also allowed the US to maintain a high standard of living at home by dipping into the global savings. The burgeoning US deficit was funded for decades by Japan and Europe.

A decisive step was taken in the 1980s with the deregulation of the US finance industry, which paved the way for its globalisation via the Wall Street banks, brokers, hedge funds<sup>17</sup> and pension funds that dominate the world's financial flows. Worldwide liberalisation in the 1980s and 1990s gave the US finance industry access to the savings of the newly industrialised and emerging countries, where rates of return were very high. In short, the establishment of a global free capital market was essential for the economic and financial wellbeing of the world's leading debtor.<sup>18</sup>

This explains the continuity of US policy on financial liberalization - the "Washington consensus". In 1985, Ronald Reagan set out to knock down barriers to trade, foreign investment and the free movement of capital between industrialised countries, especially in Japan. The US secured the liberalisation of the Japanese financial system and the revaluation of the yen under the 1985 Plaza Accords through a mixture of coercion and cooperation typical of a hegemonic power.

Burgi and Golub also dwell on the many faces of hegemony. In the early 1990s, Washington set itself three objectives: to maintain the global balance resulting from the end of the Cold War, to ensure its technological lead and

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<sup>16</sup> The Bretton Woods Agreements of 1944 laid the basis for the post-war international institutional set-up (IMF, BIRD, etc.)

<sup>17</sup> Speculative funds that avoid federal regulation by having fewer than 99 investors.

<sup>18</sup> The net US deficit now stands at \$1.5 trillion, i.e. 20% of GDP.

military supremacy, and to create an economic environment favourable to its own interests. For the most part, they observe, these objectives have been achieved. As political Thomas Friedman puts it: "In the globalisation system, the United States is now the sole and dominant superpower and all other nations are subordinate to it to one degree or another".<sup>19</sup> US hegemony is a fundamental reality that conditions the international political economy. The worldwide free market is strengthening the American model, which today relies on its strong comparative advantages in the post-industrial sectors of financial and cultural services, communications, leading-edge technologies and scientific-technical production. At the same time, a normative world culture is emerging in the realms of economic activity, social practice and private international law. And, Burgi and Golub argue, it is the US which is laying down the new ground rules.

Globalisation is institutionalising a new balance of power between states that hardens the sovereignty of some while reducing the autonomy of the others. The worldwide free market accentuates the disparity between the centres of capital and the peripheries. The players with knowledge and power lay down the rules; the others fall into line. Trapped in an international division of labour that forces them into often harmful specialisation, the most vulnerable third-world countries are losing the last remnants of their sovereignty, while the newly industrialised countries have become even more dependent over the last few years, as recent experience in East Asia proves

While the European Union is an active participant in the worldwide free-market utopia, at the same time it constitutes a potential counterweight. Since the early 1980s, European unification has been directed towards the creation of an entity capable of competing with the US, rather than opposing it. By combining forces in a larger unit, the member states have been attempting to assert their sovereignty jointly in response to globalisation, since none of them is any longer able to do so individually. If sovereignty is considered as relative autonomy within the inter-state system, there is little doubt that the national executives have been able to exercise it through the EU institutions, at least in key areas relating to the world economy. If there is one subject of European consensus, it is free competition, which has been raised to the status of an absolute good.

Burgi and Golub believe that the growth of inequalities raises more than ethical issues. In the end, it always holds back economic development and undermines social cohesion. The transnational dynamics of the EU could

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<sup>19</sup> Thomas Friedman, *The Lexus and the Olive Tree*, Farrar, Strauss and Giroux, New York, 1999.

provide an opportunity for upward social harmonisation in line with the most favourable rules and practices (on working conditions, wages, employment, social protection, etc.). That, they feel, would however, require political determination that is currently lacking; but, if it could be mustered, would set an excellent example. Failing that, they predict that the establishment of a European free-trade empire in the face of US hegemony may perhaps result in multipolarity, but will certainly not lead to a fairer world.