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**Edited by Miles Kahler and David A. Lake: Governance in a Global Economy**

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## *Chapter 1*

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### GLOBALIZATION AND GOVERNANCE

MILES KAHLER AND DAVID A. LAKE

CONTEMPORARY DEBATE over globalization casts its political effects as both revolutionary and contradictory. In a “power shift” of historic proportions (Mathews 1997), some analysts claim that we are entering an age of the “virtual state” (Rosecrance 1996). Globalization, they argue, drains political authority from nation-states, long the dominant form of political organization in world politics. The state’s monopoly of familiar governance functions is ending as governance migrates down to newly empowered regions, provinces, and municipalities; up to supranational organizations; and laterally to such private actors as multinational firms and transnational nongovernmental organizations (NGOs) that acquire previously “public” responsibilities. In this view, globalization not only transfers the location of governance, it also forces a convergence of state institutions and policies. In exercising their residual authority, states are constrained to look and act alike. Although a transfer of governance to subnational units may increase democratic accountability, these governance changes and the accompanying pressures for convergence are more often seen as a threat to the ability of societies to chart their own democratically determined courses.

Skeptics contest each of globalization’s alleged effects. National governments jealously guard many traditional spheres of governance, particularly defense, criminal justice, and immigration. Rather than promoting new forms of political organization, groups who demand self-determination define their claims as possession of a nation-state. If the nation-state is a beleaguered and ineffectual fossil, its enduring popularity at the dawn of the new millennium is baffling. A skeptical view of deregulation regards the award of enhanced authority to private actors as partially or wholly offset by public intervention in new areas such as environmental or consumer protection. In Seattle, Washington, D.C., and Genoa, new transnational political movements protest a deregulated and integrated international market. Although some press for reformed and transformed international institutions, others, somewhat paradoxically, rely on national governments for policy change or urge those governments to withdraw from pro-market international organizations (O’Brien et al. 2000).

Sorting through these contradictory claims requires careful definition of globalization and governance, identification of the range and dimensions of variation in both, a preliminary survey of changes in governance that appear to result from increasing globalization, and a theoretical frame for examining more systematically the links between globalization and governance. We begin these tasks of definition, identification, and explanation in this introductory chapter. The authors in the volume build on the common definitions developed here. They also share a common baseline: an increase in globalization that sets the last four decades apart from both an earlier era of globalization (the decades before 1914) and the period of economic disintegration produced by depression and world war.

Collectively, the chapters in this volume find that the effects of globalization on governance are more complex and contingent than many observers claim. Globalization exerts a profound effect on economic and political life. Important shifts in the locus of governance have occurred in all three directions—downward, upward, and laterally. Some measure of convergence can be observed. These trends are neither universal nor uniform, however. Variation occurs from issue-area to issue-area. As Benjamin J. Cohen describes in chapter 6, authority over monetary policy has in some cases been delegated to other governments and to regional entities. In international financial regulation, however, Barry Eichengreen (chapter 7) confirms the persistent dominance of national authorities. Some important political effects appear unrelated to the advance of globalization. Pieter Van Houten (chapter 5) argues that international economic integration has not been an important influence on demands for increased regional autonomy in Europe. Walter Mattli (chapter 8) and Virginia Haufler (chapter 9) contend that private forms of governance, of growing importance, are often dependent on national political authorities for their effectiveness. In addition, although governments appear to converge on policies of economic openness, there appear to be few pressures for convergence on other policies—and, as Ronald Rogowski (chapter 10) argues most forcefully, few good theoretical reasons for expecting such convergence. Finally, as James Caporaso (chapter 14) and Robert Keohane and Joseph Nye (chapter 15) note, there are multiple forms of accountability. Although traditional mechanisms of democracy may not apply at the international level outside of the European Union, other means of monitoring and constraining authorities remain important.

General conclusions about the changing nature of global political authority remain elusive. The chapters that follow demonstrate that neither globalization nor governance is homogenous. Rather, international economic integration—itsself differentiated and uneven—is producing

a new fabric of global governance that displays many variations and shadings.

To explain this diversity, the authors adopt an explicitly actor-oriented and political theory of globalization. Globalization is often portrayed as an inexorable, impersonal set of market forces that compels passive states to comply with its dictates—an environmental constraint that states ignore only if they are willing to be left behind in the new global competition. Existing theoretical accounts are largely functionalist or efficiency-based. In contrast, the authors in this volume emphasize globalization's effects on governance through political actors. Globalization changes the policy preferences of some actors, increases the bargaining power of others, and opens new institutional options for still others. For modern actors, the most important effect of globalization often lies in its effects on other political actors, their strategies, and the institutional settings in which they interact. In this way, we seek to reintroduce agency and choice into the story of globalization.

#### GLOBALIZATION AND GOVERNANCE: DEFINITION AND VARIATION

##### *Globalization Defined*

Globalization is often defined expansively as networks of interdependence that span intercontinental distances (Keohane and Nye 2000a, 105). As such, the term incorporates a host of profound changes in world politics: growing political linkages at the global level, erosion of local space and time as structures of economic life, and homogenization of social life through global standards, products, and culture. Typically, these broad trends are attributed to radically reduced communication and transportation costs. Conceived in this way, globalization is an umbrella term, covering a wide variety of linkages between countries that extend beyond economic interdependence. No single volume could coherently examine how globalization, thus defined, affects governance.<sup>1</sup> Equally important, this broad definition includes elements of governance within it, and thus risks confounding the two crucial variables of this study.

We therefore focus on a central aspect of globalization: economic integration at the global level. The reduction of barriers to economic exchange and factor mobility gradually creates one economic space from many, although that process remains far from complete. Most economists and most authors in this volume adopt this meaning. Although he attaches profound systemic significance to globalization, Thomas Friedman (1999, 7–8) also adopts this meaning when he defines globaliza-

<sup>1</sup> For a more comprehensive overview, however, see Nye and Donahue (2000).

tion as “the inexorable integration of markets, nation-states and technologies to a degree never witnessed before—in a way enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before.” This definition has an important, if implied, political dimension, as well. Although facilitated by lower communication and transportation costs, globalization rests on the decisions of national governments to open their markets to others and to participate in a global economy. It is this political dimension, we argue, that is crucial for understanding globalization and its effects on governance.

Several chapters in this volume focus on “Europeanization” as what Caporaso (chapter 14) calls the “leading edge” of globalization. Economic integration displays important regional variations. Through what is clearly a politically driven process, Europe has traveled farthest in opening national economies to goods and factor flows between neighbors. The supranational institutions of Europe, which encouraged economic integration and were deepened by it, are in certain respects unique. As Kathleen McNamara (chapter 13) points out, however, European integration is a “most likely case” for investigating globalization’s effects on governance. For this reason, Europe serves as a central case in several chapters that follow.<sup>2</sup>

#### *Variation in Globalization*

Those who define globalization broadly often portray its changes as revolutionary and unique, incomparable to any previous historical period. Economic historians, endorsing the narrower definition of global economic integration, beg to differ. They do not view globalization as either an inexorable trend or as a sharp rupture that divides contemporary history from the past. Instead, historians find substantial variation in economic globalization over the past century, as well as similarities between the present and the decades before 1914. For many, that earlier era represents a level of integration that has been surpassed only recently, if at all. Sachs and Warner (1995), for example, portray the contemporary global economy as reestablishing a process of integration that had been disrupted in midcentury by decades of war and depression.

Claims of comparability between globalization then and now are in turn qualified by more detailed investigation of the pre-1914 world economy. Simple measures of gross economic flows and other standard measures of economic integration may not capture the greater “depth and diversity” of trade and capital market integration today (Irwin

<sup>2</sup> For a similar treatment of Europeanization as globalization, see Weber (2001).

1996, 45). Manufactures play a much larger role in trade and a larger share of the economy, particularly services, is exposed to international competition today (Baldwin and Martin 1999; Bordo, Eichengreen, and Irwin 1999). Capital markets also differ. Short-term capital flows are far more important than they were before 1914; the enormous contemporary foreign exchange market did not exist in the earlier period.<sup>3</sup> In addition, borrowing by the private sector and by financial institutions, particularly in the then-emerging markets, was far less important than long-term public borrowing for infrastructure development (Bordo, Eichengreen, and Irwin 1999; Obstfeld 1998). Foreign direct investment is strikingly different in the two periods. Investment by multinational corporations before 1914 was typically in the agricultural and mining sectors through freestanding companies; multinational investment today is more likely to be in manufacturing and to display the characteristics of the global factory—parceling out production chains across jurisdictions (Feenstra 1998; Prakash and Hart 2000, 2). An ability to disaggregate the production process across national borders was far more difficult in the technological conditions of a century ago.

On the other hand, labor was clearly more globalized in the pre-1914 era. Indeed, levels of labor migration were “staggering by modern standards” (Baldwin and Martin 1999). Migration flowed from Europe to the United States and other territories of settlement; it also flowed among colonial and quasi-colonial territories, expanding Chinese populations in Southeast Asia and Indian populations in the Caribbean and Pacific islands. At the same time, immigration provided the first evidence of backlash against globalization, as restrictions were first imposed in the United States and elsewhere during the 1880s (O’Rourke and Williamson 1999, chap. 10; Williamson 1998).

One critical difference underlies this more nuanced and disaggregated portrait of old and new globalization: information. Although trade in goods was spurred by falling ocean transport costs in both periods, radical and persistent reductions in the costs of cross-border communication are far more significant in the second. These cost reductions shrink the information asymmetries that had hindered development of more diverse and transparent international capital markets before 1914 (Bordo, Eichengreen, and Irwin 1999). They also open novel techniques of organizing production across borders, whether integrated vertically in global factories or through looser cross-border production networks (Borras, Ernst, and Haggard 2000). Sharply reduced communication costs and technological innovation also affect cultural integration through

<sup>3</sup> Mauro, Sussman, and Yafeh (2001) find that the co-movement of spreads across emerging markets is higher today than in the period 1870–1913.

trade in digitized images, absent before 1914. The costs of cross-border political organization have also declined, although transnational politics—women's suffrage, peace, labor rights—first flourished at the turn of the last century (Keck and Sikkink 1998).

Globalization before 1914 differed from contemporary globalization. The intervening decades, however, brought a sharp retreat from globalization of all kinds. Between 1914 and 1945, the global economy disintegrated. Barriers to capital mobility—suspension of the gold standard and imposition of foreign exchange controls—increased during the Great Depression of the 1930s. International capital mobility reached its lowest point during World War II and the immediate postwar years (Obstfeld and Taylor 1998, 381). Trade protectionism, which had existed in pre-1914 Europe and America, also intensified and spread during the years of depression and war. Relatively closed trading blocs, typically based on colonial empires, became the new norm. Restrictions on immigration proliferated, strangling the previously robust movement of labor (O'Rourke and Williamson 1999, 185–86).

After 1945, this trend toward closure gradually reversed itself among the industrialized countries. Beginning in the 1950s, the rich countries removed exchange controls, reduced tariffs and other trade barriers through multilateral negotiations, and, as the postwar boom tightened labor markets, relaxed restrictions on immigration. A shift to flexible exchange rates in the early 1970s led to a gradual removal of capital controls. By the 1980s, economic integration in the industrialized world met or surpassed the levels seen before World War I.

Globalization, however, required the embrace of economic openness by developing and formerly socialist economies, as well. This integration occurred later and remains less complete; its results were also more controversial. Although some developing countries had pursued international economic integration since independence, most distanced themselves from liberalized trade and financial flows after 1945. Only in the last two decades of the twentieth century did policies of economic openness gain global popularity. In chapter 11, Beth Simmons and Zachary Elkins examine alternative explanations for this remarkable shift toward liberalization. On a number of measures, integration of developing and transitional economies into global trade and financial systems has been striking. The share of developing countries in world trade grew from 23 percent in 1985 to 29 percent in 1995; thirty-three developing countries replaced relatively closed trade regimes with open trade regimes in the same decade (IMF 1997, 72–73). Capital flows to developing countries increased dramatically after the debt crisis of the 1980s. Those flows, with the exception of foreign direct investment, were subject to equally marked disruptions in the wake of financial crises that

continued to affect emerging markets during the 1990s (Kahler 1998). Labor migration also grew during these decades, although never reaching the heights of the late nineteenth century. The new migration, however, like trade and investment, broke with a strictly North-South pattern, producing “the globalization of international migration” (Castles and Miller 1993; see also Sassen 1998, chaps. 2–4).

Globalization has varied across the twentieth century. Each of the authors investigates the latest turn to globalization, which occurred in the second half of the century, as a central independent variable that may account for changes in governance. Although this common understanding of globalization is shared by the authors, several qualifications should be noted. Globalization remains uneven across markets for capital, goods, and labor, economic sectors, and regions. Even among the industrialized countries, where integration is deepest, globalization has not created a borderless world or the end of geography. Capital mobility in the highly integrated financial markets in Europe and the United States is still much lower than it is within national economies (Obstfeld 1995). Border effects are also powerful in international trade: political units within a national economy still trade more intensively than units across national borders (Helliwell 1998). In measuring the advance of globalization, the benchmark is all-important: the world is more globalized than it was three decades ago, but national economies, at least in the industrialized world, remain far more integrated than the global economy.

### *Governance Defined*

Like globalization, governance can be conceived broadly or narrowly. Most generally, the Commission on Global Governance (1995, 2) defines its subject as “the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken.” Similarly, Keohane and Nye (2000b, 12) define governance as “the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group.” As such, governance is nearly synonymous with patterned social interaction, similar to Grotian conceptions of international regimes (Krasner 1983, 10). Governance can also be understood more narrowly as that subset of restraints that rests on authority, where authority itself is a social relationship in which “A (a person or occupant of an office) wills B to follow A and B voluntarily complies” (Scheppelle and Soltan 1987, 194). In other words, governance is characterized by decisions issued by one actor that a second is expected to



obey.<sup>4</sup> Most of the papers in this volume focus on this narrower meaning of governance as a set of authority relationships.

Under either conception, however, governance is not government (Young 1999). Many social and political units—among them families and clans, firms, labor unions, alliances, and empires—govern social interactions and can possess authority, at least in regard to their members. Nation-states assert sovereign authority and claim a monopoly over the legitimate use of force, but they represent only one type of governance structure. Corporations, NGOs, international standard-setting bodies, and many other entities all act authoritatively within the global system.<sup>5</sup> In other words, all can contribute to international governance.

In investigating the effects of globalization, three analytic dimensions of governance are particularly important: centralization or dispersal of the sites of governance (across levels of governance or between public and private governance); the degree to which governance ultimately responds to the wishes of those who are governed, the dimension of democratic accountability; and convergence or divergence among the forms of governance and their policy products. We discuss each of these dimensions in turn.

As the chapters in part 1 discuss, governance varies according to the centralization of authority. Authority can be highly concentrated—vested in a single, hierarchical entity with claims to exclusive jurisdiction, as in totalitarian national states or the transnational Roman Catholic church. Governance can also be widely dispersed among individual nodes exercising only limited jurisdiction. Exemplars are the United States and Switzerland—decentralized federal states with large spheres of private activity. Understanding this dimension of governance requires identification of the site(s) or location(s) of authority. More sites of authority produce a more decentralized system. International anarchy—a

<sup>4</sup> Scheppele and Soltan refer to this as the paradigmatic definition, which they contrast with their own alternative. Three characteristics of authority are worthy of note in our discussion of governance. First, power may be a foundation of authority, but authority does not itself rely upon the exercise of coercion (Peters 1967, 92–94). Second, although the claim to authority may need to be justified by appeals to divine right, tradition, popular support, and so on, *A*'s authoritative commands do not themselves need to be justified. This distinguishes authority from moral or scientific commands (*ibid.*). Finally, the strength of authority is measured by the maximum divergence between *A*'s command and *B*'s preferences under which *B* will still comply voluntarily. *A* is weak when it is limited to willing only that which *B* would do anyway. At the same time, authority is never without limit. There is always some command that *A* could issue that *B* would defy. On authority, see Friedrich (1958) and Pennock and Chapman (1987).

<sup>5</sup> For a typology of governance structures at the public-private intersection, see Börzel and Risse (2001).

system of sovereign states—consists of actors without any overarching authority and, thus, constitutes a highly decentralized governance structure. Subsidiarity, a term that originated in the European Union, implies a normative bias toward decentralized governance. Governance at the level closest to the ultimate principals—the electors in a democracy—is preferred (CEPR 1993). Another term for such decentralized systems is multilevel governance (see Hooghe and Marks 2001).

Sites of authority are often difficult to identify, since modern governance structures are typically composed of chains of delegated authority with, at each level, more or less “agency slack” (see Kiewiet and McCubbins 1991).<sup>6</sup> When not carefully monitored, authority that is delegated can be “lost”—transferred, permanently if unofficially, to agents. Delegations and transfers of authority can be observationally equivalent, and thus it can be difficult to distinguish who has authority in complex patterns of governance. This is a central question in the literature on the European Court of Justice, for instance (Alter 1998). Unless mechanisms of oversight are carefully crafted and vigilantly maintained, even democratically elected legislators may begin to act on their own interests rather than those of their constituents. In such cases, whether authority is actually vested in citizens or their representatives can be hard to discern.

Debates over globalization’s effects on governance often hinge on the same distinction between delegated and transferred authority.<sup>7</sup> When states create international dispute-settlement procedures, for instance, they may delegate authority to the new entity, allowing it to act on their behalf only so long as decisions are compatible with their interests, or, more rarely, they may transfer previously sovereign powers to an entity that can now expect compliance with its rulings. Globalization may lead to greater delegation of authority to a greater range of entities, but

<sup>6</sup> Authority is also hard to identify for a second reason. In equilibrium, voluntary and coerced compliance can be observationally equivalent. In relations between the strong and weak, the former often need not utter explicit threats to compel the desired behavior by the latter. The weak appear to follow the wishes of the strong of their own accord. In such unequal relationships, the power to coerce is latent but nonetheless central to the observed behavior. Only when subjugated peoples test their chains by trying to escape, protest, or rebel do their shackles become evident. If the strong are powerful enough, the weak seldom want to test their limits, but their compliance is strictly a function of constraints. Since coercion does not appear to play a significant role in contemporary changes in governance, even as a latent force, we do not develop this second measurement problem.

<sup>7</sup> Delegation and transfers of authority are best described by close, detailed study of institutional rules and practices, on the one hand, and careful attention to out-of-equilibrium behavior such as when agents attempt to exercise “too much” slack, on the other. In American politics, this is phrased as delegation versus abdication. For close institutional analyses, see Kiewiet and McCubbins (1991) and Lindsay (1994).

states may still retain the ability to revoke this authority at will. States would then remain dominant political actors. On the other hand, if globalization is producing real transfers of authority from states to other types of units, a fundamental change in world politics may be underway.

As indicated in the chapters in part 3, the question of delegation is closely related to the second dimension of governance, democratic accountability. Broadly defined, accountability can be understood as the slack between the principals and agents. The addition of democracy raises a further question, namely, to which principals are the agents responsible? Democracy is an ambiguous and contested term, particularly when applied outside the confines of domestic politics. Nearly all definitions of democracy have at their core the idea of rule by the people. Such a standard has in turn three requirements: the members of a particular group—or those compelled to comply with the rules and norms of a group—have the ability to communicate their preferences to those who act on their behalf, insure that their preferences are weighed equally in the formulation of policy, and remove leaders who fail to satisfy at least a majority of the members (Dahl 1971, 2).

Whether such a benchmark can be applied to international governance is a controversial issue. In chapter 15, Keohane and Nye argue that democracy stops at the boundaries of the nation-state; accountability, on the other hand, does not. Caporaso (chapter 14), drawing on the experience of European integration, claims that democratic standards may be applied to the institutions produced by economic integration. Although democratic accountability is most contentious in contemporary debates over global institutions, such as the World Trade Organization (WTO) or the International Monetary Fund (IMF), its applicability to other nonstate actors is central in assessing global governance. In some NGOs, for example, leaders or boards of directors appoint their own successors. Members may choose to exit the organization, but otherwise they have little voice. Other NGOs take a more classically democratic form, and members elect the leadership. Although the growth of NGOs is often taken to imply a more vibrant transnational civil society, their emergence need not imply greater democracy in practice. Once again, the meaning of democratic accountability outside the context of national politics is at issue.

A third and final dimension of governance—convergence or divergence in forms of governance and in resulting policies—lies at the center of globalization debates. This topic is taken up in part 2 of this volume. Globalization may not “hollow out” the core governance functions of states, but it may produce nation-states alike in institutions and policies. Critics of globalization contend that competitive economic

pressures will produce institutional and policy homogeneity over time in a direction favored by the most mobile factor of production—footloose capital. It is further assumed that these mobile capitalists will prefer lax regulation and less government intervention. In this view, the welfare state is placed at risk, and governments are no longer free to adopt policies that respond to the needs of their societies, calling into question their own democratic accountability. Conversely, globalization may produce a competition in regulatory stringency—a race not to the “bottom” but toward “best practice” (Guillén 2001; Vogel 1995). Similarly, Rogowski (chapter 10) claims that globalization provides incentives for divergence in governance and policy, not increasing homogeneity, a position supported by the general findings of Peter Gourevitch (chapter 12) and McNamara (chapter 13). Both the facts—whether convergence in governance and policy has taken place—and the explanation—whether the pattern of convergence or divergence is explained by globalization—are a central part of the investigation that follows.

#### *Globalization and Variation in Governance*

These dimensions of governance—centralization, democratic accountability, convergence—changed in identifiable directions during the pre-1914 and post-1945 eras of global economic integration. The similarities and differences in governance across the two periods provide an initial and incomplete test of the political consequences of globalization.

Rather than political fragmentation, which has produced nearly two hundred sovereign units in today’s global system, large-scale units dominated world politics and the international economy in the decades before World War I. These states and empires were reluctant to delegate powers to international institutions, but were often decentralized internally. Political integration before 1914 occurred through territorial annexation (the United States, Russia), extension of hierarchical imperial or quasi-imperial relationships (Britain and the other European colonial powers), and creation of large federal states (Canada, Australia). By 1914, a highly integrated capitalist economy was populated by relatively large political units. Economic and political integration increased in tandem (see Lake and O’Mahony 2002).

This outcome is anomalous in light of models, discussed in the following section of this chapter and subsequent chapters, that associate an open world economy with political fragmentation and a bias toward smaller political units. Globalization appears to produce incentives for large-scale territorial governance in one era and not in the other. Three explanations can be offered for this divergence. Peripheral societies in the earlier period were at times unable to maintain the level of gover-

nance required for successful economic integration. When economic exchange produced political turbulence, outside powers extended their control (Hopkins 1973). Capture by particular interests or sectors that demanded more intensive, territorial, or compliant governance best explains other cases of territorial expansion. Finally, military competition rather than globalization may have driven government policy. After 1945, these motivations for direct governance of other political units faded. In addition, governance costs increased over the century, both in the capacity of populations to resist unwanted alien rulers and the expected level of public-goods provision.

A second key difference in governance between the two periods was the scarcity of international institutions with substantial delegated authority before 1914. Governments created narrowly defined functional organizations related directly to spillovers from economic integration (e.g., the International Telegraph Union), as well as several currency unions. The degree of delegation to these institutions was low, however. National and imperial polities with large internal markets may have reduced the need for delegation upward to international institutions. Today, of course, international organizations proliferate, but as Cohen (chapter 6), Eichengreen (chapter 7), and Mattli (chapter 8) suggest, they have acquired, at best, modest new authority.

Despite these differences, the two periods of globalization share a common bias toward decentralized governance by subordinate units. Care must be taken in measuring centralization of governance. Many federations are shams, whatever their constitutional outlines, and, as the chapters to follow indicate, different dimensions of decentralization can move in conflicting directions. Nevertheless, nearly all successful federations, with the exception of the United States, were constructed in the late nineteenth century. Although created through amalgamation, rather than devolution from an existing state, these were genuine federations with significant powers vested in subnational units. Even the British Empire, largest of the era, was characterized by substantial decentralization. Arguments over subsidiarity—the appropriate assignment of governance functions to different levels—were a constant in intrainperial relations (Davis and Huttenback 1986). Today, significant devolution has appeared across the advanced industrialized states and beyond (documented in Hooghe and Marks 2001, esp. 191–212; and Jun and Wright 1996). Michael Hiscox (chapter 3), Geoffrey Garrett and Jonathan Rodden (chapter 4), and Van Houten (chapter 5) examine the scope of contemporary decentralization and its connection to globalization.

Democratic accountability, a second dimension of governance, creates a sharp distinction between the integrated world of a century ago and the globalized world of today. Both the location of governance and pol-

icy convergence were influenced by this difference. Before 1914 governments did not respond to the median citizen in their societies, since that individual was often denied the vote (women and often a large share of the male population). Limited democracy was coupled with a large award of governance to the private sector that permitted accommodation to the demands of globalization. In addition, the standard for government policy was radically different: few believed that the government had broad responsibilities in economic management. By the late twentieth century, governance was shifting toward a more circumscribed public domain (or a least one that is defined differently), but the contemporary benchmark is a level of government activism set at mid-century during a period of economic closure.

Weak democratic accountability before 1914 permitted policy capture by economic interests, which created both policy divergence and convergence. Policy was not consistently supportive of economic opening. Tariff policy after 1870 shifted toward increased protection of agriculture and manufacturing in every European country except Britain and Denmark (O'Rourke and Williamson 1999, chap. 6). The most important instance of strong policy convergence was the gold standard, which was supported by domestic commitments and institutions and reinforced by the central place of Britain in the midcentury international economy as well as by the network externalities of a common currency standard (Eichengreen 1996, chap. 2). Convergence in other domains, such as corporate governance, occurred much more slowly, if at all, even in fundamentals such as accounting standards (Bordo, Eichengreen, and Irwin 1999). This was, of course, the era when different models of capitalist industrialization first became salient (see Gerschenkron 1962). Nonetheless, policy convergence may have been less important to global economic integration in an era when the scope of government regulation was far narrower than it would become in the twentieth century.

Policy credibility under the gold standard may have benefited from an absence of democratic governance, since "the workers who suffered most from hard times were ill positioned to make their objections felt" (Eichengreen 1996, 31). On the other hand, the failure of pre-1914 national or international governance to address the distributional consequences of economic integration undermined the globalized system. Political backlash was created that supported international economic closure in the 1920s and beyond. The rise of working-class representation and universal suffrage weakened efforts to reestablish the gold standard and closed the world to large-scale migration well before the crises of the Great Depression and World War II (O'Rourke and Williamson 1999).

From 1914 to 1945 the double crisis of war and depression brought economic disintegration and heightened the centralization of governance functions and political authority at the level of the nation-state. The New Deal in the United States; Hitler's *Gleichshaltung*, which eliminated the federal character of Germany; Stalinism in the Soviet Union; Peronism in Argentina; and Vargas's *Estado Novo* in Brazil were all exemplars of this trend. Delegation of governance functions to international and regional institutions was also arrested in the decades of economic closure. Although the League of Nations system had created a number of new international organizations, few functioned as designed.

In the latter half of the twentieth century, economic integration resumed among the industrialized economies and within the Soviet bloc with modest delegation of authority to international and regional institutions. Post-1945 international institutions also remained tightly constrained until currency convertibility and trade liberalization fostered growing economic openness. Economic liberalization and the creation of a European common market reduced pressures for further political amalgamation. In the rest of the world, economic disintegration and then globalization witnessed the creation of large numbers of small-scale polities, in striking contrast to the earlier era of globalization. Before the 1990s, efforts at economic integration within the developing world uniformly failed; large federations that succeeded the colonial empires seldom survived. Nation-states remained the principal political units in the international system. Renewed economic integration after 1980, however, produced a wave of regional institution building. Unlike the earlier generation of regional institutions, these were delegated a modest increment of authority by their members. Developing countries also markedly increased their level of participation in global economic institutions in the last decades of the twentieth century.

Under conditions of policy-induced economic disintegration, the developing world after 1945 was hostile to any model of governance other than the sovereign (little delegation to international or regional institutions), centralized (little devolution to subnational units) nation-state. In the industrialized world, however, successive waves of devolution accompanied growing economic integration. Fiscal centralization peaked around 1950 (Oates 1999). Beginning in the 1970s, regional governments, some based on ethnic cleavages, were created in the industrialized countries, and devolution first took hold outside the industrialized world.

Economic disintegration in midcentury had been accompanied by both a failure of market-driven policy convergence and a decline in democratic accountability. Economic closure was enacted in part to permit a wide array of policy experiments in the face of depression and

international insecurity. Existing variants of capitalism were transmogrified into even more extreme forms of fascism and communism. That permissive environment continued after 1945 among the developing countries. The industrialized economies, on the other hand, began to converge on a model of “embedded liberalism” (Ruggie 1982) that combined liberal external policies and interventionist internal policies in support of international economic integration, while retaining different models of capitalism (Gourevitch, chapter 12) and considerable freedom of action in fiscal policy (McNamara, chapter 13). This policy mix enabled democratic governance and economic openness to coexist in a stable equilibrium that had been beyond reach before 1914. Such convergence as occurred owed more to the policy preferences of the dominant power and to international institutions than it had before 1914, but those factors did not stop the spread of socialist economic planning, import-substituting industrialization, and capital controls throughout much of the world. The reasons for global policy convergence on full international liberalization after 1980 remain controversial, as Simmons and Elkins describe in chapter 11.

This examination of globalization’s effects on changes in governance over the past century highlights at least one anomaly—economic integration has been associated with both large- and small-scale political units. Globalization also appears to be associated with changes in the other dimensions of governance. Economic integration appears to favor political devolution within nation-states and modest delegation to international institutions. The decades of economic closure at midcentury saw the greatest concentration of governance functions at the level of the nation-state. Policy convergence, limited though it is, has occurred under conditions of economic integration, but it has appeared in different domains and has resulted from a variety of political and institutional dynamics. Finally, democratic accountability, that bright line that separates the two eras of globalization, has ambiguous consequences that are reflected in contemporary debates over globalization. Governments that are more accountable for the economic welfare of their electorates can construct a sounder political foundation for international economic integration. On the other hand, policies that support globalization may not be able to withstand the backlash produced by its distributional consequences and readily expressed in democratic polities.

#### EXPLAINING THE EFFECTS OF GLOBALIZATION ON GOVERNANCE

This initial probe of globalization and governance has produced many interesting questions and puzzles, but it is not itself an explanation. Contemporary scholarship, in turn, has yielded only a partial, un-



systematic, and ultimately inconclusive body of theorizing on the relationship between globalization and governance. In this section, we review functionalist and efficiency-based theories commonly found in economics and then outline an actor-oriented, strategic-choice framework that lends a measure of coherence to the existing literature and directs further inquiry. We do not offer a single, comprehensive theory of globalization's effects on governance. In subsequent chapters, each author contributes to an ongoing theory-building enterprise. Our purpose here is to provide a general framework that can unify the specific theories offered and open up a new and distinctive line of theorizing on globalization.<sup>8</sup>

### *Economic Explanations*

Most existing theories of globalization and governance are, in one form or another, functionalist or efficiency-based. Functionalism explains outcomes by their anticipated effects. Efficiency-based explanations expect outcomes to trend toward those that produce the greatest utility; in most cases, this is assumed to be equivalent to the greatest net wealth and to entail a heavy reliance upon market exchange. These models dominate popular and economic discussions of globalization, which tend to see international markets as “forcing” states to put on what Friedman (1999) has called the “golden straitjacket”—a set of neoliberal policies that expand international openness, limit the role of the government in managing the economy, and cede full rein to private initiative and investment. Even more scholarly works—including the magisterial work of Held et al. (1999), a study that echoes many of the more nuanced conclusions of this volume and recognizes that states retain a large measure of choice even within a globalized economy—nonetheless see globalization as changing the costs and benefits of alternative actions in an environment to which states, through a political process that is left unstated, necessarily respond.

In most functionalist accounts, globalization tends to produce an upward shift in the site of governance to the regional and the supranational levels. Efforts to solve transnational problems (cross-border spillovers) generate a process of expanding supranational authority, of which the European Union is the exemplar (Haas 1958; Keohane and Hoffman 1991; Mattli 1999). Solving one transnational problem can also change the incentives of the parties in a second area through issue linkages or through the self-interested actions of politicians in the new su-

<sup>8</sup> This framework draws heavily upon Lake and Powell (1999) and the essays within that volume.

pranational entities. Pressures for yet greater expansions of international authority steadily build and eventually lead to new forms of governance. This approach awards a central role to both regional institutions behaving strategically and domestic interests, governmental and nongovernmental, that may forge transnational alliances to forward their goals (Mattli and Slaughter 1998). Earlier functionalist models emphasized the value to problem-solving governments in transferring governance functions to regional and global institutions under conditions of economic integration. Current models of “neofunctionalism” further complicate the calculus by increasing the number of relevant governmental and nongovernmental actors. In this volume, Lisa Martin (chapter 2) finds that externalities and economies of scale in the tourism industry may be large at first, promoting larger decision-making units within and between states. Over time, however, they appear to contract, creating incentives for decentralization. Martin demonstrates that, even in functionalist terms, globalization does not lead only to upward shifts in governance.

Efficiency-based explanations are similar in structure: governance responds to shifting costs and benefits of market integration. In this vein, economists have devised a series of models in which the size and shape of states are expected to conform with the least costly means of delivering goods and services to constituents.<sup>9</sup> In a series of related models that have received wide attention, Casella and Feinstein (1990), Alesina and Spolaore (1997), Bolton and Roland (1997), and Alesina, Spolaore, and Wacziarg (2000) posit a trade-off between the benefits of economic integration, in the form of lower transaction costs within a single market, and the costs of political integration, particularly policies less reflective of individual preferences. When barriers to international trade are high, the benefits of national economic integration are relatively large. In those circumstances, states have an incentive to expand their internal market by increasing the area and population they control. When barriers to international trade fall, the benefits of national economic integration decline, relative to other political goals, and the state can be expected to shrink. According to these models, increased international economic openness may explain increased demands for regional autonomy in the advanced industrialized states: with a single European market and an integrated global economy, for instance, Catalans, Scots, and other regional groups no longer need their current national markets. Van Houten (chapter 5), however, finds little evidence for this direct link between globalization and regional assertiveness in Europe.

<sup>9</sup> These models are well described by Martin (chapter 2) and Hiscox (chapter 3). See also Marks and Hooghe (2000).

In addition to predictions about the sites of governance, economic approaches also suggest that globalization affects democratic accountability. Unfortunately, the predictions of these models sometimes conflict. Functionalist and efficiency-based models often posit limited options for states: delegation of authority to supranational entities, which may or may not be democratic, or delegation to private actors (firms or even NGOs). Such delegation implies a decline in state capacity—the ability of governments to control their own fates—and accountability, as faceless bureaucrats satisfy the dictates of international markets rather than the preferences of local citizens. At the same time, many efficiency models predict that global integration reduces the benefits of large nation-states and enhances pressures for smaller-scale units that will provide public goods closer to the ideal points of their citizens. In addition, smaller-scale units are more likely to allow improved monitoring and control of agents by their citizen-principals, enhancing accountability. These models leave aside one key determinant of accountability—institutional variation.

Finally, most claims that globalization induces convergence in governance and policies—Friedman’s golden straitjacket—are also based on assumptions of competition and efficiency. A benign version of the competitive process, as envisaged by Charles Tiebout, permits diverse bundles of public goods to be produced for mobile voters (consumers) or firms, a view echoed by Rogowski in chapter 10. Critics of globalization view convergence in a less favorable light, arguing that international markets drive countries to become more similar in structure or policy. Although this may elevate countries to adopt best practices, even in the area of social policy, more often these competitive pressures are expected to induce lower levels of national regulation than are desired by the voters of any country. Although seldom specified precisely, these models are based on strategic behavior among governments that may be more attuned to (or captured by) particular interests, rather than national electorates. Firms in such models, highly sensitive to differences in national policy regimes, increase their bargaining power vis-à-vis governments by using a credible threat to exit the national jurisdiction.

These economic explanations for variation in governance display three shortcomings. First, their predictions do not always match the empirical regularities that are found in the history of globalization. They tend to imply uniform changes in governance when actual patterns are more varied. In addition, large-scale political units during the late nineteenth century run counter to models predicting an association between economic openness and reduced scale of units. Assignment of governance functions often does not match these models either: it is difficult to explain the Common Agriculture Policy of the European

Union, for instance, on the basis of efficiencies in the production of public goods or the scope of externalities. Immigration, which can have large externalities, remains largely in the hands of national policy-makers, even in the European Union.

Second, explanations based on these models are typically underdetermined. Each highlights a need that is compatible with alternative governance structures and, therefore, each falls short of explaining the particular institutions that are actually observed. Scale economies, for instance, are a necessary part of nearly all explanations of unit size and form. The benefits of pooling resources and efforts with others provides a strong incentive to create and maintain larger units. At the same time, scale economies can be realized in many different ways, including the cooperative efforts of separate and independent units, long-term partnerships like alliances or customs unions, confederations and supranational institutions that “pool” sovereignty, or hierarchies in the form of states and empires (Lake 1999a). The joint maximization of tax revenues on trade does not require a unitary, integrated state, only that the local jurisdictions coordinate their extractions and distribute the revenues according to some agreed-upon rule. Similarly, convergence on best practice or the lowest common denominator (via a “race to the bottom”) are both consistent with increased competition, but functionalist accounts cannot predict which of these divergent paths will be taken. Economic explanations are powerful, but they often point to multiple institutional solutions.

Finally, the conception of politics that lies at the core of these models is underdeveloped. Groups or states may demand changes in governance, but actors do not always get what they want. Even casual observers of politics know that the most efficient institution is not always adopted. Missing from functionalist and efficiency-based explanations are actors with competing interests and an understanding of how they aggregate or bargain over those interests. A persistent theme across nearly all of the chapters in this volume is that globalization is an important environmental change that is affecting states, even as its influence and constraints are mediated by national politics and institutions. Surmounting the limitations of functionalist approaches requires a shift from problems and solutions to actors and their strategic environment.

### *Political Explanations*

To paraphrase the famous Prussian military strategist, Carl von Clausewitz, we begin from the premise that governance is politics by other means. As is now well known, economic integration produces distributive outcomes that favor some groups and disadvantage others. Those

economic changes are sometimes apparent to all participants; in other cases, they are prospective and uncertain. In light of those changes, political actors will form distinct preferences over policy: in the first instance, policies toward globalization itself (more or less economic opening); in the second, policies to redistribute the benefits of globalization. Since institutions shape the politics of choice and the outcomes observed, concerned parties will attempt to align governance structures with their interests. That is, the politics of designing, building, and overturning institutions of governance at all levels is really about policy choices. Thus, debates about supranationalism, decentralization, the respective roles of public and private sectors, and accountability are often struggles over institutions that will produce results favoring some groups or interests at the expense of others. Contests over governance are contests over policy. As a result, we can use many of the tools of strategic choice to explain governance debates and choices (see Lake and Powell 1999). We begin with the preferences of actors, and then turn to institutions as mechanisms for aggregating preferences and structuring bargains.

### *Preferences*

Globalization as international economic integration has relatively predictable effects on the policy preferences and interests of political actors.<sup>10</sup> Globalization may also homogenize preferences across countries, with important implications for national loyalties and bargaining between states. Finally, globalization creates new actors with distinct preferences over governance and the international policy agenda.

Globalization leads to a more efficient use of resources by expanding international markets—permitting greater specialization and a more extensive division of labor—and breaking down local monopolies. Wealth creation occurs at both the global and the national levels. Such arguments for global economic integration restate the traditional economic case for free trade in goods and free flows of factors of production (capital, human capital, labor) across national boundaries. Although there may be winners and losers within each country, as well as painful adjustment costs when economic actors shift from less profitable to more profitable activities, the potentially large aggregate benefits of globalization open up the possibility of Pareto-improving, compensatory bargains within (and between) countries. Both aggregate benefits and particular costs associated with globalization motivate group conflict.<sup>11</sup>

<sup>10</sup> On preferences, strategies, and choices, see Frieden (1999).

<sup>11</sup> For a more skeptical view of globalization, or at least the way it has been implemented through international organizations, see Stiglitz (2002).

Aggregate benefits of globalization are distributed across groups within countries in predictable ways, creating relatively clear lines of cleavage within societies.<sup>12</sup> Using the Stolper-Samuelson theorem, for instance, Rogowski (1989) has demonstrated that free trade will generally increase the welfare and political power of abundant factors of production and decrease the welfare and political power of scarce factors of production, creating broad, class-based cleavages within societies. When assets are specific to particular occupations, on the other hand, the interests of the factors employed in that sector will be determined by the net trade position of the industry—capital and labor within the steel industry, for instance, will favor similar trade policies. Factor-mobility across occupations within countries has varied systematically in the past, thereby creating distinct political eras characterized by internationally induced cleavages (Hiscox 2001).<sup>13</sup> In this volume, Rogowski most clearly exemplifies this mode of analysis; he develops a model in which capital and labor struggle for control over policy and examines the effect of increased capital mobility on policy outcomes. The distributive implications of globalization also play a central role in the arguments of Hiscox (chapter 3), Garrett and Rodden (chapter 4), and—at the industry level—Mattli (chapter 8).

Winners and losers from globalization will pursue their interests into the political arena. Losers will seek to impede greater integration, if possible, or press winners to share their gains through redistributive policies.<sup>14</sup> Winners, on the other hand, will seek to solidify integration and retain as much of the gains as possible. The outcome of this struggle depends crucially upon the initial starting point—although winners become more politically powerful, they may still remain a minority force—and on the political institutions in which they compete. Nonetheless, economic theory can be used to identify the distributional consequences of globalization, at least to a first approximation, and to help us identify how increased economic integration is likely to affect the preferences and interests of important groups within society. This is a working hypothesis more or less central to nearly all of the chapters in this volume.

As their interests change, groups may seek to move governance functions to the regional or global level, on the one hand, or to private

<sup>12</sup> Frieden and Rogowski (1996) summarize the literature. Garrett (2001) looks at both intra- and international distributional issues. Robinson (2000) argues that the impact of globalization on inequality depends upon the nature of prior institutional and political equilibria.

<sup>13</sup> On the distributive effects of globalization, see Garrett (2001), Robinson (2000), and Scheve and Slaughter (2001). On the effects of international capital mobility on interests, see Frieden (1988) and Haggard and Maxfield (1996).

<sup>14</sup> On who protests against globalization, see Lichbach and Almeida (2001).

hands, on the other, depending on which forum promises to be most conducive to the realization of their interests. This is a form of the “institutional capture” argument, a point stridently made by opponents of globalization in their criticism of existing global institutions and the privileged access that they are alleged to offer to corporate interests. More broadly, actors will try to shape governance institutions to reflect their changing preferences.

Simple political economy models of this kind carry a complete accounting for preferences only so far. As many of the papers in this volume demonstrate, actors may have significant political preferences that cannot be captured in a simple pro- or antiglobalization dimension. Eichengreen (chapter 7), for instance, finds that although both developed and developing countries want to stabilize financial markets, they want to do so for different reasons and in very different ways. Often of greater interest are the preferences of actors over both a wider range of policies and the site where policy will be made. Consider the choice between closure and harmonization. Although opponents of globalization are sometimes attacked as disguised protectionists, arguments for harmonization may provide an alternative to closure that can reduce politically potent fears of regulatory competition while maintaining high levels of economic openness. (In certain domains, the European Union has pursued a course of harmonization within wider or narrower parameters, while allowing national policy choices to dominate in others.) Harmonization can also be a policy chosen by the proponents of globalization, aiming to level domestic policy differences that impede cross-border exchange (Kahler 1996).

Models of convergence as well as delegation of governance to private-sector actors depend on assumptions regarding actor preferences. Critics of globalization argue that footloose capital prefers self-regulation and a shrunken role for the state. The conditions under which the beneficial model of jurisdictional competition is transformed into an undesirable collective movement toward regulatory laxity are also based in part on assumptions regarding the policy preferences of firms. Both benign and malign models rely on firms (or holders of capital) that are mobile and sensitive to variation in regulatory conditions across jurisdictions. Pressures toward regulatory laxity are built on an assumption that firms uniformly desire less stringent regulation. Yet, such an assessment requires empirical verification. Since regulatory regimes are very likely to reflect in part the interests of those regulated, it is important to take into account both the costs and benefits of regulation from the point of view of the firm. Both Mattli (chapter 8) and Gourevitch (chapter 12) challenge the notion that firms always and everywhere prefer less to more regulation. Haufler (chapter 9) finds an increasing trend toward

increased industry self-regulation in response to transnational political pressure.

Globalization may have a second effect on preferences beyond the responses of winners and losers to greater market integration: a homogenization of tastes. Often portrayed as an inexorable force eroding traditional and local cultures, globalization may also create or reinforce certain norms across societies, such as market competition or democracy. Equally significant for the models of governance considered here, preferences for public goods, such as education, social regulation, or sound legal systems may also become more similar across national borders. Such homogenization in normative preferences and preferences over public goods, if it occurs, could sharply reduce the trade-off between more centralized and efficient policy, on the one hand, and the demand for policies that reflect localized preferences over public goods on the other. Martin (chapter 2), for example, shows that child-sex tourism, once a subject with differing national preferences and standards of acceptability, is slowly being outlawed as a result of transnational normative pressure. More broadly, Simmons and Elkins (chapter 11) examine the influence of social emulation on the adoption of surprisingly similar policies of financial liberalization.

In addition to its distributive effects on existing political actors, globalization may also increase the number of actors with preferences over particular policies and governance structures. As economic integration expands, new groups are mobilized into politics because of transnational spillovers, including environmentalists, consumers, and other activists who are increasingly concerned with not only where, but also how, goods are produced. Haufler (chapter 9) examines how transnational environmental groups have mobilized opinion and led reputationally sensitive firms to regulate their own environmental practices (see also Arts 1998). Martin (chapter 2) shows how the issue of child-sex tourism became both globalized and politicized.

These new actors often have preferences over governance that are difficult to explain using a simple political-economy logic. For example, many NGOs that favor social regulation (environmental, labor, and consumer protection) in the United States often prefer the national level of policymaking to either subnational (state) or international policy arenas. Those preferences can change over time, however, and according to issue-area. State governments were at one point the laboratories of regulatory experimentation for such groups, and many held great hopes for institutions such as the International Labor Organization and still mobilize in favor of international environmental regimes. As in the case of corporations that favor economic integration, the probability that a particular institutional arena will amplify political influence and



reduce that of one's opponents is clearly a central calculation. Predicting choice of forum may be difficult, however, when institutions themselves are the subjects of political conflict.

### *Institutions*

Institutions aggregate the preferences of actors into policies and, when preferences conflict, set the rules of conflict resolution through bargaining. This holds for groups within countries and states within the international arena. As Rogowski (1999) has shown, institutions affect policy bias, the credibility of commitments, the coherence and stability of policy, the mobilization and projection of power, and—over the longer term, at least—the strategic environment of the actors themselves.<sup>15</sup> As a result, institutions may be decisive in determining observed policy outcomes. In general, we understand better the effects of institutions in stable democracies, where scholars have devoted substantial attention to institutional differences and their policy consequences (Cox 1997; Shugart and Carey 1992; Tsebelis 2000). Even in relatively “thin” institutional settings, where few rules of aggregation exist and actors are more dependent on “unrestricted” bargaining, or those cases in which institutions themselves are open to renegotiation (as in many international governance debates), bargaining is conditioned by the existing institutional environment (see Gourevitch 1999).

One prominent effect of institutions on the link between globalization and governance is their amplification or dilution of policy preferences. In this volume, Martin (chapter 2), Van Houten (chapter 5), and Gourevitch (chapter 12) all find that existing domestic political institutions strongly condition the effects of globalization on governance. Even if globalization influences policy preferences in predictable ways, its effects are mediated by political institutions. In chapters that emphasize preferences, institutions also play an important, if implicit, role. In the models of both Rogowski (chapter 10) and Garrett and Rodden (chapter 4), groups are formally treated as bargaining over policy, but they are actually embedded in institutions that aggregate their preferences (i.e., determine the bargain) and which are assumed to remain fixed as globalization increases. Eichengreen (chapter 7) shows how different institutions—the IMF, the Basle Committee of Banking Supervisors, and others—developed different diagnoses and solutions to the financial crisis of 1997–1998. These different viewpoints followed from their institutional mandates. Institutions exert a profound effect on the choice

<sup>15</sup> On the long term effects of institutions, see Kahler (1999).

of governance structures, including the site of governance, the convergence of national structures, and the accountability of decision makers.

In influencing the sites of governance, globalization strengthens political actors favoring economic openness; those actors, in turn, will design institutions to ensure that their preferences are translated into policy. If a dominant political coalition favors economic openness and creates institutions to enhance the credibility of such policy commitments, a backlash against globalization may only change those policies with difficulty or after considerable delay. For example, the gold standard, a major prop for international economic openness before 1914, was embedded in national legislation that created barriers to change. American populists discovered its domestic resilience in their protests during the late nineteenth century. Regional trade agreements, such as the North American Free Trade Agreement (NAFTA) have served a similar institutional purpose for those promoting economic opening against domestic opposition in the 1990s. On the other hand, more decentralized institutions, which may have been created for other purposes entirely, can impede the program of economic opening that is promoted by internationalists (Verdier 1998). Cutting against the conventional wisdom that globalization necessarily hollows out the state, Mattli (chapter 8) argues that new international standards-setting bodies—established by transnational firms with global markets—have actually served to strengthen national standards organizations. In shifting negotiations over standards to the international level, corporations have transformed many national bodies from “talk shops,” where national firms largely worked out standards between themselves, into more vibrant actors that now represent their industries in international forums.

Governance institutions may also be chosen to enhance policy credibility over time. For example, national governments that lack a convincing track record of stable economic policy (or worse, possess a long record of volatile policies) will suffer from a credibility deficit with external investors. These perceptions may be reinforced by domestic political instability. Under such conditions, institutional rather than simple policy choice may be required, including national institutions that add policy credibility (independent central banks) and regional and global institutions (EU or WTO) that bind governments and their successors through treaty obligations. Such external obligations are reinforced when negotiated with richer or more powerful neighbors, a significant motivation for Mexico’s accession to NAFTA (Mansfield and Milner 1999). Cohen (chapter 6) argues that the decision to adopt a regional currency is often motivated in part by concerns for macroeconomic stability and the need to enhance credibility. Decentralization or federalism may be an alternative means of enhancing government policy commit-

ments through institutional constraints. Barry Weingast (1995) has argued that “market-preserving federalism” provides a means for governments to commit credibly to rules that sustain a market economy. The key is replacing a monopoly over economic policies at the center with jurisdictional competition that stimulates “a diversity of policy choices and experiments” (Montinola, Qian, and Weingast 1995).

Finally, institutions affect the site of governance directly. For example, democratic political institutions are predicted to produce smaller political units under globalization than authoritarian governments. Following the economic models described earlier, as trade expands and the benefits of a national market decline relative to those of an international market, voters will elect to form separate states that more closely reflect their preferences.<sup>16</sup> Since separatists in each region do not internalize the negative externalities of secession (lost benefits of economic integration) imposed on others, democratic voters will tend to produce too many states (relative to a benign social planner) (Alesina and Spolaore 1997; Bolton and Roland 1997). Augmenting and providing a political dimension to these more functionalist accounts, Martin (chapter 2) argues that countries with federal institutions are more likely to decentralize control over tourism policy. Countering this argument, however, Garrett and Rodden (chapter 4) find that globalization may lead to a centralization of fiscal policy within states. By allowing for both federalism and compensatory transfers between regions, they expect not secession, but side payments from the regions of the country that benefit from unity to those that lose. These transfers, in turn, enhance the fiscal role of the central government, the one unit that can credibly enact such transfer payments.

Institutions also figure prominently in analysis of globalization’s effects on the dimensions of political accountability and convergence. Confusion arises in defining accountability itself, which can describe the principals (the electorate as a whole or a narrower set of interests) or the relationship between the principals and their agents (degree of agency slack); Keohane and Nye (chapter 15) discuss competing conceptions of accountability, Caporaso (chapter 14) argues that whether the European Union is interpreted as a parliamentary democracy, a regulatory state, or a rights regime has important implications for our understanding of the extent of accountability and transparency. Any trade-off between globalization and democratic accountability, if such a trade-off exists, is highly dependent on institutional design.

Critics of globalization see a stark trade-off between efficiency or

<sup>16</sup> Conversely, these models predict that as preferences become more homogenous, the size of the state will increase to capture further benefits of an internal market.

credibility, on the one hand, and accountability, on the other. Globalization induces (corporate) pressure for upward transfer of key governance functions to regional and international institutions that are alleged to be weakly accountable. External demands for policy credibility lead to an enhanced role for institutions, national and supranational, that can avoid democratic oversight of their policymaking. More optimistic observers of globalization emphasize increased demands for transparency that are best served by, and strengthen, democratic oversight. In challenging collusive institutional arrangements at the national level, global economic actors and multilateral institutions may in fact increase accountability. Many argued that this could be one consequence of the Asian economic crisis, but Eichengreen (chapter 7) shows that multiple institutions, each with its own agenda, as well as the unwillingness of developed countries to restrain financial markets, stymied some proposed reforms. Martin (1999) suggests that the creation of strong legislative-oversight committees in some European parliaments actually strengthened both efficiency and accountability. As the site of governance changes under the influence of economic integration, more compensatory measures may appear at the national level.

In arguments about the scope and degree of convergence under conditions of globalization, institutional assumptions interact with changes in preferences described earlier. Pressure for greater laxity in regulatory regimes, for example, depends on national governments that are responsive to firms and their threat of exit, expressed or tacit (but see Rogowski, chapter 10). As governments move further away from the preferences of their electorates, this model is more likely to be transformed. Distance from the electorate's preferences, in turn, is highly dependent on political institutions. Finally, for regulatory competition toward laxity to take place, governments must behave strategically vis-à-vis the policy choices of other governments. What limited empirical evidence exists on this point (all from within national federal systems), suggests that strategic behavior is dependent on issue-area.<sup>17</sup> It may also depend on institutions—federal, regional, or global—that discourage competitive behavior.

If the struggle over governance is, at its core, a struggle over policy, then the preferences of the actors and the rules of existing institutions will be important determinants of these conflicts and their outcomes. The voices and policy preferences heard within the IMF will depend upon group interests articulated through national political institutions and then negotiated in accord with the current rules of the institution. We expect such “normal politics” to comprise the majority of cases of

<sup>17</sup> These arguments are elaborated in Kahler (1999).

governance change in international politics. In these cases, the tools available to political scientists can be very useful in explaining the strategies and choices of the actors and the outcomes observed. On the other hand, actor preferences may be conflicted and diffuse and, on a particular issue, the winners and losers from alternative policies may not be known precisely in advance. Decisions may also be reached in an environment where no clear rules of governance exist. In these cases, political norms and philosophies about what is “right” or “just” may be more influential and outcomes themselves less easily explained (Gourevitch 1999, 156–59).

It is precisely because important, politically powerful groups dislike outcomes produced by existing institutions that governance becomes contested. Since *who* gets to decide and *how* decisions are reached matters, the site and nature of authority becomes an object of political conflict. Knowing what the conflict is about, whose interests are at stake, and how existing institutions shape political competition can help us understand where governance gets sited, how accountable the governors are, and to whom they are accountable. Together, a focus on the preferences of actors and the institutions within which they struggle provide the foundation for a political theory of globalization and governance.

#### OUTLINE OF VOLUME

The chapters that follow are organized into three broad sections, each focusing on a dimension of governance identified above. Some of the more important findings of each paper have been highlighted above in context. Here, we simply note how the individual chapters fit together.

Part 1 addresses the changing location of governance. Beginning with economic theories, Martin (chapter 2) examines the role of political institutions and social norms and assesses one internationalized industry, tourism, that is also a prime mover of globalization.

Hiscox (chapter 3), Garrett and Rodden (chapter 4), and Van Houten (chapter 5) then analyze the links between globalization and political decentralization—or the transfer of authority to subnational levels of governance. Like Martin, Hiscox begins with economic theories but emphasizes the distributive effects of globalization—its tendency to create winners and losers—and tests propositions on the relationship between site-specific assets and demands for political decentralization. Contrary to conventional wisdom, Garrett and Rodden predict and find strong evidence for greater fiscal centralization with globalization. Van Houten also challenges the link between globalization and decentralization; he finds no relationship between imports and exports as a percentage of regional GDP and what he calls regional assertiveness.

Cohen (chapter 6) and Eichengreen (chapter 7) examine forces for supranational governance in the areas of money and finance, the leading edge of globalization. Cohen outlines the trend toward currency regionalization and assesses the role of various economic and political factors driving the creation of currency hierarchies. Eichengreen analyzes the proposals for financial reform in the wake of the East Asian financial crisis and efforts to regulate the highly leveraged hedge funds considered by many to be primary contributors to that crisis. He finds limited movement toward supranational governance here, and outlines the principal impediments.

Mattli (chapter 8) and Haufler (chapter 9) examine moves toward private governance. Mattli surveys the growth of private industry standards and the complex interplay of public and private actors in setting industry regulations. Highlighting the role of transnational pressure groups, Haufler examines the trend toward industry self-regulation with respect to the environment. Together, they suggest that public authority remains important despite the growth of private sites of governance.

Part 2 takes up issues of convergence within the global economy. Simmons and Elkins (chapter 11) find a significant convergence in policies on financial liberalization within regions and among countries that share the same dominant religion. Although acknowledging the important role of economic competition and domestic political institutions, they attribute these effects in part to social emulation. Conversely, Rogowski (chapter 10), Gourevitch (chapter 12), and McNamara (chapter 13) see globalization as entailing a logic of specialization and divergence. Rogowski develops a formal model of policy choice under capital mobility and predicts that, under a broad range of conditions, countries are likely to adopt more dissimilar, rather than similar, stances toward capital. Gourevitch argues that corporate governance structures are embedded into larger organized and liberal market economic systems, that these market systems have differing advantages and disadvantages, and that both are consistent and can flourish within a global economy. McNamara, in turn, examines fiscal policy in Europe in the run-up to monetary unification. In this most-likely case for convergence, where states needed to harmonize policy to sustain a unified currency, she finds that although each country brought their fiscal deficits under control, as required, they did so in very different ways. Although globalization does constrain states in some ways, it also allows them considerable room to maneuver within the international economy.

The chapters in Part 3 address problems of democratic accountability within a globalized economy. Keohane and Nye (chapter 15) address different types of accountability. Arguing that traditional conceptions of democratic accountability that rely upon direct electoral representation

are not the only means of constraining power, they show how hierarchy, legal rules, reputations, and markets also create forms of accountability and can be used in a global economy both to give publics more influence on policy and to enhance the legitimacy of international governance. Like McNamara, Caporaso (chapter 14) takes Europe as a test case for arguments about the effects of globalization. After surveying issues of governance within the European Union, he probes different conceptions of accountability—one based on democracy and transparency, a second on rights—and traces how demands for greater accountability have grown with the deepening of market integration.

In the concluding chapter, we return to the themes of the volume, summarize key findings of the collection, and suggest issues for future research.