Globalisation, Economic Freedom and Strategic Decision-Making: A Role for Industrial Policy?

Abstract

This paper links the radical institutionalist approaches of Tool and Dugger with the strategic choice perspective to better understand the linkages between freedom, knowledge and participation in the context of a global economy dominated by transnational firms. A concern by economists with 'negative' freedom has been challenged by a renewed interest in the 'positive' dimension: drawing on Sen's pioneering work on capabilities. We argue that over-emphasis on either type of freedom could lead to strategic failure. Economic freedom thus constitutes consideration of what type(s) of freedom are emphasised, where freedom resides within the system, and how freedoms are realised. Public policy responses are then seen as appropriate in a globalising economy dominated by negatively-free strategic decision makers within transnational firms, tackling both the nature of the firm itself as well as the environment within which such decisions are made. This would constrain negative freedom for some so as to expand freedoms for others; enabling a more democratic form of globalisation to better serve the interests of a wider set of actors.

Keywords: globalisation, economic freedom, strategic failure, participation, knowledge, economic democracy, industrial policy.

1. Introduction

> "Globalization today is not working. It is not working for many of the world's poor. It is not working for much of the environment. It is not working for the stability of the global environment" (Joseph Stiglitz, 2002)

> "Development can be seen… as a process of expanding the real freedoms that people enjoy" (Amartya Sen, 1999)

The forces of globalisation are much acclaimed by governments, multinational organisations and the media alike (Hertz, 2001). In a heated debate over the nature and significance of globalisation, one view is that government appears to be in retreat and that the 'free' market is ascendant (Falk, 1996). Transnational corporations in particular have successfully met threats such as the proposed UN Code of Conduct and are pressing for their ultimate objective at the WTO; a multinational agreement on investment that would give them virtually complete freedom from controls ('negative' freedom) over investment decisions (Bailey *et al*, 2000; Singh, 2005). This has not gone unchallenged; for example Falk (1996) asks how the state can be more receptive to "people-driven globalism"[1], a view that stresses the role of participatory democracy in rethinking citizenship under globalisation.

The argument in this paper is that citizenship, participation and democracy need to be reconsidered in the context of strategic decision-making within firms, given the

[1] Akin to a process that Sugden and Wilson (2005) term "democratic globalisation".

particular importance of transnational firms in the current global economy, and given recent developments in economic thinking, stressing again the significance of the 'positive' ('the right or ability to') dimension of freedom. In so doing, we extend Tool's (1979; 2001) analysis of freedom as "an expanding area of genuine choice" to strategic decision-making within transnational firms, the dominant actors in the global economy. The paper therefore links the radical institutionalist approach of Tool (1979, 2001) and Dugger (1984, 1989) with the strategic choice perspective (Bailey *et al*, 2006) so as to better understand the linkages between freedom, knowledge and participation in the context of a global economy increasingly dominated by transnational firms. In doing so, we raise some key issues for public policy.

Section 2 distinguishes between the *negative* and *positive* concepts of freedom identified by Berlin (1969)[2]. Section 3 examines economists' concerns over freedom, stressing recent interest in positive freedom. Section 4 links this with the strategic choice perspective, which highlights the position of strategic decision-makers in transnationals who enjoy increasing negative freedom from intervention by governments, workers and others over strategic issues such as output and employment. This intensifies the risks of strategic failure occurring.

Sections 5 and 6 focus on the implications of this analysis for public policy. In section 5 we draw out some key issues, while in section 6 we discuss implications for the design of industrial policy. The goal suggested here is intervention to change corporate governance structures, make firms more accountable, and to promote alternative forms of internationalisaton that, taken together, would enable different community actors to have a democratic say in strategic decision-making and would provide them with the knowledge required to participate effectively in such processes. Linking this with the strategic choice perspective, 'social efficiency' would increase as economic democracy is broadened and strategic failure under globalisation is avoided.

2. Dimensions of Freedom

In his celebrated essay on liberty, Berlin distinguishes between negative and positive concepts of freedom (Berlin, 1969). The former concerns *freedom from* or the absence of "deliberate interference of other human beings (or agencies) within the area in which (one) could otherwise act" (*ibid*). Thus it is concerned with the absence of constraints imposed by others, and ultimately concerns *choice* amongst alternatives or options that are unimpeded by others (Gray, 1995). This emphasis on choice was particularly

[2] Whilst 'standard fare' for political scientists, such concepts need a brief explanation before applying in an economic sense.

important for Berlin, who saw the restriction of choice amongst alternatives as the greatest danger to freedom. Positive freedom, in contrast, concerns the *right to*, the ability "to be a somebody, not a nobody; a doer - deciding, not being decided for, self-directed... conceiving goals and policies on (one's) own and realising them" (Berlin, 1969). This positive concept therefore concerns the freedom of self-mastery, of control of one's own life, of the ability or power to act. In stressing that in market economies the biggest impediment to freedom is poverty, Galbraith (1996) implies the positive dimension; the freedom to participate in the economy and society via access to education, health care and the legal system.[3]

Whilst stressing the validity of both types of freedom, arguing that "positive and negative liberty are both perfectly valid concepts" and that "positive liberty... is essential to a decent existence" (1969), Berlin argued strongly against distortions of the latter, and took much more space in his critique of positive freedom than his argument for the negative. Indeed, Berlin argued that the two concepts historically "developed in divergent directions…, until, in the end, they came into direct conflict with each other" (1969). The main argument was historical; Berlin saw negative freedom as less often perverted into a justification for authority than the positive concept. Galipeau (1994) suggests that the times set the focus: "Berlin was arguing to protect a liberal conception of freedom, which he dubs 'negative liberty', against contemporary [communist/Marxist] thought". Such distortions, Berlin argued, come when the positive concept is transformed from a concept of individual self-mastery to one of harmonious collective self-direction. With enough manipulation, "freedom can be made to mean whatever the manipulator wishes" (Berlin, 1969). Berlin therefore favoured negative freedom as he viewed it as preserving choice, whereas he saw positive freedom as easily distorted in ways fatal to choice (Gray, 1995). Much later, however, Berlin recognised that he "ought to have made it clear that positive liberty is as noble an ideal as negative liberty" and that he "ought to have made more of the horrors of negative liberty and what that has led to" (*Prospect,* 1997).

3. What is 'Economic Freedom'?

Interestingly, Berlin was largely quiet on 'economic freedom', seeing the lack of economic power (meaning purchasing power) as the absence of the conditions of freedom, not the absence of freedom itself (Galipeau, 1994) and has been criticised as such for being too restrictive (Macpherson, 1973). However, he did assert that natural

[3] In distinguishing between functionings and capabilities, Sen (1985, our italics) notes that "what is really important in all this is to *accept the legitimacy of certain freedom-type considerations as part of the conditions of life*".

rights to liberty are distinct from supporting any particular economic arrangement and that both capitalist and socialist societies can violate rights (Galipeau, 1994).

Once we recognise different dimensions of freedom, the dominance of negative freedom in contemporary economic analysis becomes apparent. Indeed, the justification by economists for an exclusive reliance on market allocations has usually been based on an appeal to negative freedom, with market transactions being seen as an expression of negative freedom (Dasgupta, 1986). A competitive market for all commodities is then seen as efficient in the Pareto sense. Traditionally economists have stressed the centrality of negative freedom in the market mechanism (e.g., Hayek, 1960; Nozick, 1974; Bauer, 1984; Holmes et al., 1998). Buchanan (1986), for instance, rejects outright positive economic freedom: “an individual is at liberty or free to carry on an activity if he or she is not coerced from doing so by someone else….. Whether or not the individual has the ability or power to undertake the activity that he is at liberty to undertake is a separate matter”.

More recently, though, economists have begun to explore positive freedom and its implications for economic development. Amartya Sen has contributed to “a paradigm shift” in development economics towards an increased emphasis on individual entitlements, capabilities, freedoms and rights (ODI, 2001). In so doing, Sen has rejected negative definitions of freedoms, shifting attention away from the absence of coercion as the exclusive requirement for freedom, onto the elements of what an individual can do or be (*ibid*). Indeed, his concept of *capabilities* (1985, 1985a and 1999) is defined as “notions of freedom, in the positive sense; what real opportunities you have regarding the life you lead”. Moreover, ‘substantive freedom’ is viewed by Sen as embodying not just the freedom to satisfy hunger or to access health care or educational facilities, but also “the freedom to *participate* in the social, political and economic life of the community” (Sen, 1999). Furthermore, Sen (1999) emphasises the *process* and *opportunity* aspects of freedom;

> “Such processes as participation in political decisions and social choice cannot be seen as being - at best – among the *means* to development (through, say, their contribution to economic growth), but have to be understood as constituent parts of the *end* of development in themselves”.
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> “In pursuing the view of development as freedom, we have to examine… the extent to which people have the opportunity to achieve outcomes that they value and have reason to value”.

From a very different perspective, that of the Austrian School, Hindmoor (1999) asks whether a lack of resources, as well as threatening an individual’s freedom, might constitute a ‘positive barrier’ to entry. In contrast to Hayek’s (1960) negative freedom approach where the presence of something, i.e. coercion, makes one unfree, Hindmoor argues that the absence of something – i.e. resources – can also render one unfree. In this approach, entrepreneurs with no track-record and who lack resources to provide security will be discriminated against by lenders. Such entrepreneurs remain negatively free to enter a market, but in reality remain unable to do so as they face a 'positive barrier' to entry. Hindmoor thus argues that for the market process to work, governments need to intervene not only to set basic rules of the game but also to "ensure that participants have sufficient resources to play the game".

Again, from the very different strategic choice perspective, Cowling and Sugden (1998) have questioned what constitutes 'free' trade. They recognise "that the adjective 'free' is far from neutral and carries important connotations… to argue against 'free trade' is apparently to argue against freedom, in some sense… but what is really 'free' about free trade?" They argue that a firm engaging in trade does so in ways designed to serve its strategic decision-makers, where "the 'free' in free trade refers to the freedom of strategic decision-makers in transnational corporations to further their own ends". In this sense, free trade confers freedoms on some (elite decision-makers in transnational firms) but "endorses that freedom being pursued despite the objections that might be raised by others. Perhaps an argument against free trade is thus an argument for the freedom of these others?" In so doing, Cowling and Sugden in essence raise a positive dimension of freedom, i.e. the ability of 'others' (i.e. other stakeholders) to contribute to strategic decision-making.

Finally, Tool (1979 and 2001), in developing a "normative theory of political economy" from a neo-institutional perspective, sees freedom both individually and socially as an expanding area of genuine choice. Freedom in this perspective is defined as:

> "…the progressive enlargement of the rational, means-consequence-perceiving capacity of people and of opportunities to choose among alternative ways of organizing structural aspects of the political and economic processes. The exercise of freedom requires the development in individuals of self-directive capabilities. To be effective, freedom must be grounded in reliable knowledge".

The emphasis on knowledge as a prerequisite for freedom is particularly important for Tool, who argues that for choice to be genuine, it has to be informed and based on knowledge:

> "Freedom means both the opportunity to choose among genuine alternatives and ready access to knowledge that will function to make the selection an informed one. Choice without knowledge is a fraud. Knowledge without choice is sterile. Free societies are those which understand this necessary linkage and provide prescriptive and proscriptive arrangements… to assure access to knowledge and the right to employ it in guiding choice making".

In emphasising this positive, participatory dimension of freedom, Tool sees various structural arrangements as means that the political process can hold economic power to account. The argument in this paper is that Tool's concerns for knowledge, accountability and communally-shared freedom needs to be extended and applied to strategic decision-making within transnational firms, and this requires purposive public policy to bring about such a change.

4. 'Free' Markets, Globalisation and Strategic Failure

This recent re-emphasis on the positive dimensions of freedom, in contrast with the mainstream focus on negative freedom and hence Pareto-efficiency, is welcome as the latter is not the only view of 'efficiency' that could be considered. Other considerations might include to what extent an economic system yields the most appropriate outcomes for the society (or societies) served by that economy (Cowling and Sugden 1994); a concept of social efficiency. Underpinning this approach, a distinction is drawn between 'corporate' and 'community' strategies. 'Corporate' strategies are viewed as strategies for development conceived by and in the interests of strategic decision-makers within giant firms, whereas 'community' development strategies are those devised by and in the interests of a wider set of actors in the community (Sugden and Wilson, 2002). The implication is that if strategic decision-making is the preserve of only a few, there arises the potential for 'strategic failure', where the objectives of the elite making strategic decisions conflict with wider interests in society, with the result that the economic system fails to deliver the most appropriate outcomes for the community. The risks of such strategic failure are seen as more likely when deregulation and liberalisation create increased negative freedom from intervention (by government, workers and others) for strategic decision-makers in giant firms.

The contemporary global economy can be seen as such a world. Transnationals increasingly dominate world trade and investment, being "central actors" in the world economy (United Nations, 1997). This is highly evident in that globally, the share of inward FDI stocks as a percentage of world GDP has increased from 8.5 percent in 1990 to 22.7 percent in 2005 (UNCTAD, 2007: 307). According to UNCTAD estimates, in 2005 there were approximately 77,000 transnationals with over 770,000 foreign affiliates. During 2005, these affiliates earned an estimated $4.5 trillion in value added, employed approximately 62 million workers and exported goods and services valued at over $4 trillion (UNCTAD 2007: xviii). Intra-firm trade in particular is a crucial part of production for transnationals, with evidence suggesting that this accounts for over one third of world trade (Dicken, 2006: 53). Within such dominant firms, it is widely accepted that elites control decision-making in their own interests (see Kay, 1997).4 Cox (1992, in Scholte, 2000) sees power in global markets concentrated in the "nébuleuse" or system of elite networking that governs behind the scenes, free from public accountability. Current attempts to develop a multinational agreement on investment could reinforce the negative freedom of such elite strategic decision-makers in transnationals.

In accordance with this trend, from UNCTAD (2007: 25), we find that the current thrust of regulation has been to favour transnationals: the majority of policy changes (over 80 percent) on FDI in 2005 across the world resulted in a 'more favourable' environment for transnationals. Asia has been prominent at liberalising (op.cit. 24), with China leading the way. In 2005 for example China removed geographical limits on the operations of foreign banks and also "allowed for 100% foreign ownership of hotels as well as minority foreign ownership in television programming, distribution and movie production" (op.cit. 58).

With globalisation leading to more concentration of economic power and decision-making in transnational firms, the implications of such an economic and political transformation need to be recognised. The world has thus changed dramatically since Berlin set out his ideas, with much greater concentration of economic power and decision-making in transnational firms, and much less room available for governments to manoeuvre; in what Tool (2001) terms "private 'governmental' control through multinational nonaccountable corporations". This dominance of transnational firms is seen not just in their control of global investment and trade, but also in their power in shaping the global economic environment in their own, negatively free, interests.

Strategic failures resulting from such a dominance of transnational firms and the concentration of strategic decision-making in negatively free elites has been explored by researchers in a number of contexts: for example deindustrialisation in Japan (Bailey and Sugden, 2007); uneven development (Cowling and Sugden, 1999); and the divide and rule of workers (see Cowling and Tomlinson, 2006, for a summary). The deindustrialisation process experienced in Japan in recent years can be seen as an example of strategic failure precisely because policy deliberately concentrated strategic decision-making in elites within giant firms (with whom senior civil servants had very close contact) which were then able to capture aspects of policy in the pursuit of their own strategic goals, notably through prompting a liberalisation of outward

[4] Kay (1997) argues "there are obvious resemblances between the system of corporate governance we have and entrenched authoritarian political systems".

investment (increased negative freedom) whilst leaving intact controls over imports (Bailey and Sugden, 2007). This allowed firms to become transnational and shift operations to lower cost locations - leading to a hollowing out of manufacturing - whilst keeping their home markets protected through import controls, with negative consequences for the Japanese economy. Such negatively free strategic decision-makers in Japan's vertical *keiretsu* have searched for 'competitiveness' by relocating production overseas. This has impacted severely on the dense networks of small firms that have served them.

Whilst Berlin's point that freedom can be subverted by the concentration of power (thereby distorting the concept of positive freedom) remains as valid now as at the time of writing, it needs to be recognised that the current, over-riding desire to promote 'free markets' in reality means negative freedom for a few elite strategic decision-makers in transnational firms. The result is both an undermining of positive freedom for the many to contribute to decision-making; and strategic failure. In other words, we have 'free' markets in only a limited sense of the word free and need to begin asking for whom are they free and in what sense? Addressing such challenges raises some key issues for the design of industrial policy and it is to this that we turn next.

5. Balance and Diversity of Freedoms: Key Issues for Industrial Policy Design?

Despite Meade's (1975) claim that "the great virtue of the competitive market mechanism is that it combines efficiency with freedom", markets increasingly concentrate strategic decision-making power (Dugger, 1989). Appeals to negative freedom are the justification for 'freer' markets and trade. It means freedom from intervention for the elite in dominant transnational firms, with strategic failure the end result. At the other end of the spectrum, central planners in state socialist systems justified their actions with appeals to positive freedom. Whilst claiming to be raising positive freedom for workers, in reality elites of planners emphasised their own positive freedom to control economic decision-making, leading in turn to an erosion of negative freedom for the many, as well as to government failure - a particular form of strategic failure.[5] This led to government failure having a number of effects, including: retarded technological development; over-centralised control of investment decisions; and more systemically the creation of a shortage economy (Kornai, 1980).

[5] Dugger (1993) explores how the metanarratives of both communism and the free market both serve to justify elites using their power over others to force them to conform to the preconceived ideal.

It appears therefore that over-emphasis at the macro-level[6] on either single type of freedom is likely to lead both to distortions of freedoms and in economic terms to strategic failure and social inefficiency. The latter is likely to arise because over-emphasis on one single type of freedom, whether negative in capitalist economies or positive in centrally planned systems, actually means only elites control strategic decision-making in their interests and only a few are free. A balance between positive and negative freedoms at the macro-level is therefore a necessary, but not sufficient, requirement to avoid strategic failure. The avoidance of strategic failure also requires democratic involvement by communities in strategic decision-making. Communities need to be free to contribute to such decision-making. Hence in addition to macro-balance, diversity at the micro-level over who has freedoms is also required, for if elites solely control strategic decisions this constrains the room for manoeuvre (i.e., freedom) for others. The end result is strategic failure as the interest of the elites contrast with the interests of others.

Thus when we consider what economic freedom entails, it is really a composite notion, comprising various dimensions: *what type(s)* of freedom are being emphasised; *where* freedom resides within the system (i.e. who is free?); and *how* those freedoms are realised. In order to expand 'economic freedom', various policy responses may be seen as appropriate, tackling both the nature of the firm itself as well as the environment within which firms make decisions, using both top-down and bottom-up approaches, constraining negative freedom for some so as to release or expand freedoms for many others. Economic democracy is therefore vital in avoiding strategic failure (see Cowling and Sugden, 1998). Here it is vital as a means both to facilitate diversity over who has freedoms (addressing the issue of *where* freedom resides) and to facilitate positive freedom via a collective form of self-mastery, as a democratic participant in economic decision-making (the *what* and *how* dimension).

Mainstream economists will argue that 'free markets' have always meant negatively free markets. This ignores, however, how the meaning of 'freedom' in both political and economic terms has changed over the years. When the terms 'free trade' or 'freedom to trade' first appeared, they did not mean the absence of trade restrictions such as tariffs, but rather the alternative to government-granted monopolies over trade and medieval controls (Irwin, 1996). Only later did 'free trade' come to mean dismantling trade restrictions in the sense that we know it today. Furthermore, despite Berlin's concern over the concept of positive freedom being corrupted by transforming it into a

[6] The macro level is here defined as the inter-organisational level, and the micro level as the intra-organisational level.

collective form, there is a long intellectual tradition emphasising the social dimension of positive freedom. As Gray (1995) notes, this “most offensive feature of positive freedom, its conflation of individual self-direction with collective self rule” was inherent in the ancient Greek view of freedom.; “the ancient or positive sense of freedom *was* that of collective self-rule, and that the negative freedom concept is distinctly modern”. How then can collective self-rule be viewed as a later perversion of positive freedom? Indeed, Berlin has been criticised for failing to recognise the distinction between self-mastery and the collective form of self-mastery, involving being a democratic participant in decision-making (Macpherson, 1973). The latter is particularly relevant here, and is stressed in terms of economic democracy.

It needs to be made explicit, however, that reasserting the freedoms of community groups (and in particular their positive freedom) would reduce negative freedoms for those few who presently exercise them. The existence of such freedom trade-offs has been recognised in other areas of economic thinking. In looking at welfare provision, for example, Dasgupta (1986) observed that there “may need to be a dilution of some forms of negative freedom for the advancement of certain aspects of positive freedom and vice versa”. A trade-off also exists in terms of corporate strategic decision-making, with the justification for more of a balance of freedoms, and diversity over who has freedom, being that this is not a negative sum game; *if* a balance can be achieved, the outcome is positive, in the form of avoiding strategic failure.

Of course, in extending strategic decision-making, it needs to be recognised that social agreements cannot be reached “harmoniously”, on which Berlin was so critical. There will always be conflict in any society, but in a world of negatively-free strategic decision making, opposition can be overcome by strategic decision-makers (Cowling and Sugden, 1998). Rather, if expanded freedoms for others are seen as important (which we argue is, as a way of avoiding strategic failure), we have to find ways of informing them, giving voice to them, and listening to them. In this context, there is a need to design institutional arrangements that assist in building consensus in a ‘bottom-up’ way, in taking into account different viewpoints, so as to empower communities and enhance their positive freedom.

6. Towards a ‘Democratic Globalisation’ via Expanded Positive Freedom: A Role for Industrial Policy

Despite much criticism of the ‘Washington Consensus’ (Stiglitz, 2002) and of attempts to remove restrictions on investment flows without any concomitant increase in responsibilities for transnationals, in reality little has changed in terms of the process of globalisation driving towards greater deregulation and more freedom from control for strategic decision-makers within such firms. Recognising the reality of a global economy where negatively free transnationals are central actors, an appropriate first step in an industrial policy aiming to inject positive freedom would be a strategy of monitoring transnationals (Bailey *et al,* 1998, 2000). Accountability and its links with freedom can be seen as a two-stage process, with "freedom of information" provision in the short-term, leading on to the ability for communities to act on that information in the longer-term.[7]

Monitoring transnationals is therefore a necessary but not sufficient requirement for positive freedom for communities, in providing the information to turn an *entitlement* to contribute into a *capability* to act. Government-created, yet independent, monitoring units might investigate the impact of transnationals on economies, and in doing so could network with other community monitoring-bodies. Monitoring transnational firms would aim to provide an openness and accountability that would facilitate a dialogue and debate, ensuring that markets under globalisation would more likely operate in an open and equitable manner, and for a wider variety of interest groups. This could effectively address Tool's (2001) concern over knowledge as a requirement for effective freedom, in this sense in terms of making transnationals accountable and providing community groups with the information they need to contribute effectively to decision-making.

At the supra-national level, the case for a European monitoring approach as a first step in countering the power of transnationals has been detailed by Bailey *et al* (1998). In other regions of the world such as Africa, where respective supra-national authorities might not have the clout to pursue monitoring of transnationals; then a greater role (and or/reform) for international bodies such as the IMF, the World Bank and the WTO would be called for.

Furthermore, it has to be recognised that deregulation alone and its inherent over-emphasis on negative freedom for elite corporate decision-makers can lead to strategic failure, and is thus not cost-free; as the Japanese experience demonstrates (Bailey and Sugden, 2007). Moreover, such experiences suggest a need to deregulate gradually and carefully (if at all) so as to avoid a concentration of strategic decision-making and combine it with measures to promote decentralised decision-making. The

[7] McClintock (1999) stresses the need for greater transparency and accountability of enterprises, and the need to institute this through both legislation and social monitoring via independent third parties. More broadly, on various means of ensuring corporate accountability, see Dugger (1984).

latter measures might include: (i) reforms to corporate governance so as to shift away from top-down patterns of development and to provide community groups with an input into strategic decision-making; (ii) fostering alternative forms of internationalisation via 'multilateral webs' of small firms; (iii) linking further moves towards global deregulation with greater accountability.

The first issue, governance, is crucial in enabling participation by a wider set of actors in strategic decision-making. This is itself related to the concept of knowledge. If knowledge is essential to effective freedom, as Tool (2001) argues, it needs to be recognised that "knowledge" is not merely the provision of facts, but also needs to be seen as "active and dynamic", where good governance necessitates that each interested person be able to access and use knowledge in participating fully in the governance process. This depends on factors such as education and information, but moreover on participation itself as "a learning process that generates further knowledge" (*ibid*).[8] This in turn links back to Sen's (1999) definition of substantive freedom as comprising a positive, participatory dimension, with participation seen as an end in itself - and not merely a means to an end - in terms of development.

We might thus envisage a virtuous circle of development, with cumulative linkages between knowledge and freedom, freedom and participation, and participation and knowledge. Fostering more effective and participatory governance would require policy intervention to change corporate governance arrangements and law in order to shift away from elites controlling strategic decision-making. This is explored by Branston *et al* (2006) in the context of the strategic choice perspective, who advocate the reform of corporate law, a role for democratically controlled public agencies to monitor firms' strategies and to secure effective representation of the public interest when firms make strategic decisions, as well as the nurturing of a civic society where people appreciate the importance of participation. They recognise that broadening the membership of strategic decision-makers beyond shareholders would need to be "developed and evolved over time", and that it would be infeasible to attempt to provide all interests with an appropriate voice simultaneously (*ibid*).

Exactly what constitutes this broader set of stakeholders remains something of a 'loose-end' in the discussion on strategic decision-making, however. One way forward

[8] Increasing and widening knowledge (and education) is also important in reducing the likelihood of new local elites emerging and capturing the strategic decision-making process (this is always a danger, when policies are introduced to aid development and widen participation: certain groups (often the poor) can find themselves excluded due to lack of education/access to decision-making bodies/committees etc, See, for instance, Blair, (2000)

might be to consider how negatively-free strategic decision-making for elites cuts across the freedoms of other groups, for example in the sense of what room for manoeuvre others then have to make decisions. Such an approach, focusing on expanding the area of genuine choice in Tool's analysis (1979, 2001), would suggest that such community groups could differ according to the type of strategic decision being made. In some cases it might just affect the freedoms of groups of workers, in other cases workers and suppliers, and so on. This might mean a flexible definition of the firm itself, with variable community groupings playing a role in different areas of strategic decision-making, with coordinating mechanisms across strategic decisions. The key point here is that as soon as we move away from considering only negative freedoms, a range of possibilities open up in terms of corporate governance arrangements, with implications for economic democracy, and all within what can genuinely be considered as 'free markets'. Micro-diversity over how freedoms are realised might thus come through encouraging 'econo-diversity'; the emergence of different corporate forms, with different governance structures facilitating community participation via various mechanisms. Such 'econo-diversity' could also provide an effective counterweight to corporate hegemony (see Dugger, 1989).

There are signs that some aspects of the reform agenda we outline are already evident in some countries – Germany, for example, has traditionally had a system of supervisory boards in companies, whereby employee representatives enjoy rights of co-determination with management (Gill and Krieger, 2000). Moreover, the EU has an explicit agenda to promote worker participation; as evidenced through the operation of European Works Councils (Marginson et al., 2004) and more recently with the passage of the Information and Consultation Directive, designed to facilitate national systems of information provision and consultation with workers in member countries (Hall, 2005). Whilst it might be argued that such bodies could be prone to capture by a corporate agenda, they at least represent attempts to provide voice beyond that of a narrow group of elite transnational decision-makers. The case of Network Rail in the UK provides another good example of how strategic failure (and consequent poor performance) can lead to a change in governance structures. Here the UK Government restructured the organisation away from a shareholder-based organisation to one run by 114 appointed members of the public, including passenger authorities and representatives from disabled-access groups who are to ensure "high standards of corporate governance" (Branston *et al*., 2006: 199).

Such moves could be enhanced by growing a more diffuse system of entrepreneurship that fuses the public and private, and avoids the risk of strategic failure. Crucially, this would require policymakers moving beyond the Porterian view of 'clusters' - which has been both superficial in its analysis and confused in its policy-relevance (Martin and Sunley, 2003) - towards a more sophisticated understanding of relationships within and across different 'clusters', focusing on the governance structures required in order to avoid 'top down' concentrated strategic decision-making and strategic failure. Building webs of small firms, where strategic decision-making is more diffuse, should be a focus for industrial policy, initially by encouraging existing local production systems to look outwards to other systems, and then to build multi-locality webs underpinned by mental proximity[9]. Multi-locality webs are seen as a potential alternative to the top-down control of giant firms, and would be large-scale production processes comprising a myriad of smaller firms in a nexus of criss-crossing relationships which span borders – i.e., a multi-local (rather than a transnational-controlled) production processes. As Cowling and Sugden (1999) note, the characteristics of webs also include democracy in strategic decision-making and a balance of (positive and negative) freedoms across participant actors.

Policy lessons might be learned from experience elsewhere; in order to compete internationally without the economies of scale that transnationals enjoy, firms in certain industrial Italian districts have cooperated in the collective provision of marketing and other services. Such cooperation amongst enterprises could be encouraged and enhanced through the provision of support structures and quasi-public goods to webs of small firms.[10] These could include specialist services and R&D support, for example via more innovative university-web-community relationships. The latter would have to be underpinned by a re-appraisal of the role of universities and a shift away from corporatisation of higher education towards conceptualising universities as providing a counterpoint to corporate hegemony. This would require a new sort of university, integrated in the industrial economy, based in the locality, but looking out, developing a multi-national base. Similarly, the finance system would need to be shifted towards a more decentralised form with the dominant objective of supporting webs of small firms rather than giant capital (see Bailey and Cowling, 2006).

Developing knowledge, accountability and participation via the monitoring of transnationals, reforming corporate law and governance and the building of webs of smaller firms could be enhanced by limits on negatively free trade where transnationals

[9] Mental proximity "constitutes the basis for and lowers the barriers for building person-to-person trust, such as shared values and beliefs" (Roos *et al.*, 2005: 26).

[10] The role of 'social firms' could also be important in this regard (see Harding and Cowling, 2004).

engage in socially damaging behaviour (Cowling and Sugden, 1998), and the linking of further moves towards deregulation (i.e., granting elite decision-makers more negative freedom) with greater responsibilities in terms of information disclosure and accountability (Bailey *et al*, 2000; McClintock, 1999). Taken together, such measures could expand the positive freedom of communities and reduce the risks of strategic failure under globalisation.

7. Concluding Comments

This paper has linked radical institutionalist and strategic choice literatures so as to better understand freedom, accountability and participation in the context of a globalising economic system dominated by transnational corporations. The paper suggests that freedom can be seen as a composite notion, with various dimensions to consider. It is not solely an issue of trading-off negative and positive freedom, although it is argued that such trade-offs do exist over strategic decision-making in transnational firms. Rather, when we consider what is meant by freedom, various dimensions exist, including: what type(s) of freedom - negative and/or positive - are being emphasised; where freedom resides within the system (i.e. who is free); and how those freedoms are realised. The avoidance of strategic failure requires all three dimensions to be addressed.

These dimensions of freedom raise a number of issues that need to be borne in mind by policy-makers if globalisation is to work for a wider set of actors. The first concerns macro-balance, so as to avoid elites controlling decision making; and the second micro-diversity, in terms of where and how freedoms are realised. Macro-balance is critical as over-reliance on either single type of freedom leads to strategic failure. In state socialist systems, an emphasis on positive freedom meant freedom for elite planners to control. This eroded negative freedom for the many (the economic dimension of Berlin's argument on distortion of freedom) and led to government failure as a specific form of strategic failure. In globalising market economies, negatively free markets confer ever-increasing power on elites of decision-makers in increasingly dominant transnational firms. The end result of ever more concentrated, negatively free decision-making is again strategic failure, with a failure of the system to produce outcomes most suitable for the communities served by that economic system. Such 'free' markets are free in only a limited sense of the word. In order to avoid globalisation serving only a narrow set of interests (those of elites), markets need to be reconstructed in a manner that pays attention to both types of freedom.

The second issue, micro-diversity embraces two dimensions; where and how. 'Where' freedom occurs raises the question; is it solely elites of strategic decision makers, or are community groups free to contribute to decision-making? A key concern here is the collective form of positive freedom, of the ability to contribute as a participant in economic-democratic processes. On how such freedoms can be realised, there is also no single way of giving communities the capability to make plans and decisions; various methods of releasing this positive freedom may be feasible.

Given the present starting point of negatively free markets, the goals of balance and diversity involve reasserting the positive freedom of communities. It would involve a trade-off; a loss of negative-freedom for elite decision makers, as they would no longer be free from control, from intervention. The end result would be free markets, but in a very different sense as such markets would emphasise different dimensions of freedom and would ameliorate the risks of strategic failure. This has resonance for the 'bottom-up versus top-down' debate in industrial policy design. Policy intervention in this sense would be both 'top-down' in curtailing the negative freedom of corporate strategic decision makers, and 'bottom-up' in promoting the freedoms (both negative and particularly positive) of communities by enabling them to participate in strategic decision-making. The irony is that broadening the participation of communities in strategic decision-making and the process of globalisation (towards a democratic globalisation) can be justified not by appealing to socialism, but rather by a desire to create genuinely free markets, free in both a positive as well as a negative sense of the word.

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