Global Economic Liberalism and the Fate of the State

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Abstract

This article tries to explore the conceptual foundation of the "fate of the state" in times of global economic liberalization by examining the meaning and relationship between "state sovereignty," "policy autonomy" and "state capacity." It concludes that although sovereignty per se in not at stake, it is certainly true that global economic liberalization might create a tension between effective policy autonomy, state capacity and the preservation of states' freedom to act unilaterally. It is, therefore, no wonder that many social democrats have become suspicious of multilateralism. However, multilateralism can, and should be used just as effectively to resist liberalism as to promote it.

Key Words: globalization, sovereignty, policy autonomy, state capacity, social democracy

I. Introduction

One of the most important and intractable of the controversies surrounding globalization concerns the fate of the state in the new global economy. During the early 1990s in particular many thoughtful observers argued that globalization had by then undermined the state in vital respects—both in the South, and in the North (cf. Reich, 1991; Ohmae, 1995; Tilly, 1995). But by the middle of that decade (and through to the present), dissenting voices had emerged claiming that while globalization certainly amounts to a change in the environment in which states operate, states remain potent actors that can (and indeed must) continue to fulfill important public policy objectives—particularly those related to ensuring the economic security of those rendered vulnerable to the disruptions and instability associated with international economic openness (cf. Hirst and Thompson, 1999).

Unfortunately, contributors on both sides of this debate have tended to conflate important concepts that should remain distinct. This has led to some confusion in the globalization-state debate, which might help to explain why the debate continues apace with little sign of progress.

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In this paper I plan to explore the conceptual foundations of the "fate of the state" debate in the hopes of contributing analytical clarity. This matter bears directly on the central questions inspiring the MDT project, which concern how best to manage and otherwise respond to globalization in pursuit of development. It is therefore vitally important to have a sense of how (if at all) the global economy has affected states' abilities to pursue policy agendas that promise development. In particular, I will examine the meaning of and relationship between three distinct concepts: "state sovereignty," "policy autonomy" and "state capacity." I hope to demonstrate the virtue of drawing and retaining these conceptual distinctions in two steps—first through an abstract discussion of these terms, and then through a stylized account of the fate of social democratic policy regimes in today's world economy. I will argue that social democracy is threatened today by international competitive dynamics that have emerged with the now well-established shift toward the formation of a market-mediated global economy. I choose this topic because it is critically important in its own right, and because it has direct implications for countries in the North and in the South that hope to ensure a measure of economic equality and security in the face of global economic forces.

Ⅱ. A Preliminary Matter: Defining Globalization

Though this paper focuses on the state component of the globalization-state debate, it is imperative that we take a moment to specify what we mean by the first term in this couplet. There is by now an immense literature on globalization; fortunately, theorists have done much over the past decade to clarify just what is happening in the world economy, and to separate productive from misleading usages of the term globalization.

Globalization has been used extensively to convey the idea that distinct national economies are now deeply integrated. Typically those making this claim focus on the magnitude of trade and investment flows relative to various measures of total national or world economic activity. This usage is appropriate, provided we not slip into thinking that today's economic interdependence is historically unprecedented. As Zevin (1992), Dicken (1998), Hirst and Thompson (1999), Sutcliffe and Glyn (1999) and many others have shown, the present era hardly exceeds the pre-WWI era in terms of the relative significance of trade and investment flows. Taking a longer historical look, we find that national economies have been deeply integrated, regionally if not globally, for centuries. Think, for instance, of the colonial period that reached through the nineteenth century into the middle decades of this century. Surely, the economies of Britain and India were deeply linked during the period of Britain's colonial rule. The same could be said of the linkages that made up the colonial empires of Spain, France, and other European powers. Moreover, the economic integration of Eastern Europe under the umbrella of the Soviet Union was extensive

and intensive—far more than it is today.

Globalization is also used today to refer to the changing *qualitative* nature of international economic integration. This qualitative alteration is more significant than the growth in international trade and capital flows per se. The current historical period is unprecedented in the degree to which international economic flows are market-mediated. In place of colonial relations joining the economies of distinct nations, and in place of the command economy of the Soviet period, market relations now bind diverse national economies. Today, the *private decisionmaking* of producers, investors and consumers increasingly determine the flow of capital, goods and services across national borders. Private flows have quickly outpaced official, government-directed flows. We see this particularly in the case of capital: today, private flows from the North to the South in the form of foreign direct investment (FDI) and portfolio investment (PI) are many times larger than public aid flows from the North to the South[1].

The liberal global economy has emerged gradually over the past several decades. It entails trade liberalization and, much more importantly, the elimination of barriers to international private capital flows. Investors today enjoy a degree of freedom to roam the globe in search of profit that they have never before enjoyed. This is partly a consequence of technological change, to be sure. But it is also the consequence of conscious policy decisions. Not least, it is the consequence of "financial liberalization"—the elimination of most restrictions on FDI and PI across the North and (increasingly) the South since the 1970s.

The liberal economic regime has had powerful effects on domestic economies. It has substantially strengthened the competitive pressures facing domestic producers that find themselves exposed to global market forces. It has increased the degree of economic instability facing workers in export and import-competing industries (Grabel, 1995). It has shifted the tax burden from the owners of mobile factors of production (such as multinational corporations and investors) to the owners of immobile factors (such as labor) (Rodrik, 1997). It has weakened labor movements across the globe (though certainly unevenly), as workers increasingly face the threat of capital flight when bargaining over terms and conditions of employment. And it has induced substantial economic unevenness and inequality across the globe, both domestically and internationally (Dicken, 1998; UNDP, 2001)

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1) The emerging market-based global economic regime is often referred to as "global neoliberalism." I refrain from that usage here, in keeping with the editorial decision governing this volume, and will instead speak variously of economic liberalism and market-mediation. While some have argued that the turn toward a liberal global economy of the past several decades marks a return to institutional arrangements of the pre-WWI era, Bairoch and Kozul-Wright (1996) have demonstrated that this view is incorrect. During this period, most states imposed large tariffs and other restrictions on international trade and capital flows.

These developments raise a troubling question whether the state retains the ability to take steps at the domestic level to provide a measure of protection for its citizens from economic instability and inequality. Can the state today enact measures deemed vital to social welfare, without risking economic stagnation? For instance, can the state continue to ensure adequate labor or environmental standards that might impose higher costs on firms? More generally, is social democratic governance in pursuit of equitable development that threatens corporate profitability and/or investor returns viable under a global economic regime that provides such extensive "exit" options for these actors? Exploring this question requires that we attend first to important analytical distinctions.

a. Conceptual Matters: State Sovereignty, Policy Autonomy and Capacity

Exploring the fate of the state under the liberal global regime requires a careful specification of three distinct concepts: national sovereignty, policy autonomy and capacity.

By sovereignty I refer to the *formal right* of a state to pursue a certain course of action, such as to pursue a particular policy that it deems to be in the interests of its citizens, independent of the preferences of other nations. Historically, states have enjoyed broad policy latitude in the domestic arena—such as policies that concern health, education, domestic transportation, social welfare, and so forth. Under the Westphalian system of international relations, authority over these matters has long been deemed the rightful province of each individual nation state. A state could therefore expect freedom from foreign intervention (such as an invasion, embargo or other sanctions) in charting its own course in those areas where others recognized its sovereignty.

By policy autonomy I refer to something other than sovereignty (though in practice these two concepts are often confused): I refer to the *ability* of a national government to *implement and sustain* policies of its own choosing, reflecting its own aspirations, independent of the policy choices of its neighbors. This concept reaches beyond sovereignty, which concerns only its formal right to pursue a policy. When we speak of a state's policy autonomy, we are speaking of what political theorists call its "substantive freedom" to act in a particular manner, not its "formal right" to do so. A state with the will to pursue a policy, but lacking the ability to sustain that policy (for whatever reason) would be said to lack policy autonomy in that area.

Finally, I use the term state capacity to refer to a state's *ability* to achieve an intended objective, like economic security or prosperity, via some policy choice (or set of choices). It is important to distinguish this term from policy autonomy: the latter refers to the ability of a state to implement and sustain the *means* of its choosing, while the former refers to the *end* that the policy is intended to secure. We therefore say that a state enjoys capacity in a particular domain if and only if it is able to achieve the objective it sets for itself in that domain.

A simple example will clarify what is at stake in drawing these distinctions. Assume that a government seeks to achieve the objective of full employment. It may identify the policy instrument of expansionary fiscal policy as the best means to achieve this objective. If it has the *formal right* to increase government expenditure, then we say that it enjoys sovereignty in this domain. If it also has the *ability* to *implement and sustain* this policy, independent the policy choices of other nations, then we say that it has policy autonomy in this domain. And if it can indeed *achieve full employment* via this policy choice, then we say that it also has state capacity in this domain.

These distinctions alert us to the diverse possibilities that might arise in the context of assessing the fate of the state under a global market economy. For instance (and to continue the previous example), a state might have the formal right to pursue expansionary fiscal policy, but not be able to sustain the policy because it is undermined by the actions of private economic actors or other nations. For instance, expansionary fiscal policy in a developing economy context might induce fears of a pending currency devaluation if financial actors come to believe that the government's deficit financing is unsustainable. Anticipation of devaluation might trigger capital flight and a financial crisis that forces the government to abandon the expansionary policy long before it can achieve its intended objective. In this case, though this state enjoys sovereignty, it lacks policy autonomy. Nor does it enjoy state capacity in this domain insofar as it cannot achieve the overriding objective. Alternatively and less dramatically, this state might enjoy both the formal right to implement and substantive ability to sustain the policy, but it might nevertheless find that expansionary policy induces a rise in exchange rates that thwarts exports and diminishes the salutary effect of the policy on the domestic economy. In this case, the government has both sovereignty and policy autonomy, but lacks state capacity since it is unable to achieve full employment.

In the following discussion of the global economy and the state I will focus particularly on policy autonomy and state capacity. If the global market economy threatens policy autonomy in an important policy domain, then it will also undermine state capacity in that domain. I will argue that this is indeed occurring in the vitally important areas of economic security and equality. Later I will return to the matter of sovereignty. Many observers have argued that the global economy principally threatens national sovereignty. This argument is incorrect, for reasons I will explore in the conclusion.

b. The Case of Social Democracy

During the inter-and postwar period, a variety of distinct forms of capitalism emerged at the national level across OECD countries. Though broadly committed to the institutions of private property, the commodification of factors of production (including land and labor) and market organization of production, exchange and distribution, these countries

diverged on the fundamental question of the role of the state in managing economic affairs. For present purposes, I will distinguish between two "ideal types" of market capitalism, distinguishable by their degrees and types of state involvement. We might perhaps best think of these two ideal types as two points on a continuum, along which market economies lay over the postwar period. Though these two types lay near opposite polls of the continuum, they do not represent the full range of possible alternative institutional structures that are compatible with capitalism. They do tend to be among the most important, however.

The first ideal type I will call "domestic liberalism." Its primary features correspond with the description of the liberal economy given above. In this type of capitalism, the state is subordinate to the market in determining what is produced, how it is produced, and how it is distributed across society's members. In this arrangement, the market is taken to be the most efficient means for deciding on all of these aspects of social provisioning. The state's role is to provide the conditions necessary for the market to work well, and to correct certain types of isolated market failure. With respect to the former, the state is to ensure (private) property rights and systems of exchange of and adjudication over such rights; with respect to the latter, the state is to provide public goods, regulate monopolies, address problems of externalities, and so forth. Ideally, the state in this kind of system is to do little else[2]. State action in the economy beyond these important minima is to be avoided on the grounds that it might distort market signals, thereby reducing efficiency and social welfare.

Practically speaking, no state has achieved this liberal market ideal. When we look across OECD countries, we find all sorts of government interventions into the economy that are not warranted by the liberal model. But it is certainly fair to say that some states came far closer to this ideal than others. In particular, the U.S. and the U.K., especially since the late 1970s, are taken to best approximate liberal capitalism.

The second ideal type is "social democracy." This model also features market based economic organization. But social democracy is predicated on the belief that the market is a deeply inadequate regulatory institution. Social democratic states play a far greater role in shaping (and sometimes dictating) economic outcomes. First, social democratic regimes are far more apt to use the tax authority of the state to bring about equitable distributions of income and wealth. Egalitarianism is also pursued through the state sponsorship of broad systems of social cooperation between labor and capital. Often, this takes the form of tripartite "social corporatism," in which large, centralized labor organizations negotiate contracts with centralized employer organizations that cover industry-or economy-wide wage levels, hours of work, and so forth. Second, these regimes place far more restrictions

2) Indeed, even in carrying out these functions the state is to use a light hand, and is to rely on market mechanisms as much as possible in order to avoid "government failure." See DeMartino (2000).

on capital than do neoliberal regimes, constraining what it can do in pursuit of profitability. Restrictions can take the form of tight controls over corporate investment (and dis-investment) decisions, and/or rules that require firms to consult with workers over such matters. Third, these regimes often undertake industrial policy to promote certain industries and to target those regions that are seen to be in greatest need of assistance. Industrial policy can entail state direction of credit allocation, extensive, subsidized training programs to ensure a match between worker skills and corporate needs, targeted subsidies of favored industries, etc. (DeMartino, 2000).

These two models differ with respect to the rationale for government intervention in the economy. In the first case, as we have seen, government intervention is motivated by the need for the state to promote and protect the market, and to correct isolated market failures. In the social democratic regime, it is motivated by a sense that the market is deficient in fundamental respects. The market, operating on its own, gives rise to instability, insecurity and excessive inequality. In the view of many advocates of social democracy, this is in part the result of an inherent imbalance under capitalism between the power of capital and labor. In this view, the state must intervene to limit capital's prerogatives, so as to ensure that market outcomes are fair according to prevailing social norms.

Many OECD states introduced some or all of the features of social democracy listed here. Those most frequently cited are Scandinavian and Western European countries. Britain wavered between these two models in the postwar period, but turned decisively away from social democratic principles with the election of Margaret Thatcher as Prime Minister in 1979. More generally, all countries that embrace market organization, in the North and in the South, face questions about the proper role of the state in guiding economic processes and outcomes. The dichotomy between these two ideal types is emblematic of the choices facing all governments. And in the South as in the North, we find important cross-national differences in the choices made about the degree and purpose of state involvement.

c. "International Competitive Dynamics" and Social Democracy

How has the emergence of tight global economic integration affected the viability of these two kinds of capitalism? Having taken note of the fact that global integration is itself tending toward the liberal pole, we might ask whether this places strains on those countries that have pursued social democratic governance domestically. I would suggest that this is in fact the case. Social democratic regimes in Europe have endured extraordinary rates of unemployment over the past two decades, reaching heights not seen since the economic crisis of the interwar period. Sweden is often viewed as emblematic of the difficulties facing all social democratic regimes (Wilks, 1995). We should be cautious about ascribing all of these difficulties to the pressures emanating from globalization, to be sure[3]. In the case of Germany, the burdens associated with reunification have been

immense, for example. But there are good theoretical reasons to suspect that at least some of the recent difficulties facing social democratic economies are the result of global liberalism. In what follows, I will identify but one.

As Helléiner (1995) and others have rightly argued, market-based integration of national economies can create an "international competitive dynamic," in which institutional change in one or more countries induces similar changes in other countries. The most commonly cited example has to do with capital controls. During the late 1950s the Euromarket emerged; it expanded substantially over the following three decades. This new capital market entailed the free flow of U. S. dollar-denominated assets without supervision or control by any national government. The British and U. S. governments substantially propelled this market by refusing to take achievable steps to restrict these transactions. Helleiner (1995) demonstrates that each saw the emerging Euromarket as serving its own domestic and international political and economic agendas, and so each acquiesced in the face of its expansion over this period. These two countries also rescinded capital controls on short-term capital flows (which include the purchase and sale of foreign equities and currencies, for example) in the early 1980s.

These policy decisions proved to be extremely influential. Other countries across Europe soon found that in an era of tightening economic integration, they too were compelled to rescind their own capital controls. Capital controls became too costly to sustain, especially in light of the rapid growth of multinational corporations (MNCs) that could simply avoid controls by borrowing and lending through foreign affiliates in the Euromarket. MNCs could also shift operations to other countries with looser restrictions, so as to preserve their competitiveness (Crotty and Epstein, 1996). Countries that tried to retain tight controls faced capital outflows and a consequent loss of investment, employment, and income. In short, once several large and important economies allowed for the development of the free movement of short-term capital, other countries found it expedient to follow suit by liberalizing capital flows. An international competitive deregulatory dynamic through this period led to the virtual elimination of capital controls across Europe (and Japan) by the end of the 1980s (Helleiner, 1995; Goodman and Pauly, 1993; Harmes, 1998).

Let us now return to the case before us, to wit, contrasting systems of economic governance. In this context, some analysts have argued that the same kind of international competitive dynamic today imperils social democracy (e. g., Wilkes, 1995). I think we can draw out a general albeit tentative proposition about the viability of social democracy from these accounts. This proposition is as follows.

Social democracy in any one or more countries can perform well when either of two conditions is met:

3) There is by now a lively debate over the performance and viability of social democracy under global liberalism. See Clayton and Pontusson (1998); Cox (1997); Hirst and Thompson (1999); Pierson (1996); Scharpf, Rhodes and Evans (1998); and Wilks (1995).

a) When national economies are largely "closed,"—when they are separated explicitly by policy tools, such as tariff barriers and tight restrictions on international capital flows, or implicitly by economic constraints, such as high transactions costs (associated with transportation, information gathering and processing, and so forth);

or, in the absence of this condition,

b) When most other states are also social democratic.

The logic behind this proposition is straightforward. Either of these conditions spares a social democratic regime from *corrosive* international competitive pressures. In the first case, any one country's choice of policy regime has relatively few economic spillover effects on other countries. Absent a relatively free flow of goods and capital, each nation retains a substantial degree of policy autonomy because domestic actors cannot easily avail themselves of the strategy of "exiting" from domestic arrangements that run counter to their interests. In the absence of the exit option, the state retains potential leverage over the behavior of such actors (Tilly, 1995). In the second case, with nations open to international economic flows, the absence of a significant neoliberal presence affords security to existing social democratic regimes. Though social democracy may impose relatively high costs on firms in the form of high wages, taxes and other regulations, firms do not have substantial opportunities to escape these burdens by shifting capital across borders. Moreover, firms do not face a competitive threat based on lower costs from firms operating abroad under neoliberal rules. Instead, competition among firms must take alternative forms—such as through the discovery of new technologies that enhance productivity, product innovations, etc. (Lazonick, 1991; DeMartino, 2000).

Social democracy is less viable when neither of these two conditions exists. In an open international economic regime, the institution of a domestic liberal agenda by some countries threatens social democratic governance in all countries. A world economy marked by economic openness and populated by a mix of social democratic and liberal national economies provides firms in the former with both the opportunity to flee, and the incentive to do so. Firms that face the higher costs of operation under a domestic social democratic regime may find themselves out-competed by other firms that take advantage of the lower costs that obtain abroad. The larger is the share of global economic activity based in domestic liberal regimes, the greater will be these opportunities and threats.

If this proposition is correct, then we must conclude that over the past several decades, we have witnessed the erosion of both of the conditions necessary to the security of social democracy. First, several large OECD countries, including the U.S. and the U.K., have pursued the liberal model aggressively. They have been joined by many developing countries, which have embraced domestic liberal regimes (often under the direction of the International Monetary Fund and World Bank) in order to reduce costs, attract capital, and enhance their competitive performance in global export markets. Though this regime shift

does not lend itself to empirical measure, we can safely conclude that the proportion of total world economic activity occurring within domestic liberal regimes has expanded considerably over the past several decades. Moreover, those countries that have historically tilted toward liberalism have certainly moved much closer to the liberal pole. In short, domestic liberalism has expanded extensively and intensively. Second, the post WWII period has been marked by dramatic reductions in all sorts of policy-driven barriers between economies, from capital controls to tariff and non-tariff barriers on trade. States are choosing to promote rather than inhibit the free flow of capital and goods and services across national borders. This shift has been codified in important trade and investment agreements, such as the World Trade Organization and the North American Free Trade Agreement—both of which substantially reduce explicit state direction of international flows of capital and goods and services. Third, technological advances have reduced the obstacles to economic integration of spatially separated areas (Dicken, 1998). Advances in telecommunications now allow for near-instantaneous international transmission of information at low cost, while technological change in transportation has substantially reduced the cost of shipment of goods and people. Advances in computer technology permit rapid processing of information. All told, these changes have substantially shrunk the globe, so that distance matters far less in dictating economic flows today than at any previous moment in history.

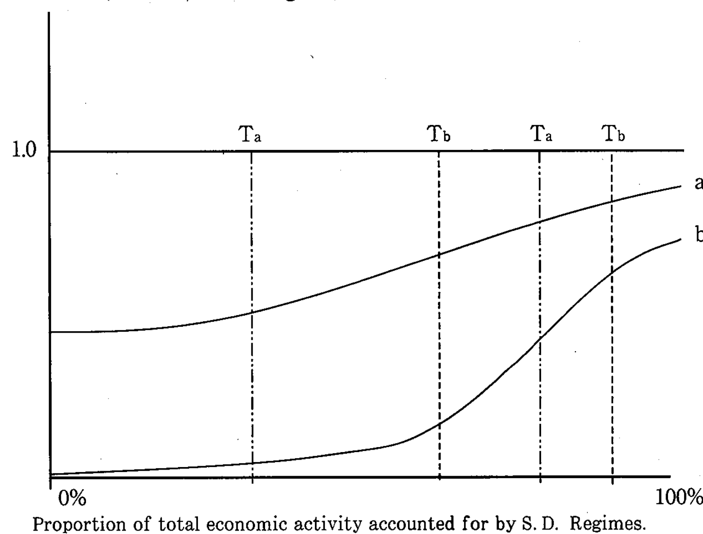
Given these changes, it is at least plausible to conclude that an international competitive dynamic now imperils the social democratic model. Firms operating in the high cost and highly restrictive milieu of social democratic governance can shift operations to lower-cost sites available under liberal regimes. Firms facing severe constraints at home can also credibly threaten to leave, in order to secure regulatory relief, given the freedom that the global liberal regime provides to them. Meanwhile, isolated states that attempt to retain substantial control over capital flows may find the policing of such policies increasingly difficult, as multinational firms may exploit international capital markets to evade such restrictions (Goodman and Pauly, 1993; Crotty and Epstein, 1996). Were all or most other countries committed to the social democratic model, or were the global regime not so permissive, or were technology not so advanced, this threat of capital flight would be far less credible.

In short, there is good reason for anxiety that policy autonomy is substantially compromised in the context of a deeply integrated, global liberal economy. To the degree that policy autonomy is a necessary (though not sufficient) determinant of state capacity, we may conclude that the state capacity of social democratic regimes is likewise undermined by global liberalism. Indeed, many analysts have been led to conclude that we should expect increasing convergence of national policy regimes around the domestic liberal ideal summarized above (see the contributions to Berger and Dore, 1996).

The following diagram captures the international competitive dynamic that I have

developed here. The probability of success of a social democratic regime is measured along the vertical axis; the percentage of world economic activity occurring under the social democratic model along the horizontal axis. The curve marked "a" indicates the relationship between these two variables in the context where there are significant barriers separating distinct economies (again, due either to explicit policy choices, or high transactions costs). Here we see that the viability of social democracy increases as the extent of social democracy increases, at least marginally. This captures the idea that a social democratic regime is more viable when most other countries also pursue social democratic policies, but that this insulating effect is rather small, due to the effective barriers separating economies that protect policy autonomy.

Figure 1 SOCIAL DEMOCRACY ONE COUNTRY?



Now consider curve "b" . This curve shows the same relationship in a context of tight, global liberal economic integration (i. e., where there are few barriers to the free international flow capital and goods). The relationship between the two variables mapped herein is now strengthened. In this context, the viability of any one social democratic regime depends directly on the degree to which other regimes are also social democratic.

We should take note of two factors in comparing the two curves. First, moving from a greater to a lower percentage of social democracy (from right to left on the graph) we see that the critical threshold (marked with the dashed vertical lines) over which a social democratic regime becomes imperiled has shifted to the right from the first context to the second. Second, within the respective critical threshold region of each curve, each percentage increase in economic activity that occurs under liberal domestic regimes yields a greater proportionate threat to any one social democratic regime. Together, these attributes of the curves reflect the intuitive idea that in an open global liberal regime, the presence of even a relatively small domestic liberal sector may suffice to imperil any domestic social democratic regime. Together, these attributes of the curves capture the idea that the existence

of domestic liberal regimes is more threatening to social democratic regimes abroad in an open world economy than in a relatively closed economy, for reasons discussed above.

d. Qualifications

In tracing out these implications, it is important to take account of several important qualifications. First, this account is purposely highly stylized and general, as my intention is simply to clarify the manner by which international competitive dynamics might bear on policy autonomy and state capacity. The argument should be taken as a hypothesis, to be checked against the historical record, rather than as a law or prediction regarding the future of social democratic regimes. It points to one important potential constraint on the policy autonomy of countries that find themselves bound through tightening international economic linkages under a global liberal regime.

Second, it bears emphasis that the view of competition implied by this model is simplistic, and this also might limit its applicability. It is surely not the case that competition always winnows the field of unsuccessful competitors and thereby yields convergence (around domestic liberalism), as this model suggests. Competition can yield diversity rather than homogeneity. For example, market competition among firms sometimes produces market niches that are not effectively exploited by the market leaders, either because it is too expensive to do so, or because the niche exists precisely because some consumers want to avoid the market leaders. In this case, we find other kinds of firms meeting this market need, and these firms may be nothing like the market leaders (Piore and Sabel, 1984). And yet, market competition among firms is taken as the paradigmatic account of competition when making sense of competition among policy regimes. If the former can yield diversity, then certainly so can the latter.

It may be, for instance, that as many countries shift to the neoliberal model, new opportunities are created for the remaining social democratic countries to thrive and prosper. Firms in technology-intensive industries might find it expedient to locate their research and development, precision production and other high-waged tasks in countries with social democratic regimes because this regime does a far better job of producing the highly skilled workforce that these tasks require (c. f. Reich, 1992). In this case, a more appropriate model than convergence might be a model in which a small number of high-priced "boutique" social democratic regimes operate successfully in a global market dominated by "Walmart" neoliberal regimes.

Third, it is important to remain on guard against blanket statements of the sort "global liberalism undermines policy autonomy and state capacity." It is far more likely that the degree to which the global economy affects policy autonomy and state capacity varies across policy domains (and countries). It might be the case that globalization severely limits policy autonomy in the domain of capital controls, but that it has far less impact on

national policy choice in the field of labor policy. This implies that we always have to be sensitive to policy and national context when we think about the effects of globalization.

e. Restoring Policy Autonomy and State Capacity

These are important qualifications, to be sure. But they are not to be taken as a complete surrender of the idea that the international competitive dynamics that arise under global liberalism might undermine policy autonomy and, thereby, state capacity—particularly in the case of social democratic regimes. And so I will conclude this discussion by addressing the question, what can be done, if anything, to limit the constraints on policy autonomy induced by global liberalism?

The most direct answer to that question, it would seem, is to reform the global regime in those policy domains where it is seen to be most constraining through new multilateral initiatives. This challenge can occur at the regional or at the global level. This requires constructing multilateral policy regimes that provide a buffer for domestic policy autonomy. The premise is that while an individual country acting unilaterally might lose the ability to sustain a policy that it would otherwise choose to pursue, it might restore the viability of this policy by acting in concert with other countries. Trade and investment pacts represent one possible avenue for restoring policy options. A regional pact, for instance, could specify rules that govern capital mobility within the region (e. g., restoring capital controls), but also might standardize labor, environmental and other social protections. If effective, this harmonization would serve to subvert the international competitive dynamic described here, at least within the region. Such cooperation might also strengthen the hand of the signatories when negotiating multilateral agreements with outside countries, especially when there are multiple outsiders seeking market access and sites for investment. The more successful is the regional pact, the greater might be the bargaining power of the region in confronting outsiders and securing concessions (Lawrence, 1996).

The proposal to restore policy autonomy through regional/multilateral agreement brings us to the third dimension of the state that I broached at the outset, namely, national sovereignty. Many observers have voiced concern that the emerging global economy undermines sovereignty directly; others have argued that states sacrifice sovereignty when they form multilateral agreements. Both claims are incorrect.

The claim that global liberalism undermines sovereignty follows from the tendency to conflate sovereignty with policy autonomy. Under a global liberal regime, states do not lose their *formal right* to do much of anything (other than what they have agreed not to do —see below). Under this kind of regime, a state has the right to pursue social democratic governance, and to do just about whatever it likes in the domain of domestic policy. This is not to say that it will succeed—that it will be able to implement and sustain its policy

choice. But as I have by now argued at length, that is a matter of policy autonomy (and state capacity), not sovereignty.

The relationship between multilateral agreements and sovereignty is more complicated. Multilateral agreements of the sort I have described may be seen as reducing national sovereignty to the degree that they dictate and codify particularly policy choices among the signatories. Agreements therefore entail a surrender of the right to act unilaterally. This is certainly true of agreements that reach beyond the simple elimination of barriers at the border, like tariffs, to include what is called "deeper integration," which refers to the harmonization or coordination of domestic policies, like labor and other standards (Aaron, et al., 1996). Many observers object to deeper integration of this sort on the grounds that it undermines national sovereignty (Lawrence, 1996).

The claim that by submitting to a multilateral agreement that entails deep integration the state necessarily compromises its sovereignty has intuitive appeal. But it, too, is logically deficient. This is because the right to form an agreement with another state is fundamental to the idea of state sovereignty. We see this clearly when we consider the contrary case: a state that is deprived of the right to form agreements with other nations—perhaps by a colonial power, an occupying army, or the threat of imminent attack by other nations—certainly lacks sovereignty in a meaningful sense[4]. This deprivation highlights just how fundamental the right to form agreements is to sovereignty. But if that is so, it is then illogical to argue that the *exercise* of the right *necessarily* sacrifices sovereignty. To reiterate: I am arguing that since the right to form agreements is fundamental to national sovereignty, the exercise of that right in and of itself cannot be taken as a surrender of sovereignty.

Exceptions exist to this general claim, however. One concerns the temporal dimension of the agreement, and the nature of the relationship it creates between signatories[5]. Multilateral and regional economic agreements generally restrict the behavior of signatories well into the future—perhaps even indefinitely. An agreement's negotiators consciously sacrifice the right of future generations to alter the country's policies unilaterally in those areas controlled by the agreement. Whether this amounts to an infringement on sovereignty has to do with reversibility, and this stems from the nature of the relationship formed by the signatories when they enter into the agreement. For instance, agreements that create "federal" arrangements among nations—such as when sovereign nations agree to merge to create a new nation—generally entail the permanent sacrifice of signatories of the right to secede from the agreement. Not only is the agreement enduring, it strips from the signatories their separate identity. Federalism therefore does indeed mark the sacrifice of sovereignty by the pre-existing entities, since sovereignty is now transferred to the newly

4) The present situation facing Iraq under U. N. sanctions come to mind.

5) Another, which I will not explore here, concerns the case in which a country enters into an agreement (that binds its autonomy) under duress.

created authority. But very few multilateral agreements (and virtually no economic agreements) are of this sort.

The new multilateral and regional economic agreements that have emerged over the past several decades *at most* establish "confederal" arrangements (the European Union is the exemplar in this regard) that create and specify rules by which each signatory can terminate or withdraw from the agreement (Hirst and Thompson, 1999). These agreements therefore entail a temporary sacrifice of unilateralism, generally in pursuit of goals that are unobtainable through unilateral action of individual nation states. It is difficult to read this temporary and reversible sacrifice as a usurpation of sovereignty. Though we might have good reason to oppose the content of any particular agreement—we might dislike the present and future commitments on the state and its citizens that it entails—the claim that it violates national sovereignty fails.

Ⅲ. Conclusion

If sovereignty per se is not at stake, it is certainly true that global economic integration might create a tension between effective policy autonomy, state capacity and the preservation by the state of its freedom to act unilaterally, unfettered by obligations to other states (what some incorrectly call sovereignty). Nations may increasingly find that they pay for the preservation of the freedom to act unilaterally with a loss effective policy autonomy and even state capacity; or they may find themselves forced to sacrifice some degree of unilateral action, in some policy areas at least, in order to secure (or restore) state capacity. This dilemma will be managed differently by different countries, owing to their different domestic conditions, policy objectives, and relationships to the global economy; but also owing to the fact that there are no simple formulas to guide the difficult choices involved. What does seem certain is that the deepening of the global liberal market economy has sharpened the tradeoffs involved, and exacerbated the pressures on government officials to manage them.

To date, multilateral and regional agreements have served principally to extend and deepen economic liberalism. This is certainly true of the Uruguay Round of GATT negotiations that created the World Trade Organization, the North American Free Trade Agreement (Grinspun and Kreklewich, 1999), the current initiative to negotiate a Free Trade Area of the Americas, the aborted OECD negotiations over the Multilateral Agreement on Investment, and the myriad other bilateral trade and investment agreements that have emerged in recent years. These agreements dictate important domestic liberal reform directly—such as through provisions that require the harmonization of intellectual property rights, and so forth—but they also create the conditions for the deepening of international competitive dynamics that induce domestic liberal reform indirectly. To date, then, the potential for

regional agreements to restore state capacity in those domains threatened by global liberalism remains largely unrealized. The use of multilateral and regional agreements to restore state capacity in service of social democracy would therefore require a substantial change in orientation among policymakers about the desirability of economic liberalism.

Under these circumstances, it is no wonder that many social democrats have become suspicious of multilateralism. But multilateralism can be used just as effectively to resist liberalism as to promote it. Agreements that would restore capital controls on short-term PI and various performance standards on corporate FDI (such as a multilateral corporate code of conduct and/or harmonized corporate income tax) are perhaps paramount in this regard. Indeed, in the years ahead, we should expect to see social democrats allying beyond national borders to negotiate agreements that restore the policy autonomy and state capacity necessary to achieve the goals of economic security, stability and equality that have proven so elusive under the global liberal regime.

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