Research Report

American Institute for
Contemporary German Studies
The Johns Hopkins University

AICGS Research Report No. 11

GOVERNING BEYOND THE NATION-STATE

Global Public Policy, Regionalism or Going Local?

Edited by
Carl Lankowski

American Institute for
Contemporary German Studies
The Johns Hopkins University

AICGS Research Report No. 11

GOVERNING BEYOND THE NATION-STATE
Global Public Policy, Regionalism or Going Local?

Edited by
Carl Lankowski

The American Institute for Contemporary German Studies (AICGS) is a center for advanced research, study, and discussion on the politics, culture, and society of the Federal Republic of Germany. Established in 1983 and affiliated with The Johns Hopkins University but governed by its own Board of Trustees, AICGS is a privately incorporated institute dedicated to independent, critical, and comprehensive analysis and assessment of current German issues. Its goals are to help develop a new generation of American scholars with a thorough understanding of contemporary Germany, deepen American knowledge and understanding of current German developments, contribute to American policy analysis of problems relating to Germany, and promote interdisciplinary and comparative research on Germany.

ISBN 0-941441-48-2

This AICGS Research Report is made possible through a generous grant from the Fritz Thyssen Foundation. Additional copies are available at $5.00 each to cover postage and processing from the American Institute for Contemporary German Studies, Suite 420, 1400 16th Street, N.W., Washington, D.C. 20036-2217. Telephone 202/332-9312, Fax 202/265-9531, E-mail: info@aicgs.org, Web: http://www.aicgs.org

CONTENTS

FOREWORD

This volume is the companion to AICGS Research Report No. 10, *Responses to Globalization in Germany and the United States: Seven Sectors Compared*, which includes chapters on labor markets, immigration, welfare institutions, taxation, innovation, education and infrastructure. Though governance was conceived as an eighth, integral sector of this project, these five papers were first presented and discussed individually and as a group at a special workshop in March 1999, and for that reason are published separately.

As these lines are being written, thousands of citizens from many member states of the World Trade Organization have assembled on the streets of Seattle, Washington, in a largely peaceful protest, dramatizing the challenges of governance beyond the nation-state in the era of globalization. For the present, Germany, represented by the European Union, and the United States are key players and coarchitects of the WTO regime. Each supports access by elements of civil society to WTO consultative bodies, though neither the policies nor the procedures of inclusion satisfy the trade union, environment and other NGO organizers of the protest action. The gap between those networks giving rise to a global "society" and the organization of a world "community" continue to be wide enough to make "world community" seem like an oxymoron. Accordingly, a vital question for the policy community is how to organize governance in the long transition during which erosion of national sovereignty is more likely to be perceived as a threat than as a promise. This is the question that animates the papers included in this volume.

Three quite different approaches to the governance problem are represented here. They range from "agnostic" to positive with respect to the benefits of globalization. For Wolfgang Reinicke and Jan Martin Witte, globalization means that in some critical policy areas, state sovereignty has become essentially devoid of meaning. To secure the benefits of globalization, public policy should be reconceptualized in a non-territorial frame and the growing gap between public expectations and the actual span of state control must be addressed if a legitimation crisis is to be avoided. Ruling out any recapturing of effective sovereignty, the authors instead advance the notion of diffusing mechanisms for monitoring implementation of policy through the network of actors comprising the action system in question, for example in the area of financial institutions. Such a strategy of "global public policy"—going with rather than against the grain of globalization—requires explicit acknowledgement of loss of (operational) sovereignty.

In his contribution on federalism, Thomas Hueglin offers critical commentary on the Reinicke/Witte position, pointing to unresolved questions about technical capacities for coordination as well as problems of moral hazard within specific action systems. Moreover, as a strategy geared pragmatically to the functioning of specific sectors, the problem of inter-jurisdictional competition for tax bases does not fit easily into the global public policy paradigm, nor does the connected problem of systemic marginalization of society's already weak groups dependent on state social policy. The thrust of Hueglin's argument is that there can be no acceptable substitute for a well-ordered system of intergovernmental relations. Regional associations such as the EU and NAFTA comprise an intermediate path to transnational governance, without offering a solution for action systems that extend beyond the regions. I will return to the regional approach momentarily.

Policies aimed at transforming the character of globalization may provide another partial answer to the conundrum of global governance. Following up his earlier studies on the worldwide connections of local governments, Michael Shuman's "bottom up" approach in this volume suggests the potential for a strategy of community self-reliance. In a statement for presentation at a special seminar convened by the Portuguese government in the run-up to its assumption of the EU Council Presidency in December 1999, Shuman succinctly makes his case: "Rooting capital in community—banks and businesses alike—is perhaps the only way to expand global capitalism while also addressing the concerns expressed by tens of thousands of skeptics of globalization marching this week in the streets of Seattle." There may be no choice to "going global" on the basis of "going local," but the condition of globality already exists and the option of becoming self-reliant first is not open to communities.

In any discussion of a regional approach to transnational governance, there is no way to exclude discussion of the EU. In her contribution, Renate Mayntz discusses the special position Germany occupies in EU constitutional development with respect to articulating *Länder* interests in Brussels, thereby providing a practical example of linking the sub-national territorial units and supranational governance. One question that arises out of this experience is the long-term viability of a supranational regime that accommodates sub-national units as different in status and function as the German *Länder* and the French or Italian regions. More broadly, Mayntz delineates the peculiarities of European governance, which "is characterized by a pronounced horizontal dispersion of functions that creates special coordination needs and blurs clear distinctions between contrasting logics." Notably, one value associated with the lack of a government at the EU level is the resulting relative ease with which member states with quite different socioeconomic and constitutional structures can participate in the policy process.

In addition to being a laboratory of transnational governance, the existence of the EU also raises the question of transatlantic relations, which must be regarded as a special case of cooperation in agenda-setting for global governance issues (most especially with respect to the WTO) and bilateral arrangements under the New Transatlantic Agenda. This is a theme AICGS is developing in parallel with this globalization project in another publication containing entries whose subject matter ranges from competition policy to regulatory cooperation in biotechnology and telecommunications.

Topping off the contributions, Christopher Allen frets about the lost opportunity implied by inaction in the face of an unusual alignment of social democratic coalitions at the head of national governments in EU-Europe at the launch of Economic and Monetary Union. At this stage he is more concerned with raising the question of why this particular "dog" failed to "bark," as he is in providing definitive answers. At the very least, his essay points to the need to address the institutional matrix and discursive universes that filter the challenges of globalization, giving rise and setting limits to "enabling coalitions" that might be called upon to support or at least not actively resist reforms.

The different points of departure yield scenarios that can be interpreted either as alternatives or complements to each other. To a considerable degree, this is a matter of the time horizon one has in mind. European integration provides an example of successful market integration, but even this semi-constitutional system of homologous entities still reveals intractable problems of democratic legitimation, powerful tensions between competitive design and aspirations to solidarity and capacity to act internationally. If we view the European experience as a critical case in this way, we return to our starting point, having deepened our respect for the momentousness of the challenge that lies before us. With this in mind, the prescription must be that each of these approaches developed in these pages has an important role to play in forming a bridge to the post-Westphalian future.

It has been a distinct pleasure to have had the opportunity to manage the project from which these papers issue, as well as the ones published in the companion volume, *Responses to Globalization in Germany and the United States: Seven Sectors Compared*. AICGS is particularly grateful for the generous support provided by the Fritz Thyssen Foundation, as well as Lufthansa German Airlines and the German Marshall Fund of the United States. Thanks also go to Jodi Smith at AICGS for the customary excellence with which she has handled the technical side of manuscript preparation.

Carl Lankowski December 1999
Research Director

ABOUT THE AUTHORS

Christopher S. Allen is professor of political science at the University of Georgia where he teaches comparative politics and comparative political economy. He is also a member of the AICGS Academic Advisory Council.

Thomas O. Hueglin is professor of political science at Wilfrid Laurier University in Waterloo, Ontario. His research interests include contemporary comparative federalism and regionalism, with a special focus on the European Union as a federal order.

Renate Mayntz is founder of the Max Planck Institute for the Study of Societies, Cologne, where she also served as director from 1985 until her retirement in 1997. She has also served on the German Council for Educational Reform, the Commission for the Reform of Public Administration and the Senate of the German Research Council. Her research interests include comparative social and political research and administrative sociology.

Wolfgang H. Reinicke is Director of the UN Vision Research Project on Global Public Policy Networks, a Senior Partner and Senior Economist in the Corporate Strategy Group of the World Bank, and a Nonresident Senior Fellow in the Foreign Policy Studies Program at the Brookings Institution in Washington, DC. His areas of expertise include global economic integration and global public policy, global finance, international economic institutions, transatlantic relations, and European integration.

Michael H. Shuman is a fellow at the Institute for Policy Studies in Washington, DC. He has written six books, including most recently, *Going Local: Creating Self-Reliant Communities in a Global Age* (Free Press, 1998), from which this paper is drawn.

Jan Martin Witte is a research associate with the UN Vision Research Project and a graduate student at the School of Advanced International Studies at the Johns Hopkins University. His research interests include new theories of international cooperation and political economy, international regulation of social standards, as well as banking standards and transatlantic relations.

AICGS GLOBALIZATION PROJECT TEAM

Carl Lankowski, Project Director
American Institute for Contemporary German Studies

Christopher S. Allen
University of Georgia, Athens

Mitchell Ash
University of Vienna, Austria

David B. Audretsch
Indiana University

Thomas Bauer
Institute for the Study of Labor, Bonn

Daniel Fallon
University of Maryland

Maryann P. Feldman
Institute for Policy Studies
The Johns Hopkins University

Ullrich Heilemann
Rhenish-Westphalian Institute for Economic Research, Essen

Reiner Hoffmann
European Trade Union Institute, Brussels

Thomas O. Hueglin
Wilfrid Laurier University
Waterloo, Ontario

Gary Hufbauer
Institute for International Economics
Washington, DC

Philip Martin
University of California, Davis

Susan Martin
Institute for the Study of International Migration, Georgetown University

Renate Mayntz
Max Planck Institute for the Study of Societies, Cologne

Henry Michel
Parsons Brinckerhoff, Inc.

Rudolf Petersen
Wuppertal Institute for Climate, Environment and Energy

Wolfgang H. Reinicke
UN Vision Research Project on
Global Public Policy Networks

Elmar Rieger
University of Heidelberg

John Schmitt
Economic Policy Institute,
Washington, DC

Michael H. Shuman
Institute for Policy Studies,
Washington, DC

Hans Dietrich von Loeffelholz
Rhenish-Westphalian Institute for
Economic Research, Essen

Jan Martin Witte
UN Vision Research Project on
Global Public Policy Networks

Klaus Zimmermann
German Institute for Economic
Research, Berlin

GLOBALIZATION AND DEMOCRATIC GOVERNANCE: GLOBAL PUBLIC POLICY AND TRISECTORAL NETWORKS[1]

Wolfgang H. Reinicke and Jan Martin Witte

INTRODUCTION

This paper explores the recent shift that has taken place in scholarly work in international relations, away from the study of international regimes and organizations, toward new theories of global governance (Rosenau/Czempiel 1992; Jessop 1998; Senarclens 1998; Young 1994; Rosenau 1995; Commission on Global Governance).[2] Clearly, governance is a term borrowed from public policy theories that analyze the management of issues of public interest.[3] Thus governance originally emerged as a concept within the context of nation-states and domestic politics.[4] Until now, its use with regard to international relations often remained unspecified or indefinite (Smouts 1998: 81; Jessop 1998: 29). This essay seeks to explain why it is useful to think of international and transnational politics in terms of global governance instead of mere interstate cooperation and domestic politics. Globalization, it will be shown, is a process that necessitates new approaches toward governance that go beyond the mere sum of nation-states and multilateral cooperation.

Without doubt, the term "globalization" is central for a substantial number of inquiries into the necessity and prospects of global governance. Surprisingly, however, despite its wide employment, the term globalization remains remarkably elusive from an analytical point of view. Many studies suffer from analytical as well as conceptual ambiguity and vagueness, as the central concept in consideration, globalization, remains ill-defined. Hence, the first section of this paper will provide a coherent analytical concept of globalization. Globalization is a phenomenon qualitatively distinct from that of interdependence. The second section will further investigate the implications of globalization for the sovereignty of nation-states. The consequences of globalization on the internal sovereignty of nation-states for the principles and procedures of democracy will be delineated in the third section of this essay. Turning to possible policy implications, the fourth section will argue that a successful organization of governance of internal sovereignty cannot rely on territoriality as an ordering principle of politics. In contrast, it will have to re-couple the economic with the political geography to sustain the merits of globalization. In this context, it will be demonstrated in the fifth section that trisectoral networks, incorporating both public (states and international organizations) and private actors (civil society and business), can provide promising alternatives in the organization of transnational governance structures capable of coping with the challenges of globalization. However, empirical evidence on structures and processes of trisectoral networks remains scattered and much research and analysis has to be done. Finally, the paper argues in the concluding section that all-important pillars of global governance have to adhere to basic democratic rules and procedures to be sustainable. Far from being a technocrat's answer to the challenges brought about by globalization, the concept of global public policy, open to private and public actors alike, can be legitimate both from an input- and output perspective of democracy, however only under certain conditions.

GLOBALIZATION AS AN ANALYTICAL CONCEPT

What is left for the state in times of globalization? The recent dispute on globalization and sovereignty seems to resemble the major features of earlier inquiries into the concept of sovereignty. Is globalization therefore only an intensified version of interdependence, as this suggests?[5] Are globalization and interdependence really identical analytical concepts? This essay argues that using the concepts of interdependence and globalization interchangeably risks missing the central features of recent structural changes in the international system and thus the implications for policy strategies to cope with them.

In his seminal analysis, Richard Cooper was the first to offer a comprehensive theory of interdependence. According to his theory, liberalization, with respect to international trade and capital flows, has rendered nation-states increasingly vulnerable and sensitive to each other (Cooper 1968; Keohane/Nye Jr. 1977). This process has two effects. First, interdependent countries have to adjust their domestic economies to the political fact of openness and interdependence. For example, steadily increasing public expenditures for social security and other transfer payments seem to become inevitable with growing openness and vulnerability to external risk (Cameron 1978; Rodrik 1997). Second, to cope with their mutual interdependence and increasing vulnerability, nation-states have seen a need for the creation of international institutions or regimes that provide a rule-based framework to manage the relations among them while providing macroeconomic steering capacity. For the purpose of this analysis, it is important to keep in mind that this process has been structured by functionally equivalent public entities (i.e., nation-states) and has fallen short of the degree of flexibility and dynamism that characterizes today's global interactions. Thus all major steps toward an open world economy, including the GATT negotiations, have been very tedious and full of setbacks (WTO 1995; Bairoch 1993: 40). In light of the more recent discussions on the benefits of deeper integration and the degree to which this process is reversible, it is important to note that interdependence is not the product of some higher force. Rather it is the result of deliberate political choices of nation-states that were supported by broad segments of their constituencies (Ansell/Weber 1999 at ftn. 8; Dombrowski 1998: 14, 24).

Contrary to economic interdependence, which narrowed the distance between sovereign nations and necessitated closer macroeconomic cooperation among public sector actors (i.e., governments), the principal drivers of globalization are microeconomic actors. Globalization, as defined here, is a process structured by private actors.[6] It is a corporate-level phenomenon that commenced during the mid-1980s as companies responded to the heightened competition brought about by the deregulation and liberalization of cross-border economic activity. In addition, new and cheaper technologies led to the integration of a cross-national dimension into the very nature of the organizational structure and strategic behavior of individual companies (OECD 1992; Chesnais 1988; Soete 1991). This growing amount of cross-border movement of increasingly intangible capital—finance, technology, information, and the ownership and control of assets—allows companies to enhance their competitiveness and creates a cross-border web of inter-connected nodes in which value and wealth are being generated. As such, interdependence was an important causal precondition for globalization, but the two are qualitatively different concepts (for a more detailed discussion, see Reinicke 1998a).

Globalization represents the emergence of a single integrated economic space driven by the organizational logic of corporate industrial networks and their financial relationships that cut across multiple political spaces. Take the case of international trade. Reasonable data for intra-firm trade exist only for the United States, but in 1995 this off-market trade accounted for approximately 40 percent of total U.S. trade. Governments continue to register these internal transfers not because they are traded but because they cross borders. Similarly, reflecting on the growing incidence of mergers and acquisitions the OECD reminds us that these investments "[...] may represent nothing more than a change of ownership, with no effect on resource allocation between the two countries" (OECD 1996: 46).

To conclude this brief analysis, though the practice is widespread, equating globalization with the emergence of a global market economy can be misleading. Rather, globalization of corporate activity increasingly takes place in distinct institutional structures and is detached from the traditional economic relations between nation-states. In fact, one can argue that the private sectors are increasingly independent from nation-states.[7] Whether this implies that multinational, transnational or global corporations should be characterized as "footloose and stateless" (Wade 1996: 79) or even "global corporate leviathans" (Petrella 1996: 74) remains highly controversial. After all, major sectoral as well as geographical differences in the effects of globalization remain.[8] Finally, given the still-limited spatial and sectoral reach of globalization, today's international system is characterized by the mutual coexistence of interdependence and globalization.

The globalization of microeconomic activity also does not imply that macroeconomic performance and management is no longer important. On the contrary, interdependence and the need for closer macroeconomic cooperation was an important precursor to globalization and remains the most critical factor in sustaining it. Along with technological innovation, this liberalization of cross-border economic activity created an environment that not only permitted but also compelled companies to adopt global strategies. Yet the growing importance of non-tariff barriers to trade and the need to focus our attention on global competition policies are but two examples indicating that the microeconomic dimension needs greater attention. Indeed, nowhere did the importance of the structural, institutional and legal dimension of a market economy—global and local—become more apparent than in the 1997/98 global financial crisis. Not surprisingly, many of the responses to the crisis focused on this structural and institutional aspect of market economies.[9] In sum, interdependence and globalization are two analytically distinct concepts. Does this also imply that they have different implications for the concept of state sovereignty and possible policy considerations?

GLOBALIZATION AND SOVEREIGNTY

In recent years many scholars have claimed that globalization challenges the sovereignty of nation-states, ultimately leading to their demise. The above distinction seems to suggest that we have to develop a far more detailed analysis of the effects of globalization on sovereignty. Two distinctions can help to clarify this puzzle and provide a useful analytical approach in understanding the critical issues.

First, the concept of sovereignty in general has two dimensions—one internal and one external. According to John Hoffman, nation-states live a "double life" (Hoffman 1997: 54)—externally as sovereign independent actors in the anarchic international system and internally as the highest and unchallenged authority governing political, economic and social life in the state.

The external dimension of sovereignty refers to relationships among states in the international system. These relationships are defined by the absence of a central authority. In the words of Thomas Hobbes, anarchy is the rule of the international system. States are sovereign entities and as such are not bound to any external rule or power. International relations, in this sense, can be understood as "billiard-ball interactions," only defined by the principles of mutual recognition and non-interference. The debate about the impact of interdependence can be understood within this context, with scholars arguing that increasing economic interconnectedness challenges the external sovereignty of states in the international system, for example by increasing international trade.

The internal dimension of sovereignty, in contrast, depicts the relationship between the state and domestic society. Following Max Weber, a government is internally sovereign if it enjoys a monopoly of the legitimate power over a range of social activities, including economic ones, within a given territory (Weber 1972: 29-30; Wittich/Roth 1978: 38). That power is embodied in the domestic legal, administrative and political structures and principles that guide public policies. With respect to the economy, internal sovereignty takes effect when governments collect taxes or regulate private sector activities.[10]

The concept of external sovereignty loses much of its significance when examining the public policy implications of globalization. Global corporate networks challenge a state's internal sovereignty by altering the spatial relationship between private and public sectors. The organizational logic of globalization induces corporations to seek the fusion of multiple formerly segmented national markets into a single whole and generates an economic geography that subsumes multiple political geographies. As a result, a government no longer has a monopoly of the legitimate power over the territory within which corporations organize themselves, undermining the operability of internal sovereignty. The rising incidence of regulatory and tax arbitrage is a telling indicator that this monopoly no longer exists (see Steinmo 1994).

This, however, does not imply that globalization challenges the formal sovereignty of nation-states. This second distinction[11] in the often ambiguously treated concept of sovereignty is important because it shows that the loss of operational power on the domestic level does not automatically lead to the demise of the state as such. Globalization cannot challenge the formal sovereignty of states—only other states can. Rather, it challenges the operational dimension of internal sovereignty, that is, its ability to exercise sovereignty. While interdependence was structured by relations between functional equivalents (nation-states), globalization is characterized by the interaction of functionally different actors on different levels. The mismatch between the territoriality of the nation-state and the economic geography of private actors that easily cut across national boundaries increasingly questions the ability of nation-states to exercise their internal operational sovereignty.[12]

By no means does this imply that private sector actors always deliberately undermine internal sovereignty. Rather, they follow a fundamentally different organizational logic. Political systems—at least in their contemporary form as nation-states—are boundary-maintaining systems (Kratchowil 1986: 32). Indeed, their legitimization, internal and external, is derived from their ability to maintain boundaries. Markets (though they initially relied on political power for their creation) do not depend on the presence of boundaries. The spatial symmetry between the "public" and the "private" upon which internal sovereignty depends is disappearing.[13] Governments and governance, which continue to be bound by territoriality, can no longer project their power over the same space within which production and consumption organize themselves. Globalization thus not only integrates along one dimension—the economic—but at the same time fragments along another—the political. This loss of internal sovereignty did not challenge the legal and social significance of the nation-state. As Ansell and Weber recently argued, "[...] while some analysts claim the technically-driven, functional obsolescence of the nation-state to be a nearly obvious fact, what is even more obvious is that political leaders and mass publics all over the world still identify states as their primary legitimate political association" (Ansell/Weber 1999; see also Streeck 1996: 303).

The fact that globalization does not directly challenge the formal existence of the nation-state in no way diminishes its significance. On the contrary, it has important implications for the organization of political and economic life, as the nation-state is no longer the geographical space upon which we have to focus.

GLOBALIZATION AND IMPLICATIONS FOR DEMOCRACY

To what extent does all of this imply a threat to democracy? Traditional mechanisms of representation on the national level (i.e., parliaments) continue to work and multilateral institutions or regimes seem to be legitimized at least by indirect accountability as elected governments delegate state officials to international negotiations. Again, we need to develop a more nuanced view of the impact of globalization, in this case on the effectiveness of democratic principles, such as citizenship rights and the right to vote.

As Wolfgang Streeck has argued, the western model of capitalism and the free economy has been "civilized" by certain structures and processes, which enabled the nation-state to act in the public interest (see Streeck 1996: 300; see also Held 1995: 40-42). This civilization of modern capitalism within territorial borders was achieved by the mobilization of "public power," "[...] a specific capacity of the modern nation-state to create and enforce status rights and obligations for participants in economic transactions, in particular rights and obligations of citizenship" (Streeck 1996: 300).[14] This public power, institutionalized for example by the right to vote and the establishment of transparent and open policymaking procedures, is a distinguishing feature of twentieth century capitalist democracies. The guarantee of these basic citizenship rights legitimized market economies and ensured sustainable political and economic development. In fact, one could argue that the democratization process that led to the establishment of these rights was spurred by social revolutionary developments that had to be countered by social policy and the successive democratization of politics.[15] The loss of internal operational sovereignty, as described above, results in a counter-movement. Issue-areas, formerly exclusively regulated within the territorial borders of the nation-state, emerge as transnational or even global policy issues. Globalization, as it is understood here, does not imply that higher economic forces or a political conspiracy strive to eliminate this public power, as some studies seem to suggest (Mahnkopf 1998: 60-61). Rather, it is no longer obvious that these rights, as they are exclusively linked to territorial democracies, are sufficient to safeguard a continued influence of citizens on their economic environment (see Dahl 1994: 28; Held 1995; McGrew 1997).

Until now, nation-states faced two major alternatives with regard to this development. On the one hand, states tried to improve international policy coordination and cooperation through multilateralism that served them well for the management of interdependence. Structures of international policymaking (i.e., international regimes or organizations) are often not open to the public or suffer from a lack of transparency, in effect lowering their democratic legitimacy. The "chain of legitimacy" (Brock 1998: 43) is stretched even farther as nation-states appoint representatives to international negotiations—these either being not directly accountable or, where responsibilities are not easy to allocate, impeding attempts to public control. In addition, national parliaments often have no other choice than to ratify or oppose outcomes of international negotiations without having the possibility of revising or re-negotiating them.[16] If the scope and influence of their activities is further extended to include internal sovereignty, there must be venues to organize public power within this framework. Furthermore, we still lack a necessary global public space in which policy issues could be debated and a broader public could be involved in a deliberative discourse, seen by Habermas as a necessary condition for the existence of democracy (Habermas 1992). Without doubt, there are numerous international NGOs that could be understood as a force by which public power could be organized or a global public space be created, but these fall far short of the citizenship rights individuals enjoy in democratically organized nation-states or the public space that usually characterizes modern national societies.[17]

On the other hand, there clearly are also issue-areas where policymakers failed to close the gap in governance that emerged with the appearance of globalization. Think only about genetic engineering, money laundering or the fast growing significance of the Internet. This heightens the sense of the loss of public control and public power over social and economic life. In addition, this may also intensify the significance of political inequality in societies. The emergence of transnational corporations brings the question of ownership and control of economic enterprises as a source of political inequality, clearly related to the argument of public power, forcefully back to the agenda (Dahl 1985). As Robert Dahl argued over a decade ago, political inequality is determined by ownership and control of economic enterprises; they contribute to great differences in wealth, income, status, skills, information, access to political leaders, etc. Moreover, economic enterprises are both *de facto* and *de jure* undemocratically organized (Dahl 1985: 54-55). As transnational corporations now easily cross national boundaries, effective redistribution of income and wealth, formerly managed by the nation-state, is becoming inherently difficult and limited (Rodrik 1997).

In sum, the fact that political fragmentation threatens only the operational aspects of internal sovereignty in no way minimizes the challenge. The threat to a government's ability to exercise internal sovereignty implies a threat to the effectiveness of democracy. Although individuals may exercise their formal right to vote, the actual power of that vote in shaping public policy decreases with the decline in operational internal sovereignty. Fundamental social and economic rights, formerly granted within the boundaries of the nation-state, become increasingly constrained. Persistent weakness in internal sovereignty will cast doubt on democratic institutions, ultimately challenging formal sovereignty. This is an important factor in the declining trust in our democratic institutions. Governments, which see their legitimacy, their very *raison d'être* undermined, have no choice but to respond. Accordingly, they have to organize governance mechanisms that are both effective as well as democratically legitimate by establishing public power comparable to that mobilized traditionally at the national level. That is, they have to reform existing institutions or simply adopt new practices that fit into this dynamic framework brought about by globalization.

TERRITORIAL RESPONSES TO GLOBALIZATION

To date responses to globalization have been reactive at best and fall into two camps, both variants on what are essentially interventionist strategies. Those that consider globalization a threat call for defensive intervention, advocating neo-mercantilist economic measures such as tariffs, non-tariff barriers and capital controls, which force companies to reorganize along national lines. In this regard, the recent Asian and Brazilian financial crises could be decisive turning points for many East Asian and Latin American countries experiencing major political backlashes against economic openness and especially free trade.[18] This political backlash is, as one commentator recently noted, "the most serious challenge yet to the free-market orthodoxy that the globe has embraced since the end of the Cold War" (quoted in Wade 1998: 13, from *The Wall Street Journal*, September 4, 1998).

Others have called on policymakers to intervene offensively with investment incentives and competitive deregulation. Under these circumstances, states themselves become global competitors, seeking to entice corporations to operate within their own territory (see Zysman/Tyson 1983; D'Andrea Tyson 1992; Thurow 1992; Luttwak 1993). Among OECD countries, subsidies grew by 27 percent from 1989 to 1993 and competitive deregulation has become common among financial centers and, more recently, among national tax jurisdictions. Offensive intervention has also become a popular political tool as policymakers attempt to broaden the reach of their internal sovereignty to match the economic geography of global corporate networks. Two of the more prominent U.S. examples are California's attempt to tax resident companies on a global basis and the Helms-Burton Act, seeking to control international trade with Cuba.

None of these responses bodes well for the future of international relations or national economies. Protectionism by one country, irrespective of its intentions, leads to retaliation and puts the world economy on a path of disintegration and beggar-thy-neighbor policies. Subsidizing an industry with the sole purpose of gaining a temporary competitive advantage will not advance integration but rather divert scarce public funds from important public policy goals. Competitive deregulation may not lead to disintegration, but it defeats the original purpose of the policy. A fully deregulated market reduces a government's internal sovereignty even further (see also Polanyi [1944] 1957: 76).

This is not an argument against structural reform long overdue especially in European countries. It is a reminder that an obsession with competitiveness among nations will lead to a win-lose situation and strengthen those political forces that favor economic nationalism (i.e., defensive intervention) even further. Extraterritoriality is no friend of deeper integration either. Other states will retaliate against a dictate.

All of these responses emphasize territoriality as an ordering principle of international relations, a condition that integration has tried to overcome and which the end of the Cold War appeared to have secured. All are at odds with globalization and will succeed only if the achievements of the postwar era are reversed. Nevertheless, the popularity of these policies has increased considerably since the early 1990s. In many countries, political opportunists have taken advantage of the public's fear concerning the declining effectiveness of internal sovereignty. Unless we find a better alternative, governments will soon be forced into counterproductive measures to halt the loss of internal sovereignty and the further erosion of confidence in democratic institutions because the responses analyzed above do not solve the problem of declining “public power” or the democratic legitimacy of international politics.

Interventionist strategies only pretend to reinforce democracy and public power, as they fail to reconstitute control over public policy. It is not extensive international policy coordination *per se* that threatens democracy (as was indicated in the previous section). Rather, the design of international policy coordination and policy networks appears to be the more important conceptual question we have to face. A few years ago, Fritz Scharpf argued that one way to deal effectively with the problem of the democratic deficit would be to reduce international policy coordination to the minimum level required, being preferably consistent with domestic democratic procedures and principles (Scharpf 1993: 175-181). This proposal has some appeal, but globalization poses new challenges as successful operationalization of internal sovereignty can only be realized in a non-territorial setting, at least if we want to sustain globalization. In fact, decisions intended to enhance democratic principles by reducing international policy coordination can lead to counterproductive outcomes, as the “gain” of democratic autonomy may in the end result in a further loss of internal operational sovereignty, destabilizing the democratic political system from within. For example, Lothar Brock argues that the decision of the Swiss people against entering the EU (due to, among other reasons, concerns about a loss of democratic potential) may ultimately result in a loss of democratic control over public policy (Brock 1998: 44). As the EU *de facto* has a great deal of influence over economic and political matters that concern Switzerland, the decision not to enter the EU (and so not to have a voice in it) may therefore reduce Switzerland’s internal operational sovereignty. In sum, turning back the wheel of time and reducing international commitments and cooperation will neither help to solve the problem of governability nor the democratic deficit and the loss of public power.

FILLING THE GAP IN GOVERNANCE TO SUSTAIN GLOBALIZATION: GLOBAL PUBLIC POLICY

Filling the gap in governance in a participatory and inclusive manner is a complex task that requires leadership and creativity, both of which are in short supply. Reliance on territoriality (i.e., the nation-state) may be politically attractive but not the first-best solution. In this context, in our search for new governance structures that would be able to fulfill such an enormous task, we have to bear the following in mind.

First, nation-states are very reluctant to cooperate in issue-areas that were formerly subject to purely national consideration. Conceptions of the public interest differ considerably among countries, involving a difficult arbitration of national norms and values with regard to transnational policymaking. Globalization is not a homogenizing force that equalizes norms and values across societies and any attempt to design transnational approaches has to be carefully evaluated and negotiated.

Second, the international system is no longer characterized by nation-states as the only important actors. Even without a clear legal status from the viewpoint of international law, non-state actors have entered the scene and exercise considerable economic, political, and social influence (Mathews 1997; Clark 1995; Garten 1997).[19] Both corporations and civil society have taught the public sector a lesson. By relying on networks rather than hierarchies they have gained power *vis-à-vis* governments and intergovernmental organizations (IOs) still based on hierarchical principles. Networks have a distinct advantage compared to hierarchies in processing information and making use of knowledge in innovative ways. State actors and IOs can no longer afford to by-pass the concerns of transnational actors such as non-governmental organizations (NGOs) who have successfully politicized many global issues. NGOs in particular have been very successful in bringing and keeping the distributional aspects of economic integration and technological change on the agenda. Many corporations in turn have realized that they can only achieve predictable business environments by openly engaging with civil society, not by working against it. Whether this does in fact represent a "power shift" is less clear. Empowering those that constitute the real basis of democratic governance is not a zero-sum game but may provide an opportunity to strengthen those that are charged with its execution. Furthermore, it is doubtful whether these actors could be forced back to organize themselves along national boundaries without putting the gains of globalization at risk. Arguably, an approach toward governance beyond the nation-state will have to take this into account and assign a new role for private actors in public policymaking.

Third, approaches toward "global governance" in general tend to ignore fundamental democratic principles and procedures. This is to some extent the consequence of the focus on territorial nation-states common to the prevailing theories of democracy, but also a consequence of the failure to make extensive use of democratic principles and procedures at levels that actually can be "democratized" along these traditional models. Undoubtedly, even in nation-states that are widely perceived to be showcase democracies, there remains much potential for further democratization.[20] This "failure" is not an effect of globalization, but it exacerbates the problems related to the emerging democratic deficit.

Fourth, existing structures of international policymaking aimed at managing interdependence appear to be very time consuming[21] and can often be labeled as rather rigid and inflexible (Reinicke/Witte 1999). The information revolution has dramatically reduced the aptitude of policymakers to respond to the changed condition of politics. Adequate time to process, structure and use knowledge to make informed decisions has become a scarcity. Take the example of banking regulation. Rapid technological change and the emergence of highly flexible private actors continuously change the environment in which regulators have to work, making regulation extremely difficult and rapid adjustment absolutely necessary (Basle Committee on Banking Supervision 1998: 9; Reinicke 1998a: chapter 4). What we often observe is a repeating cycle of losing grip and catching up, with the public sector always trying to adapt to changing external conditions. The sheer speed by which complex technological changes occur alters the framework conditions of politics.

The "trap" (Martin/Schuman 1997) that we find ourselves in is not globalization. It is the territorial nature of the policy responses that have been advocated so far and the insufficiency of existing international policymaking (created to manage interdependence and, thus, issues of external sovereignty) in dealing with internal sovereignty as global policy issues. If we want to shape globalization rather than be trapped by it, it will be necessary to operationalize internal sovereignty in a non-territorial context and find venues of governance that take the above considerations into account. Forming a world government would be one way to conduct global public policy,[22] but it is a distant prospect at best. It requires states to abdicate their sovereignty not just in an operational, but in a formal sense as well, and it would be beset with problems of effectiveness, efficiency and legitimacy (Young 1978: 241-263).[23]

Global Public Policy and Trisectoral Networks

A more promising strategy to fill the gap in governance and to avoid the pitfalls of the interventionist strategies discussed above builds on the earlier differentiation between operational and formal sovereignty. Governance, a social function crucial for the operation of any market economy—national, regional or global—does not have to be equated with government. Accordingly, a global public policy detaches the operational elements of internal sovereignty (governance) from its formal territorial foundation (the nation-state) and institutional environment (the government). This, however, presumes that sovereignty in its operational sense (and, in final consequence, also in its formal dimension) can be detached from the concept of the nation-state. This divisibility of sovereignty is embedded in the principle of sovereignty, a concept that is familiar with regard to the European Union or the 10th Amendment to the U.S. Constitution. The basic idea behind this strategy is that political actors in nation-states have to transfer operational elements of internal sovereignty to other actors and institutions possibly better equipped to fulfill these tasks, sharing operational sovereignty among different levels and actors. It is important to note, however, that the term "subsidiarity" is used here in a much broader sense than is usually the case. The prefix "sub" no longer just refers to the traditional narrow spatial context of policymaking at a lower or higher organizational level as it is practiced in the European Union. (This dimension can be labeled vertical subsidiarity.[24]) Rather, the term is applied in a functional sense, referring to actors and institutions that are in the best position to guarantee a successful operationalization of internal sovereignty. This broader definition includes private actors, in effect applying horizontal rather than vertical subsidiarity in the process of governance.

In designing new venues to fill the governance gap, this paper focuses on this second dimension of subsidiarity—horizontal subsidiarity—which can play a more important role in an attempt to create successful policy networks. Horizontal subsidiarity follows a similar logic as the vertical variant by delegating part, but not all, of public policymaking to non-state actors such as business, labor, non-governmental organizations, foundations, and other interested parties. These actors have a direct stake in the outcome of public policy. Equally important is the fact that their range of activity is not bound by a particular territory. In addition, better information, knowledge and understanding of increasingly complex, technology-driven and fast-changing public policy issues on the part of these actors will not only generate greater acceptability and legitimacy of global public policy, but will also produce a more efficient and effective policy process. Furthermore, horizontal subsidiarity encourages mutual learning among public policy systems and openness to change. Whether it relates to global financial regulation, environmental protection and its enforcement, the fight against transnational crime, the control of dual-use technology transfers, or many other policy issues, horizontal subsidiarity would become one core principle of global public policy.

Horizontal subsidiarity is already realized in what one could call trisectoral networks (see also Waddell 1998) that include the public sector, civil society and corporate actors. These actors who in the global context often remain separate and opposed to each other realize that they depend on each other to reach their respective goals and agree to collaborate in a loose, informal network structure. Trisectoral networks are intelligent, adaptive institutional innovations that do not merely aggregate resources but are structured to take advantage of the complementarity of each sector's assets. Most importantly, they combine knowledge from different backgrounds and create new knowledge as consensus over often contentious public policy issues emerges. This takes knowledge management beyond its traditional meaning and form. Each sector also relies on a different form of power: remunerative, normative and coercive. Together they present a formidable force to sustain public policy decisions and implement them.

The trisectoral networks we witness today emerged in the shadow of traditional multilateralism. Each network arose out of a special constellation of interests and actors making use of a "window of opportunity." There is no master plan or formal coordination. Global public policy networks are evolutionary both in terms of their membership and their ability to adjust structures and processes to a constantly changing external environment. Flexibility is a central asset of network structures. Take the example of the global fight against Malaria. The Roll Back Malaria Initiative (RBM) was instigated jointly by the World Health Organization (WHO), the World Bank, the United Nations Children's Fund (UNICEF) and the United Nations Development Program (UNDP) in 1998.[25] It involves international organizations, bilateral development agencies, businesses, and NGOs that work together to reduce malaria mortality by 50 percent by 2010 and 75 percent by 2015. RBM is not a finance instrument but intends to support countries in their fight against malaria by giving them access to knowledge, technology and financial resources through global partnerships. For many decades, international organizations such as the WHO have tried to fight malaria without much success. The RBM initiative tries to go down a new path by bringing in the private sector and civil society and by establishing inter-agency cooperation among various international organizations. It is clear by now that a complex and difficult challenge such as the fight against malaria requires a bold and inclusive approach to be successful. Or take the example of the Global Water Partnership (GWP).[26] The GWP was initiated in the aftermath of the Rio Conference in 1992. It is an informal institution, supported only by a small secretariat. It brings together international organizations, local businesses and NGOs to support countries in the sustainable management of their water resources. The GWP triggered a wide range of regional collaborations between states, international organizations, civil society, and the private sector. Its mission is to foster innovative and especially participatory forms of governance in water management to enable local communities to manage their water resources. There are many more examples of trisectoral networks, all of which started as innovative "experiments" responding to an ever more complex global policy environment and in particular the inability of governmental or intergovernmental structures to manage the consequences of increased socioeconomic integration and rapid technological change.[27]

This concept, however, needs some important qualifications. Applied to issues of regulative policy, horizontal subsidiarity, in its extreme interpretation, would mean self-regulation, the privatization of the public policy process. Though theoretically possible (and nowadays becoming attractive to some observers in different issue areas),[28] this is not always desirable for obvious economic and political reasons.

Critics of such an approach will correctly question the wisdom of placing private and public interests under the direction of the same institution, charging that the public interest is likely to be neglected. Private and social interests often do not converge, requiring governmental intervention to produce public goods or internalize externalities. The limited experience of public-private collaboration and mixed regulation in the United States and a few international cases supports these skeptics to some degree.[29] However, rather than abandoning global public policy, the current shortcomings of trisectoral networks should be addressed. First, greater transparency is necessary. Strict principles of disclosure-based regulation guaranteeing other groups sufficient access to ensure that their interests are adequately represented would raise confidence in such a structure. Second, corporations must facilitate trisectoral networks by improving their own internal control and management structures. Independent audits and incentive-and-reward structures that discourage excessive risk-taking are examples of measures readily available to them. The greater the focus on corporate governance, the lower the risk of market failure and the need for outside regulation. Those with doubts about public-private collaboration and global public policy should consider the danger of the alternatives.

The application of horizontal subsidiarity has some major advantages compared to existing traditional structures of international cooperation that remain on the inter-state level and structure the behavior of public actors (i.e., nation-states). First, trisectoral networks offer so-called selective private incentives[30] to private actors, since they are able to press for regulatory change. This may or may not result in further deregulation, but first and foremost it will lead to administrative streamlining, shorter time lags and simplification. This, without doubt, has beneficial outcomes for both the public and the private parties involved. Second, differences among national bureaucracies and their resistance to change, extremely counterproductive in traditional inter-state cooperation, are of less relevance for trisectoral networks as the subjects of regulation are directly involved. Third, information asymmetries between regulators and the regulated, already causing pressing problems at the national level, can be reduced and government failure avoided. Fourth, the integration of private actors in a mixed regulatory model would enhance the ability to assess the regulatory implications of a rapidly and constantly changing public policy environment caused by globalization.[31]

The degree to which trisectoral networks can be used in public policymaking depends largely on the willingness of non-state actors to take over not only rights but also duties in this process and to fulfill its task in a responsible and also ethical manner. With this purpose in mind, it should be clear that there is a need for common standards for non-state actors that participate in these policy networks.

Furthermore, although trisectoral networks do not have to be institutionalized *per se* it may be desirable in some cases to attach them to already existing institutions of governance (i.e., multilateral institutions) to provide technical, intellectual and financial assistance in order to stabilize them and make them effective. Knowledge creation, dissemination and intellectual leadership on global public policy issues are clearly crucial aspects. However, the spectrum of possible roles for multilateral institutions reaches all the way from a narrow facilitator and convener of global public policy networks to the broader role of advocate, monitor or even enforcer. Multilateral institutions, at a minimum, must ensure that not only all countries, but also the private sector and civil society, have access to the global public policy networks. This places a premium on the inclusive, participatory and transparent structure of these issue networks. In sum, it is obvious that the existing multilateral structure is of crucial importance for global public policy networks. Therefore, urgent research on the specific roles and capabilities of these institutions with regard to global public policy has to be undertaken (see Reinicke 1998b).

To garner credibility and trust, trisectoral networks have to be integrated into a legal framework (see Reinicke/Witte 1999). As the existing system of international law, at least in its "hard" form of treaties and custom, leaves no room for non-state actors to take over a legally defined role as subject to international law, trisectoral networks have to rely on international "soft" law (for more on "soft" law, see ASIL 1988; Brown-Weiss 1993). The term international "soft" law is highly controversial among international lawyers, but, as Steven Ratner recently stated, "today all but the most doctrinaire of scholars see a role for so-called soft law [...]"(Ratner 1998: 67). One can define "soft" law as non-binding legal agreements, in general "rules, which are neither strictly binding nor completely void of any legal significance" (Bernhardt 1984: 62). Important in this context is that international "soft" law can take a wide variety of forms (i.e., declarations, codes of conduct, etc.), but most importantly, these forms are not subject to national ratification.

Soft law measures and participating non-state actors can be understood as critical catalysts for and constituent elements of successful global public policy and the establishment of international norms that are crucial for a further development of a true transnational society (see also Slaughter/Tulumello/Wood 1998: 383). This does not imply that international soft law should be understood as an alternative to international hard law. Rather, it is considered a first and important element in an evolutionary process that shapes the legal relationships among and between multiple actors—public and private—facilitating and ultimately enhancing the effectiveness and efficiency of global public policy. In this regard, soft law measures provide a legal framework for trisectoral networks, stabilizing the expectations and behavior of all actors involved. The extent to which "soft" law may evolve and "harden" into custom or even treaty is not determined *a priori* and depends on the specific issue area concerned.

Undoubtedly there will be opponents of trisectoral networks. The business community will resist the intrusiveness of the disclosure rules and shy away from the required internal adjustments. However, they should consider the most likely alternative—defensive intervention. NGOs will continue to raise questions about the degree of trust given to the private sector in executing public functions, but they should consider that the loss of internal operational sovereignty has already resulted in a democratic deficit and consider the potential that global public policy offers to them.

But how much does the concept of horizontal subsidiarity really correspond to democratic principles and procedures? How much can trisectoral networks help to establish a democratic cornerstone of global governance helping to increase the democratic potential of the entire system?

GLOBAL PUBLIC POLICY AND DEMOCRACY

We now return to the question of how we can possibly reestablish public power and democratize public policymaking in the era of globalization. In particular, how does the application of horizontal subsidiarity fit into this aspiration for a democratization of governance? Without going deeply into the details of this debate, this paper will make a case for a mix of ideas and approaches and reject a global theory of democracy. Globalization intermingles different levels of political and social interaction, all of which involve different actors and constituencies requiring special consideration. Bearing in mind that the analysis of and the debate on the question of political philosophy and democracy in transnational relations has only just begun (see for example Chwaszcza/Kersting 1998), this paper argues that it is useful to differentiate between levels of interaction and to use already existing models of democracy.

This process includes, first, a further democratization of nation-states by applying vertical subsidiarity and strengthening institutions of representation. Secondly, it must include an improvement of accountability and the enhancement of transparency in existing multilateral structures. Finally, horizontal subsidiarity must be applied to operationalize internal sovereignty as it offers channels of participation to civil society actors. This does not preclude a more universal theory of democracy at all, but puts more emphasis on the actual process of democratization. Again, where this process ends and what prospects there are for other forms of democracy beyond the nation-state remains open to debate.

Before turning to the particular strategies of democratization and their implications from the viewpoint of democratic theory, it is imperative to take some of the most important contributions to this broad and important debate on globalization and democracy into consideration. Due to space limitations and the focus of the paper, this cannot be exhaustive. Thus this essay will concentrate on a few important questions and controversies, theoretical (normative) and practical alike, in order to put horizontal subsidiarity into perspective (see for more extensive analyses McGrew 1997; Held 1995; Brock 1998; Scharpf 1997, 1998; Schmalz-Bruns 1996, 1997, Richter 1997; Commission on Global Governance 1995).

Globalization in Recent Democratic Thought: Common Ground and Differences

Virtually all analyses of the relationship between globalization and democracy conclude that there is a need to re-think democratic theory in a non-territorial context. At the center of traditional democratic thought stands the territorially demarcated nation-state with a theoretically defined symmetric and congruent relationship between government and the "demos" (Held 1991: 131; McGrew 1997: 237).[32] It is fair to argue that the idea of democracy as we know it today has always been connected to the concept of the nation-state (Krasner 1988: 67). A new theory of democracy has to resolve this dilemma, "[a]s fundamental processes of governance escape the categories of the nation-state [and] the traditional national resolutions of the key questions of democratic theory are left open to doubt" (Held 1997: 262).

Furthermore, it is often conceded that we lack a common collective identity (Scharpf 1998: 87; Majone 1996: 298-299) that would allow a deepening of political integration and the possibility of redistributive politics (as opposed to purely regulative policies) on a global scale.[33] This lack of "We-Identity," as Norbert Elias (1987) put it, is one of the most important aspects one should keep in mind when thinking about democratic collective decision-making. Studies offer differing views through which a collective identity could be achieved and this essay will return to this important question below.

Despite some common analytical background, the various models of global democracy differ both in normative as well as practical outlooks. First, speaking in terms of normative reflections,[34] they disagree on the question of substantive versus procedural democracy (see Dahl 1989: 163-192). Some theorists claim that a true global democracy requires not only procedural elements but also a focus on substantive rights (McGrew 1997: 237). In this regard, a global model of democracy should not only concentrate on new policymaking structures that are organized along democratic lines, but also on the question of how to ensure substantive rights.[35] The project of reforming the existing multilateral system (most notably the UN) that liberal-internationalists propose (see Commission on Global Governance 1995) remains normatively insufficient from the perspective of these theories.

Furthermore, and closely linked to the latter issue, there is controversy in how much democracy in itself is a good (the realization of the “good democratic society”) or exclusively an instrument to structure collective decision-making. Proponents of the former argue that an approach that focuses solely on the output-dimension of democracy misses important features of the fundamental idea of democracy. It is “government by the people,” not only “government for the people,” that characterizes a true democracy (McGrew 1997:237; Held 1996). Especially when we can expect redistributive effects from policy decisions, a decision-making process that purely relies on output-legitimacy is insufficient. Political decisions, following this line of argumentation, can only be conceived as legitimate if they are directly or indirectly approved by the “demos” (for example via popular votes or representation). Still, to establish such a so-called input-democracy, as Scharpf argues, requires a collective identity or rather homogenous interests of all citizens, something we cannot really identify on the transnational level yet (Scharpf 1998: 87).

In contrast, output-democracy does not require this collective identity, but it can only be applied in cases that involve the provision of pure public goods or Pareto-superior solutions. Therefore, it has a rather limited applicability. With regard to the necessities of global public policy discussed above, this is surely not sufficient. The management of internal sovereignty beyond national borders involves issue-areas that clearly have redistributive,[36] and not only regulative implications.[37] As will be argued below, trisectoral networks can, under certain conditions, be legitimate both from an input- and output-democracy point of view.

Although the discussion and development of a normative basis of democratic theory is surely important, this article elaborates on a threefold approach towards democratization, in contrast to existing universal models of "global democracy." Admittedly, this is a rather eclectic approach, as different theories of democracies coming from different normative backgrounds are mixed. Yet this practice is appropriate (and not in itself contradictory) as globalization causes an intermingling of different levels of political and social interaction, necessitating the coupling of new as well as old forms of governance that connect local communities, states and the transnational level and therefore also different conceptions of democracy.

Democracy in an era of globalization cannot remain a homogenous concept. Rather we have to employ different elements and traditions of democratic theory to the appropriate levels of interaction. We cannot rely on one concept of democracy for all constituent parts of global governance. Traditional models of representative democracy are not transferable to the transnational level (as proposed by the Commission on Global Governance 1995)[38] for a number of reasons. Among other things, this would require the existence of a world parliament, an institution that, similar to a world government, would suffer from severe inefficiencies and a lack of legitimacy. Communitarian approaches (see Burnheim 1995), standing in the philosophical tradition of radical direct democracy, often appear not to be practicable or sensitive to existing power structures. New models of deliberative democracy, initially proposed by Habermas (Habermas 1992; see also Cohen/Sabel 1998), with the idea of a public discourse as a central feature of the democratic policy process, also lack practical applicability and are not feasible on the transnational level. However, the emphasis on the necessity of a public space and debate is of central importance for the democratization of global issues, a point to which we later return.

Finally, David Held's model of a "cosmopolitan democracy" (Held 1995, 1997), although it is probably one of the most sophisticated and thoughtful analyses, also suffers from various problems. He proposes the establishment of a transnational unitary structure of political action that would incorporate all affected actors. The autonomy of individuals (summarized in seven sites of rights that have to be guaranteed),[39] in contrast to a simple liberal individualism lies at the heart of his normative framework, which also draws from several philosophical traditions. Autonomy, Held argues, can be realized by a new cosmopolitan democratic law that accepts the individual as a subject. The implementation of such a cosmopolitan system of law goes hand in hand with the development of transnational communities and common structures of political action (Held 1995: 232). The aim is the creation of an effective transnational legislature and executive and a legally binding system of cosmopolitan law. This also includes the democratization of all key actors in the economy and civil society (Held 1995: 270).

However much appeal this approach may have, it suffers from shortcomings also common to other theories. In general, these theories do not take into account the fact that globalization poses no challenge to the formal sovereignty of nation-states and therefore, their existence. This implies, as was suggested above, that there are still many political decisions that are taken exclusively within the territorial borders of nation-states. In addition, nation-states will remain important actors in the international arena; they are not simply succeeded by non-state actors or governance networks. Theories of democratic global governance that neglect the still-important role of the nation-state are insufficient in their strategy towards governance and democratization. They simply fail to acknowledge that one of the most important and still open tasks is the democratization of the nation-state. This will stay on our agenda for decades to come.

In relation to this, most of these theories require nation-states to cede formal sovereignty to supranational authorities to democratize global politics (as, for example, in the case of a legally binding cosmopolitan law, establishing fundamental rights individuals can demand before international courts). Nation-states, however, are still very reluctant to cede formal sovereignty. As Alexander Wendt and others convincingly argue, states are boundary-maintaining systems, trying to conserve sovereignty by developing self-interests and identities. As state interests and identities are “socially constructed products of learning, knowledge, cultural practices, and ideology” (Koh 1996: 20) and therefore shaped over a long period of time and history, it follows that “[...] states remain jealous of their sovereignty and so may resist collective identification more than other actors [...]” (Wendt 1994: 385).

As a result, cosmopolitan, communitarian and other theories of democracy continuously underestimate the significance of the nation-state as an actor. These models of democracy require too many prerequisites and preconditions that cannot be met in reality. They do not focus on the process of achieving democratic governance, but remain normative descriptions on what democracy ought to be at a specific stage.

In sum, global theories of democracy often design visions for a world that does not yet exist. There is not only one level of political interaction and decision-making that is important and that has to be democratized. Instead, one must understand global governance as consisting of three different levels: the nation-state, the multilateral (inter-state system) that manages interdependence and finally, trisectoral networks in which multilateral institutions take on a new role. It is doubtful whether there can be one theory and strategy of democratization for all three levels, as some of the global theories of democracy seem to suggest.

A Threefold Strategy of Democratization

To democratize the system of global governance, all its constituent parts have to be included. In the following, a threefold strategy of democratization is sketched out, with a focus on the levels of political interaction just mentioned. However, as this paper puts much emphasis on trisectoral cooperation and since there have already been numerous studies on the democratization of nation-states as well as the multilateral system of inter-state cooperation, we will concentrate on the democratic potential of horizontal subsidiarity.

First, as nation-states still play a major role in public policymaking, democratization at the state-level remains a very important task. By applying vertical subsidiarity and thereby delegating as many competencies as possible to the local level, democracy can be strengthened and deepened. Every opportunity for strengthening participative democracy on the local and regional level should be exhausted.

Second, since the existing multilateral framework will continue to exist and even gain in importance, the democratization of these organizations and regimes is also of major significance[40] and has already been explored elsewhere (Barnaby 1991; Archibugi 1993; Bienen/Rittberger/Wagner 1996; Richter 1997). Enhanced public transparency and strengthened accountability to national constituencies are the most important topics to be mentioned in this context.

Finally, as a third pillar of an overall structure of global governance, trisectoral networks have some democratic potential by offering direct participation channels to private actors in policymaking as well as in the implementation process. This, arguably, can enhance the input-dimension of democracy as civil society actors have a direct stake in the process. Moreover, they interact across territorial borders, providing a "transnational public space" through which political discourse can be structured and common interests and identities of nation-states and societies can be shaped.[41] A transnational civil society, in its roots already identifiable (Smith 1998; Clark et al. 1998), would be stimulated.[42] The process of interaction between civil society actors and their impact on public policymaking and implementation lends legitimacy to the process.[43]

However, there are some important qualifications to be made when speaking of horizontal subsidiarity as a concept corresponding to the input-logic of democracy. To achieve this goal, one must ensure that all parties having an interest in an issue also have access to the process, thus avoiding the exploitation of the open policy process by one powerful private interest group (see on this point also Reinicke 1998a: 101). If the necessary institutional and operational guidelines are adhered to, horizontal subsidiarity will lead to an increase in accountability and accessibility compared with current international decision-making structures. But this requires public oversight and control over public-private cooperation.

Moreover, private actors are not always democratically elected or accountable to a broader constituency (Schmidt/Take 1997; Mathews 1997; Beisheim 1997). In particular, the democratic organization of non-state actors comes to mind. With regard to NGOs this already has been widely criticized and proposals have been made (Schmidt/Take 1997; Beisheim 1997; Hocking/McGuire 1999: 20). The debate on the democratization of corporations is all but new and this obviously poses a more complex problem (see Dahl 1989: 327-332; Dahl 1985, especially chapter 3). Democratization of the institutions of the market economy also lies at the heart of Held's cosmopolitan democracy. All actors must embrace democracy as the guiding principle by "[...] adopting, within their very modus operandi, a structure of rules, principles and practices compatible with democracy" (Held 1995:51). Admittedly, the democratization of corporations along the lines proposed in traditional theories of democracy seems to be highly unrealistic. Instead, we have to focus on measures to enhance transparency and openness of actors that want to participate in trisectoral networks. By assuring access to these policy networks for all affected and interested parties and through ensuring public disclosure of information, these networks gain in legitimacy and acceptability. It is important to develop standards for non-state actors wanting to participate in global public policy networks.[44] This, for example, could be one of the new tasks for existing multilateral institutions.

With regard to non-state actors, it is also clear that there is a clear discrepancy between the (economic and political) ability of the business community to participate in global public policy and the ability of other civil society actors that often lack the requisite resources. Organizations located in developing countries are especially disadvantaged. Here, again, multilateral institutions like the World Bank can help with financial and technical assistance to put these organizations in the position to participate in global public policymaking. In this regard, "capacity-building" no longer only refers to nation-states, but also to private actors.

Trisectoral Collaboration as Participative Democracy?

At first sight, the idea of trisectoral networks seems to correspond neatly with elements of so-called modern theories of democracy, especially participatory theories from the 1970s, as well as more recent deliberative-participatory or reflexive approaches from the 1990s (Richter 1997; Schmalz-Bruns 1997; Cohen/Sabel 1998). The claim for participatory elements in a modern democracy resulted from a justified criticism of the dominant liberal representative model that was characterized by a rigid division between the "public" and the "private." But, as David Held has noted, "[if] the 'public' and 'private' are interlocked in complex ways, then elections will always be insufficient as mechanisms to ensure the accountability of the forces actually involved in the 'governing' process"(Held 1996: 265).

Proponents of a participatory democracy therefore called for an extension of participatory rights, albeit combined with the preservation (and reform) of the representative institutions that have become virtually indispensable in large polities (MacPherson 1966; Pateman 1970). These theoreticians, in turn, have been denounced for not being able to present workable solutions for such a system (Held 1996: 270-273). The "participatory euphoria" of the 1970s and 1980s (reinforced by the so-called new social movements and other civil society organizations) has, in effect, lost its teeth. Moreover, second thoughts about the effects of participatory elements in an originally representative system have added to the decay of these theories. Some of the more important questions in this context concern (1) the organization of the economic system in a participatory framework (see Dahl 1985), (2) the interplay between the representative and participatory elements of the system and (3) the willingness of citizens to contribute actively and to use the channels of direct participation. From this perspective, forms of direct democracy on the global level appear to be even more problematic. Consequently, the project of a global radical participatory democracy remains unrealistic. Nevertheless, the idea of trisectoral collaboration in policymaking and implementation has some substantial democratic potential, if we detach our considerations from "maximum strategies of political participation" (Klein/Schmalz-Bruns 1997: 35).

It is undeniable that the prospects for direct participatory elements in global public policymaking are severely constrained by the limitations mentioned above. Still, they offer at least some channels of participation that are not available in traditional inter-state cooperation. Take the example of the World Commission on Dams, which has a two-year mandate and establishes a process through which new standards for dam construction worldwide are developed. Its work program provides ample opportunity for all stakeholders to bring their opinions and knowledge to the fore. Through consultation mechanisms at all levels, inclusiveness and participation are ensured and reflect the basic aim of the commission to stick to a truly trisectoral process and structure. This openness not only lends legitimacy to the process but also enhances the value of the work and increases the possibility that the international community accepts the outcomes.[45]

By no means do we want to "bring participatory democracy back in," but rather show that global public policy offers opportunities that may help induce a process of collective identity formation by the means of societal interaction in a transnational public space.[46] In this regard, the objections to a pure version of a participatory democracy are again of paramount interest. The organization of private actors (business and NGO alike) that want to contribute to global public policy networks especially has to be defined. Further research has to show to what extent trisectoral collaboration and the principle of representation in the nation-state, as well as in the organization of the multilateral system, interact and if they are conflicting. In sum, albeit with important qualifications mentioned above, the application of horizontal subsidiarity in the governance of internal sovereignty may be sufficiently legitimate from an input-perspective.

Equally important is the fact that trisectoral networks in many cases will legitimize themselves by the policy output they produce. Trisectoral collaboration, it is important to remember, is intended to operationalize internal sovereignty in a non-territorial context. By achieving this, it reestablishes the possibility to regulate and stabilize economic, social and political interactions, serving important public policy aims. This often, though not always, involves public goods or Pareto-superior solutions that do not necessarily require input-legitimacy (Scharpf 1998; Majone 1996). However, if there is a redistribution of resources and wealth involved, these governance networks are not self-legitimizing. In this case, we need to strengthen the input-dimension of public-private cooperation by the means described above.

CONCLUSION

Global public policy networks are not just another institution. What gives them their distinctive flavor is their ability to bring actors from diverse backgrounds together—actors that before often had been working against each other. It is often the first time that CEOs, local NGO heads and government officials attempt to work together in order to achieve their respective aims. Through the “strength of weak ties” (Granovetter 1973) networks can handle this diversity of actors precisely because of the productive tensions on which they rest. Knowledge management is the key strength of global public policy networks.

Global public policy networks do not contest internal sovereignty as an organizing principle of political and social life, but they do contest its organization along traditional territorial lines. This requires leadership and institutional change, both of which are in short supply. It also requires the willingness and close cooperation of private and non-governmental actors to share—as partners—responsibility in exercising public policy. In particular, the degree to which the global corporate community is ready and able to take on some public policy functions in conjunction with other non-state actors will be decisive in determining success.

Global public policy includes a broad dialogue between governments, non-state actors and sub-national administrative units in order to identify pressing issues in the process of agenda-setting. This dialogue aims to develop and to agree on flexible joint policy formulae involving cross-national partnership coalitions between state and non-state actors. A global public policy approach seeks to implement policies as closely as possible to the economic activities to be regulated in order to avoid policy asymmetries. Mixed regulatory agreements involving public and private actors are a typical road "global public policy" might go down.

Global public policy is not some distant goal. The time to start taking practical steps is now. There is growing, though scattered, evidence that state and non-state actors alike have begun to experiment with this idea (see case studies in Reinicke 1998a; Witte 1998).[47] It is also important to keep in mind that there is a tendency to perceive globalization as something inevitable, as something that cannot be reversed or even as the end of history. It is not. The world economy experienced similar levels of integration from 1870-1913, a period often referred to as the golden age of the international economy. It ended differently. Interdependence risks becoming the victim of its own success. The interventionist strategies outlined above should not be dismissed as inapplicable. On the contrary, their popularity is on the rise and they have entered the mainstream of the political debate.

Steps by multilateral institutions and nation-states alike have to be taken now to support the notion of global public policy and to ensure its organization along democratic lines. In fact, as has been argued above, trisectoral networks do have some democratic potential but only if some preconditions are met. If policymakers fail to address these issues, global public policy—and with it the overall global governance structure—will not be sustainable.

REFERENCES

Altvater, Elmar/Mahnkopf, Birgit (1996): *Grenzen der Globalisierung. Ökonomie, Ökologie und Politik in der Weltgesellschaft*, Münster.

Ansell, Christopher K./Weber, Steven (1999): Organizing International Politics: Sovereignty and Open Systems, in: *International Political Science Review*, Vol. 20, No. 1, pp. 73-93.

Archibugi, Daniele (1993): The Reform of the UN and Cosmopolitan Democracy. A Critical Review, in: *Journal of Peace Research*, Vol. 30, pp. 301-315.

ASIL (1988): A Hard Look at Soft Law: A Panel, in: *American Society for International Law Proceedings*, Vol. 82, pp. 371-395.

Bairoch, Paul (1993): *Economics and World History: Myths and Paradoxes*, University of Chicago Press.

Barnaby, Frank (1991): Building a More Democratic United Nations. Proceedings of CAM-DUN-1, London.

Basle Committee on Banking Supervision (1998): Report on International Developments in Banking Supervision, Basle.

Beisheim, Marianne (1997): Nichtregierungsorganisationen und ihre Legitimität, in: *APuZ*, B43/97, S.21-29.

Beisheim, Marianne/Walter, Gregor (1997): „Globalisierung"—Kinderkrankheiten eines Konzeptes, in: *Zeitschrift für Internationale Beziehungen*, Vol.4, No.1, S.153-180.

Bernhardt, Rudolf (1984): Customary International Law, 7 *Ency. Pub. Intl. L.* 61, 62.

Bienen, Derk/Rittberger, Volker/Wagner, Wolfgang (1996): Democracy in the United Nations—Cosmopolitan and Communitarian Principles, in: *Sovereignty, International Democracy and the United Nations*. Tuebinger Arbeitspapiere zur Internationalen Politik und Friedensforschung, Nr. 26, pp. 10-40.

Birnbaum, Norman: Mehr Demokratie wagen, in: *Die Zeit*, Nr. 44, October 31st 1997, p. 3.

Bodin, Jean [1567] (1967): Six Books of the Commonwealth. Oxford, Basil Blackwell.

Boli, John/Thomas, George M. (1997): World Culture in the World Polity. A Century of International Non-Governmental Organizations, in: *American Sociological Review*, Vol. 62, No. 2, pp. 171-190.

Boutros-Ghali, Boutros (1995): Democracy. A Newly Recognized Imperative, in: Global Governance, Vol. 1, pp. 3-11.

Brock, Lothar (1998): Verweltlichung der Demokratie. Aus der Verflechtungs- in die Entgrenzungsfalle? In: Greven, Michael Th. (ed.): Demokratie—Eine Kultur des Westens? Leske/Budrich, Opladen, pp. 39-54.

Brown Weiss, Edith (1993): The New International Legal System, in: Jasentuliyana, Nandasiri (ed.): Perspectives on International Law, Kluwer Law International, London, pp. 63-82.

Brown Weiss, Edith (ed.) (1997): International Compliance with Nonbinding Accords, Studies in Transnational Legal Policy, No. 29, American Society of International Law, Washington, D.C..

Bull, Hedley (1977): The Anarchical Society. A Study of Order in World Politics, New York, Columbia University Press.

Burnheim, J. (1985): Is Democracy Possible? Cambridge, Cambridge University Press.

Cable, Vincent (1995): The Diminished Nation-State: A Study in the Loss of Economic Power, in: *Daedalus*, Vol. 124, No. 2.

Calomiris, Charles W. (1997): The Postmodern Bank Safety Net. Lessons From Developed and Developing Economies, Washington, D.C., AEI Press.

Cameron, David (1978): The Expansion of the Public Economy, in: *American Political Science Review*, Vol. 72, pp. 1243-1261.

Camilleri, Joseph/Falk, Jim (1992): The End of Sovereignty? The Politics of a Shrinking and Fragmenting World, London.

Cerny, Philip G. (1995): Globalization and the Changing Logic of Collective Action, in: *International Organization*, Vol. 49, No. 4, pp. 595-625.

Chawaszcza, Christine/Kersting, Wolfgang (1998): Politische Philosophie der Internationalen Beziehungen, Frankfurt/Main,Suhrkamp.

Chesnais, Francois (1988): Technological Cooperation Agreements between Firms, in: *STI Review*, Vol. 4, pp. 52-119.

Clark, Ann-Marie (1995): Non-governmental organizations and their influence on international society, *Journal of International Affairs*, Vol. 48, No. 2, pp. 507-525.

Clark, Ann Marie/Friedmann, Elisabeth J./Hochstetler, Kathryn (1998): The Sovereign Limits of Global Civil Society. A Comparison of NGO Participation in UN World Conferences on the Environment, Human Rights, and Women, in: *World Politics*, Vol. 51, October, pp. 1-35.

Cohen, Joshua/Sabel, Charles (1998): Directly-Deliberative Polyarchy, 10.1.1999, at http://www.columbia.edu/~cfs11/DDP.html

Commission on Global Governance (1995): Our Global Neighborhood, Oxford, Oxford University Press.

Cooper, Richard N. (1968): The Economics of Interdependence, New York, McGraw Hill for the Council on Foreign Relations, 1968.

Cox, Robert W. (1997): An Alternative Approach to the Multilateralism for the Twenty-First Century, in: *Global Governance* 3, S.103-116.

Czempiel, Ernst-Otto (1992): Governance and Democratization, in: Rosenau, James N./ Czempiel, Ernst-Otto (eds.): Governance without Government: Order and Change in World Politics, Cambridge University Press, pp. 250-271.

D'Andrea Tyson, Laura (1992): Who's Bashing Whom: Trade Conflict in High-Technology Industries, Institute for International Economics, Washington, D.C..

Dahl, Robert A. (1985): A Preface to Economic Democracy, Berkeley/Los Angeles, University of California Press.

Dahl, Robert A. (1989): Democracy and Its Critics, New Haven/London, Yale University Press.

Dahl, Robert A. (1994): A Democratic Dilemma: System Effectiveness versus Citizen Participation, in: *Political Science Quarterly*, Vol. 109, No. 1, pp. 23-34.

Dicken, Peter (1986/1992): Global Shift. The Internationalization of Economic Activity, Guilford Press, New York.

Dombrowski, Peter (1998): Haute Finance and High Theory: Recent Scholarship on Global Financial Relations, in: *Mershon International Studies Review*, Vol. 42, Suppl. 1, May, pp. 1-28.

Elias, Norbert (1987): Die Gesellschaft der Individuen. Frankfurt/Main, Suhrkamp.

Esping-Andersen, Gosta (1985): Politics Against Markets. Princeton, Princeton University Press.

Fallon, Peter/Tzannatos, Zafiris (1998): Child Labor. Issues and Directions for the World Bank. Washington, D.C., Social Protection Human Development Network The World Bank.

Garrett, Geoffrey (1998): Partisan Politics in the Global Economy. Cambrige, Cambridge University Press.

Garten, Jeffrey E. (1997): Business and Foreign Policy, in: *Foreign Affairs*, Vol. 76, No. 3, pp. 67-79.

Goldblatt, David/Held, David/Mc Grew, Anthony/Perraton, Jonathan (1997): Economic Globalization and the Nation-State: Shifting Balances of Power, in: *Alternatives*, Vol.20, No.3, S.269-285.

Guehenno, Jean-Marie (1995): The End of the Nation-State. Minneapolis, University of Minnesota Press.

Granovetter, Mark (1973): The Strength of Weak Ties, in: American Journal of Sociology, Vol.78, pp. 1360-1380.

Haass, Richard N./Litan, Robert E. (1998): Globalization and Its Discontents. Navigating the Dangers of a Tangled World, in: *Foreign Affairs*, Vol. 77, No. 3, S.2-6.

Habermas, Jürgen (1992): Faktizität und Geltung. Beiträge zur Diskurstheorie des Rechts und des demokratischen Rechtsstaats. Frankfurt/Main, Suhrkamp.

Habermas, Jürgen (1998): Die postnationale Konstellation und die Zukunft der Demokratie, in: *Blätter für deutsche und internationale Politik*, Heft 7, pp. 804-817.

Held, David (1991): Democracy, the Nation-State and the Global System, in: *Economy and Society*, Vol.20, No.2, S.138-172.

Held, David (1995): Democracy and the Global Order. From the Modern State to Cosmopolitan Governance. Cambridge/Oxford, Polity Press.

Held, David (1996): Models of Democracy. Oxford/Cambridge, Polity Press.

Held, David (1997): Democracy and Globalization, in: *Global Governance*, Vol. 3, No. 3, pp. 251-267.

Hirst, Paul (1998): From Statism to Pluralism: Democracy, Civil Society and Global Politics. UCL Press.

Hirst, Paul/Thompson, Grahame (1996): Globalization in Question. The International Economy and the Possibilities of Governance. Cambridge/Oxford, Polity Press.

Hocking, Brian/McGuire, Steven (1999): Triangulating Diplomacy: Firms, NGOs and Governments in the International Arena. Paper presented to the International Studies Association 40th Annual Convention, 16-20 February 1999, Washington, D.C..

Hoffman, John (1997): Blind Alleys. Can We Define Sovereignty?, in: *Politics*, Vol. 17, No. 1, pp. 53-58.

Holm, Hans-Henrik/Sorensen, Georg (1995): Whose World Order? Uneven Globalization and the End of the Cold War. Boulder/San Francisco/Oxford, Westview Press.

Horsman, Matthew/Marshall, Andrew (1994): After the Nation-State. London, Harper Collins.

Jessop, Bob (1998): The Rise of Governance and the Risk of Failure: The Case of Economic Development, in: *International Social Science Journal*, No. 155, pp. 29-45.

Kaiser, Karl (1971): Transnational Relations as a Threat to the Democratic Process, in: *International Organization*, Vol. 25, No. 3, pp. 706-720.

Keohane, Robert O. (1984): After Hegemony: Cooperation and Discord in the World Political Economy. Princeton, Princeton University Press.

Keohane, Robert O. (1998): International Institutions: Can Interdependence Work? in: *Foreign Policy*, pp. 82-96.

Keohane, Robert O. /Nye, Joseph S. Jr. (1977): Interdependence in World Politics, in: Power and Interdependence: World Politics in Transition, Boston/Toronto, Little, Brown & Co..

Klein, Ansgar/Schmalz-Bruns, Rainer (1997): Herausforderungen der Demokratie. Möglichkeiten und Grenzen der Demokratietheorie, in: Klein Ansgar/Schmalz-Bruns, Rainer (eds.): Politische Beteiligung und Bürgerengagement in Deutschland. Möglichkeiten und Grenzen. Baden-Baden, Nomos, S.7-38.

Kobrin, Stephen J. (1998): The MAI and the Clash of Globalizations, in: *Foreign Policy*, Fall 1998, pp. 97-109.

Koh, Harold Hongju (1996): Transnational Legal Process, in: *Nebraska Law Review*, Vol. 75, No. 181.

Koh, Harold Hongju (1997): Why Do Nations Obey International Law?, in: *Yale Law Journal*, Vol. 106, No. 8, pp. 2599-2659.

Krasner, Stephen D. (1988): Sovereignty. An Institutional Perspective, in: *Comparative Political Studies*, Vol.21, No.1, S.66-94.

Kratchowil, Friedrich (1986): Of Systems, Boundaries, and Territoriality: An Inquiry into the Formation of the State System, in: *World Politics*, Vol. 39 (1986-1987), pp. 27-52.

Krugman, Paul/Maurice Obstfeld (1997): International Economics. 4th ed.. Reading Mass., Addison-Wesley.

Lapidoth, Ruth (1992): Sovereignty in Transition, in: *Journal of International Affairs*, Vol. 45, No. 2, pp. 325-346.

Lowi, Theodore J.: American Business, Public Policy, Case-Studies, and Political Theory, in: *World Politics* 16, pp. 667-715.

Luhmann, Niklas (1995): Politik und Wirtschaft, in: *Merkur*, Vol. 49, No. 7, pp. 573-581.

Luthardt, Wolfgang/Waschkuhn, Arno (1997): Plebiszitäre Komponenten in der repräsentativen Demokratie. Entwicklungsstand und Perspektiven, in: Klein, Ansgar/Schmalz-Bruns, Rainer: Politische Beteiligung und Bürgerengagement in Deutschland. BfpB, Bonn, pp. 59-87.

Luttwak, Edward N. (1993): The Endangered American Dream: How to Stop the United States from Becoming a Third World Country and How to Win the Geo-Economic Struggle for Industrial Supremacy. New York, Simon and Schuster.

MacPherson, C.B. (1966): The Real World of Democracy. Oxford, Oxford University Press.

Mahnkopf, Birgit (1998): Probleme der Demokratie unter den Bedingungen ökonomischer Globalisierung und ökologischer Restriktionen, in: Greven, Michael Th. (ed.): Demokratie—Eine Kultur des Westens? Leske/Budrich, Opladen, pp. 55-80.

Majone, Giandomenico (1996): Regulating Europe. London/New York, Routledge.

Martin, Hans-Peter/Schuman, Harald (1997): Die Globalisierungsfalle. Der Angriff auf Demokratie und Wohlstand, 11. Aufl.. Hamburg, Rowohlt.

Mathews, Jessica T. (1997): Power Shift, in: *Foreign Affairs*, Vol. 76, No. 1, pp. 50-66.

McGrew, Anthony (1997): The Transformation of Democracy? Globalization and Territorial Democracy. Cambridge/Oxford, Polity Press.

OECD (1992): Technology and Globalisation, in: Technology and the Economy: The Key Relationship. Paris.

OECD (1993): Development Assistance Committee Orientations on Participatory Development and Good Governance. Paris, OECD/GD (93) 191.

OECD (1996): Globalization of Industry: Overview and Sector Reports, Paris.

Ohmae, Kenichi (1993): The Borderless World. New York, Harper.
Ohmae, Kenichi (1995): The End of the Nation-State. New York, Free Press.
Pateman, Carol (1970): Participation and Democratic Theory. Cambridge, Cambridge University Press.
Pauly, Louis W./Reich, Simon (1997): National Structures and Multinational Corporate Behavior: Enduring Differences in the Age of Globalization, in: *International Organization*, Vol. 51, No. 1, pp. 1-30.
Petrella, Riccardo (1996): Globalization and Internationalization. The Dynamics of the Emerging World Order, in: Boyer, Robert/Drache, Daniel (ed.): States against Markets. The Limits of Globalization. London/New York, Routledge, S.62-83.
Polanyi, Karl [1944] (1957): The Great Transformation. The Political and Economic Origins of Our Times. Boston, Beacon Press.
Porter, Michael E. (1990): The Competitive Advantage of Nations. Macmillan, New York.
Price, Richard (1998): Reversing the Gun Sights: Transnational Civil Society Targets Land Mines, in: *International Organization*, Vol. 53, No. 3, pp. 614-644.
Ratner, Steven R. (1998): International Law. The Trials of Global Norms, in: *Foreign Policy*, Spring 1998, pp. 65-80.
Reinicke, Wolfgang H. (1998a): Global Public Policy. Governing without Government? Washington, D.C., Brookings Institution Press.
Reinicke, Wolfgang H. (1998b): Global Public Policy: A Vision for Multilateralism in the 21st Century, mimeo.
Reinicke, Wolfgang H./Witte, Jan Martin (1999): Global Public Policy: The Role of Non-Binding International Legal Agreements, in: Shelton, Dinah L. (ed.): Commitment and Compliance. The Role of Non-Binding Norms in the International Legal System. Oxford, Oxford University Press.
Richter, Emmanuel (1997): Demokratie und Globalisierung. Das Modell einer Bürgergesellschaft im Weltsystem, in: Klein, Ansgar/Schmalz-Bruns, Rainer: Politische Beteiligung und Bürgerengagement in Deutschland. BfpB, Bonn, pp. 173-202.
Rodrik, Dani (1997): Has Globalization Gone Too Far? Washington, D.C., Institute for International Economics.
Rosenau, James N. (1995): Governance in the Twenty-First Century, in: *Global Governance*, No. 1, pp. 13-43.
Schachter, Oskar (1997): The Decline of the Nation-State and Its Implications for International Law, in: Anton, Donald K./Charney, Jonathan I./O'Connell, Mary Ellen: Politics, Values, and Functions: International Law in the 21st Century. Essays in Honor of Professor Louis Henkin. The Hague/Boston, Martinus Nijhoff Publishers, pp. 12-28.
Scharpf, Fritz W. (1993): Legitimationsprobleme der Globalisierung. Regieren in Verhandlungssystemen, in: Böhret, Carl/Wewer, Göttrik: Regieren im 21. Jahrhundert—Zwischen Globalisierung und Regionalisierung. Opladen, pp. 165-185.

Scharpf, Fritz W. (1997): Globalisierung als Beschränkung der Handlungsmöglichkeiten nationalstaatlicher Politik. *Discussion Paper* 97/1, Max-Planck-Institut für Gesellschaftsforschung, Köln.

Scharpf, Fritz W. (1998): Demokratische Politik in der internationalisierten Ökonomie, in: Greven, Michael Th. (ed.): Demokratie—Eine Kultur des Westens? Leske+Budrich, Opladen, pp. 81-103.

Schmalz-Bruns, Rainer (1995): Reflexive Demokratie. Die demokratische Transformation moderner Politik, Baden-Baden.

Schmidt, Hilmar/Take, Ingo (1997): Demokratischer und besser? Der Beitrag von Nichtregierungsorganisationen zur Demokratisierung internationaler Politik und zur Lösung globaler Probleme, in: *APuZ*, B43/97, S.12-20.

Seagall, Jeffrey J. (1997): A First Step to Peaceful Cosmopolitan Democracy, in: *Peace Review*, Vol. 9, No. 3, pp. 337-344.

Senarclens, Pierre de (1998): Governance and the Crisis in the International Mechanisms of Regulation, in: *International Social Science Journal*, No. 155, pp. 91-104.

Simmons, P.J. (1998): Learning to Live with NGOs, in: *Foreign Policy*, Fall 1998, pp. 82-96.

Slaughter, Anne-Marie (1997): The Real New World Order, in: *Foreign Affairs*, Vol. 76, No. 5, S.183-197.

Slaughter, Anne-Marie/Tulumello, Andrew S./Wood, Stephan (1998): International Law and International Relations Theory: A New Generation of Interdisciplinary Scholarship, in: *American Journal of International Law*, Vol. 92, No. 3, pp. 367-397.

Smith, Jackie (1998): Global Civil Society?, in: *The American Behavioral Scientist*, Vol. 42, No. 1, pp. 93-107.

Smith, V. Kerry (1985): A Theoretical Analysis of the Green Lobby, in: *American Political Science Review*, Vol. 79.

Smouts, Marie–Claude (1998): The Proper Use of Governance in International Relations, in: *International Social Science Journal*, March 1998, No. 155, pp. 81-89.

Soete, Luc (1991): Technology in a Changing World: Policy Synthesis of the OECD Technology and Economy Program, Maastricht, MERIT/TEP.

Solomon, Steven (1995): The Confidence Game: How Unelected Central Bankers are Governing the Global Economy. New York, Simon&Schuster.

Steinmo, Sven (1994): The End of Redistribution? International Pressures and Domestic Policy Choices, in: *Challenge* (November-December), pp. 9-17.

Strange, Susan (1996): The Retreat of the State: The Diffusion of Power in the World Economy. Cambridge, Cambridge University Press.

Streeck, Wolfgang (1996): Public Power Beyond the Nation-State. The Case of the European Community, in: Boyer, Robert/Drache, Daniel (eds.), States against Markets. The Limits of Globalization. London/New York, Routledge, pp. 299-315.

Thurow, Lester C. (1992): Head to Head: The Coming Battle among Japan, Europe, and America. New York, Morrow.

Waddell, Steve (1998): Trisectoral Co-Producers: A New Type of Development Organization. Institute for Development Research, mimeo.

Wade, Robert (1996): Globalization and Its Limits: Reports of the Death of the National Ecomomy are Greatly Exaggerated, in: S. Berger/R. Dore: Diversity and Global Capitalism. Ithaca, N.Y., Cornell University Press, S.60-88.

Wade, Robert/Veneroso, Frank (1998): The Growing World Slump and the Battle over Capital Controls, *New Left Review,* No. 231, September/October, pp. 13-42.

Weber, Max (1972): Wirtschaft und Gesellschaft, Grundriß der Verstehenden Soziologie. 5. Rev. Aufl., Tübingen, J.C.B. Mohr.

Weiss, Linda (1998): The Myth of the Powerless State. Ithaca, Cornell University Press.

Wendt, Alexander (1994): Collective Identity Formation and the International State, in: *American Political Science Review*, Vol. 88, No. 2, pp. 384-396.

Witte, Jan Martin (1998): Globalisierung, nationalstaatliche Handlungsfähigkeit und Demokratiedefizit: Globale demokratische Ordnungspolitik zur Regulierung internationaler Arbeitsstandards. Faculty of Economics and Social Sciences, University of Potsdam.

Wittich, C./Roth, G. (1978): Max Weber, Economy and Society. An Outline of Interpretive Sociology. University of California Press.

WTO (1995): International Trade Statistics Yearbook. Genf, WTO.

Young, Oran R. (1978): Anarchy and Social Choice. Reflections on the International Polity, in: *World Politics* 30, pp. 241-263.

Zürn, Michael (1996): Über den Staat und die Demokratie im europäischen Mehrebenensystem, in: *Politische Vierteljahresschrift*, Vol. 37, No. 1, pp. 27-55.

Zürn, Michael (1997): Does International Governance Meet Demand? *InIIS-Arbeitspapier Nr. 4-5*, Universität Bremen.

ENDNOTES

[1] For more information on trisectoral networks and specific cases, as well as the role networks play in the United Nations system, see www.globalpublicpolicy.net.

[2] For an early argument related to global governance see Rosenau/Czempiel 1992. There is no widely accepted definition of global governance, but the statement of the Commission on Global Governance describes global governance as "[...]the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflict or diverse interests may be accommodated and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interests" (Commission on Global Governance 1995: 5). James N. Rosenau adopts an even wider definition: "[...] global governance is conceived to include system of rules at all levels of human activity—from the family to the international organization—in which the pursuit of goals through the exercise of control has transnational repercussions" (Rosenau 1995: 13).

[3] The OECD defines governance as "the use of political authority and exercise of control in society in relation to the management of its resources for social and economic development" (OECD 1993: 14).

[4] This paper does not intend to provide an overview of existing theories and models of global governance. For a good overview, see Smouts 1998.
[5] In fact, many scholars have defined globalization as "the intensification of economic, political, social, and cultural relations across borders" (Holm/Sorensen 1995: 4).
[6] It is important to note that we do not equate private actors solely with corporations. Other private actors (such as interest groups, NGOs, etc.) also take advantage of these developments and restructure themselves on an international or global scale.
[7] As Riccardo Petrella put it not long ago, "[...] the growing globalization of the economy is eroding one of the basic foundations of the nation-state, i.e., the national market. [...], what is different today from thirty years ago is that the national economy is no longer the name of the game" (Petrella 1996: 67).
[8] Obviously, the globalization of corporate activity depends on the specific sector. In addition, globalization until now largely remains a phenomenon within the OECD state world. In fact, some scholars argue that the term globalization is a misnomer; the best alternative for now is proposed by Michael Zürn's concept of denationalization (Zürn 1997). However, this is not to say that other regions might be excluded forever. In fact, there is evidence that at least some NICs are increasingly part of this process (Petrella 1996: 77). In addition, some scholars have found, that "[...] the institutional and ideological legacies of distinctive national histories continue significantly to shape the core operations of multinational firms based in Germany, Japan, and the United States. [...] recognizable and patterned differences persist in the behavior of leading MNCs" (Pauly/Reich 1997: 3, 25).
[9] Related to the debate on the Asian financial crisis, policymakers and scholars alike argue that one of the decisive factors for the crisis to happen was the lack of sound and transparent management structures in commercial banks operating in this area. These banks were simply not able to process the fast capital liberalization that has taken place since the early 1990s. Consequently, the IMF and other institutions try to reform the banking sector in these countries, strengthening internal control systems, but also public oversight.
[10] The exercise of internal sovereignty is therefore, according to Lapidoth, "the highest, original—as opposed to derivative—power within a territorial jurisdiction; this power is not subject to the executive, legislative or judicial jurisdiction of a foreign state or any foreign law other than public international law" (Lapidoth 1992: 327).
[11] Hedley Bull differentiates between "normative" (legal/formal) and "factual" (operational) sovereignty (Bull 1977: 8).
[12] As Phil Cerny put it, globalization diminishes the state's ability "[...] to stabilize, regulate, promote, and facilitate economic activity generally as well as exercise other forms of politically desired and/or structurally feasible control over more-specific targeted processes of production and exchange" (Cerny 1995: 599).
[13] In this context, Hocking and McGuire explain that besides the already familiar "observations regarding the increasing porosity between foreign and domestic policy agendas [...]" this "[...] boundary erosion is also manifested in a blurring of the boundaries between public and private arenas of activity" (Hocking/McGuire 1999: 11).

[14] Streeck uses in his analysis three different categories of "public power," developed in general by T.H. Marshall. According to Marshall's conception of public power, citizens are invested with civil, political and social rights. Civil rights enable the individual to participate in the market economy, political rights entail the right to collective organization and representation and social rights guarantee a basic level of subsistence.
[15] It is worth noting that the way to democratization has never been without disruptions and upheaval. Even if we accept the notion that democracy beyond the nation-state is important and necessary, it is not at all clear that this can be realized in a linear peaceful process. When we think about the democratization of international and transnational politics we have to bear this in mind and take into account that this democratization process could be conflictual and violent (for further elaboration on this point see Brock 1998).
[16] It is, however, clear that nation-states cannot be forced to act against their own self-interest. However, there are cases when national parliaments only have an "all or nothing" choice, meaning that they can either ratify a treaty of not, without having the possibility of renegotiating.
[17] Furthermore, as will be discussed below, there also remain serious doubt as to the democratic organization and legitimacy of these non-state actors.
[18] As one commentator recently argued, "[t]he risk of trade conflicts around the world is sharply escalating as Asian nations attempt to export their way out of economic crisis by selling cut-price goods to the United States and Europe, the foreign minister of Taiwan warned neighboring countries Thursday [...]. Widening trade imbalances 'may bring measures of sanctions, punishments or retaliations—war in the political and trade sense' [...]" *International Herald Tribune*, January 22, 1999.
[19] Transnational corporations as well as other international non-governmental organizations (INGOs) gained in importance especially during the last twenty years (see Boli/George 1997). INGOs, compared to transnational corporations, remain less influential because of a lack of financial and other resources. The legal status of these actors continues to be ambiguous, as they are not accepted as subjects of international law. However, they take on a more important legal role because of their integration as active actors in an increasing number of international soft law agreements (codes of conduct, declarations, etc.), as well as being passive actors in the negotiation of international hard law (see Edith Brown-Weiss 1997).
[20] Think, for example, of the much-discussed role of central banks in states, as well as the work of independent regulatory agencies (Solomon 1995).
[21] Think of free trade agreements in the GATT framework, the negotiation of labor standards within the ILO or the more recent example of the failed multilateral agreement on investment (MAI) to name a few. Existing international organizations seem to have particular problems in adjusting to a changing international environment, as the still ongoing debate about the reform of the UN-system illustrates.
[22] We use the term "global public policy" in contrast to "global governance" or "transnational cooperation" because we want to illustrate the differences between issue areas involved. Global governance refers to internal as well as external sovereignty issues. Global public policy is only related to internal sovereignty issues.

[23] Furthermore, one could argue that the investiture of a global government would require a strong (hegemonic) power that no longer exists. In recent history there was only one point in time when the United States was one nation-state so strong that it could almost exert the power of a world government—the installation of the Bretton Woods system that, to a large extent, reflected American visions of a postwar world (see Gardner 1969: xcix). Today, however, there is no such powerful nation-state that can easily dominate world politics, even if we take a hegemonic position of the United States in some issue-areas into account. The possible attempt of countries to enlarge their power to implement a world government can, therefore, only be pursued by force.

[24] As the traditional notion of vertical subsidiarity is well known and extensively discussed elsewhere (at least with regard to the management of interdependence), we are not going to explore it in any more detail here. Though, as it becomes clearer below, we have to reevaluate the position and task of multilateral institutions in the context of globalization and the design of global public policy. Multilateral institutions have to adapt to this new environment and to the new challenges posed by it. Nevertheless, it should be clear that vertical subsidiarity has already become more important in recent years, not only in the context of the management of interdependence, but also with regard to globalization and issues of internal sovereignty. The changing roles and mandates of existing multilateral institutions like the IMF and the World Bank, nowadays dealing with corruption, social and environmental standards, are telling indicators (see Reinicke 1998). This enhanced role of multilateral institutions will only succeed, however, if national bureaucracies establish permanent channels of communication and interact on a regular basis to facilitate the exchange of information in the open, transparent fashion necessary for informed global public policy. In the domain of global finance this has become evident at the institutional level in cases such as the collapse of Barings or the problems at Daiwa. At the systemic level, the financial crisis in Asia has alerted policymakers that these linkages are long overdue. There should be no doubt, however, that cross-national networking needs to go far beyond the domain of global capital markets and cover a broad range of policy issues, including the growing number of non-tariff barriers to trade that the WTO and the OECD have begun to address.

[25] Find out more about the Roll Back Malaria Initiative at www.who.int/rbm/about.html.

[26] Find out more about the GWP at www.gwp.sida.se.

[27] For various case studies, see www.globalpublicpolicy.net.

[28] Again, with regard to banking regulation, new proposals include a reconsideration of regulative philosophy, in effect calling for self-regulation of the banks (see Calomiris 1997; "Global banks set up plan for self-regulation" *The Financial Times*, 6.6.1997, p. 5; George Graham, "When bankers' hearts beat a little faster" *The Financial Times*, 6.6.1997, p. 6).

[29] For respective case studies see Reinicke 1998 (money laundering, dual-use trade, banking regulation) and Witte 1998 (international labor standards). With regard to international labor standards, the Apparel Industry Agreement negotiated in 1998 can be interpreted as a recent attempt to establish a trisectoral network. This agreement, brokered by the U.S. government, brings together major multinational corporations and NGOs that agree upon a code of conduct for overseas business practices for the

cooperation. Interestingly, the agreement also entails a clause on external monitoring. While we cannot evaluate the significance nor success of this approach, it is clearly heading in the proposed direction (see Johnson 1998; Witte 1998).

[30] Private selective incentives offer "[...] gains that are private or subject to some form of exclusion" (Smith 1985: 132). According to Mancur Olson's analysis, the problem of collective action (problems of large groups in providing public goods) can be solved either by coercion (in the absence of a central authority not achievable) or private selective incentives (Olson 1965).

[31] As Hocking and McGuire recently argued, the "[...] success or lack of it in some policy environments depends on the capacity of public and private actors to engage in processes of organizational learning through which knowledge and legitimacy-generating resources are developed and exchanged to manage unpredictable policy environments" (Hocking/McGuire 1999: 4).

[32] It is important to note the emphasis on traditional democratic thought, as older concepts, for example the Greek notion of democracy, were not tied to a concept of the nation-state.

[33] For further elaboration of the differences between distributive, redistributive and regulative politics, see Lowi 1964. Whereas in reality the borders between these three different types often appear blurred, redistributive politics can be conceived as "politics against markets" (Esping-Andersen 1985), incorporating active redistributive policies such as social transfers or a progressive tax system. Due to the nature of these policies they are conceived as being very difficult to achieve, especially on an international scale.

[34] As we already stated above, this is not the place for a complete evaluation of such complex issue-areas such as normative bases of different theories of democracy. For further elaboration on this point see the excellent analyses of Robert A. Dahl (1989) on theories of democracy, as well as the exhaustive debate of normative democratic theory in times of globalization of David Held (1995, 1996).

[35] This is exemplary in David Held's vision of a cosmopolitan democracy, in which he identifies "seven sites of rights" necessary to preserve the autonomy of the individual (Held 1995: 200).

[36] Think, for example, of labor standards that are regulative in nature but clearly have redistributive implications (Witte 1998). It was recently argued that international banking standards (for example, the Basle Accord of 1988) also have redistributive effects as they improve the competitive position of certain countries in contrast to that of others (Nabors/Oatley 1998).

[37] As Scharpf argues, the normatively constrained scope of output-legitimized politics can be enlarged by taking the possibility of compensation or linkage into consideration (Scharpf 1998: 88). This would broaden the scope of legitimate collective action by all that correspond to the so-called Kaldor-criterion. These decisions also increase the total welfare but gains and losses are distributed according to the principle of equivalence. This, however, does preclude a distribution according to criteria such as equality or social need. Furthermore, how much compensation is possible in a framework of global public policy remains open to inquiry.

[38] The Commission on Global Governance, standing in the best liberal-internationalist tradition, proposed in their report a reform of the UN, the creation of a people's assembly and a forum of global civil society and a strengthening of global citizenship. This is, as Anthony McGrew rightly argues, a rather simple attempt to transfer the liberal representative model of democracy to the global level.

[39] These "seven sites of rights" correspond very well to the concept of public power adopted above and therefore we devote some more space on an elaboration of Held's concept. This catalog of rights entails social, cultural, economic, pacific, political, and civil rights as well as basic health (Held 1995: 200).

[40] As Robert Keohane recently wrote, "scholars should now explore [...] how to devise international institutions that are not only competent and effective but also accountable, at least ultimately, to democratic publics. [...] Combining global governance with effective democratic accountability will be a major challenge for scholars and policymakers alike in the years ahead" (Keohane 1998: 93-94).

[41] A related concept can be identified in Ernst-Otto Czempiel's notion of "societal regimes" through which society can participate in foreign policy. Societal regimes, he argues, "could fill the space between nations." Cooperation among private organizations could establish patterns of a pluralistic society (Czempiel 1992: 268-269). The proposition that continued interaction can shape interests and identities of nation-states and societies is informed by Alexander Wendt's state-centered constructivist approach (Wendt 1994). P.J. Simmons recently argued that NGOs "are changing societal norms, [...], setting agendas, negotiating outcomes, conferring legitimacy, and implementing solutions" (Simmons 1998: 84). Of course, the idea of discourse and debate in a transnational space can also be traced back to Habermas' notion of deliberative democracy we briefly discussed above. In so far, the distance between the two models is perhaps not as broad as we suggest.

[42] A recent example can be seen in the international campaign to ban land mines. As Richard Price argues, members of a transnational civil society succeeded in changing the security policies of states by generating international norms that "shape and redefine state interests" (Price 1998: 615).

[43] Related to this point, Jackie Smith concludes in her study on global civil society that transnational social movements "can generate social capital that is crucial to democratizing the global political process" (Smith 1998: 104).

[44] As Stephen Kobrin has convincingly shown, the impact of NGOs is not necessarily good and positive, as in the case of the Multilateral Agreement in Investment (MAI), where "network guerillas" have successfully challenged a successful brokerage of the agreement (Kobrin 1998). However, this is not a general argument against civil society involvement, but shows that there is an urgent need for rules in the game.

[45] For more information on the World Commission on Dams see its homepage at www.dams.org.

[46] As Ansell and Weber argue, "[i]ncreasingly porous boundaries make possible this detachment of identity from location. Surely, new identities are continuously in battle with older, retro-nationalistic, and pseudo-tribal identities that by no means have disappeared. Globalization does not wipe away old vested interests or the imagination that is

at the heart of imagined communities—witness the breakup of Yugoslavia. But boundary spanners do bring forward a new menu of choices, some substantially different in content and structure from what came before" (Ansell/Weber 1999).

[47] For more information about case studies see www.globalpublicpolicy.net/CaseStudies.htm.

GLOBALIZATION WITHOUT CITIZENS: A CRITIQUE OF REINICKE'S *GLOBAL PUBLIC POLICY* WITH A COMPARATIVE LOOK AT GERMANY AND THE EUROPEAN UNION

Thomas O. Hueglin

INTRODUCTION

Pessimism abounds, at least among German social scientists. According to Michael Zürn, globalization is a process of uneven denationalization (1992). On the one hand, control over important economic policy functions are handed over to an international regulatory regime. On the other hand, security, welfare and culture remain internalized functions of national governments. As the new international economic constitutionalism ever more constrains these governments in the delivery of social goods, services and rights, organized interests form fragmented communities of self-organization. The tension of integration and fragmentation indeed runs through individual behavior and existence itself. The new globalism creates individuals who are part national citizens and part internationalized bourgeois.

For Michael Greven (1997), this fragmentation must ultimately result in a globalized political order without citizens because politicized self-interest will only be engaged in partial projects of a political or civic nature. Participation in the governance of general interests in political institutions decreases. The always tenuous functional division of labor between political class and silent majority may break down entirely.

Count Kielmansegg is doubtful about the possibility of the formation of the kind of transnational collective identity which would be necessary to overcome common conflicts and crises because such an identity requires communities of mutual communication, experience and memory (1996). As yet, even in the most advanced project of transnational integration, the European Union, there is no community of communication because there is no common language—English is only a technical means for the pursuit of partial projects. Memory, on the other hand, is deeply rooted in particular national histories that have been hostile to one another more often than not. Common experience is perhaps the only promising bond but it is a recent one and threatened by the forces of fragmentation.

Jürgen Habermas, finally, comes to the conclusion that the very idea of a globalized welfare regime is well-nigh overwhelming (1998). He does not see a single viable project at the conceptual stage that would at least provide the contours of a political order able to catch up to the globalizing market forces.

In this context, then, Reinicke's attempt at outlining a project of global public policy against this "conceptual timidity" (1998: 1) injects some badly needed optimism into the discussion. If what follows is fundamentally critical of this attempt nevertheless, then this is so precisely because of its timely importance.

Far from dismissing Reinicke's analysis and suggestions as unfounded, this paper is meant to be a complementary effort. The unfolding world of globalization will be presented in a radically different light, to be sure. However, this paper is driven, as is Reinicke's book, by an effort to provide proactive rather than reactive guidance for the future course of this world.

After a summary of Reinicke's core arguments and a presentation of counterarguments, the paper will turn to Germany and the European Union as prime examples of integration and fragmentation in progress. Some alternative suggestions for globalized politics are added at the end.

GLOBAL PUBLIC POLICY: THE ARGUMENT

Reinicke's core question is whether globalization can be understood as merely accelerated incrementalism in international interdependence, or whether it must be recognized as a process of radical transformation. His key analytical yardstick is operational rather than legal sovereignty, which is in turn divided into an internal and external dimension. He then argues that interdependence among nation-states has thus far only challenged the external dimension of operational sovereignty, whereas the ongoing processes of globalization, understood primarily as the deterritorialization of production and consumption, has begun to challenge internal operational sovereignty as well. Globalization must therefore be understood as a radical transformation of the Westphalian system of nation-state sovereignty and international relations.

The result is (and here Reinicke finds himself in line with German social science pessimism) that nation-state governments lose some of their ability to conduct public policy. And this in turn raises questions of democracy or may even trigger counter trends of nationalism and cultural identity politics of the Jihad vs. McWorld kind (Barber 1992). Following Reinicke, citizens may vote but that vote no longer determines public policy (1998: 7-8).

He then outlines three possible nation-state responses. They can either engage in defensive intervention by erecting new walls of tariff protection and capital investment control; they can pursue a path of offensive intervention mainly resulting in competitive deregulation; or, and this is Reinicke's core contribution to the debate, they can jointly develop strategies of global public policy which are meant to decouple the operational aspects of internal sovereignty (governance) from their territorial foundation (the nation-state) and institutional environment (nation-state governments).

Focusing mainly on regulatory (rather than distributive or redistributive) aspects of governance, Reinicke discusses various possibilities for the development of a global public policy regime: Nation-states should enter international conventions and enlist public-private partnerships for the implementation of public policy thus framed. Such a mixed regulatory regime would have to be based on transparency and disclosure. Corporate participants in particular would have to agree to stronger internal controls. Although, and this is perhaps the most important suggestion, sanctions would have to be part and parcel of such a regime, compliance rather than enforcement would have to be promoted by the provision of incentives administered by international financial institutions. The end result, if ever implemented, would be a world ordered by what Reinicke, borrowing from the European debate, calls “subsidiarity,” the distribution of policy functions to the most appropriate levels of governance: national deregulation or global re-regulation—both guided by the input of public-private partnerships.

In short, what Reinicke proposes is based on the relatively simple yet entirely logical realization that the control of a growing number of corporate networks in the world requires a global public policy network of world governance. The formation of a world government is as unviable as it is undesirable. The redeployment of defensive and/or offensive interventionism, on the other hand, would lead to catastrophe, to a globalized “satanic mill” of the kind that Karl Polanyi (1944) described for the rise of national liberal capitalism in the eighteenth and nineteenth centuries. Eventually, “enlightened reactionaries” rather than revolutionaries began to tame national corporate networks through national public policy.

GLOBAL PUBLIC POLICY: A CRITIQUE

Reinicke’s world of global public policy is not a very compelling one. As he admits himself, the gap between regulatory world governance—as it is partly already in place, and democratic control and accountability—as they are already under siege, will likely grow even further. His appeal to subsidiarity is just that: an appeal—as it was when the Delors team introduced it to the Maastricht debate in order to secure ratification of the treaty. In the European Union and for the moment, at least, it means whatever the participants want to read into it, such as more national sovereignty for the British and more social policy autonomy for the Danes.

It is also a world that may well be driven by a dangerous postmodern illusion. Does all this new transterritorial networking and public-private partnership building, while surely constituting a decisive trend from nation-state government to multilevel governance (Hooghe and Marks 1997), also necessarily mean that the global policy game will be played by a new and larger set of actors who have the capacity of giving it a different outcome?

Reinicke's reference to the forces of globalization as unleashed from the constraints of the Cold War may give the clue here. Then, under the Cold War spell, world history was played out as a drama with clear heroes and villains. Now, the story appears recast as a comedy of errors in which nobody can be held responsible any longer for what may still be a universalist drama nevertheless (Hueglin 1999a). At least if the main partners are governments, autonomous regulatory agencies and the multinational corporate sector, and in particular if some of these actors possess absolute veto power over all important policy decisions, global public policy cannot mean much more than making the fox guardian of the hen-house.

More precisely, three types of criticisms can be identified in particular. One has to do with the democratic deficit and the wagging-the-dog character of globalizing public policy. Another focuses on viability and Air-Force-One veto power. The last one raises the question to what extent desirable globalization appears threatened by dangerous continental liaisons.

Wagging the Dog

First, you deregulate the financial markets so that banks and insurance companies can make unprecedented profits. Then, you get upset when the frenzy of trading gets out of hand. Enlightened reactionaries, in this instance the world's finance ministers, finally call for regulatory containment.

Or, consider the case of a small country that is entirely dependent on a limited number of cash crops because for these, and only for these, you have supplied credit in the past. Then, you have international financial agencies demand serious reductions in that country's social policy expenditures because that is the only way you may ever see any of your money again. Not least because of social deregulation in your own country, illegal drugs become a paramount link between the criminal classes in both societies. Outraged, you call for regulation when you find out that the drug lords have been laundering their dirty money through the same Swiss number accounts you have been using all along.

Finally, you may have propped up some autocratic regime with weaponry and dual-use technology because that seemed to fit your scheme of containing another even more autocratic regime. Then, when that country uses these freely provided resources against you, by invading yet a third autocratic regime with valuable oil reserves, for instance, you cry foul and demand the kind of disclosure you have never been willing to undertake yourself.

Admittedly, these cases are overstated. Yet they give dramatic evidence of how national deregulation and international re-regulation may combine in a vicious cycle of reactive hypocrisy rather than proactive global public policy.

The only justification for such regulatory strategies is efficiency. If they work, hardly anyone will dispute their soundness. Such output efficiency, it has been suggested (Scharpf 1994), is the only possible form of legitimacy available in a complex world of multilevel public-private collaboration in public policy. The very idea of input legitimacy, or democratic accountability, has to be abandoned. But the problem is that such regulatory ambition does little or nothing to alleviate the underlying social problems because these are of a distributive and redistributive nature and hence remain under the auspices of national deregulation.

Without the input of those most directly and adversely affected by the problems global public policy seeks to gain control over, regulatory globalism will only fight symptoms instead of curing the disease. As a consequence, cultural identity politics may intensify within and among nations because even the most efficient regulation will be seen as unfair imposition by at least some.

Air Force One

There cannot be any doubt, on the other hand, that output efficiency contributes to legitimacy. No other than the great realist Machiavelli once wrote, almost some 500 years ago, that liberty means active involvement in government only for a small minority. The large majority simply wants to live in peace and security (1513). But what are the enabling or disabling conditions for global public policy? Reinicke suggests strategies of entering conventions, public-private partnerships and financial incentives instead of sanctions. Consider a few disillusioning facts again:

Entering Conventions?

The willingness of the world’s nations to enter such conventions is growing. The United States of America, however, appears more reluctant than others:

- It has not ratified the international convention banning discrimination against women; 160 other nations have.
- It has not ratified the international convention on the rights of the child; the only other nation which has not done so is Somalia.
- It opposes setting up an international criminal court endorsed by 120 nations because it could not win absolute exemption for its own soldiers (*The Economist*, December 5, 1998).

Public-Private Partnerships?

When 500 delegates from 130 nations met in Berlin in 1995 to negotiate a convention on global climate control, Donald Pearlman, chief lobbyist for the DuPont, Exxon, Texaco, and Shell corporations, played a crucial role in turning a hopeful endeavor into an exercise of frustrating futility. During some twenty previous preparatory conferences over a three year period, he had already choreographed the opposition of the oil states. In Berlin, he was seen every morning giving his allies last minute instructions at the conference door (Martin and Schumann 1997).

Incentives Instead of Sanctions?

Just before Christmas 1998 and the Muslim month of *Ramadan*, the Clinton Administration bombed Iraq again. On evening television talk shows around the world, one could hear the arguments of at least a few concerned and informed observers. If, so went the argument, the United States had supported Iraqi opposition groups and the country's general population with only a fraction of the money invested in yet another useless missile firework, Saddam's chances of political survival would be much slimmer.

Or consider Cuba: Instead of keeping that island in forced isolation, the Americans should have bought it. Neither Castro nor an impoverished population could withstand the lure of a corporate takeover. Probably, even letting Fidel throw the first ball at the opening of the American baseball season would seem more effective than forty years of self-righteous grandstanding in return for the Miami presidential vote.

The case may be overstated again. However, consider at least the European Union's "reluctance to launch a panel against Helms-Burton for fear that the U.S. would boycott the proceedings and so de-legitimize the whole WTO dispute mechanism" (Clarkson 1998: 47). The call for regulation, sanctions and incentives rings hollow when one player has the power to refuse compliance.

This is not an attempt to demonize a great country and nation. In this century, the United States has provided the world with many of the most important innovative ideas in the arts, sciences, philosophy, and so on. American capitalism has played an important role in spreading growth and prosperity in many parts of the world. Americans have also played a significant role in getting peace settlements under way such as in Bosnia, the Middle East and Northern Ireland most recently.

The point is that nothing—or at least very nearly nothing—goes in this world if it does not go with the last remaining superpower. It unleashed the forces of globalization in the first place. Others, including the European Union, for the most part reacted to it (Servan-Schreiber 1967). Thus far, American political and corporate veto power has prevented any serious collective effort of slowing down the socially devastating effects of economic integration by a joint process of what French President Chirac called “controlled globalization”—unless it is in the American interest as may yet be the case with regard to drugs and world finance (Martin and Schumann 1997).

Another of the world’s great social philosophers, Immanuel Kant, wrote some 200 years ago in an essay about the prospects of eternal peace (1795) that a nation’s domestic and foreign policy conduct would always be governed by the same set of principles. According to Frans van Waarden, the world today can be divided between societies conducting their affairs through negotiated public regulation and societies typically relying on adversarial litigation (1998). It would at least be surprising if the world’s most litigious society conducted its international affairs on the basis of consensual agreements to universal standards and conventions.

Dangerous Liaisons

Dangerous liaisons, at least according to Hollywood wisdom, are socially illicit affairs not likely ever to be consummated. You smoke but you do not inhale, you may have oral sex but not sexual relations and you preach global responsibility while building fortresses of organized self-interest.

Alongside a globalizing world, one can discern a world divided into continental trade blocs. Stephen Clarkson sees these built on fearful asymmetries among hegemonic and peripheral partners. In the case of NAFTA, for instance, the U.S. sought to strengthen its hemispheric home base against the erosion of its competitive advantage in Europe and Asia. The compliance of Canada’s and Mexico’s governing elites was driven by a fear of failure as well: “If you can’t beat them, join them” (1998: 37).

Hemispheric trade now accounts for 32.9 percent of American trade. Just over 30 percent of Japanese trade centers on Southeast Asia, and a whopping 73.8 percent of European trade is conducted among EU member states (Hirst and Thompson 1998: 110). In other words, while professing a commitment to global loyalty, everyone engages in affairs closer to the heart and pocketbook.

Why are these liaisons dangerous? At least in the case of the United States, Stephen Clarkson suspects some sort of conspiracy: The American goal was world trade for its information, telecommunications and entertainment industries all along. By writing trade rules into bilateral deals first, the continental option was a first step, creating a powerful *fait accompli* towards achieving the global objective (1998: 36). The danger lies in the reaction of spurned lovers elsewhere. One objective of European Economic and Monetary Union clearly is to replace the U.S. dollar as the world reserve currency. In South America, Mercosur has been formed to offset NAFTA's hemispheric powers. The EU has entered closer relations with both Mercosur and the Asian states (40-41).

In the case of Canada, it may well have been a dangerous illusion. As Canadian novelist Margaret Atwood put it so eloquently during the CUFTA hearings in 1988, "The hope is that we can keep our social institutions while getting their markets; what if they get our markets and we get their social institutions?"

To be sure, the growing maze of continental and transcontinental trade links may also spur global public policy formation. However, the dynamic of economic continentalization may make this less rather than more likely. As every student of comparative federalism knows, constructive and pragmatic compromise is easier to achieve in relatively symmetrical unions with a larger number of participants such as the U.S. than in asymmetrical unions with a smaller number of participants such as Canada. And further, the veto power of dominant actors may be strengthened rather than weakened in complex multilevel systems of governance because they alone possess the ability of playing two- or more-level-games (Putnam 1988), as exemplified by the role of Donald Pearlman in the world climate conference circuit.

GERMANY AND THE EUROPEAN UNION

The European Union, the most advanced system of continental integration to date, offers further insight into the prospects of transnational public policy formation under conditions of asymmetrical market integration.In fact, the EU should at least provide a continental public policy success story. Thirteen of its fifteen member states are currently governed by mildly left-of-center governments or government coalitions. All fifteen belong to the public regulation rather than adversarial litigation camp. The EU is a more symmetrical union than both Canada and NAFTA. If it is dominated by a near-hegemonic economic power (Hueglin 1997), then this continental hegemon, Germany, is one of the strongest welfare states in the club, more committed to public regulation than most others. Moreover, its policies have been influenced by a powerful environmental party, the Greens, at various levels of governance since 1983. At least by comparison with NAFTA or the WTO, the European Union, while surely suffering from a considerable democratic deficit, is governed by a measurable degree of institutionalized accountability. A directly elected European Parliament now has the power to dismiss the EU's regulatory body of governance, the European Commission. The rulings of the European Court of Justice are directly binding for member states, corporate actors and even individuals.

Most of the structural and procedural possibilities suggested by Reinicke for a successful development of global public policy are already in place to a considerable degree in the European continental setting. The basis of all Union action are the treaties, most recently the Single European Act of 1987, the Maastricht Treaty of 1993 and the Amsterdam Treaty of 1997. The results of such action typically are binding regulatory policies and/or conventions. In 1995, for instance, the member states signed the Europol Convention to fight transnational crime. The SEA has introduced extensive regulatory powers in environmental policy. And Maastricht, while failing to adopt a binding social charter, at least opened the doors for a “social dialogue” about the necessity to complement economic and monetary union with significant moves towards social union.

As a new type of multilevel governance, the EU has also been groundbreaking in the development of public-private partnerships. The European Commission in particular functions as a networking “political entrepreneur.” In order to enhance its own expertise, but also for the purpose of ensuring “that its proposals are approved of by the governed,” the Commission has encouraged public-private partnerships and supported “transnational interest formation,” bringing about “transnational policy communities around those policy issues which [it] has an interest in promoting” (Kohler-Koch 1999). And finally, apart from its transnational capacity to impose sanctions, the EU uses a wide and growing range of financial incentives for compliance with Union policy, as in the agricultural, regional development, energy, environmental and cultural policy fields.

Yet in spite of all this, a sober overall assessment of the European Union cannot but come to the conclusion that the process of integration has been and is still driven by the overriding goal of establishing a Europeanized neoliberal market economy as the dominant form of governance and growth (Ziebura 1997). Contrary to the more comprehensive visions of then Commission President Jacques Delors (1985-95), the SEA and Maastricht conflated the process of integration into a narrowly defined economic constitutionalism with price stability as its primary goal. It may also constrain significantly nation-states’ ability to act socially on behalf of their citizens (Leibfried and Pierson 1997). In fact, it is not excessively far-fetched to suspect that this was part of the agenda all along: a convenient if not deliberate attempt at insulating the European project of market liberalization from earlier national welfare commitments.

If so, then who are the conspirators? One type of explanation points to an “elite pact” between Commission Eurocrats and the commanding heights of Europe’s transnational industrial and service corporations (Schunter-Kleemann 1997: 99): It pursues the very same strategy of shoring up Europe’s continental competitive advantage against the other two main trade blocs—as did the U.S.

with its strategy of continentalization first and globalization later. The political entrepreneurship of the Commission performs the dual role of facilitating and popularizing the new concept.

It lies in the logic of this argument to see the Maastricht Treaty's provision of economic and monetary union as a systemic sea change from a welfare to a competitive "warfare-economy" (Schunter-Kleeman 1997: 100-103). Particularly alarming are the facts that the arbitrarily imposed convergence criteria for monetary union entry have detrimental effects on national labor markets, collective bargaining and social policy, and that the cooperative provisions for joint regulation in such socially sensitive fields as internal security, refugee and human rights policy established in the Third Pillar of the Union Treaty are not open to judicial review by the European Court. European public policy, in other words, remains entirely subservient to the prerogatives of the European market.

Whether Europol constitutes a step in the right direction at least from an efficiency point of view remains to be seen. As an Interpol colleague puts his frustration, "What is good for free trade, is also good for criminals" (Martin and Schumann 1997: 285). At least for now, illegal capital mobility benefits from globalization as much as legal capital mobility. The large open market allows economy of scale transactions in the legal as well as illegal economy. Smuggling of cigarettes in Europe now accounts for as much as five percent of the entire tobacco trade and results in European revenue losses of six to eight billion DM. Scientists of the University of Münster estimate a 35 percent increase in organized crime in Germany by the end of the century (285-88).

If the recent case of Abdullah Ocalan is an indication, the priority of national interests will also stand in the way of European law enforcement for some time to come. Ocalan is a Kurdish guerilla leader wanted in Turkey, where he would most likely be faced with the death penalty. The Italians had the bad fortune of arresting him in Rome on the basis of a German extradition request for alleged terrorist crimes. They waited for a clear word from Bonn, but Germany's newly sworn-in foreign minister, Joschka Fischer, mindful of already mounting German-Turkish tensions, was careful to avoid just that. Ocalan was finally set free when German courts withdrew the extradition order.

The record of European foreign and security policy is particularly disillusioning, from Germany's unilaterally preemptive recognition of Slovenia and Croatia, to the Union's lacklustre position regarding Bosnia, and finally to Britain's unilateral participation in Clinton's recent missile attack on Iraq. The Maastricht Treaty established a complex intentional compromise with the general goal of moving from intergovernmental cooperation to common policy. In the words of Anthony Forster and William Wallace, "complex language allows for, but does not compel, joint actions in pursuit of agreed common aims" (1997: 426). Or elsewhere more bluntly: “The underlying tension between sovereignty and common policy remains, despite the ambitious rhetoric” (411). That may have been Abdullah Ocalan’s luck as well.

A particularly instructive case of a more mixed success finally is environmental policy. Since the SEA and Maastricht, environmental policy has been the fastest growing activity in Brussels. The Commission’s strategy is based on a “leader-laggard dynamic” (Sbragia 1997). Three member states, Germany, the Netherlands, and Denmark, are much more committed to environmental regulation than the rest. The policy dynamics of these leaders is used to push the laggards along. While there is no “race to the bottom,” European environmental policy development is slowed down by national concerns over competitiveness and cost. The Mediterranean laggards, Spain in particular, are prone to suspect a north-south conspiracy. Its leaders are concerned about losing their competitive edge. Britain stands out as complaining about implementation costs even **after** it has voted for a particular policy in the Council. Demanding a wholesale review of extant environmental regulation at the European level, Britain and France have begun to invoke the subsidiarity principle enshrined in Article 3b of the Maastricht Treaty—with the intention of claiming, of course, that it would be sufficient and more appropriate if they looked after their own environmental affairs. Typically, the Commission reacts by simplifying its directives and/or by allowing the complaining governments more flexibility.

Compromise among leaders and laggards is not a bad outcome for transnational public policy, especially when the outcome results in an upgrading of the laggards’ environmental standards. Britain, after all, cannot possibly declare that environmental protection was not in its interest. When it comes to the export of beef, on the other hand, it can and did, and veto power reenters the stage, at least through the back door. After first suspicions and subsequent scientific evidence that mad cow disease can be transmitted to humans, precious months and possibly years went by before the Commission banned the export of British beef and beef products worldwide. The British government reacted as if it had been asked to give up the Falkland Islands. John Major’s retaliation by putting on hold any further participation in European policymaking whatsoever threatened to bring the entire EU machinery to a grinding halt. Two years later, in November 1998, the Council agreed to begin the process of lifting the ban, against German concerns and against persistent evidence that neither the instruments of BSE detection nor the policies of containment were sufficient (*Das Parlament* 53, 1998).

The polemical question can be raised whether Britain really belongs in the Union at all (Martin and Schumann 1997: 307-9). It has been an obstructionist outsider all along. While all other nation-state governments have remained committed to some degree of social balance at least in principle, Britain has put all its eggs into the basket of competitive advantage. Consequently, its citizens have suffered an alarming degree of down-scaling in incomes, available health care and education. The degree of polarization between rich and poor qualifies Britain as the 51st state of the U.S. rather than a member of the European Union.

The more important analytical question is, however, how exactly Britain can hold European public policy in check nevertheless, and in particular against Germany's commitment to press on with a comprehensive program of high quality policy integration. After all, if the skepticism about the prospects of global public policy development is centered on the reluctance and veto power of the world's strongest member, the United States, one would assume that Germany, as the continental hegemon, is similarly able to assert its regulatory enthusiasm against laggards.

There are several answers. One is that Germany does have such power. Without German leadership in environmental policy, for instance, there would be hardly any Union initiatives, and without these, there would be hardly any environmental protection at all in at least some parts of Europe (Sbragia 1997: 238-41). Another answer has to do with the nature of veto power. Even when it is possible for a dominant partner to block undesirable developments, it is far more difficult to bring about positive results. These can be blocked by weaker partners as well, at least as long as unanimity remains the ground rule for all decisions affecting the national interest.

A final and probably the most important answer points to Germany's ambivalent role as a policy leader in the European process of integration and fragmentation among leaders and laggards. Germany's overriding concern has been to secure export markets. At the same time, its postwar political stability has been based on a conflict-avoiding domestic strategy of social partnership and its model of the social market economy (Hueglin 1992). During the 1980s, after the experiences with acid rain and Chernobyl, a growing environmental concern was added to this model. A superior level of both social and environmental domestic regulation meant a reduction in Germany's competitive advantage. Consequently, Germany would press for policy harmonization throughout the Union (Sbragia 1997).

Throughout much of the postwar period, weaker economies had routinely resorted to currency devaluations in order to protect themselves against the overbearing German export productivism. Consequently, Germany pressed for economic and monetary union (Hueglin 1997). However, it had to do so by simultaneously satisfying domestic social and environmental concerns and allowing for policy flexibility among the Union's laggards. The best possible strategy was to insulate itself from responsibilities to both sides by shifting the burden of policy initiatives to Brussels. There, as long as the Council of Ministers still has the last word and as long as the European Parliament continues to lack a common European identity, German might can pull most of the strings but remains vulnerable to the veto power of other members, hence paying its price for achieving the overriding goal of economic and monetary union.

In comparison to the active role that the German hegemon plays in a process of European policy formation initiated and driven by a powerful institutionalized European bureaucracy, leading to at least limited success, the prospects of global public policy under American leadership must look bleak indeed.

SOME ALTERNATIVE SUGGESTIONS

An alternative approach to global public policy would have to begin where Reinicke leaves off—with a radical reconceptualization of subsidiarity as a response to the problems of democratic accountability. Disclosure, in this sense, is not enough. Reinicke's reference to stronger internal corporate controls in the financial services industry points in the right direction.

Such controls would have to lead to the empowerment of those affected by and interested in global public policy. International financial institutions would have to be governed by a council of regionally elected representatives watching over fairness in the distribution of funds and incentives.

Regulatory policy decisions concerning criminality, drugs and money laundering would have to include the organized voice of Columbian peasants, for instance. The question of their livelihood would have to be included in deliberations of remedies and alternatives. Black Americans and other criminalized minorities, on the other hand, would have to gain organized access to urban renewal policymaking.

In the case of dual-use technology transfers, finally, it is particularly difficult to see any alternative to a policy strategy of transparency and compliance. However, as discussed above in the cases of Iraq and Cuba, a generous policy of social empowerment would appear to be more promising than continued threats of don't-or-else.

In other words, alternative suggestions for the development of desirable levels of global public policy are based on federalization instead of globalized centralism, deliberative regimes of consent formation instead of regulatory regimes and charters establishing standards of equitability instead of conventions calling for compliance.

Federalization

Mainly because of the European Union and its subsidiarity debate, federalism has gained new currency in debates about the future of continental as well as cosmopolitan governance. This debate has a conventional territorial and a more innovative societal dimension. The territorial dimension debate focuses not only on the nature of the relationship between nation-state members within a larger union but on appropriate levels of regional involvement as well. German rather than American federalism provides the model.

The conventional starting point is Article 24 of Germany's Basic Law which allows the federal government to transfer sovereign powers to intergovernmental institutions. Under the impact of the Maastricht Treaty with its potentially far-reaching consequences of political union, the German *Länder* successfully pushed for a revision of Article 50 which stipulates that the *Bundesrat* participates in the legislation and administration of the federation. This stipulation has been extended to matters pertaining to the European Union as well. A revision of Article 23 has constitutionalized the direct participation of the *Länder* in the national adoption of EU legislation. A two-thirds majority in the *Bundesrat* can now overrule the federal government's position concerning EU Council decisions that affect the *Länder* legislative and administrative powers or institutions. Article 146 of the EEC Treaty has been amended so that a *Land* minister can now represent Germany in Council of Ministers meetings when substantial *Länder* interests are at stake. Finally, the changes to Article 23 of the Basic Law include the stipulation that in cases of exclusive *Länder* jurisdiction, German membership rights "shall be transferred by the Federation to a representative of the *Länder* designated by the *Bundesrat*" (Michelmann 1997: 13-15).

Could these developments serve as a constitutional model for European or even world governance? Only two others of the current fifteen members of the EU (Austria and Belgium) are formally constituted federations. Worldwide there are only twenty such federations although, since they comprise such large countries as Canada, India, Brazil, and Russia, federalism governs more than fifty percent of the world's territorial space, as well as some forty percent of its population (Elazar 1987). Moreover, there are federalizing trends in many parts of the world with such notoriously unitary political systems as Spain and the United Kingdom as recent examples (Hesse and Wright 1996).

Shortly after the statist catastrophes of two world wars in this century, there was widespread agreement that peaceful accommodation among the world's peoples required federal solutions. The idea of a European federation had already surfaced in European resistance movements (Lipgens 1968). One of the most eloquent spokespersons for a European federation, Denis de Rougemont, insisted that "the region is the true socio-economic unit of present-day Europe" (Tassin 1992: 185). Yet the story of the postwar world, including that of Europe, has been one of nation-state resilience. Indeed, the assumption persists, at least among neo-realists, that the process of European integration has been staged for the rescue of the nation-state (Milward 1992).

Reinicke's ideas of global public policy at least implicitly anticipate globalist catastrophes in such policy fields as world finance, criminality and technology. The question is whether a reorganization of world public space through common citizenship beyond the national (Tassin 1992) can be achieved before or after such catastrophes have taken place. At least a case can be made that civic empowerment through subnational federalization is a necessary complementary prerequisite for supranational success.

In a recent paper (1998), Francis Castles has quantified connections between political as well as fiscal decentralization and long-term economic performance in twenty-one OECD nations. His findings indicate that decentralization results in lower inflation and higher economic growth. This may be a socially conservative argument since "federalism and the proliferation of constitutional veto-points have inhibited the expansion of the socially protective state," but it underscores nevertheless that "federalism matters" in public policy formation, implementation and administration. Federalism is, or at least can be made, efficient.

Arthur Benz, in a preliminary research report on regional policy adaptations to the process of Europeanization (1998), gives qualitative evidence of such policy efficiency in the case of the German region of Stuttgart. As for many metropolitan areas in the age of Europeanization and globalization, the problems of this region are characterized by an inter-regional race for competitive advantage as well as infrastructural conflicts between the old urban core and the surrounding communities. Initiated by the *Land* government of Baden-Würrtemberg after 1992, a sweeping regional reform was undertaken which included the establishment of a directly elected regional assembly with considerable powers over infrastructural planning. Around it, a number of informal cooperative networks were formed among actors from politics, economics, culture, media, social services, and science.

Stuttgart is meanwhile regarded as a successful model case of intra-regional policy cooperation, and especially so in France where similar efforts, in the city of Bordeaux, for example, failed because the surrounding communities remained uncooperative. The main reasons given by Benz are the disinterest of the unitary central state in structural reforms and the interlocking of communal and national interests in the French National Assembly, which allows a cumulation of communal and national mandates. By comparison, the *Land* government of Baden-Württemberg could play a decisive initiating role in activating problemoriented cooperation among a broad cross-section of representatives of politics and organized interests.

This leads to a brief consideration of the societal dimension of federalism (Hueglin 1999b). In a world of powerful corporations and organized interests, the territorial dimension of federalism cannot suffice in recreating public space and citizenship. A politics of diversity (Young 1990) must lead to the empowerment especially of those groups in society which do not have the representative resources of playing two- or more-level-games, and not only so in such obvious cases as transnational corporations and unions. Consider, for example, the influence of the National Rifle Association in American politics as compared to the victims of gun-related crimes.

In discussions about the democratic deficit of the European Union, a growing number of observers are now dismissing a however revamped European Parliament as the final source of European legitimacy (Kohler-Koch 1997). With regard to world governance, parliamentary options are even further from reality. A world of global public policy will be governed by the forces of organized interest intermediation. For a "reformed post-liberal democracy," Philippe Schmitter has come up with an interesting proposal: the establishment of a semi-public status for interest associations; the financing of these associations through compulsory contributions; and the distribution of these funds by means of citizen vouchers (1994). As in general elections, in other words, citizens would vote for associations of organized interest and these would then be funded proportionally to their share of the vote.

The problem with this solution is the same as with parliamentarism. In a highly fragmented world along the lines of communication, memory and experience, the funds would be concentrated in the hands of a few powerful transnational organizations and/or ineffectively dispersed among a myriad of associations. The idea could be complemented, however, by a federal structural component again. Associational balance might easiest be achieved at the regional or national level. Higher up, at the continental and global levels of governance, resources could be pooled and administered through functional councils establishing standards of universality and fairness which in turn would be accountable to final arbitration by a global court system. And even here, the principle of judicial impartiality would have to be enhanced by provisions of representative equitability. The new federal constitution of South Africa, for instance, wisely stipulates that the judicial system must reflect the racial composition of the country.

A similar argument can be made with regard to the workings of international institutions designed to monitor a balanced system of world finance. The International Monetary Fund (IMF) and the World Bank are extremely centralized institutions predominantly influenced by the most powerful players. Canada provides a prime example of what happens under such circumstances in a national setting. When the banking industry became centralized in the hands of Anglophone elites in Montreal and Toronto, credit decisions became more and more oblivious to the needs of the peripheral provinces, eventually giving rise to a cooperative credit movement in the prairie provinces in the 1940s (Conway 1983). In Quebec, a nationalist government in the 1960s withdrew from Canada's federal pension plan and began to use Francophone pension funds for the aggressive promotion of Francophone business (Brooks and Tanguay 1985). In a globalized setting, the obvious lesson to be learned from these examples would be to federalize international financial institutions so that their policies can begin to reflect more adequately the needs of the world's different societies.

Deliberation and Consent

The other side of the federal coin is ongoing deliberation. As one of the great students of federalism, Carl Joachim Friedrich, wrote some thirty years ago, federalism is not a static design but a process of finding joint solutions among a plurality of constituent partners. "Any federally organized community must therefore provide itself with instrumentalities for the recurrent revision of its pattern or design" (1968: 7). The problem with regulatory regimes is precisely that, once constituted, they are autonomized agencies resistant to deliberation and change. Since one of the main characteristics of a globalizing world is perpetual rapid change, they are poorly equipped for flexible response.

The same is also true, of course, for systems of constitutional federalism and their amending procedures. A more appropriate idea, therefore, points into the direction of some kind of "treaty federalism" (Hueglin 1998), whereby the partnership is anchored in more flexible and asymmetrical arrangements on the basis of multilaterally and/or bilaterally negotiated agreements which are open to periodical renegotiation. This idea also leads to a more dynamic understanding of the subsidiarity principle. The most appropriate allocation of powers to different levels of governance cannot be predetermined once and for all. A wholesale review of environmental EU regulation, as the British and French demand, may therefore be right for the wrong reasons.

In the case of BSE, for example, regional producer organizations with a strong interest in export might be quite open to the idea of self-regulation and disclosure. They might strike direct agreements with regional consumer organizations elsewhere, negotiating conditions of safe supply. In other words again, not all transnational environmental problems need transnational regulation at all times when national or even subnational action can prevent such problems from becoming transnational ones in the first place.

If the "present institutional system is structurally incapable" of dealing adequately with the problems arising from a complex interdependent world, processes of deliberation can only alleviate this situation impartially and equitably under conditions of "full representation" (Gargarella 1998: 274). For the same reason of complexity, it would seem that full representation is only possible by means of a federalized regime of multilevel governance.

One of the greatest fallacies of the faith in the regulatory capacity of international institutions is the underlying assumption of consensus as social harmony. As Susan Bickford has pointed out, most theories of deliberative or communicative action tend to make a normative distinction between communicative and strategic action: the former—which is good—is seen as corrupted by the latter—which is bad. Yet this "attempted purification of social action" is not only overly idealistic, its idealism can also have "distinctly undemocratic consequences" in practice. The real world is divided by fundamentally distinct interests embedded in fundamentally different life situations. In such a world, an "adversarial mode of communication" is the norm (1996: 1-24). Global public policy only essentializes some interests over others unless it is embedded both in pluralized structures of difference and in deliberations based on the recognition of otherness.

Chartered Universal Standards

It was the French socialist-anarchist Pierre-Joseph Proudhon who in the second half of the nineteenth century gave structured expression to what appears indeed as the most fundamental principle of federalism (1863). The state is necessary because authority is necessary. Liberty can only be established and maintained without the state, through civic associations of self-governance. This antinomy can never be resolved, only balanced. The state engages in general framework legislation only, setting the universal standards of individual freedom as well as social solidarity. Interpretation and implementation, however, are left to the plurality of autonomous communities.

International conventions set standards for regulatory state action. Universal charters empower people against state action. A charter of socio-economic rights for the victims of speculation, for instance, would probably do as much for financial stability as a convention among the main culprits, governments and their main corporate clients. Such a charter could stipulate, for instance, that every citizen has a right to the preservation of life savings and pension contributions, prohibiting their victimization by the speculative losses of financial trading. Setting minimum social safety standards for corporate investment, it could also include a right to adequate rent levels for small businesses.

As to the related issue of finance criminality, a shift from fighting symptoms to the prevention of causes and enabling conditions would be a step in the right direction as well. One such step might be to reconsider the controlled legalization of drug use. This is widely discussed in Europe and, with regard to marijuana, already on a cautious path to implementation in some countries. Skeptics at least ought to remember how organized crime in the U.S. took off during the Prohibition years.

Excessive taxation of drugs such as alcohol and cigarettes for government revenue purposes is a form of prohibition as well, and a hypocritical one at that. As already mentioned, cigarette smuggling is now a major form of organized crime in Europe. In North America, the main perpetrators are the Mohawk communities straddling the U.S.-Canadian border, and they can count on tacit compliance from Canadian manufacturers fearing for their sagging sales fortunes. Aboriginal peoples in North America for the most part live in socially deprived third world enclaves. Only their inclusion in a charter of socio-economic rights could begin to tackle these problems.

Even in the world's rich industrialized societies, some 20 percent of the population now live below the poverty line. Surely, organized crime can now more than ever before take advantage of globalized connections and networks. Empowering those 20 percent with minimum standards of decent living would at least deprive organized crime of many of their most vulnerable foot soldiers.

An approach focusing on rights rather than self-binding conventions would also help the environment. As Sbragia reports (1997), one of the core problems for the joint development of environmental policy in the European Union arises from the differences in environmental perspectives between Germany and Britain. The German approach is based on an anticipatory "precautionary principle." The British approach is reactive, relying on "scientific evidence." Moreover, while the Germans focus on sources of pollution, favoring the use of emission standards, the British rely on environmental quality standards. It would seem that an environmental rights approach might at least induce policymakers and their corporate partners to err on the side of precaution more generally.

Finally, regarding the proliferation of dual-use technology, or of mass destruction technology plain and simple, it would appear that in a world of widespread social destabilization through income polarization paired with ideological intransigence, opening up immense profit opportunities for unscrupulous producers, traders and potential users, all calls for regulatory measures meant to "induce" the latter simply to behave must be in vain. Instead of self-binding obligations of disclosure, it would seem that only supervision by an autonomous international board coupled with basic information and co-determination rights can lead towards a solution.

A classic precedent worth remembering is the European Coal and Steel Community (ECSC) of 1951. In economic terms, the ECSC was an attempt to harmonize postwar restructuring of two European key industries in a free market. Politically, at a time when coal and steel were still considered key resources in the development of dual-use technology, it was driven at least in part by French fears that German reindustrialization would also lead to another build-up of military resources. Transnational supervision by a High Authority made that impossible. In other words, first, the French gained a right to know what the Germans did with their coal and steel production which did not depend on self-binding disclosure. Secondly, at a time when Germany's political classes were still strongly committed to the idea of industrial democracy as an indispensable weapon against the unholy alliance of money and political power which had assisted Hitler's cause, the German government, also in 1951, passed the first of several laws of co-determination which granted workers' representatives in the mining and steel industries equal representation on company boards. A more general law of co-determination was passed in 1976.

While they can always be outvoted because the chairman of the board possesses one additional vote, German workers have nevertheless gained an important right of information to all management decisions at least in large corporations. A European co-determination law is pending and has repeatedly been stalled by British veto power in particular. This it not to say that when faced with the alternative of losing jobs or proliferating dual-use technology, workers would necessarily always put the world's safety first. But it is difficult to see how the chances of disclosure and compliance would not be enhanced.

In sum, these suggestions have been carried by the conviction, based at least on some evidence, that a right **to** disclosure will be more effective than self-binding conventions **on** disclosure. Chances of implementation at least ought to be no less improbable than those for Reinicke's regulatory global public policy strategy. From the point of view of efficiency, both options should be explored further, conceptually as well as in practice.

The involvement of citizens in the affairs affecting their life chances requires adequate structuralization. While people bring about institutions, their behaviors and actions are likewise patterned by these institutions in reflexive fashion (Giddens 1984). Most of all, involvement requires information for adequate deliberation. In a complex world, federalization as a compromise of integration and fragmentation offers a viable path towards structured deliberation. To quote Pierre-Joseph Proudhon once again: "The twentieth century will open the age of federations, or else humanity will undergo another purgatory of a thousand years" (1863: 68-69). Proudhon did not have in mind a merely territorial or political system of federalism. His vision included the federalization of all organized social and economic life. Maybe his words will fall on more receptive ears in the twenty-first century.

REFERENCES

Barber, Benjamin, "Jihad vs. McWorld," *The Atlantic Monthly* 269: 3 (1992), 53-65.

Benz, Arthur, "Politikverflechtung ohne Falle - Koordination und Kooperation im europaeischen Mehrebenensystem," paper, Marthin-Luther-Universitaet Halle-Wittenberg, 1998.

Bickford, Susan, *The Dissonance of Democracy: Listening, Conflict, and Citizenship* (Ithaca: Cornell University Press, 1996).

Brooks, Stephen, and Brian Tanguay, "Quebec?s Caisse de dépôt et placement: Tool of Nationalism?" *Canadian Public Administration* 28 (1985), 99-119.

Castles, Francis G., "Decentralization and the Post-war Political Economy," paper, ECPR Joint Sessions, Warwick, March 1998.

Clarkson, Stephen, "Fearful Asymmetries: The Challenge of Analyzing Continental Systems in a Globalizing World," *Canadian-American Public Policy* 35 (1998), 1-66.

Conway, John F., *The West: The History of a Region in Confederation* (Toronto: James Lorimer, 1983).

Das Parlament 53 (1998).

Elazar, Daniel J., *Exploring Federalism* (Tuscaloosa: University of Alabama Press, 1987).

Forster, Anthony, and William Wallace, "Common Foreign and Security Policy: A New Policy or Just a New Name?" in Helen Wallace and William Wallace (eds.), *Policy-Making in the European Union* (Oxford: Oxford University Press, 1997), 411-38.

Friedrich, Carl J., *Trends of Federalism in Theory and Practice* (London: Pall Mall Press, 1968).

Gargarella, Roberto, "Full Representation, Deliberation, and Impartiality," in Jon Elster (ed.), *Deliberative Democracy* (Cambridge: Cambridge University Press, 1998), 260-80.

Giddens, Anthony, *The Constitution of Society* (Berkeley: University of California Press, 1984).

Greven, Michael Th., "Politisierung ohne Citoyens," in Ansgar Klein and Rainer Schmalz-Bruns (eds.), *Politische Beteiligung und Buergerengagement in Deutschland* (Bundeszentrale fuer politische Bildung, vol. 347, 1997), 231-51.

Habermas, Juergen, "Jenseits des Nationalstaats? Bemerkungen zu Folgeproblemen der wirtschaftlichen Globalisierung," in Ulrich Beck (ed.), *Politik der Globalisierung* (Frankfurt: Suhrkamp, 1998), 228-53.

Hesse, Joachim J., and Vincent Wright (edds.), *Federalizing Europe: The Costs, Benefits and Preconditions of Federal Political Systems* (Oxford: Oxford University Press, 1996).

Hirst, Paul, and Grahame Thompson, "Globalisierung? Internationale Wirtschaftsbeziehungen, Nationaloekonomien und die Formierung von Handelsbloecken," in Ulrich Beck (ed.), *Politik der Globalisierung* (Frankfurt: Suhrkamp, 1998), 85-133.

Hooghe, Liesbet, and Gary Marks, "Contending Models of Governance in the European Union," in Alan W. Cafruny and Carl Lankowski (eds.), *Europe's Ambiguous Unity: Conflict and Consent in the Post-Maastricht Era* (Boulder: Lynne Rienner, 1997), 21-44.

Hueglin, Thomas O., "Gross-Deutschland in Europe: Planned or Unplanned Effects of the German *Anschluss* on Hegemonic Leadership in the European Community," in William D. Graf (ed.), *The Internationalization of the German Political Economy* (New York: St. Martin?s Press, 1992), 295-306.

Hueglin, Thomas O., "Europe's Ambiguous Federalism: A Conceptual and Analytical Critique," in Alan W. Cafruny and Carl Lankowski (eds.), *Europe's Ambiguous Unity: Conflict and Consent in the Post-Maastricht Era* (Boulder: Lynne Rienner, 1997), 45-68.

Hueglin, Thomas O., "Constitutional vs. Treaty Federalism in Canada: Aboriginal Political Thought 'Beyond the State'," paper, CISAN - UNAM, Mexico City, November 1998.

Hueglin, Thomas O., "Government, Governance, Governmentality: The European Union as a Universalist Project," in Beate Kohler-Koch and Rainer Eising (eds.), *The Transformation of Governance in the European Union* (forthcoming London: Routledge, 1999a).

Hueglin, Thomas O., *Early Modern Concepts for a Late Modern World: Althusius on Community and Federalism* (forthcoming Waterloo: Wilfrid Laurier University Press, 1999b).

Kant, Immanuel, *Zum Ewigen Frieden* (1795).

Kielmansegg, Peter Graf, "Integration und Demokratie," in Markus Jachtenfuchs and Beate Kohler-Koch (eds.), *Europäische Integration* (Opladen: Leske + Budrich, 1996), 47-72.

Kohler-Koch, Beate, "Die Europäisierung nationaler Demokratien: Verschleiss eines europäischen Kulturerbes?" paper, Tri-annual Meeting of the German Political Science Association (DVPW), Bamberg, October 1997).

Kohler-Koch, Beate, "The Evolution and Transformation of European Governance," in Beate Kohler-Koch and Rainer Eising (eds.), *The Transformation of Governance in the European Union* (forthcoming London: Routledge, 1999).

Leibfried, Stephan, and Paul Pierson, "Social Policy," in Helen Wallace and William Wallace (eds.), *Policy-Making in the European Union* (Oxford: Oxford University Press, 1997), 185-208.

Lipgens, Walter, *Europa-Föderationspläne der Widerstandsbewegungen 1940-1945: Eine Dokumentation* (München: R. Oldenbourg, 1968).

Machiavelli, Niccoló, *Il Principe* (1513).

Martin, Hans-Peter, and Harald Schumann, *Die Globalisierungsfalle* (Reinbek: Rowohlt, 1997).

Michelmann, Hans J., “Germany and European Integration,” in Matthias Zimmer (ed.), *Germany: Phoenix in Trouble?* (Edmonton: University of Alberta Press, 1997), 1-34.

Milward, Alan S., *The European Rescue of the Nation-State* (Berkeley: University of California Press, 1992).

Polanyi, Karl, *The Great Transformation* (Boston: Beacon Press, 1944 / 1957).

Proudhon, Pierre-Joseph, *Du Principe fédératif et de la nécessité de reconstituer le parti de la révolution* (1863).

Putnam, Robert D., “Diplomacy and domestic politics: the logic of two-level games,” *International Organization* 42: 3 (1988), 427-60.

Reinicke, Wolfgang H., *Global Public Policy* (Washington D.C.: Brookings Institution Press, 1998).

Sbragia, Alberta, “Environmental Policy: The ‘Push-Pull’ of Policy-Making,” in Helen Wallace and William Wallace (eds.), *Policy-Making in the European Union* (Oxford: Oxford University Press, 1997), 235-56.

Scharpf, Fritz W., *Optionen des Föderalismus in Deutschland und Europa* (Frankfurt: Campus, 1994).

Schmitter, Philippe C., “Interests, Associations and Intermediation in a Reformed Post-Liberal Democracy,” in Wolfgang Streeck (ed.), *Staat und Verbände* (Opladen: Westdeutscher Verlag, 1994), 160-74.

Schunter-Kleemann, Susanne, “Perspektiven der Demokratisierung am Beispiel der europäischen Sozialpolitik,” in Beirat für Gesellschafts- Wirtschafts und Umweltpolitische Alternativen - BEIGEWUM (ed.), *Wege zu einem anderen Europa* (Koeln: PapyRossa, 1997), 89-109.

Servan-Schreiber, Jean-Jacques, *Le Defi Americain* (Paris: Denoel, 1967).

Tassin, Etienne, “Europe: A Political Community?” in Chantal Mouffe (ed.), *Dimensions of Radical Democracy: Pluralism, Citizenship, Community* (London: Verso, 1992), 169-92.

The Economist, December 5, 1998.

Waarden, Frans van, “Whither the Nation-State? Regulation and Litigation as Alternative Institutions for Reduction of Uncertainty in Economic Transactions,” paper, ECPR Joint Sessions, Warwick, March 1998.

Young, Iris M., *Justice and the Politics of Difference* (Princeton: Princeton University Press, 1990).

Ziebura, Gilbert, “Euroliberalismus, Renationalisierung oder eine demokratischer Alternative,” in Beirat für Gesellschafts- Wirtschafts und Umweltpolitische Alternativen - BEIGEWUM (ed.), *Wege zu einem anderen Europa* (Koeln: PapyRossa, 1997), 76-88.

Zürn, Michael, “Jenseits der Staatlichkeit: Über die Folgen der ungleichzeitigen Denationalisierung,” *Leviathan* (1992), 490-513.

PROTECTING THE LOCAL GLOBALLY

Michael H. Shuman

INTRODUCTION: GLOBAL POLITICS IN A LOCAL ERA

Despite lots of political, media and academic fanfare about new opportunities in the world, many—perhaps most—members of the American public regard "globalization" as a threat. More than half of Americans believe "expanded trade leads to a decrease in the number of U.S. jobs" (Louis Harris & Associates, September 1997).[1] Here are some other poll data that ought to scare neoliberals:

- Fifty-one percent believe "America's integration in global markets [...] mainly benefits multinational corporations at the expense of average working families" (Penn, Shoen & Berland Associates, July 1997);
- Fifty-two percent view free trade less favorably than they did a year earlier because of what they believe about the impacts of GATT and NAFTA (Wirthlin Worldwide, November 1996);
- Sixty-one percent oppose "having Congress grant the President fast-track authority" (Hart & Teeter, July 1997);
- Sixty-four percent believe "trade agreements between the U.S. and other nations cost more jobs than they create" (Greenberg Research, November 1996);
- Sixty-four percent believe that world trade pulls down U.S. wages (Market Strategies, June 1996);
- Seventy-three percent believe "labor and environmental issues should be negotiated as part of trade agreements" (Wirthlin Worldwide, November 1996);
- Eighty-six percent support "fair trade" (Penn, Shoen & Berland, July 1997);
- Eighty-seven percent believe "trade agreements with other countries [...] should seek to protect the environment" (Louis Harris & Associates, 1997); and
- Seven percent believe international trade agreements have "mostly gained jobs" (Yankelovich, April 1997).

Many would dismiss these views as naïve or misinformed, but concerns about the emerging free-trade world are not without basis. If anything, the typical American more accurately balances the costs of globalization with the benefits than do globetrotting cosmopolitans like ourselves. Most of us are infatuated with things global. Thanks to our whirlwind professional travels, we are familiar with an extraordinary diversity of cultures, politics, languages, foods, ideas, fashions, music, rituals, and beliefs. Schooled in the theories of functionalism, neofunctionalism and international regimes, we believe that global interconnections can help solve survival-imperiling problems and reduce the probabilities of warfare. Inculcated in the theories of free trade, we are convinced that increased exchange of goods and services enhances our prosperity. No wonder the term globalization conjures up so many warm and fuzzy feelings.

The typical American (and the even more typical citizen of planet Earth), in contrast, cannot afford the luxury of being a global citizen. It is not that global opportunities are not available or that global problems are not touching “Main Street,” but that the costs of global transportation, communication and business—while falling—are still well beyond their means. The dominant issue for Americans these days is, to quote Bill Clinton’s first campaign slogan, “the economy, stupid.” Yes, a class of trained professionals will learn how to surf the new tsunamis of the global economy, but an even larger class of blue-collar workers, burger flippers and day-care employees are seeing wages steadily erode. Real wages have been going down since 1973; four out of five American workers have seen their wallets shrink.[2] Corporate pensions are increasingly being swallowed up in mergers and acquisitions, which themselves are justified as necessary responses to “global competitiveness.” It is no wonder that their skepticism about globalization is rising, along with calls from the right, center and left for “America First” and a new protectionism.

Some committed globalists see these skeptics as having little more chance of succeeding than the anti-technology Luddites of Britain. Workers and the poor either will adapt or face extinction. Even champions of the workforce, like former Secretary of Labor Robert Reich, have taken this position, urging American workers to train up for the new global economy. But the impressive showing of Pat Buchanan in the last presidential primary season suggests another possible result from our unqualified embrace of globalization—protectionism, nativism and isolationism. Given a long early history of isolationism, it is not at all farfetched to imagine an America deciding to duck international realities. Unlike most other developed countries, we actually have the economic capacity to do so. Exports and imports added together still amount to less than a quarter of our Gross Domestic Product (GDP). With the largest military force in the world policing our borders, we—more than any other nation on the planet—could retreat to “Fortress America.”

If the consequences of the United States disappearing from the world stage seem chilling—and they do to me—then we need to rethink our entire approach to the global economy. An economic strategy is needed that ensures everyone, not just a small class of cosmopolitans, the gains from global affairs. To accomplish this, I believe, requires a fundamental rethinking of our macro- and micro-economic policies. A continued uncritical embrace of today's neoliberal paradigm threatens not only to wreck the lives of millions of Americans, but also to turn them against globalism for decades to come.

Fortunately, there is a clear alternative embodied in a phrase I first heard from Colin Hines of the United Kingdom—"Protect the local globally." Local governments, using both their traditional powers over public health, safety, welfare, and aesthetics and their newfound powers over foreign policy, can lead the way in remaking international affairs. But to do so, they must repudiate their current theories of economic development, which assume that attracting foreign investment and promoting exports pumps up the local economy (for this conventional view, see Fry 1998).[3]

To show why state and municipal governments should protect the local globally—and how they can do so—I begin with a critique of free-trade theory, showing how it fails to meet the real needs of communities. I then suggest why some economists are encouraging communities to frame their economic development around the principle of community self-reliance. If we take this principle seriously, then we must articulate a new way of thinking about global trade agreements. The third section outlines standards for community-friendly trade and suggests how current regimes violate them. Finally, I outline what an alternative globalist economic agenda among increasingly self-reliant communities might look like.

FREE TRADE VS. COMMUNITY

Economics was originally touted as a tool to help a society reach the goals it really cares about. Paul A. Samuelson, a professor at the Massachusetts Institute of Technology, has been writing the most widely used introductory text on economics since 1948. The twelfth edition, published in 1985 and co-written by William D. Nordhaus of Yale University, defines economics as "the study of how people and society choose to employ scare resources that could have alternative uses in order to produce various commodities and to distribute them for consumption, now or in the future, among various persons and groups in society."[4]

Put another way, economics is the science of efficiency—the efficiency of consumption, production and distribution. Economics cannot tell us which natural resources to consume and which to conserve, but it can tell us, once these decisions have been made, how to consume and conserve efficiently. It cannot tell us which commodities are socially useful and which are dangerous, addictive or unimportant, but it can tell us how to make the goods we choose to manufacture in the least costly way. It cannot tell us what constitutes a fair distribution of commodities, but it can pinpoint how best to achieve a socially chosen goal of equity. Applied creatively with democratic processes that set society's goals for consumption, production and distribution, economics can be an indispensable tool for strengthening communities.

But an ambitious reader of the classics of the profession will be stunned to discover that community is barely mentioned at all. Adam Smith focused on the *Wealth of Nations*, not the wealth of communities. So did the other influential early writers on economics and political economy, like Jeremy Bentham, John Stuart Mill and David Ricardo. Samuelson and Nordhaus's *Economics* text, nearly a thousand pages long, says virtually nothing about communities setting goals and applying the tools of economics to achieve them.

Amazingly, the most influential critics of economics also paid little attention to community. John Maynard Keynes observed that during periods of slack aggregate demand the **national** government could stimulate the economy and boost employment through public expenditures or tax cuts. Karl Marx, Friedrich Engels and other radical economists also focused on the national government, arguing that it should collectivize the means of production and the distribution of goods (and relegating the dream of self-governing communes to some distant and utopian future). Advocates of the New Deal like John Kenneth Galbraith and their social democratic contemporaries in western Europe like Gunnar Myrdal, were committed to creating a network of national welfare programs that provided jobs, income security, education, and other benefits. Their passion was equity, not community. For traditional economists and their critics, place was beside the point. The basic unit of analysis for microeconomics was the firm, and for macroeconomics, the nation. Community, a level of organization somewhere in between, didn't really fit.

Today, the absence of concern about community among economists is clear in their consensus on trade. In 1994 virtually every nation on earth signed the Uruguay Round of the Global Agreement on Tariffs and Trade (GATT). Since 1948, successive negotiations and agreements under GATT have chopped tariffs, and for the next twenty-five years, merchandise trade for industrial nations grew at an average rate of eight percent per year, double the average growth rate of their Gross National Products (GNP).[5] Economists' contention that this accelerating exchange of goods and services is in the interests of all the world's people is now almost universally accepted gospel. Free trade was once a pet postwar project of the United States, but it is now being embraced by the communist party leaders of China, the welfare-state bureaucrats of Scandinavia, the conservative monetarists of Chile, the dictator of Malaysia, and even the Prince of Monaco.

Even economists who rarely agree on anything believe that free trade is unambiguously beneficial. Why? The theory of comparative advantage says so. As MIT economist Paul Krugman writes:

> Because comparative advantage is a beautiful idea that it seems only economists understand, economists cling to the idea even more strongly, as a kind of badge that defines their professional identity and ratifies their intellectual superiority. In effect, the statements, "I understand the principle of comparative advantage," and, "I support free trade," have become part of the economist's credo.[6]

According to the theory of comparative advantage, a free-trade world enables every nation to take advantage of its natural strengths and share them with consumers globally.[7] Americans grow wheat, the French grapes for wine, the Cubans sugar, the Japanese rice, and so forth. As specialized industries expand and achieve greater efficiencies, trade increases and awards everyone with cheaper, more variegated products. Samuelson and Nordhaus put in the following terms the catechism for a standard model in which two countries trade: "If each country specializes in the products in which it has comparative advantage (or greatest relative efficiency), trade will be mutually beneficial. Real wages and incomes will rise in both countries. And these statements are true whether or not one of the regions is absolutely more efficient that the other in the production of every good."[8]

Economists concede that freer trade may result in losers, but this, Samuelson and Nordhaus argue, is the necessary—and acceptable—price of progress:

> Suppose an industry (say, steel) formerly has a comparative advantage but has lost it—because other industries have had greater technological improvements, because the domestic factors it uses have become more expensive through becoming more valuable elsewhere, or for any other reason. The theory of comparative advantage says that this industry ought to be injured by imports. Indeed, it ought to be killed off by the competition of our more productive industries.
>
> This sounds ruthless indeed. No industry willingly dies. No region gladly undergoes conversion to new industries. Often the shifting between old and new industries involves considerable unemployment and hardship. Moreover, a sector that is imperiled is probably already sick, with a past

> history of suffering. So the weak industry and region feel they are being singled out to carry the burden of progress.
>
> A compromise that recognizes the force in both political and economic arguments is to introduce tariff reductions gradually, so that vested factors will have time to move; and, as has occurred since the 1962 Trade Act, to give "trade adjustment assistance," or federal aid to dislocated factors of production.[9]

Why **ought** an industry be killed off by cheaper imports? Because, as another introductory textbook by economist George Leland Bach of Stanford University explains, an effort to protect an economy results in "a shift of workers from relatively efficient export industries (where they would be situated under free trade) into less-efficient protected industries."[10] Note the very specific meaning given to the term efficiency—the ability of a firm to maximize profits. Because a foreign industry can sell a good at a lower cost than ours can, ours is inefficient and ought to die. But suppose our society wanted to have a network of strong, stable communities, without ruthless dislocations, without massive unemployment, without painful changes in people's lives. In Youngstown, Ohio, during the first three years after a major steel mill closed, the federal government shelled out $70 million in unemployment and welfare assistance.[11] From society's standpoint, it would have been more efficient for the federal government to have invested $69 million in Youngstown over the same period to keep the plant running.

The point is not that governments ought to prop up money-losing ventures, but that the bottom line for a community often differs dramatically from that of a privately owned business. While a private owner is looking for the highest rate of profit, a community might find any rate of return above zero worthwhile. In 1975, Sperry Rand Corporation decided to shut down a subsidiary called the Library Bureau in Herkimer, New York, because it was not achieving a rate of return of 22 percent, the ambitious target the parent company had set for its subsidiaries.[12] Closure of this plant, which employed 250 people, would have decimated the community. So the workers and local residents decided to buy the firm from Sperry Rand. One-third of the money was raised by selling $1-2 shares of stock and the rest came from loans from local banks and the U.S. Department of Commerce. In its first year of operation under new management the firm earned a 17 percent rate of return—inadequate for Sperry Rand, but more than enough for Herkimer. It then continued to perform profitably for more than a decade.

Skeptics might reply that the community would have been smarter to invest its money in firms like Sperry Rand that were earning 22 percent or more elsewhere. But one rarely knows in advance what the rate of return on an investment will be. In a competitive economy the quest for higher returns means higher risks. It is certainly rational for a community to invest in a known enterprise in its own backyard, which it can improve through sweat equity and which will benefit the local economy for many years to come, than to risk money in an unknown enterprise hundreds or thousands of miles away.

Economists like Samuelson, Nordhaus, and Bach acknowledge the costs to communities that lose as trade doors swing open. If communities with new businesses compensate the less fortunate ones whose old businesses were destroyed by cheap imports, the losers can develop new businesses and livelihoods. Meanwhile, consumers across the country can enjoy the benefits of cheaper goods. Everyone wins. And so economists, in the spirit of charity and fairness, propose “trade adjustment assistance.”

The historical fact, however, is that redistribution of any kind has hardly occurred at all in the United States since 1962.[13] Throughout the 1980s, as trade barriers were lowered, income and wealth were dramatically redistributed from the poor to the rich. Divide the population of the United States into five equal parts based on income, and the grim story of growing inequality between 1969 and 1988 becomes clear. The lowest-income group received less income over this period (dropping from 5.6 to 4.6 percent of all income), while the highest-income group received more (from 40.6 to 44.0 percent).[14] Between 1979 and 1989, the top one percent of all earners saw their incomes double.[15] The regressive movement of distribution was even more dramatic with respect to wealth. The richest one percent of Americans expanded their wealth holdings between 1983 and 1992 from 31 to 37 percent.[16] That one percent now holds as much wealth as the poorest 40 percent of the American people. The causes of increased inequality go far beyond trade, but the point here is that without redistribution mechanisms that really work, adjustment assistance offers little more relief to the losers from free trade than does the Tooth Fairy.

Without redistribution, the best that free trade offers is the destruction of some communities for the benefit of others. It means that people thrown out of work, many of them poor single-parents, must choose between going on unemployment and welfare or packing up their bags and moving to the winning communities. Prevailing social mores about public assistance suggest that the dignified approach is to move, even if it means pulling the kids from school, severing ties with friends and neighbors, leaving behind church and social-support networks, and so on. Each departure also means that the community loses part of its tax base and that all kinds of community services—libraries, police, street repairs—must be cut, which encourages still more people to leave. The loser communities can be plunged into a death spiral and become ghost towns.

A closer look at the theory of free trade, undertaken recently by economist Herman Daly and theologian John Cobb in their book *For the Common Good*, reveals that the possibilities for gains from trade for the winning communities and for consumers—even in principle—have been greatly exaggerated.[17] When the architect of free-trade theory, David Ricardo, first made the case for tearing down tariff walls in *Principles of Political Economy and Taxation* in 1817, he used the example of Britain and Portugal. British factories might specialize in making cloth, Portuguese factories in making wine. If each does what it can do best and pursues its comparative advantage, both will find that by trading they each can enjoy a cheaper combination of wine and cloth.

Ricardo's modern disciples, however, conveniently left out one critical assumption. For the theory to work capital must be immobile. If British or Portuguese firms can move, they will naturally relocate to the country where wages are lowest. Ricardo hypothesized what might happen if English firms took advantage of less expensive labor in Portugal:

> It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. . . .
>
> Experience, however, shows, that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself, with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.[18]

Were he alive today, David Ricardo would be very sorry indeed to see the evisceration of ties between place and capital. He might be inclined to remind economists that comparative advantage, as he conceived it, is now virtually impossible. The country with the lowest wages achieves a condition of **absolute advantage**, drawing capital and labor from other countries and redounding to advantage of Portuguese property owners. Ricardo was wrong on one count. The English capitalists might join their Portuguese counterparts in cheering this condition, but not the English consumers who, also being workers, would have to migrate to find new work in Portugal.

This is not an inaccurate portrait of the global economy today, in which unanchored corporations move to low-wage countries throughout the world to take advantage of unemployed labor forces and achieve absolute advantage. The richest countries in the world now are experiencing declining wages (the United States) or rising unemployment (much of western Europe).[19]

The opening of free trade is certainly not the only cause of these problems. MIT's Paul Krugman and Harvard's Robert Lawrence point out, for example, that manufactured goods once produced by high-wage industries have become cheaper because of technological advances.[20] The result is that American consumers are spending less to acquire the same goods, which has freed them to spend relatively more on services delivered by lower-wage workers. Doug Henwood, editor of the *Left Business Observer*, argues that in the airline and trucking industries, both of which have virtually no foreign competitors, deregulation is the culprit: "It's hard to think of sectors where so many formerly high-wage jobs have been so massively transformed into low-wage ones."[21]

Yet these causes are linked at least indirectly to free trade. Opening the nations to cheaper foreign goods put the heat on U.S. manufacturers to reduce production costs. By threatening to leave their workforce behind, U.S. firms have been able to extract wage-reduction and job-reduction concessions from labor rather than put cost-cutting burdens on management. And both the reality and rhetoric of maintaining global competitiveness have been used to induce U.S. politicians to deregulate numerous industries.

Whatever the exact contribution of free trade to falling wages up to now, there is no doubt that it will intensify if exports and imports become a larger fraction of the U.S. economy. The price of many goods may fall, but fewer Americans will be able to afford them. The global economy, as my colleagues Richard Barnet and John Cavanagh recently argued in their book *Global Dreams*, has increasingly become bifurcated between haves and have-nots in both rich and poor countries. "Of the 5.4 billion people on earth, almost 3.6 billion have neither cash nor credit to buy much of anything. A majority of people on the planet are at most window-shoppers."[22]

Freer trade not only affects communities unequally but also those living within them. Communities in the United States that claim to be winning gains from trade, like Cleveland, still have growing pockets of losers whose ranks are disproportionately made up of the poor, African-Americans, Latinos, women, and children. As divisions in the U.S. widen between rich and poor and between black and white, the destruction of community accelerates. Privileged neighborhoods wall themselves off from the expanding ghettos and set up their own schools, shopping malls and community centers. The rage felt by the poor over this mounting inequality explodes into occasional riots, as Los Angeles discovered in 1992.

Free trade also weakens communities by freeing corporations to exhaust the natural resource base. In an economy free of environmental standards, communities win if they exploit their forests, mines and fisheries for short-term profits rather than long-term sustainability. “Competitiveness,” as the term is widely used today, is achieved by communities that allow pollution to continue unabated, since the costs of cleanup need not be incorporated into the products. The “winners” are cities like Santiago, Sao Paolo, Manila, and Mexico City, where the air is practically unbreathable.

None of this is an indictment of trade *per se*, only of trade without rules that protect communities. There are many ways in which trade can be made more consistent with communities, but this requires thoughtful government intervention to level the playing field for responsible businesses. It requires, for example, that global rules apply to the one-third of trade which, in fact, is only transferred among different branches of the same multinational firm, and therefore carried out in anything but a free marketplace. Unfortunately, current free-trade regimes like the World Trade Organization do exactly the opposite. They systematically strip national, state and local governments of the powers they need to regulate mobile corporations and to ensure they pay for the environmental and social damage they cause.

Ironically, free trade purports to enhance people’s choices, yet winds up actually limiting them. Workers have only a few opportunities for work in the specializing industries. Consumers have less money to spend on the global cornucopia of goods and services. Subsistence farmers, once able to eke out a decent living off their own land and to barter for extras, are suddenly drawn into a global economy where they have to sell crops to buy food, water, clothing, and shelter. And communities, once able to choose their own path of development, now find themselves following marching orders from distant corporate managers. Free trade has become the biggest oxymoron of our time.

A NEW ECONOMICS OF PLACE

A handful of critics have raised many of these points for more than a hundred years. In *The Great Transformation*, written in 1944, economic historian Karl Polanyi decried the “economistic fallacy,” which unwisely subordinated society and social relations into market analysis.[23] **Every** market, he argued, is embedded in a social context:

> While monetary interests are necessarily voiced solely by the persons to whom they pertain, other interests have a wide constituency. They affect individuals in innumerable ways as neighbors, professional persons, consumers, pedestrians, commuters, sportsmen, hikers, gardeners, patients, mothers, or lovers—and are accordingly capable of representation by almost any type of territorial or functional associations such as churches, townships, fraternal lodges, clubs, trade unions, or most commonly, political parties based on broad principles of adherence [...] [N]o purely monetary definition of interests can leave room for that vital need for social protection, the representation of which commonly falls to the persons in charge of the general interests of the community.[24]

After World War II, urban studies and environmental studies departments were established in hundreds of universities that tried to make economics useful for communities. E.F. Schumacher, who helped lay the foundation for the British welfare state and whom John Maynard Keynes regarded as his intellectual successor, sought to create a "Buddhist" economics centered around people and nature in his 1973 classic *Small is Beautiful*. Other important works on community economics have appeared over the past generation, including *The Economy of Cities* (1969) and *Cities and the Wealth of Nations* (1984) by Jane Jacobs; *Soft Energy Paths* (1976) by Amory B. Lovins; *Steady State Economics* by Herman Daly; *Neighborhood Power: The New Localism* (1974) and *Self-Reliant Cities* (1982) by David Morris; *Human Scale* (1980) by Kirkpatrick Sale; *The Politics of the Solar Age* (1981) by Hazel Henderson; *The Living Economy* (1986) edited by Paul Ekins; *Environmental Protection and Economic Well-Being* (1988) by Thomas Michael Power; *For the Common Good* (1989) by Daly and Cobb; and most recently, *Short Circuit* (1996) by Richard Douthwaite. These thinkers have diverse perspectives and employ very different analytical tools, but their recommendations converge around one central concept—community self-reliance.

The phrase "self-reliance" is admittedly an awkward one. The word "self" suggests an individualistic, atomized, anti-social framework. The goal of self-reliance has been seized upon by libertarian conservatives who seek to eviscerate the welfare state and much of government altogether. It is invoked by leaders pushing for dangerous visions of separatism, from the survivalists and militias of Montana to the Reverend Louis Farrakhan, who wants a new, self-reliant black nationalist community. But self-reliance, appearing initially in the Bible and given a distinctly American flavor by Henry David Thoreau, also has many positive connotations. It suggests personal responsibility, respect for others and harmony with nature. And the addition of the word community to self-reliance underscores that the objective is a social and caring one. Neil Seldman of the Institute for Local Self-Reliance emphasizes that all people within a community should be enabled and empowered.

Johan Galtung, a leading peace theorist from Norway, elaborates the rationale for communities to become self-reliant:

> [P]roduce what you need using your own resources, internalising the challenges this involves, growing with the challenges, neither giving the most challenging tasks (positive externalities) to somebody else on whom you become dependent, nor exporting negative externalities to somebody else to whom you do damage and who may become dependent on you.
>
> [...] The justification for so doing is clear: we will enjoy the positive externalities, rather than giving them away, and at the same time will be responsible ourselves for the negative externalities [...] We can fight the negative consequences ourselves, the distance between cause and effect being a short one.[25]

Galtung's definition of self-reliance weaves together several important strands. One is the importance of minimizing dependence on others. If a community can achieve full employment and provide for the basic needs of its citizens without relying on other communities, it will be less vulnerable to decisions and disasters outside its control. Having satisfied its needs, a community will have less need to meddle in the affairs of its neighbors. As ecologist Kirkpatrick Sale writes:

> [A] self-sufficient town cannot be the victim of corporate-directed plant closings, or a truckers' strike, or an Arab oil boycott or California droughts; it does not have to maintain lengthy and tenuous supply lines of any kind, nor pay the shippers and jobbers and the middlemen who are clustered along them; it does not have to be the accidental victim of toxic fumes or industrial poisons or nuclear wastes produced by or passing through the town; it does not have to bow to always rising prices set by distant A&Ps and GMs and GTEs in disregard of what the local farmer is in fact growing or the local shop producing; and ultimately it does [not] have to sway in the winds of the hurricanes of boom and bust as regularly generated, as it were offshore, by distant and uncontrollable economic forces.[26]

Minimizing dependence on others also means maximizing on all kinds of challenges, whether intellectual, technological or social. Observes Sale, "It makes a place expand instead of contract, create instead of borrow, use instead of discard: just as a man left on his own, thrust on his own devices, develops strengths and uncovers inner resources and becomes the fuller for it, so too a community."[27] This highlights a fundamental flaw of neoclassical economics. Efficiency, economists argue, requires specialization. The narrower the range of tasks an individual performs, the better he or she becomes at it. But as any person who has sweated on an assembly line knows, a job reduced to the turning of a screw does little to satisfy the soul or self-esteem. Real people are not satisfied with the role of Chaplinesque automatons economists have assigned to them and they look for more from a job than just a paycheck.[28] They seek a challenge, pride and respect. And, if given the choice, many people will gladly choose a more exciting job with lower pay.

The same emotions are at play in a community. Why should a nation's choice about specialization dictate everyone's career choices? To invoke Ricardo's hypothetical example, must the Portuguese become vintners and the English textile workers? Most of us believe that an indication of the health of a community is the breadth of jobs available. Most of us had parents or grandparents who experienced some version of a community in which neighbors included their doctor, baker, butcher, banker, stationer, accountant, and lawyer. Like a well-balanced ecosystem, this kind of diversified economy was not easily vulnerable to outside events. Those who worked in small businesses, even those who didn't own property, had more of a stake in them. Even within sprawling cities were well-defined neighborhoods where people had lifelong attachments. Evenings might be spent sitting on the porch or wandering around the town square, as is still done in small towns in southern Europe.

Today's typical communities center around a large factory or office complex. If you're lucky, you have a specialized job that pays well and spend your money at the mall on the outskirts of town. As production at the plant expands or contracts, so does the influx of newcomers or the outflow of old-timers. The revolving door means that you know fewer of your neighbors and that more of your relationships are based on impersonal economic exchanges. The breakdown of personal ties makes it easier not to care about the have-nots, to commit crimes against anonymous victims, to retreat into walled subdivisions.

A third feature of self-reliance, noted by Galtung, is the absence of externalities. An external cost, according to economists, is one that is not reflected in the price of a good. If a chemical manufacturer dumps sulfur dioxide into the air, the death, illness and property damage caused by acid rain downwind are considered external costs. A self-reliant community makes sure that external costs are imposed only on itself. A guaranteed way to ensure that a car does not pollute is to stick the exhaust pipe into the passenger section. Similarly, a community committed to self-reliance will be mindful not to foul its own nest. Self-reliance therefore is a tool for ecological protection and restoration. As many Native American tribes demonstrated for thousands of years, a community that relies exclusively on its own forests, rivers and farms—and doesn't see the use of outside resources as either necessary or desirable—will take special care to safeguard these natural resources for future generations. A community that refuses on principle to export pollution and waste will take greater care to minimize or eliminate them.

It is easy to dismiss the principle of self-reliance by pointing to many complex products that communities cannot manufacture on their own. The goal of a self-reliant community, however, is not to create a "Robinson Crusoe" economy, in which no resources, people or goods enter or leave. A self-reliant community simply should seek to increase control over its own economy as far as practicable. It should try to encourage local investment in community corporations and local consumption of goods made or services delivered by them. These community corporations, in turn, should be encouraged to hire local workers and use local inputs of production. This strategy maximizes the number of dollars that circulate repeatedly within the community, which in turn pumps up its levels of employment, business, income, and wealth—what is called the economic multiplier.

The qualifier "as far as practicable" underscores that community self-reliance is a guidepost, not a *diktat*. Not every industry can be built in a community, especially small ones, and not every producer can rely exclusively on local inputs for production. Nor should self-reliance be used as an excuse to prop up money-losing businesses. But if a business only needs to achieve a positive rate of return (whereby revenues exceed costs) rather than a maximum rate of return, many more goods and services can be made and sold locally than are today. Moreover, wise policy decisions by local, state and national government can greatly expand every community's universe of business possibilities.

Economists are skeptical about the principles of self-reliance and import-substitution, because they supposedly deprive a community of the benefits of trade. A community focusing inward narrows the range of goods and services available to its citizens, and deprives its businesses of the new machines, new production methods and competitive forces necessary for progress. Moreover, if local goods and services cost more than those produced outside, going local means losing money, which condemns a community to less consumption and lower investment. Economies that have sought to seal themselves hermetically from the world, like the former Soviet Union, Albania and Burma, soon crumble from obsolescence.

A better way to think of the goal of import substitution, however, is that it motivates a community to move the most important and valuable types of production back home, not to unplug completely from the national or international economy. And the means to accomplish this need not be tariffs or heavy-handed regulation, but simply smart choices by consumers and local officials to buy, invest and hire locally. Viewed this way, "the theoretical case for emphasizing import substitution is strong," according to Joseph Persky, David Ranney and Wim Wiewel, three economists at the University of Illinois at Chicago.[29]

Import-substituting growth facilitates the diversification of the local economy and the growth of its capital, skills and experience. Jane Jacobs, in her 1969 book *The Economy of Cities*, provides two examples of cities that were able to pump up their economies through import substitution.[30] The Los Angeles export industries that nourished the U.S. military during World War II, like aircraft manufacturing, shipbuilding and petroleum, all declined after the war ended in 1945. Yet the number of jobs in the city expanded because of the growth of new import-replacing businesses. Automobile companies in Detroit, for example, opened branch plants to serve customers in southern California. In Chicago, between 1845 and 1855, the city's population grew by nearly a factor of seven, as did the overall economy. The reason again, writes Jacobs, was import substitution:

> [A]t the beginning of the decade Chicago, like any other little Midwestern depot settlement, was importing most kinds of things that every town supplied. But by the end of that decade it was producing a very large range of the common city-made goods of the time and some of the luxuries too—clocks, watches, medicines, many kinds of furniture, stoves, kitchen utensils, many kinds of tools, most building components.[31]

Import substitution actually incorporates some of the export-oriented thinking of mainstream economists. As a community replacing imports grows in size, it naturally attracts more businesses that target national and global markets. Persky, Ranney and Wiewel summarize the export-led theory of development in the following terms:

> [A]n area that is able to increase significantly its sales of a major export will experience population growth related to the new employment in the basic export sector. This population growth in turn implies that an area may pass thresholds for new products. Now the metropolis will provide some commodities for itself that formerly it imported. Export growth leads to import substitution.[32]

A community committed to import substitution, however, aims to **minimize** population growth. The goal is to expand the quantity and quality of jobs without drawing new people. University of Montana economist Thomas Michael Power has shown that the states in which jobs grew fastest during the 1970s, such as Alaska, Arizona, Nevada, and Utah, also saw family income grow more slowly than the national average.[33] In states like New York and Rhode Island, where employment growth was slowest, income growth was above the national average. The reason for these seemingly paradoxical results is the inflow and outflow of people. Power concludes that "there is no reliable connection between mere quantitative expansion of the local economy and local economic well-being."[34] Expansion of economic activity must be targeted carefully at those people, institutions and businesses that have a long-term commitment to the community. He too winds up recommending a concerted local effort at import substitution:

> The import substitution can be direct, as in the case of energy or of a local bakery replacing imported bread, or it can be indirect. As the variety of goods and services produced locally expands, the richer commercial economy attracts and holds more of the residents' dollars. Local dollars that would have otherwise flowed out of the community, to purchase things that would add variety and quality to residents' lives, stay in the community to purchase local services. Live theater and music, instruction in personal skills, recreational facilities, and so on attract and hold dollars that otherwise would have flowed out to finance imports.[35]

If import-replacement leads to greater exports, is the distinction from export-led development simply a matter of semantics? Hardly. A typical export-led development strategy targets just one or two industries. The World Bank pushed dozens of poor countries in the 1980s to specialize in the production of a few primary commodities like coffee, sugar, cocoa, copper, aluminum, or lumber. The fatal flaw of this approach was that each country's economy became so specialized that it was vulnerable to the collapse of the price of a targeted commodity. The nose-dive of coffee prices in the late 1980s and early 1990s, for example, wreaked havoc on coffee-exporting countries worldwide, from Guatemala to Indonesia. In Rwanda, another country dependent on coffee exports, the consequent economic turmoil set off a chain of events that culminated in the Hutus massacring an estimated million Tutsis.

Development led by import-replacement rather than export promotion diversifies, stabilizes and strengthens the local economy. As Jane Jacobs writes:

> In the case of an export-multiplier effect, some of the new imports earned by the export growth go directly back into the export work, the way ore imported into Pittsburgh goes directly into exported steel, or a high proportion of the textiles imported into New York go into exported clothing. The other imports earned by exports go into a city's local economy; but even so, many of them go indirectly into the export work that earns them. In the case of an import-replacing multiplier effect, however, none of the different (seemingly additional) imports go either directly or indirectly into exports from the city. All are added to the growing local economy. The greater volume of the locally produced jelly, lamps or tombstones—relative to the imports they replaced—is one result. The rounding out of the local economy is another.[36]

Can a small community embark upon an import-replacement strategy? Don't certain industries need a large enough local market to be set up in the first place? No, respond Persky, Ranney and Wiewel. "[W]e do not observe a well-defined threshold population at which a given industry enters a community. For most industries, we only observe that the share of local demand supplied locally tends to rise with size."[37] A small community like Eugene, Oregon, could not operate a factory to produce cars solely for its own needs, but it could build a plant that met the transport demand of the Pacific Northwest region. The key issue is what economists call the optimal economy of scale. Whenever the economy of scale of production is large and a plant needs a very high output to operate competitively, it must export to consumers outside the community. And any good or service for which this is true, by definition, can facilitate import substitution in only a handful of communities. Because the economy of scale of automobile construction is large, it is neither possible nor desirable for every one of America's 36,000 municipalities to manufacture them.

The prevailing wisdom among economists and businesspeople is that large economies of scale are the rule for industrial production. Huge factories with global distribution networks are assumed to deliver cheaper and better products than small factories serving just local markets. This is because certain fixed costs, such as management, machinery, warehouses, marketing, and lawyers, can be spread over more and more units of production. Business consultants like the Boston Company and Wall Street investment houses like Drexel Brunham Lambert have accumulated vast fortunes acquiring, merging and reorganizing firms to achieve larger economies of scale.

Yet as the dinosaurs learned, bigger is not always better. Bigger businesses develop certain diseconomies of scale. The larger the distance between producers and consumers, the harder it is to fine-tune products to the particular tastes of local markets. Local businesses set up to serve the exacting demands of local consumers can be started more quickly, with smaller investments and smaller risks. Once a conscientious process of import replacement begins, a company may be surprised to discover other savings inherent in local production and distribution. Transportation costs go down. So do the costs of marketing. So do the costs of excessive preservatives and packaging. A study in Europe found that a jar of strawberry yogurt traveled 2,166 miles before reaching the typical German consumer.[38] Most of the mileage didn't come from the food—the main ingredients (milk and sugar) came from the surrounding countryside and the strawberries were grown in Poland—but from the packaging. Glass for the jar, paper for the label, paste for the paper, aluminum for the top all were produced from sites across Europe.

The bottom line depends on how these economies and diseconomies add up. For basic necessities, economies of scale appear to be shrinking to the point where hundreds or even thousands of U.S. communities could move toward self-reliance. My recent book, *Going Local: Creating Self-Reliant Communities in a Global Age* (Free Press, 1998), documents how breakthroughs in technology, workforce organization and resource management are enabling local entrepreneurs to meet local needs for basics cost-effectively, including food (as large-scale agribusiness gives way to community-support agriculture), energy (as monopoly-scale utilities give way to local windmills and rooftop photovoltaics), water (as gigantic storage and pumping stations evolve into privatized water-efficiency service companies), basic materials (as global-scale mining companies give way to regional recyclers), and finance (as community banks outperform interstate and international competitors).

Going Local argues, moreover, that these businesses will remain loyal to the community if they are locally owned. A community that anchors its business through ownership not only is unlikely to see them flee to Mexico, but also can raise labor and environmental standards without triggering corporate departures. There are a large number of successful businesses in the U.S. economy that are locally owned and can serve as models for a new generation of community-friendly businesses, including nonprofits (which constitute more than five percent of the economy), family-owned small businesses, publicly-owned enterprises (some 6,300 public authorities build bridges and highways, run electric and water utilities, dispose of hazardous wastes, operate ports, and perform public services), cooperatives (an estimated 47,000 exist nationwide), worker-owned businesses (employees own the majority of shares in 2,500 companies), and for-profit firms with residential limits on stock ownership (voting shares of the Green Bay Packers franchise are held primarily by the citizens of Wisconsin).

The potential for localization of economies, as MIT economist Paul Krugman argues, is likely to grow as Americans spend proportionately more of their income on services and less on manufactured goods. Scholars at Princeton's Center for Energy and Environmental Studies have documented that Americans and western Europeans consume fewer raw materials as GNP rises.[39] U.S. steel use per dollar of GNP has dropped to the same level it was at in 1880.[40] Similar declines can be observed in our consumption of most basic materials including cement, ammonia, chlorine, and aluminum. There are several reasons for this. Advances in technology have liberated products from bulky materials. Cars are increasingly made with composite materials that are stronger, lighter and cheaper than steel. Once an industrial society builds a basic infrastructure and saturates the consumer market with basic appliances like televisions and air-conditioners, the demands for materials like concrete and steel goes down. Repairs to infrastructure and replacements of appliances require fewer materials. Finally, people with rising incomes tend to buy goods with higher levels of technology, such as VCRs, personal computers, software, and medical instruments. The uncoupling of production from bulk materials diminishes the former advantage of locating a factory near natural resources. And this opens up more opportunities for community corporations anywhere to produce a greater variety of goods.

These changes, Krugman argues, are moving the U.S. economy inexorably toward what he calls localization. "A steadily rising share of the work force produces services that are sold only within that same metropolitan area. In 1894 Chicago's base employment was probably more than half the total—that is, more than half the workers were hogbutchers, steelworkers, etc., making the distinctive wares Chicago sold to the world. In Los Angeles today that fraction is probably no more than a quarter."[41] Krugman believes that services requiring a high degree of human skill—which are becoming a larger and larger fraction of the nation's economy—will necessarily remain local. "And that's why most people in Los Angeles produce services for local consumption, and therefore do pretty much the same things as most people in metropolitan New York—or for that matter in London, Paris and modern Chicago."[42]

A LOCALIST FRIENDLY TRADE REGIME

In a world of increasingly self-reliant communities, there will still be trade and globe-trotting corporations, though the trade will be in less-essential goods and services, and these corporations will have less power over people's lives. One of the continuing challenges for communities will be how to manage these external forces. Specifically, what kind of global trade regime would best serve the interests of community?

Only a handful of advocates of self-reliance believe that communities should be permitted to place tariffs on outside goods. To make a local protectionist system work, goods-confiscating checkpoints would be needed at every community entrance. Such measures turn out to be either repressive or silly. If border policing is weak, smart producers gladly set up shops that sell foreign goods just past the borders and smart consumers gladly frequent the border stores. Protectionism also carries a moral hazard. Fox, Arkansas, is a rural county where the anti-liquor laws have remained in effect because of persuasive lobbying by its main church. A closer look, however, reveals that the county is hardly dry, since liquor stores on the borders do a thriving business. Rumor has it that the liquor stores contribute generously to the church's lobbying efforts.

The basis for the strategies discussed in the previous section such as local investment, local purchasing and local employment should be enlightened consumer choice, not ham-fisted government coercion. Consumers should be free to save, buy or hire as they see fit. In a self-reliant community they will see a value in local preferences and make choices accordingly. And their local government will be proud to set a positive example with its own choices. The municipality might raise standards for business concerning wages, working conditions, environmental protection, and community ownership, but these would be applied in a nondiscriminatory way to all businesses operating in the community—local, national and foreign.

The U.S. Constitution actually embraces this vision. Current court doctrines prohibit state or community governments from putting tariffs on outside goods, services, investors, and businesses, but allow localities to enact a wide range of nondiscriminatory laws that impinge on commerce. The key is that state regulations must be applied evenhandedly on local and non-local economic players. In 1978, for example, Maryland passed a law banning companies that produce and refine petroleum products from operating any retail service station within the state.[43] Exxon, an out-of-state corporation that faced the prospect of having to sell off thirty-six gas stations, challenged the law as an unconstitutional impediment on interstate commerce. The U.S. Supreme Court upheld the Maryland law, even though 95 percent of the companies excluded from operating gas stations were out of state.

Modern constitutional law also requires that state and local laws may infringe on commerce only if their purpose is to promote community health, safety and welfare. The Supreme Court, following this doctrine, has invalidated several state laws limiting the length of trucks when the safety rationales for the laws were not clear.[44] But examples of judicial intolerance of state and local lawmaking are rare and getting rarer all the time. In various cases the Supreme Court has viewed all of the following state or local goals as falling within the ambit of "health, safety and welfare": "maximizing the financial return to an industry within [a state];"[45] requiring that "produce packaged in the State be packaged in a particular kind of receptacle;"[46] protecting a state's "citizenry in matters pertaining to the sale of foodstuffs;"[47] "promoting conservation of energy and other natural resources and easing solid waste disposal problems;"[48] and legislating "against what are found to be injurious practices in their internal commercial and business affairs."[49] Any state and local government with competent counsel, who can make a credible case about how a proposed law will serve public health, safety and welfare can pretty much legislate as it pleases.

Another recent development in U.S. constitutional law is that state and local governments are now permitted to legislate on behalf of not only "health, safety and welfare" but also local business interests, at least when they act in the capacity of a "market participant." This probably means that municipalities can invest, purchase and hire locally.

All of these careful balances, however, were shattered by the recently signed Uruguay Round of the General Agreement on Tariffs and Trade. As a result, now that the World Trade Organization (WTO) is operating, it places profound new restraints on state and local governments—but **none** on corporations. The new WTO gives private enterprises license to relocate factories and to sell products practically anywhere and substantially limits the power of public institutions to regulate these transactions. It weakens the power of legal authorities at any level to guarantee the safety of goods and services. It forecloses many possibilities for public bodies to enter the marketplace as buyers, sellers, producers, or financiers. It promulgates new rules governing trade and product regulation without democratic decision-making or rudimentary due process. And it says virtually nothing about protecting workers, the environment or communities. In short, it creates a global framework for crude, laissez-faire capitalism reminiscent of the depression-prone policies of Herbert Hoover.

Perhaps the most insidious feature of the WTO is that it systematically strips communities of powers they could otherwise use to protect themselves against the adverse effects of the global economy and to promote community corporations. Here are some examples:

- Product Regulation. The WTO essentially sets ceilings, not floors, for local laws concerning product safety. The Agreement on the Application of Sanitary and Phytosanitary Measures, which governs the regulation of food and beverages, requires a national government to adopt international standards, unless it can demonstrate a "scientific justification" for tougher standards.[50] The Agreement on Technical Barriers to Trade places similar rules on measures that regulate "all products, including industrial and agricultural products."[51] Unfortunately, the "scientific" standards and cost-benefit protocols recognized by the WTO are set by Codex Alimentarius and other bodies that are heavily influenced by the industries they are supposed to regulate.[52] Since the U.S. national government is obligated to press state and local governments to modify their laws to conform to international standards, the practical result is that looser international standards have the potential to displace stronger national, state and local ones.

- <u>Targeted Subsidies</u>. The Agreement on Subsidies and Countervailing Measures bans communities from offering financial assistance to business. It prohibits not only subsidies *per se* but also loans, loan guarantees, tax abatements, guaranteed purchases, in-kind contributions, and price supports.[53] One part of the agreement prohibits subsidies that cause "injury to the domestic industry of another Member," "nullification or impairment of benefits accruing directly or indirection to other Members under the GATT 1994" or "serious prejudice to the interests of another Member."[54] "Serious prejudice" may be found if subsidies exceed five percent of the value of the firm, if subsidies cover operating losses of an industry or a firm (beyond a one-time bailout), if the government forgives a debt, or if the effect of a subsidy is to "displace or impede" the imports or exports of another Member or to create "significant price undercutting."[55] Since almost any subsidy can have some effect on foreign imports or exports, these provisions could prevent not only targeting local government support for community corporations, but also possibilities for public ownership of factories, banks, stores, or services.
- <u>Selective Investment</u>. The WTO leaves some community investment choices intact, but not all. The General Agreement on Trade in Services allows public-employee pension funds to be invested locally. But selective investment of surplus city revenues, however, might be viewed as a prohibited subsidy. A subsidy, under the agreement, includes a "[g]overnment practice [that] involves a direct transfer of funds (e.g., grants, loans, and equity infusion)."[56]
- <u>Selective Contracting</u>. The WTO limits some state government purchasing and contracting decisions, though not those of local governments. The Agreement on Procurement sets out specific rules concerning the bidding, negotiating and acceptance of public contracts. According to Article 3, Section 1, government agencies may not discriminate against foreign providers of products, suppliers and services or against other signatories to the agreement. A strict interpretation of

this provision would forbid "Buy American" rules. Had it been in effect during the 1980s and had South Africa been a signatory of the agreement, it also would have outlawed the policies of various state agencies that did not allow firms tied to the apartheid system to bid on public contracts. Every country signing the Agreement on Procurement specifically lists "sub-central government entities" it deems covered by the agreement[57] and the United States thus far has convinced thirty-nine state governments to sign on. The Office of the U.S. Trade Representative has taken the position, unofficially at least, that unlisted states and state agencies are not covered, but that once a state signs in, it cannot change its mind and leave.[58]

- Local Labeling. The Agreement on Technical Barriers to Trade covers not only technical regulations and standards but also "packing, marking and labeling requirements."[59] Community labeling practices that induce consumers to purchase local goods could be found to contravene the WTO's requirement that "products imported from the territory of any Member shall be accorded treatment no less favourable than that accorded to like products of national origin and to like products originating in any country."[60] Encouraging local production and consumption is not considered a legitimate objective of regulation. Other kinds of community labeling requirements that demand identification of, say, whether a product is made from recycled materials or from child labor, also might be open to challenge.
- Local Currencies. The General Agreement on Trade in Services states that "each Member shall accord to services and service suppliers of any other Member, in respect of all measures affecting the supply of services, treatment no less favourable than that it accords to its own like services and service suppliers."[61] A community-run currency system, which nearly forty U.S. communities are implementing to encourage local buying and selling, could be interpreted as a discriminatory banking service if a local authority plays a role in issuing currency or setting rules of exchange to induce community members to buy local (and not international).
- Local Resource Conservation. Only some kinds of community initiatives to promote sustainable use of natural resources are now acceptable under the WTO. Nondiscriminatory regulations and taxes are permitted, but subsidies or tax breaks for local resource producers are not. Foreign aluminum or paper producers could challenge local subsidization of a recycling program on the grounds that it was adversely effecting their exports. Canadian exporters of oil, gas or electricity could attack U.S.

> community conservation programs or publicly owned utilities. Foreign food exporters might be able to convince U.S. courts to invalidate local government expenditures designed to induce consumers to buy local grains, fruits and vegetables.

No one can say for sure whether the WTO will operate in the onerous ways suggested above. Like any statute, a treaty must be interpreted by courts and dispute-resolution bodies at the international, national, state, and local level. Technically, only a member country can bring a complaint against a U.S. local law. If a WTO panel decides that the law is impermissible under the treaty, the United States can appeal the decision. If an appeal fails, the locality has sixty days to decide whether to repeal the law or to face trade sanctions.

These checks and balances, under closer scrutiny, turn out to be illusory. WTO panels are made up of trade experts who, true to their neoclassical philosophies, have little or no sympathy for an economics of place. It is telling that one of the first decisions to be handed down by the WTO held that U.S. environmental standards on gasoline cleanliness placed unjustifiable burdens on imports of more polluting Venezuelan and Brazilian gasoline.[62] Decisions can only be appealed if the more than 120 other signatory nations **unanimously** agree to reverse. In other words, appeals are virtually impossible.

The Clinton Administration helped sell the Uruguay Round to Congress by emphasizing that no U.S. law can be overturned by a foreign country or corporation using a U.S. court. Only the U.S. Trade Representative can do so, with the permission of the president of the United States. This is technically true, but doesn't much matter. If, say, several aluminum producers decide to challenge New York City for subsidizing its recycling industry, will the president of the United States risk tariffs on all U.S. imports of aluminum? Recent history suggests that when it comes to global trade, federal bureaucrats are likely to be more sympathetic with the fantasy of a global free market than with the pesky pleadings of community groups.

The U.S. Trade Representative soon may be put to the test over state and local sanctions against firms doing business in Burma. In 1990 a brutal military junta called the State Law and Order Restoration Council (SLORC) annulled the election and threw leading democracy supporters, including the popularly elected leader, Suu Kyi, into prison. In 1996 the state of Massachusetts and more than a dozen cities decided to retaliate. They refused to enter contracts or purchase goods from companies with significant operations in Burma. Trade officials in Japan and the European Economic Community, whose companies were among those most affected, were fearful that these boycotts could spread to other states and cities as the sanctions against South Africa did in the 1980s.

They warned U.S. officials that if they didn't preempt these laws, they would file a complaint before the WTO. Agents of the U.S. Trade Representative shuttled back and forth to Massachusetts to convince Governor William Weld to repeal the sanctions, but the state held firm. The U.S. government then imposed light sanctions on Burma, banning future investment in the country. But the real purpose of these sanctions may well have been to lay the groundwork for the federal government to quash the Massachusetts law.

This may be just a sneak preview of what's in store for state and local governments. A new Multilateral Agreement on Investments, which sought to create another international institution within the 29-nation Organization for Economic Cooperation and Development (OECD) that is even more powerful than the WTO, was recently derailed. But many observers believe that it will be revived through the WTO and could have devastating impacts on local-government policies designed to promote local self-reliance. Municipal subsidies, bonds, loans, or tax abatements could not be restricted to community-friendly corporations. Banks, insurance companies and pension funds could not be required to reinvest locally. Limitations on corporate mobility like mandatory notice periods before shutdown would be invalid and enforcement would be more onerous.

Even if the MAI never comes into force and the president ignores WTO rulings, state and local laws may be in trouble. U.S. judges have an alarming habit of deferring to free trade in unpredictable ways. If a case arises between private parties on one set of issues, a court might still use the WTO to make pronouncements even without the presence of the U.S. Trade Representative. In the 1971 case of *Bethlehem Steel v. Board of Commissioners*, for example, the California Court of Appeals invalidated the state's "Buy American" Act (which mandated that state and local government agencies purchase goods and enter contracts with U.S. firms, if possible), partially on the ground that it violated the GATT.[63] There was no explicit language in the GATT at that time that banned government purchasing preferences, no special provisions in the national legislation that implemented the GATT and no declarations by the president or the State Department that Buy American Acts were contrary to U.S. foreign policy. Instead, the California court read between the lines of the treaty, shouted a few cheers for free trade and wiped out the state law. We may be entering an era in which courts throughout the world err on the side of free trade and interpret trade agreements in ways least favorable to communities.

Just as trade itself is not inconsistent with local self-reliance, a global trade agreement **could** be constructed that was friendly to communities. It would have to be built upon six principles that each would depart significantly from the WTO, MAI, and other trade regimes.

The first principle would be to set minimum standards for corporate behavior concerning product safety, worker rights and wages and environmental protection. International guidelines mandating the disclosure of crucial pieces of corporate information, such as its history of plant closures, would also be helpful. Over time, international rules might move in the direction of the social democracies and outlaw monopolist and oligopolist behavior, hold trustees and managers criminally liable for egregious acts and require that a certain percentage of seats on every board be held by labor and community representatives. The central tenet of most trade agreements—that corporations should be free and public institutions constrained—needs to be reversed. Corporate charters should not be seen as natural rights that live in perpetuity, but as public privileges, contingent upon responsible behavior by corporations in every community they affect.

A second principle is that standards enunciated by trade agreements should be floors, not ceilings, for regulation. Any nation, state or locality that wishes to enact higher minimum wages, tougher environmental standards or more rigorous information-disclosure requirements should be free to do so. The only trade test should be the one posed by the commerce clause of the U.S. Constitution—are the regulations being applied evenhandedly to foreign and domestic firms? If so, the regulation should stand.

A third principle is that selective investment and selective contracting by public bodies should be left entirely free of the rule of the commerce clause. Just as corporations, non-profits, churches, and individuals may decide where to invest, whom to contract and what to purchase, so should states and municipalities. (Opponents of local government boycotts like Earl Fry would never endorse similar limitations on the purchasing and investing behaviors of business.) It seems perverse that neoclassical economists touting the central importance of "choice" would deny legitimate political authorities the ability to make market choices.

A fourth principle is to allow government subsidies, except in the rare instance when they are being used purposefully to destroy international competition. Some economists have long pointed out that Americans should applaud decisions by other nations to subsidize their industries. Every foreign subsidy means cheaper products for American consumers and the opportunity to consume more or to invest the savings in our own industries. If the Japanese want to sell $10 television sets, why refuse to buy them? The popular counter-argument—that as soon as the Japanese wipe out the U.S. television industry, they'll raise prices and gouge American consumers—overlooks the fact that whenever television prices exceed competitive levels, American investors once again will have incentives to set up television manufacturers. Only in instances where it is very costly to set up a competitive television factory, where economies of scale are very high, will Japanese subsidies successfully squelch competition. And it makes more sense to outlaw these very specific instances of predatory behavior through global antitrust laws than to eliminate all public interventions in the marketplace. Subsidies are essential tools for responsible governance, especially where markets fail. Moreover, if a national, state or local government wishes to support certain industries, provide incentives for certain kinds of research and development or underwrite certain types of consumption, it should be free to do so. Whether the costs of such subsidies are worth the benefits ought to be up to each community. Many subsidies, of course, are foolish and have adverse economic and ecological consequences. Yet the massive injections of government capital into industry in China, Japan, Singapore, South Korea, and Taiwan—all of which have grown into formidable competitors—suggests that subsidies, especially if carefully targeted and time-limited, can have important economic payoffs. Every elected government should be permitted to make its own mistakes.

A fifth principle is that community self-reliance should be seen as a legitimate objective of government regulation, just as local health, safety, morality, and environmental protection are (or should be). If communities use labels and local currency to make it easier for their citizens to identify and purchase local goods, they are not really infringing on trade; they are simply helping consumers to choose with full information about the origin of the goods. Moreover, public investments that enable local resources to be used more efficiently or recycled do not forbid outside imports of energy, water or food; they merely are making it unnecessary and unattractive for consumers to rely on such imports.

A sixth principle is that no national or international rules of trade should be adopted unless communities are part of the process. A system of fair representation would ensure that the voices of all people, and not just those of special interests, are heard. All decision-making would be open. Dispute-resolution procedures would respect standards of due process, with reasonable possibilities for appeal.

It is certainly possible to conceive of a global trade regime that comported with these six principles. This kind of agreement would eliminate tariffs and most other barriers to trade and create a code of conduct for corporations, yet still allow communities to shape their own economies. The regime produced under the Uruguay Round, however, does none of these things. It amounts to a corporate bill of rights that respects none of these principles. A major task for communities seeking self-reliance, therefore, is to lobby national officials to undo the Uruguay Round, to derail the MAI and to enact an alternative global trade regime that does protect community power.

TOWARD A NEW GLOBALISM

Traditional critics of neoliberalism have long hoped to rein in capital mobility through a global corporate code of conduct. The idea circulated around the anterooms of the United Nations for years and became a standard demand in proclamations by nonaligned and Third World countries. The UN Center for Transnational Corporations even drafted such a code, but global corporations fought back with a vengeance. *The Wall Street Journal* and other conservative media pilloried these efforts, and at the United States' insistence, the UN Center was dismantled. The result is that global institutions are now promoting corporate freedom through the World Trade Organization rather than corporate responsibility through the United Nations.

Even if this kind of centralized approach to corporate responsibility is moribund, it is possible to conceive of a social charter drafted and implemented at the grassroots level. Imagine hundreds of communities worldwide coming together, formulating a standard code of conduct for corporations, setting up a central clearinghouse of information on corporate behavior, and agreeing to invest in or purchase products from responsible corporations. There could be a global "Good Community-keeping Seal," in which a consortium of communities and non-governmental organizations (NGOs) graded corporate behavior. Only those corporations that were responsible to their workforce, community base and ecosystems would receive passing grades. A self-reliant community ultimately might strive to trade only with other communities committed to adhering to this global grading system. Global trade would continue, but only among partners committed to a community-centered vision of commerce. One consequence of this strategy might be the emergence of two global blocs of communities, each following different economic paradigms and each doing business with different corporations. The Neoliberal Bloc of Communities might enjoy cheaper goods and higher rates of return off their investments, but also would have to endure deteriorating working conditions, environmental collapse and community instability. The Socially Responsible Communities' (SRC) Bloc might wind up paying higher prices for a higher quality of life, though the evidence that social responsibility renders firms less competitive is hardly clear. Even though the communities and corporations in the latter bloc would start out in the minority, over time, as more workers in the Neoliberal Bloc lost jobs and pay, as problems from pollution and unsafe products multiplied, as ecology, labor, and social change organizations emerged to respond to these problems, more and more neoliberal communities and corporations would probably begin to choose a better quality of life over obsolete notions of economic efficiency. The mere existence of an alternative bloc would give politicians and activists committed to place a concrete goal for organizing.

The beginnings of such interlocal collaboration can already be seen in the emerging "fair trade" movement, in which buyers in developed countries purchase goods directly from producers in poor countries.[64] In the Netherlands, more than 300 communities and eleven (of twelve) provincial governments are buying "solidarity coffee" from small coffee growers in countries like Guatemala and Nicaragua, at a slightly higher price to ensure that the growers receive enough income to make a decent living. By circumventing middlemen, who usually take a huge share of the profits, fair traders are able to sell coffee beans to mainstream roasters and distributors at a competitive price. Shoppers can identify solidarity coffee because it bears the "Max Havelaar" seal of approval. In just four years, solidarity coffee captured over two percent of the coffee market in the Netherlands and, along with solidarity tea and cocoa, is being introduced into Belgium, France, Germany, Luxembourg, Switzerland, and the United Kingdom.

There are now 500 "Third World shops" in Germany, 300 *Wereldwinkels* (world shops) in the Netherlands and twenty "Third World houses" in Denmark, many of which receive financial support from local authorities. These stores sell crafts, clothing and other goods from poor countries, with little or no mark-up in price. Items are purchased from people or cooperatives in the South that pay livable wages and provide decent working conditions. Displays and literature inside the shops help educate customers about the production of the goods and profits are sometimes used to support education about the global economy. Such shops also can be found in the United States, though much of the fair-trade business here is transacted by mail order through companies like One World Trading and Pueblo to People.

The SRC Bloc, cemented through fair trade and institutionalized with dues from member cities, would help resolve many of the remaining challenges of going local. For example:

- Scaling Up Businesses. To be globally competitive, some types of business still require a scale larger than what's possible in most small communities. To provide goods like computers or automobiles associated with large economies of scale, the SRC Bloc might create regional alliances of small, locally owned businesses. In northern Italy, locally owned firms involved in flexible manufacturing networks have been exporters of high-tech products like robotic arms. Of the 90,000 manufacturing companies in the Emilia-Romagna region, 97 percent employ fewer than fifty employees.[65] A network typically forms temporarily to create a specific product for a well-defined "niche" market. Participating firms pool their resources and share the risk. Once the project is complete, the network disbands. Following successful models in Europe, more than fifty flexible manufacturing networks have been set up in the United States.[66]

- Diversifying Investment Portfolios. Communities that try to set up pension, insurance and other kinds of equity funds committed to local reinvestment will find resistance among conventional investors, who traditionally fear that any geographic focus is risky and exposes the portfolio to unforeseen regional downturns. These risks are probably overstated. The South Shore Bank in Chicago has demonstrated that by making home-improvement loans to several thousand dwellings in a single, impoverished neighborhood, it could pump up the value of all the property and reduce the risks and potential costs of default. Careful investment in interconnected local businesses might achieve similar synergies. Four labor-sponsored investment funds in Canada now invest more than $3 billion in provincially based businesses (which meet the fund's criteria for being eco-, labor-, and community-friendly) and have achieved rates of return—according to a survey done by one fund—that have left 87 percent of the investors satisfied.[67] Nevertheless, to the extent that concerns about the risk of geographic focus remain, the SRC Bloc might encourage cross-investing between community-based funds or develop a secondary market that trades in securitized shares of such funds.
- Spreading Self-Reliance Technologies. One important function of the SRC Bloc would be to transfer innovations in technology and policy that foster self-reliance, especially to the poorest communities in the world that desperately need a new approach to sustainable development. The city-state of Bremen in Germany, for example, has been spreading biogas technology to help communities become more self-reliant on energy. Since 1979, it has co-sponsored three biogas conferences, financed a technical newsletter called *Biogas Forum* and supported demonstration projects through the Bremen Overseas Research and Development Association (BORDA). Over the 1980s it spent over $300,000 to spread biogas digesters in communities in Mali, Ethiopia and Tanzania. The SRC Bloc might help the development of similar networks to spread state-of-the-art windmills, photovoltaic cells, water-conservation systems, small-scale recycling plants, and grey-water sewage treatment facilities.
- Exchanging Local Currencies. The proliferation of local money systems ultimately raises the question of how trade between such systems can

proceed. The SRC Bloc might create a clearinghouse or market in which these currencies could be bought and sold. An attractive additional feature would be to impose on all such transactions a Tobin Tax, which would place a small fee (perhaps a tenth of one-percent) on exchanges and thereby discourage short-term speculation.

- Lobbying Global Officials. For many years to come, key economic decisions affecting the viability of community self-reliance will be made in global institutions like the World Trade Organization, the World Bank and International Monetary Fund, Codex Alimentarius, and the International Labor Organization. The SRC Bloc should try to influence those bodies, just as the captains of community-destroying corporations do now. For smaller communities that cannot afford to hire outside lobbyists, the development of a collective lobbying apparatus which they could support through dues would be welcome. The U.S. Conference of Mayors and the National League of Cities, which in principle could play a role here, have been little more than cheerleaders for the global economy.
- Coordinating Campaigns. The SRC Bloc ultimately would seek to change the minds and behaviors not only of government officials but also consumers worldwide. It would be able to coordinate global campaigns against particularly misbehaving companies, industries or countries. Even without centralized coordination, such campaigns have demonstrated enormous impact. It is safe to say that had twenty-seven states, twenty-five counties and 101 cities in the United States—mounted alongside campaigns from hundreds of other communities worldwide—not divested from firms doing business in South Africa, apartheid might still be in place and Nelson Mandela still in prison. Through greater coordination, such campaigns could prove to be a major instrument by which cities could promote democracy and social justice worldwide.

All these examples demonstrate how the quest for self-reliance need not lead to isolation. Nothing will spread pro-community economics faster than collaboration among cities committed to self-reliance. Communities around the globe need to share information about what is working in community banking, local currencies, urban agriculture, renewable energy production, and so forth. The International Council of Local Environmental Initiatives (ICLEI), based in Toronto, now has 266 cities, each paying an average of $2,000 in dues to share technology and policymaking for ecological protection. The United Towns Organization (UTO) in Paris and the International Union of Local Authorities (IULA) in The Hague are promoting interlocal collaboration on sustainable development. Other global networks of cities are fighting for human rights, arms control and corporate responsibility. As more communities plug into the World Wide Web and use other forms of telecommunications, this kind of global information-sharing and collaborating should become easier and cheaper.

FINAL THOUGHTS

One of the most shameful shibboleths of our time is that communities have only two choices—either go global through community-wrecking trade or go local through globe-wrecking trade barriers. In fact, neither choice is desirable, or necessary. As underscored by the classic work of Robert Keohane and Joseph Nye, Jr., global relationships are only beneficial if they promote interdependence without vulnerability.[68] Today's free-trade system leaves communities vulnerable to volatile global markets that are making sudden catastrophes the rule and freeing globe-trotting corporations that are steadily eroding wages and environmental standards. No community mindful of its quality of life and committed to maximizing the local economic multiplier can continue down this path, business as usual.

By becoming as self-reliant as possible, communities can then engage with the world from a position of strength and prosperity. And by linking up with other like-minded communities worldwide through a Bloc of Socially Responsible Communities, they can forge a new kind of globalism. The universe of possible interlocal initiatives by self-reliant communities is limited only by our imagination.

Major turning points in human history have been defined by critical struggles. The Renaissance was a struggle between those who embraced myth and superstition and those who sought empirical truth. The eighteenth and nineteenth centuries witnessed a struggle between monarchs who clung to power by birthright and democrats who believed in the natural rights of all people to self-governance. The twentieth century has seen a struggle over the definition of progress, between social engineers who seek to conquer nature and ecologists who seek to achieve balance with it. The great struggle of the twenty-first century will be between those who believe in cheap goods and those who believe in place.

This is a struggle that defies easy ideological definition. Advocates of cheap goods now dominate the major political parties and run nearly every City Hall in the country. But across the political spectrum are dissidents who worry about the costs to nature, to families and to communities. They are asking whether the future of civilization and humanity must be defined by an unlimited need to consume.

Most of us know in our hearts that there's far more to life than the next sale at the shopping mall. We long for deeper connections with our families and our neighbors. We are desperate for a sense of place in which we can nurture culture and take pride in our history. We work long hours to bequeath to our children and grandchildren the kinds of home-grown economies that keep delivering prosperity. It seems reasonable that a growing number of communities will insist on a global agenda that comports with these values rather than tears them apart.

ENDNOTES

[1] This and the following survey data are summarized on the web site of Public Citizen (www.citizen.org/pctrade/FastTrack/poll.htm).
[2] Lester Thurow, "Preface," in Todd Schafer and Jeff Faux, *Reclaiming Prosperity: A Blueprint for Economic Reform* (Armonk, New York: M.E. Sharpe, 1996), p. xi.
[3] Earl Fry, "The Expanding Role of State and Local Governments in U.S. Foreign Affair," Paper Prepared for the Annual Meeting of APSA, 3 September 1998.
[4] Paul A. Samuelson and William D. Nordhaus, *Economics*, 12th ed. (New York: McGraw-Hill, 1985), p. 4.
[5] Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987), p. 192; and William R. Cline, *Trade Policy in the 1980s* (Washington, DC: Institute for International Economics, 1983), p. 5.
[6] Paul Krugman, *Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations* (New York: Norton, 1994), p. 241. With typical braggadocio, Krugman adds: "Yet in fact the economists are mostly right in their attitude."
[7] A minority of economists also have emphasized the role of historical accident, cumulative learning, and "path dependency" in explaining why certain nations have selected one specialized industry and not another. See Paul Krugman, *Rethinking International Trade* (Cambridge, MA: MIT Press, 1990); Paul Krugman, ed., *Strategic Trade Policy and the New International Economics* (Cambridge, MA: MIT Press, 1986).
[8] Samuelson and Nordhaus, *supra* note 4, p. 836.
[9] *Ibid.*, p. 865.
[10] George Leland Bach, *Economics: An Introduction to Analysis and Policy*, 7th ed. (Englewood Cliffs, NJ: Prentice-Hall, 1971), p. 627.
[11] Alperovitz and Jeff Faux, *Rebuilding America: A Blueprint for the New Economy* (New York: Pantheon, 1984), pp. 142-43.
[12] *Ibid.*, p. 149.
[13] Gar Alperovitz argues that "distribution of income has worsened, step by step (as it is doing now) throughout most of the 20th Century — except when interrupted by significant war, postwar boom, or depression collapse." "The Era of Fundamental Stalemate...and the Possibility of a Long 'Reconstructive' Revolution in America" (unpublished paper, 1992).

[14] Kevin Phillips, *The Politics of Rich and Poor* (New York: Random House, 1990), p. 13 (Chart 2).
[15] Paul Krugman, "The Right, the Rich, and the Facts," *The American Prospect*, Fall 1992, p. 22.
[16] *Ibid*., pp. 24-25.
[17] Herman E. Daly & John B. Cobb, Jr., *For the Common Good* (Boston: Beacon, 1989), pp. 209-35.
[18] David Ricardo, *Principles of Political Taxation and Economy*, reprinted in J.R. McCulloch, *The Works of David Ricardo* (London: John Murray, 1888), p. 77.
[19] Lawrence Mishel and Jared Bernstein, *The State of Working America (1994-95*) (Armonk, NY: M.E. Sharpe, 1994), p. 359 (Table 8.20).
[20] Paul R. Krugman and Robert Z. Lawrence, "Trade, Jobs and Wages," *Scientific American*, April 1994, pp. 44-49.
[21] Doug Henwood, "Does Globalization Matter?," *In These Times*, 31 March 1997, p. 16.
[22] Richard J. Barnet and John Cavanagh, *Global Dreams: Imperial Corporations and the New World Order* (New York: Simon & Schuster, 1994).
[23] Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944).
[24] *Ibid*, pp. 154-55.
[25] Johan Galtung, "Towards a New Economics: On the Theory and Practice of Self-Reliance," excerpted in Paul Ekins, ed., *The Living Economy: A New Economics in the Making* (London: Routledge, 1986), p. 101.
[26] Kirkpatrick Sale, "Self-Sufficiency," in Jonathan Greenberg and William Kistler, *Buying America Back* (Tulsa: Council Oaks Press, 1992), p. 558.
[27] *Ibid*.
[28] See, e.g., Jacques Ellul, *The Technological Society* (New York: Knopf, 1964).
[29] Joseph Persky, David Ranney, and Wim Wiewel, "Import Substitution and Local Economic Development," *Economic Development Quarterly*, February 1993, p. 18.
[30] Jane Jacobs, *The Economy of Cities* (New York: Vintage, 1969), pp. 145-79.
[31] *Ibid*., p. 157.
[32] Persky, Ranney, and Wiewel, *supra* note 29, p. 19.
[33] Thomas Michael Power, *Environmental Protection and Economic Well-Being* (Armonk, NY: M.E.Sharpe, 1996), pp. 155-80.
[34] *Ibid*., p. 155.
[35] *Ibid*., p. 194.
[36] Jacobs, *supra* note 30, p. 161.
[37] Persky, Ranney, and Wiewel, *supra* note 29, p. 19.
[38] Richard Douthwaite, *Short Circuit* (Devon: Resurgence, 1996), pp. 228-29.
[39] Eric D. Larson, "Trends in the Consumption of Energy-Intensive Basic Materials in Industrialized Countries and Implications for Developing Regions," Paper for the International Symposium on Environmentally Sound Energy Technologies in Milan, Italy, 21-25 October 1991.
[40] *Ibid*., p. 2.
[41] Paul Krugman, *Pop Internationalism* (Cambridge, MA: MIT Press, 1997), pp. 211-12.
[42] *Ibid*., p. 213.

[43] *Exxon Corp. v. Governor of Maryland*, 437 U.S. 117 (1978).
[44] See, e.g., *Raymond Motor Transportation, Inc. v. Rice*, 434 U.S. 429 (1978), and *Kassel v. Consolidated Freightways Corp.*, 450 U.S. 662 (1981).
[45] *Pike v. Bruce Church*, 397 U.S. 137, 143 (1970), citing *Parker v. Brown*, 317 U.S. 341.
[46] *Pike v. Bruce Church, ibid*., citing *Pacific States Box and Basket Co. v. White*, 296 U.S. 341.
[47] *Hunt v. Washington Apple Advertising Comm'n*, 432 U.S. 333, 350, *citing Florida Lime & Avocado Growers, Inc., v. Paul*, 373 U.S. 132, 146 (1963).
[48] *Ibid*., at 473.
[49] *Lincoln Federal Labor Union v. Northwestern Iron & Metal Co*, 335 U.S. 525, 536 (1978).
[50] Agreement on SPS, Sections 6 and 9.
[51] Agreement on TBT, Sect. 1.3.
[52] Codex meetings held between 1989 and 1991 involved more than 2,500 participants; approximately 25 percent came from industry and only 1 percent came from public interest groups. Eighty-one percent of the "nongovernmental" representatives on national delegations also came from industry. Reported in Tim Lang and Colin Hines, *The New Protectionism: Protecting the Future Against Free Trade* (New York: The New Press, 1993), p. 101.
[53] Agreement on SCM, Article 1.1(a)(1) and (2).
[54] *Ibid*., Article 5.1.
[55] *Ibid*., Article 6.1 and 6.3.
[56] *Ibid*., Art. 1, 1.1 (a)(1)(i).
[57] Agreement on Government Procurement — Addendum, GPR/74/Add.1, 6 January 1994.
[58] Lori Sherman, U.S.T.R. Office, Personal Communication, 17 March 1994.
[59] Agreement on TBT, Preamble.
[60] *Ibid*., Article 2.1.
[61] GATS, at Art. 17, Sect. 1. This provision is limited to "sectors inscribed in [a signatory nation's] schedule."
[62] Alan Tonelson and Lori Wallach, "We Told You So: The WTO's First Trade Decision Vindicates the Warnings of Critics," *The Washington Post*, 5 May 1996, p. C4.
[63] 276 C.A. 2d 221, 80 Cal.Rptr. 800.
[64] Drawn from Michael H. Shuman, *Toward a Global Village: International Community Development Initiatives* (London: Pluto Press, 1994).
[65] Susan Meeker-Lowry, "Flexible Manufacturing Networks," *In Business*, September/October 1992, p. 38.
[66] The Appalachian Center for Economic Networks, "Integrating Business Incubators with Community Economic Development Strategies" (unpublished paper, 1992), p. 1.
[67] Sherman Kreiner and Kenneth Delaney, "Labour-Sponsored Investment Funds in Canada" (monograph) (Winnepeg, Canada: Crocus Fund, 1996).
[68] Robert O. Keohane and Joseph Nye, Jr., *Power and Interdependence*, 2nd Ed. (Glenview, IL: Scott, Foresman, 1989).

MULTI-LEVEL GOVERNANCE: GERMAN FEDERALISM AND THE EUROPEAN UNION

Renate Mayntz

INTRODUCTION

Every hierarchy is a multi-level system, but not every multi-level system is a hierarchy. This holds for German federalism as well as for the European Union: both are non-hierarchical multi-level systems in which the lower level units, i.e., the European member states and the German federal states, respectively, are not subordinate to the next higher level, but enjoy independent powers. European-level decisions need the agreement of the member states, just as decisions of the federal government often need the consent of the regional states. If the distribution of powers among the different levels in a multi-level system defines its degree of hierarchization, the European Union is, of course, even less hierarchized than the German Federal Republic. What type of governance emerges if one non-hierarchical multi-level system such as federal Germany becomes incorporated into a larger non-hierarchical multi-level system such as the European Union? This is the question this paper attempts to answer.

GERMAN FEDERALISM

A federal constitution always involves the existence of two political levels with autonomous decision-making powers, but the distribution of these powers between national and regional authorities differs significantly between such federal states as the U.S., Switzerland and Germany. In Germany, most taxes are raised in a unitary system and subsequently distributed among national and regional authorities (with the latter passing on some of the funds to local governments). The legislative autonomy of the *Länder*, the federal states, is restricted, most legislative powers being vested in the federal parliament, while the *Länder* are responsible for policy implementation in most areas. The *Länder*, however, participate in the federal legislative process through the second chamber, the *Bundesrat*, whose consent is required for all legislative proposals touching upon *Länder* interests. The members of the *Bundesrat* are not, as are American senators, elected by the population, but represent the *Länder* governments, commanding between three and six votes per *Land*. The distribution of powers between national and regional authorities in Germany, which has been dubbed "participatory federalism" (*Beteiligungsföderalismus*; e.g., Scharpf 1992), requires a considerable amount of both horizontal and vertical cooperation. The German constitution, the Basic Law, stipulates vertical cooperation for a number of specified tasks, but the real need for coordination is substantially larger and has led to the growth of a dense network of permanent bodies, planning groups and temporary task forces where federal and *Länder* representatives engage in joint decision-making (Goetz 1995; Voigt 1998). This vertical cooperation produces at the same time new incentives for horizontal cooperation among the *Länder*, because it is easier for them to prevail in negotiations with federal representatives if they present a unified front.

CONSEQUENCES OF EUROPEAN INTEGRATION

Though the German *Länder* were formed several years before the founding of the Federal Republic, it did not take very long before the balance of power appeared to shift increasingly toward the national level. The lack of sufficient financial resources constrained the *Länder* to seek federal support even for infrastructure tasks that fell properly into their own jurisdiction. In this way, the federal government came to obtain codecision powers also in areas not initially designated as joint tasks; the promotion of scientific research is a prominent example.

The apparent tendency toward a decrease in *Länder* autonomy was accelerated when the process of European integration started. From the very beginning, European integration—which meant first of all market integration—was a matter to be negotiated among sovereign nations who presumably were fully represented by their national governments. Since in Germany most legislative powers rest with the federal parliament, it may appear at first sight that a shift of power to European authorities should not concern the *Länder*. However, with domestic policy becoming increasingly an object of intergovernmental negotiation at the European level, leading to the formulation of binding European norms and distributive programs, the shift of power to Brussels meant that the German *Länder* lost previous chances of influencing the legislative process through the *Bundesrat* (Scharpf 1992), while they continued to be responsible for the implementation of European law. Moreover, it was not only federal powers that were shifted to Brussels. Article 24 of the German Basic Law entitled the federal government to transfer not only its own, but also *Länder* competences to international bodies, without having to seek previous approval by the *Bundesrat*. Thus during the 1970s and 1980s, the European Community acquired a number of tasks that directly intervened in autonomous *Länder* domains, such as regional development, broadcasting and environmental protection (Luthardt 1996, 297).

It therefore became the aim of the *Länder* to extend their right to participate in federal decision processes in order to gain influence on European policy decisions affecting them. Since 1957, when the Treaties of Rome were ratified, the federal government has had to inform the *Bundesrat* about important developments at the European level and the *Bundesrat* could express its opinion on such matters, but there existed no legal basis constraining the federal government to heed such views (Hrbek 1997). Demands for real codecision rights for the *Länder* were formulated in 1976 by the Enquête-Commission on Constitutional Reform, but though the federal government agreed in principle to these demands, no effective participatory procedure existed. One reason may have been the evident tension between the demands of the *Länder* and the need of the federal government to be able to act quickly and flexibly in European negotiations (Luthardt 1996).

The first tangible improvement came with the ratification of the Single European Act in 1986. The *Länder* obtained specified information rights from the federal government, and were to be involved in developing federal policy positions in European negotiations on issues touching upon *Länder* interests. Thus, the federal government was now required to ask the opinion of the *Bundesrat* before it agreed to a European policy decision, to heed this opinion and to justify itself before the *Bundesrat* in cases where it decided to deviate from an officially expressed *Bundesrat* view (Hrbek 1997, 15).

These rights were formalized and even extended in 1992, when the coincidence of German unification and the ratification of the Maastricht Treaty made changes in the German Basic Law necessary. With the new version of Article 23, the Basic Law provides a constitutional basis for the participation of the German *Länder* in the European policy process by making the federal contributions to this process contingent upon prior *Länder* approval (Voigt 1998, 98). In particular, Article 23

- stipulates that the *Bundesrat* must approve the shift of power to the European Union (as it is formally called since Maastricht) where such a shift involves provisions in the Basic Law;
- contains detailed rules about the information duties of the federal government *vis-à-vis* the *Länder* and concerning the need to obtain *Bundesrat* approval for decisions on EU matters touching upon *Länder* interests; and
- permits that *Länder* executives represent the Federal Republic in European negotiations directly involving *Länder* interests.

To be able to fully utilize its participatory rights, the *Bundesrat* has formed a so-called *Europa-Kammer*, a standing committee for European policy questions that is empowered to make binding decisions on pressing issues between plenary meetings. In fact, however, this body has remained largely inactive. The regular *Bundesrat* Committee for European Affairs meets every three weeks, with up to forty items on its agenda (Hrbek 1997, 17).

The *Länder*, however, were not content to exert influence on European policy through the federal government alone. Already during the 1980s, they started to establish so-called information offices of their own in Brussels, which soon assumed lobbying functions. In the middle of the 1990s, the average staff working in these offices consisted of seven people, ranging from a minimum of three to a maximum of twenty-four (Luthardt 1996, 302). Since 1985 there also exists a European Regional Association that tries to represent specific regional interests *vis-à-vis* the EU. But the autonomous German *Länder,* who have the quality of states and thus differ substantially from sub-national, regional units (e.g., in France, Britain or Italy), were slow to join and attribute importance to this association (Hrbek 1997, 8).

The *Länder* also sought an official representation within the Brussels decision-making machinery (Tomuschat 1995). Largely upon the initiative of the German *Länder*, a new body, the Committee of the Regions, was established in 1993. Though the German *Länder* lobbied for something like a European Chamber of the Regions, with official codecision rights analogous to the German *Bundesrat*, the Committee of the Regions can operate only in an advisory function; however, its view **must** be heard on certain issues. Partly due to its large size (Germany alone has twenty-one members in this body!) and its heterogeneous composition (all kinds of regional sub-units, including local self-governments, are represented), the committee has not been able to gain much influence on European policymaking (Hrbek 1998, 126).

In consequence of these various adaptations, it appears that the German federal system, and in particular the balance between regional and national powers, has not undergone substantial changes due to European integration. If anything, vertical cooperation between the two governmental levels has increased, reinforcing the already dense network of joint decision-making bodies and procedures. But this does not yet answer the question about governance in the multi-level system composed of the German Federal Republic and the European Union, to which I now turn.

THE EMERGENCE OF A MULTI-LEVEL, PUBLIC/PRIVATE NEGOTIATING SYSTEM

There exist important differences between the relations of the EU to its member states on the one hand, and between the German federal government and the *Länder* on the other hand. To use the terms employed by Beate Kohler-

Koch (1998), Germany is both a “compound” and a “unit,” characterized by a viable balance between the contrasting principles of regional autonomy and national unity. This does not hold at the European level, which is still much more of a “compound” than a “unit.”

At the level of the EU, there exists no institution analogous to the German federal government, nor an institution analogous to the German *Bundesrat* as a second, regional chamber. The European Council, which sets general policy goals for the Council of Ministers, is composed of the chiefs of government of the member states. The Council of Ministers is in fact a set of different councils dealing with specific policy areas—foreign relations, economic and financial matters, etc.; it is the highest decision-making organ in the EU. Within each task area, the council members—the corresponding ministers of the member states’ governments—represent different autonomous territories. In this particular respect, the European Council and the Council of Ministers resemble more the German *Bundesrat* than the German federal government. The fact that there exists no higher level **political** authority in the EU, i.e., a government that has emerged from a general election and that its lower level territorial units can and must confront *en bloc*, means that an important constraint is missing that would induce the member states to engage in horizontal consensus-building. In a way, the Council itself has characteristics of both a regional chamber and of a national government, and this makes for an entirely different dynamic in policymaking. Instead of being constrained to agree among themselves on substantive issues, the Council members’ main concern must be the management of **intergovernmental** relations. It must solve conflicts of interest between different member states, rather than conflicts arising from task interdependencies.

If the Council represents mainly the interests of the member states, there are other institutions that do represent the **unit** “Europe” and specifically European interests. The most powerful of these institutions is the Commission, a supranational bureaucracy that enjoys considerable regulative powers and the right to initiate policy by making proposals to the Council. In addition, there are the European Court of Justice and the European Parliament. However, territorial interests, i.e., the “compound logic” permeates these institutions, too. National governments appoint the judges of the European Court of Justice as well as the commissioners, who virtually act as departmental ministers. In assigning task areas to the commissioners from different countries, care is taken to have these assignments reflect the relative weight of their home countries. The members of the European Parliament, finally, are elected by national electorates from among the candidates put up by national parties.

Implied in what has been said about the functions of the Council and the Commission is another salient difference to the governance system in democratic nation states: At the European level, there is no clear separation of power between legislative and executive functions. Instead there reigns what Vivien Schmidt (1997) has called a "dynamic confusion of powers." The Council of Ministers has more legislative powers than the European Parliament (that may choose neither the members of the Council, nor the Commissioners!). Executive powers, in turn, rest mainly with the Commission (while—as in the German federal system—the member states are responsible for the implementation of European law). Thus, at the European level we find neither a clear institutional division between the opposing principles of "central government" (logic of the unit) and "member state autonomy" (logic of the compound), nor between legislative and executive functions. European governance is characterized by a pronounced horizontal dispersion of functions that creates special coordination needs and blurs clear distinctions between contrasting logics; whether such blurring facilitates or rather impedes the necessary balancing of contrasting needs is still an open question.

Both the importance attributed to the representation of territorial interests and the tendency to mix, rather than to separate institutionally different decision-making logics are very clearly expressed in the famed Brussels "comitology." To safeguard the primacy of national interest representation *vis-à-vis* a Commission that pursues substantive policy goals, a host of committees to which the member countries delegate representatives have been attached to the Commission—the so-called comitology (Dogan 1997; Hofmann and Töller 1998). Committee members come largely from the national bureaucracies (in Germany, the federal ministries); in part they are scientific experts chosen by the national executives. There are by now hundreds of such committees not shown on an official organizational chart, which however are more or less heavily involved in the norm-setting and decision-making process of the Commission. The practice of comitology links the national and the European bureaucracies by a dense tissue of joint decision-making—denser possibly than the linkage between the national and the regional level in federal Germany. In this way, the logic of intergovernmental negotiation is injected into the Commission, the very institution that otherwise serves as "unit"-oriented counterweight to the dominant "compound"-logic of the Council.

The non-existence of a proper European government such as we find in all parliamentary democracies (and hence in all EU member states) is of course closely connected with what is widely being debated as the European democracy deficit (Scharpf 1992). The basic principle of democratic decision-making is by majority vote. The majoritarian decision-making that is typical of a party democracy is a form of governance distinct both from hierarchical control and from negotiation. A party system which implies majority rule has, *ceteris paribus*, a higher decision-making potential than a federal system where powers are divided, requiring cooperation and consensus building. Majority rule is the decision-making style typical of an integrated political community. However, notwithstanding the regulative power of the Commission, the EU is (still) much more of a "compound" than a "unit": It is no integrated political community, and quite fittingly, political parties do not play a big role in the policy process. The EU, as Beate Kohler-Koch (1998) puts it, ". . . is, by nature, a non-majoritarian system." In fact, the majority principle has been accepted only recently for certain Council decisions—but only in the form of a qualified majority with a very high quorum.

In Germany, which is both a federal system and a parliamentary democracy, there may exist a tension, even a certain contradiction between the principle of federalism, which presupposes a relatively high sub-unit autonomy, and the principle of a parliamentary party democracy based on nationwide majorities (Lehmbruch 1976). But a party system spanning both levels may also serve to unblock some of the effects of joint decision-making (Renzsch 1998). In the EU, which it is not structured according to the principles of a parliamentary democracy, political parties cannot fulfill such a function. Though national parties of like or similar orientation have joined forces and form parliamentary party-groups in Strasbourg, there exist no European parties with a European-wide basis of members and sympathizers. More than is the case even in the German federation, therefore, decision-making in the EU is by negotiation, based on consensus formation, and must lead to compromise solutions.

Policymaking at the national level often involves not only political, or at any rate public, actors. In pluralistic as well as in neo-corporatist systems of governance, organized interests play an important role in the formulation and occasionally also in the implementation of policy. In fact, it is widely accepted that a cooperative type of governance, i.e., policymaking in mixed public/private interorganizational networks, has become the dominant form in many European countries (Mayntz 1996, 151-162). This is particularly true of Germany, where interest organizations are even formally entitled to be heard in the early phases of policy development which normally takes place within the federal ministries. A very similar policymaking style is found to dominate in the EU. However, while there is a multitude of networks involved in EU policymaking in which organized interests play an important role, the relatively clear-cut triangles of capital, labor and government representatives typical of neo-corporatism are not found at the European level. Streeck and Schmitter (1991) accordingly speak of "transnational pluralism" rather than neo-corporatism in characterizing the role of organized interests in European policymaking.

There is a considerable variety of organized interests active on the European scene (Grande 1996). There are, for one thing, interest organizations of European scope which have emerged with the progress of European integration. While some of these organizations are but federations of national associations, there are others with their own transnational membership base. In addition, powerful **national** associations also try to exert influence. Thus, the two top-level German industrial associations, the BDI (federal association of German industry) and the BDA (German employers' association) are both members in UNICE, the European association of national associations of industry, but both also have their own offices in Brussels. In addition, important industrial branch associations have formed European associations in which, occasionally, large firms can be individual members. This, for instance, holds for the European association of the chemical industry, CEFIC. Of course, the German chemical industry is also represented within BDI and BDA. The German labor union congress, DGB, itself an association of individual trade unions, is a member in the European trade union congress ETUC. In addition to national labor organizations, the ETUC also counts sectoral trade union associations of European scope among its members. The German metal workers union, IG Metall, for instance, is a member both of the DGB and of the association of European metal workers unions, both of which are represented in the ETUC.

In contrast to the more balanced representation of capital and labor on the national level, economic interests play a clearly dominant role in policy networks at the European level. This obviously reflects the dominant substantive policy focus of the EU, but is reinforced by the impact of financial and economic globalization which increases the importance of industry as a major target sector of both national and European policy. In addition to trade and employers associations of both national and European scope, the large firms who operate in Europe (even if as multi-nationals they extend beyond Europe) are influential actors not only on the national, but also on the European scene. Aside from trying to promote individual firm interests, the top managers (CEOs) of nearly fifty large corporations form a collective actor, the European Roundtable of Industrialists, where an important segment of the transnational capitalist class meets to work out a consensus on economic policy goals which they attempt to impress on EU as well as national policymakers (Apeldoorn 1998).

Another special feature of European policymaking is the important role played by scientific and technical experts advising the Commission. Often, these experts are employed by organized interests, who need specialist expertise to present their case successfully. In principle, this "scientification" of policymaking is not much different from what happens at the national level, but the weight of information and argument, in contrast to political pressure, appears to be even greater within the rather technocratic style typical of policy development in the Commission. The fact that a multitude of experts is active on the European scene is quite in line with the quest for legitimation through performance that is to offset the deficit in democratic legitimation (Scharpf 1998, 164). In many ways, it seems that the Eurocrats in the Commission are better able to resist the pressure of organized interests because they can always point to the need to take divergent national interests into account, in addition to contrasting sectoral interests. Edgar Grande has called this the "paradox of weakness" (Grande 1996, 329).

The outstanding feature of European governance that emerges from the foregoing description seems to be the existence of a dense network of vertical, horizontal and public/private relations in which policy is developed and conflicts are resolved. Beate Kohler-Koch accordingly characterizes the governance structure of the EU as a "network system." In part, this type of governance reflects the origin and purpose of the European Union, which was not created as a kind of super-state, not even a federal one. In part, however, this fragmented, intricately meshed and multi-dimensional network structure is the result of a growing pressure for **entry** on the part of various types of actors. The more powerful and munificent the EU gets, the more it becomes the target of pressure groups of all sorts. On the other hand, these networks can help to improve the acceptance of EU decisions where they include representatives of target groups or groups affected by these decisions; the same, incidentally, holds for the inclusion of scientific experts in EU decision-making.The Commission itself has lately increasingly engaged in "networking" and in coordinative activities (Grande 1996, 322-324). As Tömmel (1998) points out, new policy instruments are being introduced by the Commission, at least in part in view of the growing resistance of member states, regional sub-units and functionally defined target groups to a further intensification of the regulative and distributive EU activities. Thus, instead of formulating very detailed norms such as it previously preferred, the Commission is now often content to develop framework laws that permit adaptation to different national needs and abilities (e.g., in environmental policy). The Commission also uses promotional instruments, information and persuasion to give new impulses, as for example in its campaign for benchmarking. Finally, to facilitate the (often deficient) implementation of programs, the Commission has entered into direct contact with sub-national agencies, as in the case of pilot projects of regional structure policy. Commission activities of this type do not need the approval of the Council and serve the Commission's self-defined need to maintain its level of activity.

CONSEQUENCES OF THE EU MODE OF GOVERNANCE

From the foregoing description of the European governance structure it can be concluded that the need for coordination and consensus-building is extraordinarily high in EU policymaking, which means that the danger of falling into the joint-decision trap (Scharpf 1988) looms large. In contrast to such a conclusion, Benz (1998) has argued that in the European multi-level system, decision blockages and a low problem solving effectiveness (due to the need to look for the lowest common denominator) are in fact observed relatively rarely. According to Benz, this follows from certain structural features of EU governance as described above, in particular the fact that **institutionalized** linkages do not dominate, coordination being largely informal, and the fact that in addition to political actors representing the member states and to the Commission bureaucracy, many other kinds of public as well as many private/societal actors participate in the EU policy process. Using a distinction introduced by Goetz (1995) in analyzing German federalism, a large part, if not most of these European networks are negotiating systems of the cooperative type. "Cooperation," according to Goetz, characterizes networks where entry and exit is voluntary, decisions are based on consensus, nonconformity cannot be sanctioned and there is typically no domain monopoly. In contrast, "interlinkage" (*Verflechtung*) characterizes formalized negotiating systems with a monopoly domain in which membership is compulsory, where decisions are produced by majority voting and are binding (i.e. nonconformity can be sanctioned); this is what Scharpf (1997, 124-135) has called compulsory negotiation systems. Even within the federal German system, the latter type of negotiating system is rarer than the former, but within the three-tier system composed of sub-national, national and European agents, "cooperation" clearly dominates "interlinkage." And while interlinkage easily leads into the joint-decision trap, cooperation has a better chance of arriving at viable compromises. The ability to produce joint decisions with a certain problem solving potential is supported by a practice to which Neyer (1998) has pointed: instead of searching for a substantive consensus, decision-makers in EU policy networks attempt to establish first a jointly accepted procedure. Goals are deliberately left vague so as to cover diverging interests, but procedures for their ad hoc specification and for conflict resolution are fixed.

The multitude of cooperative negotiating networks linking the different tiers and sectors of the European multi-level system are mostly of a sectoral or program-specific nature and they are only loosely coupled among each other (Benz 1998). Decision fields are separated and often only informally linked by actors enjoying a certain leeway for their decisions. Thus, the loose coupling among a multitude of sector-specific policy networks permits liaison persons and mediators to play an important role and offers the chance of using new kinds of strategies, such as building advocacy coalitions, shifting problems up, down or sideways and using one's own lack of authoritative decision power as a defense against unwelcome claims (Grande 1998). The loosely-coupled nature of this network of cooperative networks makes for flexibility and self-organization. On the other hand there is the danger that local problem-solving and negative coordination dominate to the disadvantage of integrated policy schemes. The loosely coupled, sector-specific, public/private networks increasingly escape central control. The political leadership of the member states no longer represents the whole bundle of substantive national interests.

Another feature of EU governance that makes for flexible adaptation is the fact of frequent task sharing. The German federal system is characterized by lower level **participation** in higher level decision-making, rather than by genuine task **sharing** and hence an overlapping of functions (though there is a certain amount of such overlap, too). The EU, in contrast, cannot monopolize any substantive policy area and enjoys legislative priority (in the sense that European law breaks national law) only in the field of market integration. In spite of the often-criticized regulative furor of the Commission, most of the EU's task areas are shared with national governments. Accordingly there exists a much higher degree of overlap in policymaking functions which are not allocated exclusively either to the EU or to its member states. This means that in many fields, both the Commission and national governments engage in policymaking, without necessarily being forced to coordinate themselves. Since the same holds for the German *Länder* in policy areas where they possess shared competences with the federal government, apparent policy contradictions may result, for instance, when in the field of industrial policy, the EU attempts to strengthen European industry against U.S. competition, the German federal government sponsors cooperative projects with the U.S. to enhance competitiveness versus the Far East, and the *Land* Northrhine-Westfalia tries to attract Japanese investors (Grande/ Häusler 1994, 505-506). But what appears as contradictory may in fact signify flexible adaptation in a situation where multiple goals are being pursued. In such situations—and they may well be the rule rather than the exception—it would be dysfunctional to try and maximize one single goal, or goal aspect, to the exclusion of everything else.

The very looseness of this structure, combined with a significant amount of functional overlap, should make it relatively easy for member states that differ in their political constitution and socio-economic composition to participate in the EU policy process. The EU governance structure provides access points for all kinds of actors—for national and sub-national authorities, for large firms, scientific institutions and organized interests of different scope, and even for less well-organized social collectivities. However, the institutional make-up of the member states constrains the mode of vertical integration they choose. In a comparative study of France and the Netherlands, Harmsen (1999) shows that the politico-administrative systems of these two countries adapt to the pressures of European integration in a manner that reflects the different domestic institutional structures. In the heavily centralized French system, a generalist body at the height of the administrative hierarchy—the SGCI (*Sécrétariat Général du Comité interministériel pour les questions de coopération économique européenne*)—coordinates not only the French policy inputs into European decision processes, but tries to anticipate the consequences of pending European legislation and to influence such legislation so as to maximize its compatibility with French practices. In the Netherlands, in contrast, whose administrative system is characterized by a high degree of sectoral autonomy and which puts a high value on the achievement of a broad consensus, a concentration of powers to deal with European affairs has been studiously avoided. Instead, interministerial committees have assumed the key role in the domestic coordination of European policy inputs. In Germany, where the principle of departmental autonomy (*Ressortprinzip*) is equally pronounced, we also find no counterpart to the French SGCI. German input into the European policy process is normally prepared by the competent ministries—except where controversial issues have become highly politicized and conflict solution is shifted upwards to the cabinet. And similar to the Dutch case, there is a highly developed system of interministerial coordination—for European matters as well as for domestic policymaking.

The argument concerning the vertical integration of national administrative systems into the European policy process can, however, be generally applied to national governance systems as a whole. As Vivien Schmidt (1997, 1998) has emphasized, EU integration puts more strain on the national governance systems of some member states than on that of others, being particularly disruptive to unitary states. For a federal system like the German one, a system where, moreover, organized interests are used to being involved in the policy process, it is relatively easy to be tied into the European multi-level system without suffering undue structural strain. In a federal system, the national government does not enjoy monopoly power to begin with; it is used to sharing powers and to negotiating. The same holds for a “cooperative” state such as Germany, a state used to negotiating with organized interests. For these reasons, the **differences** between the German and the European governance modes that have been highlighed in the previous section, significant though they are, are still less than the differences between, for example, the French and the European modes of governance. In a full description of European governance this should be taken into account, in order to avoid a possibly too "integrationist" view.

REFERENCES

Benz, Arthur, 1998: *Politikverflechtung ohne Politikverflechtungsfalle - Koordination und Strukturdynamik im europäischen Mehrebenensystem*. In: Politische Vierteljahresschrift 39, 558-589.

Dogan, Rhys, 1997: *Comitology: Little Procedures with Big Implications*. West European Politics 20 (3), 31-60.

Goetz, Klaus H., 1995: *Kooperation und Verflechtung im Bundesstaat. Zur Leistungsfähigkeit verhandlungsbasierter Politik*. In: Rüdiger Voigt (ed.), Der kooperative Staat: Krisenbewältigung durch Verhandlung? Baden-Baden: Nomos, pp. 145-166.

Grande, Edgar, 1996: *The State and Interest Groups in a Framework of Multi-Level Decision-Making: The Case of the European Union*. Journal of European Public Policy 3, 318-338.

Grande, Edgar, 1998: *Regieren in verflochtenen Mehrebenensystemen: Forschungsstand und Forschungbedarf*. Paper, presented at the conference *Wie problemlösungsfähig ist die EU? Regieren im europäischen Mehrebenensystem*. Munich, October 1998.

Grande, Edgar, Jürgen Häusler, 1994: *Industrieforschung und Forschungspolitik. Staatliche Steuerungspotentiale in der Informationstechnik*. Frankfurt/Main: Campus.

Harmsen, Robert, 1999: *The Europeanization of National Administrations: A Comparative Study of France and the Netherlands*. Governance 12 (1), 81-113.

Hofmann, Herwig C.H., Annette E. Töller, 1998: *Zur Reform der Komitologie - Regeln und Grundsätze für die Verwaltungskooperation im Ausschußsystem der Europäischen Gemeinschaften*. Staatswissenschaften und Staatspraxis 9, 209-239.

Hrbek, Rudolf, 1997: *Die Auswirkungen der EU-Integration auf den Föderalismus in Deutschland*. In: Aus Politik und Zeitgeschichte, supplement to the weekly Das Parlament B24/97, pp.12-21.

Hrbek, Rudolf, 1998: *Ansatzpunkte für eine Revitalisierung des deutschen Konkurrenz-Föderalismus im Rahmen des EU-Systems*. In: Ursula Männle (ed.), Föderalismus zwischen Konkurrenz und Konsens. Baden-Baden: Nomos, pp. 121-130.

Kohler-Koch, Beate, 1998: *The Evolution and Transformation of European Governance*. In: Beate Kohler-Koch, Rainer Eising (eds.), The Transformation of Governance in the European Union. London: Routledge, forthcoming.

Lehmbruch, Gerhard, 1976: *Parteienwettbewerb im Bundesstaat*. Stuttgart etc.: Kohlhammer.

Luthardt, Wolfgang, 1996: *Europäischer Integrationsprozeß, deutscher Föderalismus und Verhandlungsprozesse in einem Mehrebenensystem: Beteiligungsföderalismus als Zukunftsmodell*. In: Staatswissenschaften und Staatspraxis 7, pp.293-316.

Mayntz, Renate, 1996: *Politische Steuerung: Aufstieg, Niedergang und Transformation einer Theorie.* In: Klaus v. Beyme, Claus Offe (eds.), Politische Theorien in der Ära der Transformation. Opladen: Westdeutscher Verlag, 148-168.

Neyer, Jürgen, 1998: *Die Problemlösungsfähigkeit deliberativer Supranationalität.* Paper, presented at the conference *Wie problemlösungsfähig ist die EU? Regieren im europäischen Mehrebenensystem.* Munich, October 1998.

Renzsch, Wolfgang, 1998: *Parteien im Bundesstaat. Sand oder Öl im Getriebe?* In: Ursula Männle (ed.), Föderalismus zwischen Konsens und Konkurrenz. Baden-Baden: Nomos, 93-100.

Scharpf, Fritz W., 1988: *The Joint-Decision Trap: Lessons From German Federalism and European Integration*. Public Administration 66, 239-278.

Scharpf, Fritz W., 1992: *Europäisches Demokratiedefizit und deutscher Föderalismus.* In: Staatswissenschaften und Staatspraxis 3, pp.293-306.

Scharpf, Fritz W., 1997: *Games Real Actors Play. Actor-Centered Institutionalism in Policy Research.* Boulder Co.: Westview Press.

Scharpf, Fritz W., 1998: *Demokratie in der transnationalen Politik.* In: Wolfgang Streeck (ed.), Internationale Wirtschaft, nationale Demokratie. Herausforderungen für die Demokratietheorie. Frankfurt/Main: Campus, 151-174.

Schmidt, Vivien A., 1997: *European Integration and Democracy: The Differences among Member States.* Journal of European Public Policy 4, 128-145.

Schmidt, Vivien A., 1998: *National Patterns of Governance under Siege: The Impact of European Integration.* In: Beate Kohler-Koch, Rainer Eising (eds.), The Transformation of Governance in the European Union. London: Routledge, forthcoming.

Streeck, Wolfgang, and Philippe Schmitter, 1991: *From National Corporatism to Transnational Pluralism: Organized Interests in the Single European Market.* Politics and Society 19, 133-164.

Tömmel, Ingeborg, 1998: *Jenseits von regulativ und distributiv: Policy-Making der EU und die Transformation von Staatlichkeit*. Paper, presented at the conference *Wie problemlösungsfähig ist die EU? Regieren im europäischen Mehrebenensystem.* Munich, October 1998.

Tomuschat, Christian (ed.), 1995: *Mitsprache der dritten Ebene in der europäischen Integration: Der Ausschuß der Nationen*. Bonn: Europa Union Verlag.

Van Apeldoorn, Bastiaan, 1998: *Transnational Class Strategy and European Governance: The Case of the European Rond Table*. Manuscript, European University Institute.

Voigt, Rüdiger, 1998: *Die dritte Ebene im Bundesstaat. Zur horizontalen Selbstkoordination der Länder*. In: Axel Görlitz, Hans-Peter Burth eds. Informale Verfassung. Baden-Baden: Nomos, pp.85-109.

SOCIAL DEMOCRACY, GLOBALIZATION AND GOVERNANCE: WHY IS THERE NO EUROPEAN LEFT PROGRAM IN THE EU?

Christopher S. Allen

INTRODUCTION

This article addresses the issues of governance and globalization through the prism of the recent alignment of thirteen of the fifteen EU governments on a center-left axis. Following the election of the Gerhard Schröder-led Red-Green government in September 1998 in Germany, all of the four major EU countries had left of center heads of government. This apparent shift to the left took place in the context of continued globalization, increased power gravitating toward Brussels and away from European national capitals and the introduction of the Euro which, at the very least, has meant decreased national control over fiscal and monetary policy (Berger and Dore 1996; Keohane and Milner 1996). To put it differently, this movement of voters toward left of center governments in Europe was also a response to the broader "democratic deficit" discussion that has resonated among these countries since the true magnitude of Europeanization was first perceived over a decade ago (Bulmer 1994).

In the early 1990s, a period of upswing on the perennial "Euro-optimism vs. Euro-pessimism" axis, many analysts thought that European left-wing governments had been rendered irrelevant by market hegemony and the assumption that a rising European tide would lift all boats (Hall 1998; Anderson 1995). The costs of Europeanization combined with the realization that market-based outcomes did not produce universal and widespread benefits to all sectors and regions of Europe (Hooghe and Marks 1996), and the exhaustion of several right and center-right governments all caused an apparent shift to the left in most of Europe in the late 1990s.

Was this apparent shift accompanied by a change in governance structures among the leading European democracies? Did the apparent shift to the left by these countries' governments suggest a more direct challenge to the perceived loss of sovereignty that globalization represented? While these governments call themselves "left," what does "left" and "social democracy" mean at the turn of the century? What are these movements actually proposing (Huber and Stephens 1998)? If they are issues such as political accountability, the democratic deficit (Bulmer 1994) and a response to globalization that retains some semblance of national capacities to influence—if not control—internationalizing markets, then we may have to seriously reassess what "left" means in the European context (Weiss 1997).

But why **should** we expect that thirteen countries with some social democratic element in their governments be in a position to coordinate policy? First of all, the interest constellations in the thirteen member states may just be too various for effective coordination, clearly a possible outcome. But another point, and one especially interesting for this volume, is the degree to which common frameworks **create** the possibilities for interest alignment. That is to say, is the coordination problem a matter of policy preferences or a common machinery of governance? The answer may be some of each.

This article is divided into two sections. The first suggests that the rocky beginnings of the Gerhard Schröder Red-Green German government have had more to do with a lack of focus and vision toward globalization and governance issues than mere "teething pain" of a newly installed coalition. The second portion of the article questions the policy goals of the Schröder government—and by implication, left-wing governments throughout the EU. It suggests that this rare "planetary alignment" of fraternal political movements had a unique—if extremely fleeting—opportunity to address the larger issues of globalization and democratic governance. It has failed to do so and may represent a golden opportunity missed to rethink the capacities of national governments to develop more politically accountable democratic representation.

The larger goal of this article is to provoke discussion and research on what role leftist political movements can actually play. Is it even reasonable to expect such a group of nation-states to develop innovative forms of cross-national governance? Or are new and/or revised forms of representation and governance beyond traditional nation-state models needed, as suggested by the earlier articles in this volume from Reinicke/Witte, Hueglin, Shuman, and Mayntz? Given the history of post-World War II social democracy, one might expect to see a unified group of European left-wing governing parties stress a common set of goals. For example, cooperation would not be surprising on issues such as developing European-wide policies to deal with structural unemployment, overcoming regional disparities, preventing the erosion of the provision of a wide range of collective and public goods associated with post-WWII European political life (Esping-Andersen 1990), and mobilizing democratic and progressive forces to modify and/or create democratic and accountable European institutions that could effectively address these policy areas. Instead we see Labour and social democratic leaders such as Tony Blair and Gerhard Schröder stressing "third way" programs that emphasize responding to global market outcomes rather than trying to shape them via new forms of governance. Are these the only options that these social democratic leaders see? Is it feasible to expect them to do anything different?

LIMITED VISION, MISSED OPPORTUNITIES

Conventional wisdom prior to the September 1998 German elections suggested that SPD/Green policy prescriptions would follow one of two directions. One path would see the SPD follow its pre-election search for *die neue Mitte* and continue on a Blair-like path of moderation and a "reining in" of left-wing SPD elements (Braunthal 1996). The other path would see the Greens, the junior coalition partner, make an "extremist" push for the immediate closure of all nuclear power plants and for huge increases in fuel taxes. Were either of these predictions to prove correct, the political implications would assume an inability to find common ground and an ineffective, unstable coalition that wouldn't seem to promise a long tenure.

Some of these predictions have proved rather prescient. The new Schröder government faced strenuous opposition regarding its electoral platform of liberalizing immigration and, partially as a consequence, suffered the loss of Hesse to the CDU-FDP in a *Landtag* election in February 1999, the first of many local and regional elections lost by the Red/Green coalition throughout 1999. Schröder also backpedaled on the nuclear power issue to the consternation of the Greens by stretching out the timetable for the phasing out of this power source. In some ways, the loss of the *Länder* elections made it easier for Schröder and the SPD to moderate their positions on these issues, since the Greens lost electoral support and were not in as strong a political position to press their considerable objections. As a result the new government has been perceived—correctly or incorrectly—as lacking decisiveness. With the Kosovo crisis a further wedge was driven between SPD and Greens—and between *Realo* and *Fundi* factions within the Greens. Chancellor Schröder wanted to see a Germany with more European responsibility, while Joschka Fischer, the foreign minister and leader of the Greens, faced withering criticism from *Fundi* forces at the party's conference in May 1999.

On economic issues, there was initially less divisiveness between the two coalition partners than was originally feared, but this policy area also eventually proved difficult for Schröder. Throughout the better part of the first six months of the new coalition government, both parties supported a common economic program that that produced little fundamental opposition among the two parties (*SPD Parteivorstand* 1998). The persistence of high structural unemployment focused both parties on pushing forward several programs expected of left governments.

Early critics of the SPD-Green government believed that the Achilles heel of the coalition would be incompatible economic goals. Yet until the spring of 1999, it was in economic issues—if not in other policy areas—that the SPD-

Green government apparently was grounded in progressive policies that could address the challenges of globalization and the democratic deficit. Until that point, SPD-Green proposals represented a modest, moderately left-wing position in the context of the politics of the late 1990s, but this apparently smooth course proved illusory.

The largest shock to the Red-Green coalition within the first six months of the government came with the resignation (or purging?) of SPD party leader and finance minister Oskar Lafontaine. In the short run, the removal of the left-leaning Lafontaine assuaged the financial community and seemed to remove a growing point of contention between the two party rivals. Schröder wanted to take more moderate positions while Lafontaine wanted to seize the opportunity that a left-wing coalition promised—to develop progressive, expansionary economic policies. The latter's removal from both his cabinet and party positions seemed to produce *die neue Mitte* and a Clinton/Blair economic moderation that pre-election pundits had forecast. This was followed by a major retrenchment in the generous provisions of the German welfare state, which provoked widespread protest among usually supportive SPD constituencies, accompanied by continued regional and local election losses for the coalition amidst seriously declining electoral turnout among core Red/Green constituencies.

Yet, this view of Schröder gently easing out a leftist rival in order to find moderate positions and thereby make the new German government less threatening to international financial interests misses the forest for the trees. Just as the larger issues of globalization and the democratic deficit continued to fester both in Germany and throughout Europe, segments of the left—in the German case embodied by Lafontaine—were being marginalized (Kitschelt 1999). More seriously, the squandering of Red-Green political capital on making immigration and nuclear power the first two major issues taken on by the new government has taken attention away from the more fundamental issues of democratization and globalization. This observation should not suggest that reforming immigration policy and addressing nuclear power, a fundamental concern of the junior coalition partner, are unimportant or misguided. Rather it suggests the absence of a larger strategic vision that could establish a progressive economic foundation and an institutional structure of democratic governance in a world of globalization. Without such a solid economic foundation, issues such as reforming immigration policy and eliminating nuclear power become even more unattainable.

The second section of this article questions whether Schröder—and his left colleagues elsewhere in Europe—have sold their constituencies short. Have these governments failed to seize a golden opportunity to mobilize these constituencies for newer forms of governance structures to respond to the persistent structural challenges of a mature European welfare state? An opportunity to address such issues will not likely come again soon.

NATIONAL GOVERNMENTS AND GLOBALIZATION: IS THERE A SOCIAL DEMOCRATIC GOVERNANCE MODEL?

Are there opportunities for a wider and more thoroughgoing set of policies that European left governments could pursue or are such governments no longer capable of addressing twenty-first century challenges? What is needed is to step back, look at the big picture of both political party alignments and broader universalizing and democratic goals and see where opportunities might really lie. Let's look first at Germany.

For the first time ever, there is a left majority in the *Bundestag*. All previous experiences with left government in Germany—including the Weimar Republic—saw the Social Democrats constrained by various centrist and right-wing forces. Even in the Brandt and Schmidt coalitions of the 1970s, the role of the FDP curbed more aggressive SPD economic policies such as extension of *Mitbestimmung*. Moreover, when the electoral support of the SPD and the Greens is combined with the PDS vote, there is a popular vote majority—and not just a majority of *Bundestag* seats—for left of center parties. The Schröder government is willing to work informally with the PDS at the *Land* level in eastern Germany because there are no other options except working with the CDU. However, taking the larger step of establishing a "*programme commune*" with the PDS at a national level is still considered *nicht salonfähig* in Germany. Is such a model of left governance completely off the table for Germany?

A surprisingly seldom-asked inquiry is under what conditions might the PDS be included in a coalition of other parties of the left (Betz and Welsh 1995). Mainstream SPD members recoil in horror when even asked the question, yet many of the same SPD *Kanalarbeiter* had a similar response when asked fifteen years ago about a potential coalition with the Greens. What made the Greens unacceptable a decade and a half ago, but acceptable in 1998? There are a couple of short answers and a single larger one that apply both to the Greens and the PDS. First, the newness of the Greens in 1983 and the PDS in the 1990s was (and is) a threat to the SPD's self-perceived hegemony of the democratic left (Markovits and Gorski 1993). To the extent that both the Greens and PDS have played by the democratic rules of the game in contesting elections and functioning like "normal" political parties, the SPD cannot demonize either party as being fundamentally unsuitable as a potential coalition partner. Second, the novelty of both parties having seats in the *Bundestag* has worn off. With it, over time, the uncertainty about dangerous radicalism has disappeared, being replaced with a track record of constituency service and active purposeful debate over public policy. Whether this is due more to the moderation of the leaders of both parties and the marginalization of the more outspoken party members or to the civilizing force of continued participation within democratic structures is not important (Allen 1999). Of greater significance for this article is that there now exist coalition possibilities for the SPD that have never existed before. The party's problem, however, is that it seems unwilling to use all of the ones at its disposal. Why? Has the Schröder government made this choice because it believes *die neue Mitte* of an ever more moderate social democracy is a more effective set of policies? Or has it tempered its options because it would prefer at all costs not to be pulled by these small parties to the left?

The history of German social democracy clearly has not been one of heeding calls to the barricades (Schorske 1983). From its moderation before, during and after World War I through Weimar to its renunciation of Marxism at Bad Godesberg in 1959, the SPD has preferred its role as an *Ordnungfaktor* rather than a *Gegenmacht* (Braunthal 1996). To be sure, the German SPD accomplished much during the Brandt and Schmidt years. Yet, the present era is different because both the political opportunities for fundamental change—a majority left government—and the exogenous global challenges to traditional SPD policy priorities are much greater than during the 1970s. The SPD's real problem is that were *die neue Mitte* to fail, it would have squandered a perhaps once in a generation opportunity to use its left majority and address European-wide issues such as political accountability and the democratic deficit. How exactly do centrist policies as proposed by ostensibly left parties led by Gerhard Schröder and Tony Blair address the democratic deficit, structural unemployment and the erosion of welfare state benefits? There are remarkably few answers to these questions from moderate democratic left leaders.

This inability of the left to coalesce and seize opportunities is also evident among other left and center-left European governments. In one sense this is quite puzzling since all four major EU countries (Britain, France, Germany, and Italy) are governed by left of center coalitions. Combined with all EU governments other than Spain and Ireland, there was in 1999 a historically unique—if brief—political configuration that is unlikely to occur again anytime soon. Despite this alignment, there have been very few systematic attempts—either at the national level among fraternal governments—or at the EU to conceptualize and stake out positions that challenge the hegemony of globalizing market tendencies. Despite the bleating of a few conservative commentators about the threat this move to the left poses to European capitalism, there was remarkably little that seemed radical among these raft of left governments. We address several potential reasons for this. Once this left-leaning political configuration changes, recreating the political conditions to support progressive and democratic responses to globalization will dissipate.

Why should these left governments be so timid in pushing conditions or constraints on the tendencies of globalization, deregulation and continued privatization? To be sure, these forces remain powerful constraints on the limits of left governments (Esping-Andersen 1985). But western Europe is not like other regions of the world facing the power of market forces. Notwithstanding these elections of left-wing governments and coalitions, Europe remains an island of economic stability even with the rocky introduction of the Euro in 1999. European-based businesses complained bitterly over such issues as burdensome regulations, vestiges of nationalized firms and industries that remain in many European countries and generous welfare programs in all EU countries. Yet no large transnational firms seriously contemplated getting out of a market of 350 million people with one currency, a high degree of literacy, high levels of personal consumption, and advanced infrastructure.

What this unique configuration of left-led governments could have done was seize the opportunity to address such serious problems as unemployment, regional economic disparities and the need for qualitative, ecologically-sound economic growth by using their strength to address the “democratic deficit” in the EU. All of these problems have been exacerbated by such phenomena as privatization, deregulation and cross-border mergers of large European and North American firms. Yet these apparently left governments have shown a remarkably tame set of policy prescriptions.

What is the reason for this? Was it a problem of trying to align the diverse domestic interests of thirteen European left-leaning governments or was it a more serious problem of the inadequacy of national governments—of whatever ideological persuasion—to respond to formidable challenges? One obvious conclusion is that to be on the “left” in developed capitalist countries in the midst of globalization is simply not what it used to be. The long two-decade attack on the provision of collective and public goods to democratic nations has taken a powerful toll on parties and movements that call themselves left-wing (Ackerman 1998). The image of left governments in Britain, France, Italy, and Germany either leading the way or acceding to the selling off of nationalized industries and the trimming of welfare state benefits does not suggest a particularly left or progressive set of policies (Camerra-Rowe 1999). Viewed cynically, some might suggest that these “left” governments are not left at all. Furthermore, this argument continues, the only reason they were elected in the first place was that they had been sufficiently “tamed” of their radical rhetoric to be now acceptable to capitalist social forces and interest groups in developed countries.

In essence, these left governments are suffering from something more fundamental than weak and tame policy prescriptions. They are also suffering from a failure of imagination both in terms of ideological vision as well as newer possibilities of governance—both sectoral and sub-national at one level and supra-national at another. In the wake of the Asian economic collapse, even such capitalists as George Soros stress the need for capital controls and the creation of a "new institutional architecture" hitherto supposedly only raised by leftists (Soros 1997). Why couldn't these left governments in Europe use this quite radical suggestion from redoubtable pillars of the private sector to begin a new debate? What should be the relationship between state and market—between private and public sectors—in the context of new or renewed institutional governance structures at the outset of the twenty-first century?

Precisely at a time when European citizens show their concern and unease about globalization and erosion of the power of national governments is the time to begin a serious debate about the relationship between the EU and national governments (Moravcsik 1998). As the shift of fiscal and monetary policies to the European level takes place, it is increasingly hard to maintain the fiction that national governments retain sovereignty—let alone democratic political accountability—in a globalized EU.

Why is the present moment not an opportunity for the Schröder government and left allies in other European countries to initiate a discussion of a fundamentally different set of issues? Among these issues might be a new institutional architecture that includes a European Parliament that is more than an expensive, mobile debating society and the creation of increased forms of participation and democratic engagement in public and private life, particularly in the workplace. These governments had a unique and brief opportunity to lay out a blueprint for change that includes democratic governance in a globalizing world economy. It seems that they have let this moment pass.

REFERENCES

Ackerman, Bruce (1998) "The Broken Engine of Progressive Politics." *American Prospect* 38 (May-June): 34-43.

Allen, Christopher S., ed. (1999) *Transformation of the German Political Party System: Institutional Crisis or Democratic Renewal?* New York: Berghahn.

Anderson, Jeffrey J. (1995) "The State of the (European) Union From the Single Market to Maastricht, from Singular Events to General Theories." *World Politics* 47 (April): 441-465.

Berger, Suzanne and Dore, Ronald, eds. (1996) *National Diversity and Global Capitalism* Ithaca: Cornell University Press.

Betz, Hans-Georg and Welsh, Helga (1995) "The PDS in the New German Party System." *German Politics* 4 3: 92-111.

Braunthal, Gerard (1996) *Parties and Politics in Modern Germany* Boulder, CO: Westview.

Bulmer, Simon (1994) "The Governance of the European Union: A New Institutionalist Approach." *Journal of Public Policy* 13 4:351-380.

Camerra-Rowe, Pamela (1999) "Charting a New Course? German Social Democracy Between European Integration and Party Politics." Paper Presented at the European Community Studies Association, Pittsburgh, PA, June 2-6.

Esping-Andersen, Gosta (1985) *Politics Against Markets: The Social Democratic Road to Power* Princeton: Princeton University Press.

Esping-Andersen, Gosta (1990) *The Three Worlds of Welfare Capitalism* London: Polity Press.

Hall, Peter A. (1998) "Organized Market Economies and Unemployment in Europe: Is it Finally Time to Accept Liberal Orthodoxy?" Paper presented at the, Eleventh International Conference of Europeanists, Baltimore, MD, February 26-28.

Hooghe, Liesbet and Marks, Gary (1996) "Europe with the Regions: Channels of Regional Representation in the European Union" *Publius* 26 (Winter): 73-91.

Huber, Evelyne and Stephens, John D. (1998) "Internationalization and the Social Democratic Model." *Comparative Political Studies* 31: 353-397.

Keohane, Robert and Milner, Helen, eds. (1996) *Internationalization and Domestic Politics* Cambridge: Cambridge University Press.

Kitschelt, Herbert (1999) "European Social Democracy Between Political Economy and Electoral Competition" in Kitschelt, Lange, Marks, and Stephens, (eds), *Continuity and Change in Contemporary Capitalism* Cambridge: Cambridge University Press.

Markovits, Andrei S. and Gorski, Philip (1993) *The German Left: Red, Green and Beyond* Oxford: Oxford University Press.

Moravcsik, Andrew (1998) *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* Ithaca: Cornell University Press.

SPD Parteivorstand (1998) *Arbeit, Innovation und Gerechtigkeit*. SPD Wahlprogramm, Bonn.

Schorske, Carl E. (1983) *German Social Democracy, 1905-1917: The Development of the Great Schism* Cambridge: Harvard University Press.

Soros, George (1997) "The Capitalist Threat." *Atlantic Monthly* February: 45-58.

Weiss, Linda (1997) "Globalization and the Myth of the Powerless State." *New Left Review* 225 (September-October): 3-27.

American Institute for Contemporary German Studies
1400 16th Street, N.W.
Suite 420
Washington, D.C. 20036-2217
Tel: 202.332.9312 Fax: 202.265.9531

ISBN 0-941441-48-2