Abstract

This paper, originally written as an encyclopaedia survey, considers as globalisation all the consequences of the long-term cheapening of, and expansion of the technical possibilities of - transport and communication; a process more or less uninterrupted since the improvements of navigation in the fifteenth century, though recently much accelerated.

It considers five main areas of contemporary discussion:

1. How integrated global markets really are. (Not as much as one might think.)

2. How far globalisation erodes the sovereignty of nation-states, reducing their autonomy in making economic policy. (More for some than for others.)

3. The consequences of globalisation for the distribution of income among the world's population; both among nations (equalising for good learners, not for others) and within nations (generally unequalising).

4. The problematic growth of a transnational 'world society' (slow, probably unstoppable, but still a long way from creating a 'world class system') and international governance (hesitant and more likely to be hegemonic than conciliar).

5. The interaction of national economic, political, military and cultural power, and the possibility and desirability of retaining distinctive national institutions, embodying distinctive national value preferences and cultures. (in the end, as much a matter of neo-liberalism *vs*. social democracy as of the persistence of Germanness or Japaneseness).

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Making Sense of Globalisation

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Introduction

The processes nowadays described as 'globalisation' – the accumulating consequences of 'the annihilation of distance', *i.e.*, the improvement in techniques of, and the rapidly reducing costs of, transportation and communication - have been at work without significant interruption since the improvements in navigation five centuries ago. Already, in the mid-nineteenth century, visionary writers were looking forward to "a single, more or less standardised world where all governments would acknowledge the truths of political economy and liberalism would be carried throughout the globe" (Hobsbawm, 1977, p.83). As Marx and Engels put it in 1848, the bourgeoisie of Europe was drawing "all, even the most barbarian nations, into civilisation. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature" (Marx and Engels, 1848, p.71).

These long-standing processes of globalisation were accelerated in the last decades of the twentieth century as the leading industrial nations competed to increase the research and development expenditure which determines the pace of technological change, and as the world-wide diffusion of free market neo-liberal ideas created the political conditions for opening national economies. But the crystallisation of discussion of those processes around the word 'globalisation' dates from the end of the Cold War when the geopolitical and ideological 'conflict of systems' which until then divided the globe – centrally-planned economies versus market economies: communist world versus capitalist world – came to an end. Of the 271 books in the Harvard University Library in August 2000 whose title included the word 'globalisation', only five were published before 1990 and 85 percent date from the latter half of the decade.

Very little of this literature seeks to use the term 'globalisation' precisely, but the major elements of the concept are:

1. A growth in the proportion of total economic transactions which are international, cross-border transactions, rough indicators of which are the ratio of world trade, and cross-border investment to world GNP. Exports, for instance, are estimated to have grown from 20 percent of world GNP in 1980 to 25 percent in 1998. And the growth was accelerating. For the 1980s GNP grew at 3.2 percent and trade by 5.2 percent per annum. For the first eight years of the 1990s, the figures were 2.4 and 6.4 respectively (World Bank 2000, p.250). For the countries in the OECD, outflows of foreign direct investment which ran on average at 0.5 percent of their GNP in 1981 amounted to 3 percent of their much larger GNP in 1999 (Miyake and Sass, 2000, p.27). The consequent internationalisation of production - *ie,* the share multinational enterprises have in total economic activity - grew at an accelerated rate in the late 1990s. According to the UN's estimates, foreign affiliates of transnational corporations increased their sales by 22 percent from 1996 to 1998, their exports by 27 percent, and their gross value added by 32 percent (all in current values). Their employees grew from 31 to 35 billion. In 1998, they accounted for 7 percent of world GDP and 36 percent of world exports (UNWIR, 1999, p.5).

2. Conceptually separate is the integration of world markets, as measured by the equalisation of

prices and the consequent disappearance of opportunities for arbitrage. As an example of the early stages of this process, the price differential for grain between Chicago and London was 60 percent in 1870, but the telegraph and cheaper shipping costs had reduced it to 15 percent forty years later (Harley, 1980, quoted in Temin, 1999).

3. The growth in cross-border transactions and organisations not of a purely economic kind - political, cultural, social. A useful distinction among organisations is between those which are international in the sense of being inter-nation-states, such as the World Intellectual Property Organisation or the Olympic Games, and those which are transnational and rooted in civil society, such as the International Economics Association or Médecins sans frontières.

4. An increasing awareness of the importance of shared, global problems (*eg,* global warming, infectious diseases, the regulation of international markets beyond the control of individual governments) and progressive attempts to find solutions to those problems in organisations with a global remit.

5. As both a consequence and an accelerator of the above processes, the elimination of national differences and the increasing homogenisation of cultures and institutions.

Discussions of globalisation for the most part centre on one of the following aspects which will be discussed in turn.

1. How integrated global markets really are.

2. Globalisation as a process eroding the sovereignty of nation-states, reducing their autonomy in making economic policy.

3. The consequences of globalisation for the distribution of income among the world' s population, both within and among nations.

4. The problematic growth of a transnational 'world society' and international governance.

5. The interaction of national economic, political, military and cultural power, and the possibility and desirability of retaining distinctive national institutions, embodying distinctive national value preferences and cultures.

1. How Integrated Are Global Markets?

The least integrated of markets is the unskilled labour market. Here there is a marked contrast between the beginning of the 21st century and the end of the 19th. In a world without passports, thirty million people emigrated to the US between 1860 and 1920. At the turn of the present century, all nations (or, in the case of Europe, groups of nations), had border controls on the movement of people, though the urge to migrate had if anything intensified, and illegal immigration - often mortally dangerous to the would-be migrants - was everywhere a significant source of political tension capable of causing elections to be won and lost. As the ageing of the populations of the industrialised world proceeded, however, with a consequent shrinking of the labour force relative to the total population, there was increasing pressure, in countries as diverse as Japan and Italy, to permit controlled numbers of unskilled immigrants from low-wage countries to do the jobs which native workers were unwilling to take.

The international market for highly skilled workers, by contrast, was progressively globalised towards the end of the twentieth century. Two factors facilitated this. First, the intensification of international competition in increasingly globalised markets for goods and services, and the accelerating speed with which new technologies were introduced, particularly in the fields of electronics, computing, telecommunications and biotechnology, created shortages of skilled workers everywhere. At the same time, the increasing salience of 'national competitiveness' as a political objective provided strong motives for seeking to attract foreign workers.

Secondly, the growing diffusion of English as a second language made possible the immediate integration of Indian and Chinese software writers in Silicon Valley and of French executives in Japanese automobile firms (as when Renault assumed control of Nissan). It had become common, by the turn of the century, for the education of upper middle class children in continental Europe to include an extended stay in an Anglophone country, and for future professionals from all over the globe - scientists, technologists, economists - to do graduate work, after a first degree in their native country, in the US. This last was an important source of the brain drain from developing countries, responsible for nearly half the start-up firms in Silicon Valley. It was also, (see below) an important factor in establishing the cultural hegemony of the US.

Differential ease of integration for linguistic and cultural reasons, is clearly a factor in the differential rates of the cross-border recruitment which make for an integrated labour market. The obvious measure is the extent to which salaries of particular occupations were equalised across the national boundaries of countries of differing levels of *per capita* income. Levels of executive compensation in the US, for example, exercised considerable upward pressure on those in equally Anglophone Britain, less on those in continental Europe and even less on those in Japan.

One aspect of globalisation which reduces the need for physical mobility of the highly skilled is the growth on the one hand of multinational corporations, and on the other of cross-border supply chains. Bangalore, India, offers a salient example. Microsoft, Motorola, Texas Instruments, Oracle and Airbus all have R&D centres there. At the same time, there are many independent Indian firms in and around the city which undertake software design and computer work under contract with many American, some European and a few Japanese firms. The database of patents registered in the US by the world's largest firms allows calculation of the proportion based on research in countries other than that in which the firm has its headquarters. For 1991-95, the range was from 1 percent for Japan to 56 percent for Britain. The US figure was 9 percent and the European average was 35 percent (UNWIR, 2000, p.200).

In markets for goods and services, again there is a wide spectrum of degrees of globalisation. For bulk commodities such as oil, the market is truly global. Although much oil is traded on term contracts, prices are linked to a benchmark price (for Brent crude) established daily in the London futures market, which moves more or less in step with the price of West Texas intermediate in the New York market. Equally global is the market for highly complex products with few producers such as aircraft or supercomputers, though all kinds of national security and corporate interests other than price and quality enter into purchasing decisions. At the other end of the scale, markets for food products are still national or local, for all but a small fraction of branded products.

There was much discussion in the late 1990s concerning the degree to which the growth of the internet, and the universal spread of what came to be called e-commerce, would accelerate the globalisation of markets. By the year 2000 it became apparent that the effect on direct sales from producer to consumer within national economies was limited and the effect on cross-border sales (except of highly standardised commodities like books in the English language) more limited still. For intermediate goods traded between business firms - machine tools, for example - the effect seemed likely to be greater, offering greater reductions in search and information costs. It remained problematic, however, how far the intensification of competition likely to result would make for more rapid turnover of suppliers - *ie,* how far the reduction of search and information costs would offset considerations of trust in reliability, quality and after-service which favour stable supply chain relationships (relational contracting).

The markets which are most thoroughly global are financial markets. They are also - since financial claims confer power - the markets whose globalisation has most widely reverberating, and controversial, consequences.

Again, there is a range of 'globality'. The most thoroughly global - the most complete set of (electronically mediated) linkages among the centres where trading takes place - is the foreign exchange market as it has developed after the ending of fixed exchange rates in 1971 and the rapid collapse of the subsequent Smithsonian compromise. It is truly global in that "a complex web of exchange rates covers the whole globe,...an exchange rate is a universally understood concept and a currency is a globally understood and tradable product,...and there are no barriers to entry." (O'Brien, 1992, p.34). Housewife day traders in Dayton Ohio can spend hours at their computers buying and selling on margin pesos, yuan and escudos by the million for an initial stake of $10,000. And as for price equalisation, a basis point shift in the yen price of a dollar in Tokyo is mirrored within minutes in New York and London.

The central importance of the foreign exchange market is that all cross-border (or at least cross-currency-zone border) financial flows are mediated through it. To be sure, such 'real' flows account for only a small part of the estimated 2 trillion-worth of transactions made daily in 1999, much of which were speculative in nature (ranging from the hedging of future transactions to pure betting on future exchange movements unrelated to other transactions): in 1999 the settlement of trade in goods and services required daily transactions worth some $20 billion, foreign direct investment some $2.5 billion and other income and capital flows (interest payments, dividend earnings and portfolio investment) around another billion.

One explanation for the rapid growth of foreign exchange transactions is the increase in the volume and the liquidity of the total world financial stock. According to one calculation, between 1980 and 1994, while gross fixed capital formation in the OECD countries grew by some 2 percent per annum, the stock of liquid financial assets grew by more than 5 percent, or by some 30 trillion dollars over the whole period. Growth in the value of equities (more a rise - a largely inflationary rise - in market values than new issues) accounted for one third of that 30 trillion dollar growth, the increase in government bond issues for nearly another third. An increase in the money supply accounted for most of the remainder, but whereas that money supply - mostly bank deposits - grew in real terms by only 2 percent per annum, growth in 'disintermediated' corporate bonds and commercial paper grew by 11 percent (Bryan and Farrell, 1996). There was a notable shift, in other words, from credit creation by bank loan - which is predominantly within nation-states - to credit creation by the issue of securities which are in principle susceptible to global trading - the shift known as 'securitisation'. The rate at which new securities are issued has continued to increase - from US$0.2 trillion in 1988 to US$1.2 trillion in 1998 (Okina *et al*, 1999, p.4).

The distribution of that growing stock of financial assets, or at least where they are held, is highly skewed, however. Financial assets as a proportion of GDP in 1998 ranged from 219 percent in the US and 214 percent in the UK to 70 percent for Germany, 39 percent for Japan and 1 percent for Turkey (Financial 2000, p.134).

Bond markets, stock markets and insurance markets remain, however, still predominantly national. Even within the European Union talks among the London, Frankfurt, Paris and Stockholm stock exchanges over the possibilities of merger began only in the year 2000. To be sure, there seemed to be a long-standing tendency for stock exchanges to move in step across the world, but this is not automatically a sign of genuine market integration. A study of stock exchange movements over two periods, 1990-1994 and 1995-1999 looked at the 21 paired correlations between the weekly returns on each of seven major stock exchanges (New York, London, Paris, Madrid, Frankfurt, Milan and Tokyo). Only the six correlations involving Tokyo did not show an increase from the earlier to the later period. The average correlation increased from 0.42 to 0.54. This could, however, be the result more of the globalisation of the news that affects the sentiments that determine buying and selling behaviour than of the real integration of markets by increased density of cross-border trading and the elimination of opportunities for arbitrage. The authors of the study find, however, from a closer examination of the New York, Frankfurt and Madrid markets, that there was real evidence of market integration, and conclude that this "means higher financial market efficiency and an improvement in the risk-and-return combinations available to investors" (Ayuso and Blanco, 2000).

The rationality assumption of that conclusion - that the owners and managers of that vastly expanded volume of financial liquidity, which now moves so much more easily around the world, can and do base their investment decisions on careful and accurate assessments of risk and return - would seem to be belied by the actual movements of markets. What has come to be known as 'momentum trading' - piling into stocks which are rising thus causing further rise to heights which no expectation of dividend returns could justify - has always been a feature of equity markets (Shiller, 2000) and was most obviously noticeable during the internet boom at the end of the century. It can be justified as a rational gamble only by those who believe themselves to have privileged information, insight or intuition, which would enable them to realise their gains before the bubble bursts. Those who do so believe are mostly victims of self-delusion. As the IMF's *World Economic Outlook* remarks, "the herd behaviour and fads occasionally observed in mature markets have gained in scope with the increased international integration of financial markets. 'Globalisation' can reduce the incentives for information gathering", so that "expectations are formed in a context of imperfect and asymmetric information" (IMF, 1999, pp.68-69). Classical economists framed the same explanation of panics in less anodyne language: "at particular times a great deal of stupid people have a great deal of stupid money" (Bagehot, 1880 quoted in Kindelberger, 1978, p.1).

Such investor behaviour is one source of the volatility of foreign exchange markets. Exchange rates seem to be now determined more by capital flows than by trade flows, and their volatility has serious consequences for small and weak economies, as was never more evident than in the Asian crisis of 1997. Fears of a currency collapse in Thailand, exacerbated by speculative attacks on the baht seeking to profit from such a future collapse, caused at first gradual and then panic liquidation and repatriation of foreign holdings in equities and real estate, (as well as a flight of domestic capital from those markets) thus ensuring the currency collapse which had been feared. The knock-on effects in disrupting the whole economy, plunged many people into unemployment and hardship. The contagion (a reversal of investors' expectations of an unending 'Asian' boom) spread to Malaysia, Indonesia and the much healthier economy of South Korea. A net flow of private funds from the rest of the world to those four countries of $93 billion in 1996 turned to a net outflow in 1997 of $12.1 billion according to estimates by the Institute for International Finance. One analysis of these events concludes that they stemmed "from the very nature of the investment and trading exposures that international and local market participants had taken on...As foreign capital continued to move into the region and the resulting aggregate investment exposures became progressively larger...investments took on an increasingly speculative tone, their asset quality declined, the associated leverage ratios and interest rate risks increased and the maturities were shortened. Moreover, as the use of derivatives and other off-balance sheet instruments became more extensive, the aggregate market exposures became increasingly complex and opaque as well" (Rude, 1999, p.10).

It is this systemic character of recurrent crises which has prompted renewed discussion of the instability of an anarchic world financial system and the need for new governance mechanisms. See below.

The key question concerning the globalisation of capital markets relates directly to the discussion whether there is inevitable convergence towards a single, globally homogeneous, institutional pattern of capitalism: namely, is there, or is there not, a convergence of interest rates; will all firms, throughout the world, have to pay the same price for their capital?

Clearly, there are two obstacles to such convergence: the so-called 'home bias puzzle' - *ie*, investors' continuing preference for investment in known, familiar and trusted co-nationals (home investments, said Marshall in 1923, still have "a great balance of pecuniary advantage as well as sentimental attractiveness" (Asso, 2001). This is called a 'puzzle' by economists who find sentiment baffling. The second obstacle is the volatility of exchange rates. The so-called 'yen carry trade' at the end of the 1990s - borrowing in yen at extremely low rates of interest to convert to dollars for investment in American equities - was not as profitable as it might have seemed, given the cost of hedging the exchange rate risk.

The question remains whether both of these obstacles are slowly eroding. This involves, on the one hand, assessing whether preferences are changed by (a) the increasing packaging of investments in mutual funds and pension funds which have the resources to gather information on a world-wide scale, (b) social structural change involving greater familiarity with, and tolerance of, arms-length economic relations with total strangers, and (c) an increased 'global consciousness', 'global awareness'. It involves, on the other, the techniques of hedging and whether they have been improved enough to reduce significantly foreign exchange risks. There has undoubtedly been a growth of off-balance-sheet transactions which use derivative instruments to unbundle the risks in underlying assets. This allows "smoothing of consumption through risk diversification" and hence "improves the efficiency of risk transfer" (Okina *et al*, 1999), but while this undoubtedly improves the incomes of derivatives traders, whether it really improves the efficiency or the opacity of transactions remains in doubt.

There are conceptual difficulties in the measurement of interest rate convergence. Clearly not nominal interest rates, but real rates are in question. Treating the real interest rate as the nominal rate plus current inflation may be relevant for short- and medium-term capital movements, but long-term investments are affected by expectations of future inflation. And since all inferences about that are suspect, there is wide latitude of interpretation concerning what the 'real' real rate is.

A different, inferential, approach is through the measurement of capital flows. Net capital flows - as measured by the total of nations' current account surpluses to nominal GDP - were still lower (around the 3 percent level) in the 1990s than before the First World War when the richest nation - Britain's - export of capital sometimes reached as high as 9 percent of GDP. A similar measure - the so-called Feldstein-Horioka paradox - looks at the relation between savings and investment. The US, about as integrated a capital market as one can imagine, has a correlation between savings in each of its constituent states and investment in the same state which is close to zero. If the savings-investment relation among independent states were similarly low, this would be clear sign of market integration. But it is not, though some convergence is discernible. Among the OECD countries, the correlation was high in the 1970s: 75 percent of the variance in countries' share of investment was accounted for by the share in savings. During the 1980s that figure had fallen to 60 percent (Wade, 1996, p.74).

Net capital flows are arguably less important for the convergence of interest rates than gross flows. However much they may be inflated by churning, they are undoubtedly growing. One measure thereof: the net cross-border assets of banks in the countries reporting to the Bank of International Settlements grew from US$2.5 trillion in 1988 to US$5.5 trillion in 1998 (Okina *et al*, 1999, p.4).

For the impact of financial markets on corporate institutions and corporate governance, the convergence of interest rates to which the last paragraphs relate may be considered less crucial than convergence on returns of equity. All studies agree that they show much greater cross-national variation than interest rates.

2. Globalisation and National Economic Policy

Exchange rates, while serving to impede the integration of capital markets, are at the same time, when combined with free movement of capital, a powerful factor in eroding the sovereign autonomy of national governments, limiting their choices in macroeconomic policy.

In the earlier period of rapid growth of world trade at the end of the nineteenth and the beginning of the twentieth centuries, (trade as a percentage of world GNP is estimated to have reached as high a level in 1913 as at any subsequent time until the 1970s) growth was facilitated by the pegging of major currencies to the gold standard. Trade growth restarted from a much lower level after the First World War but was choked off by the national autarky policies which followed the depression of the 1930s. According to Kindleberger's count, the imports of 75 countries fell steadily with increasing tariffs, from almost three trillion dollars at the beginning of 1929 to less than one trillion (in constant dollars) four years later (Kindleberger, 1986, p.172). When trade growth resumed once again after the Second World War, it was in a post-Bretton Woods world which had learned something of the dire economic and political consequences of the beggar-my-neighbour policies of that depression. It was again a world of fixed exchange rates, periodically adjusted by devaluations in high-inflation countries, but with currencies linked this time to a dollar standard anchored in a fixed dollar price for gold. It was clearly recognised at the Bretton Woods conference which set up the system, that a precondition for its maintenance (and this was different from the pre-1913 period) would have to be controls over the international flow of capital, though currency convertibility for current-account payments was soon established in most European countries, and progressively in Japan.

That system lasted only for a quarter of a century. The fixing of the dollar price of gold was not in fact an essential part of the system, provided the rest of the world used dollars as the intervention currency to keep to their parity exchange rate, kept their reserves largely in US Treasury bonds and framed their monetary policy to match American inflation rates (McKinnon, 1996, p.45). But it was nevertheless the decision of President Nixon to devalue the dollar relative to gold and to impose an import surcharge in 1971 which precipitated the ending of the system, and the move, after two years of failed attempts to establish a new system of par values, to the regime of floating exchange rates. (Major factors precipitating the change were an acceleration in American inflation due to the Vietnam war, and the accumulation of a large volume of dollar deposits (Eurodollars) overseas and out of reach of regulation by US governments, together with the growth in financial liquidity and the volume of 'hot money' flows betting on and helping to precipitate devaluations.)

The surrender of foreign exchange to market forces gave a strong impetus to the dismantling of capital controls - in Canada, Germany and Switzerland in 1973, the US in 1974, Britain in 1979, Japan in 1980, France and Italy in 1990, Spain and Portugal in 1992 (Eatwell and Taylor, 2000, p.3). The growth of world trade, facilitated by the lowering of tariffs under the auspices of the General Agreement on Tariffs and Trade (GATT), the increasing possibilities of concealing capital movements by under- and over-invoicing of trade, especially of intra-multinational-company transfers, and the diffusion of ideological convictions and academic theories favouring free markets in everything, (Yergin and Stanislaw, 1998), all made the maintenance of capital controls increasingly burdensome and ineffective.

The shift to floating exchange rates plus free capital flows had ambiguous effects on globalisation. The uncertainty had a dampening effect on the growth of trade, a rash of quantity restrictions on imports to, and continuous trade disputes with, the US and Europe, which greeted the rise of Japan as a major exporter of manufactures, were particularly marked in the first half of the 1980s when the dollar seemed to be floating continuously upward. (This led to some concertation in central bank intervention in exchange markets with the Plaza and Louvre agreements, but still in an unsystematic *ad hoc* form.) But correspondingly the foreign exchange 'casino' greatly enhanced the importance of financial markets and enhanced the power of the most important globalising force, the financial services industry.

It also served to increase the exposure of national economies to global market forces, and narrowed the leeway of national governments in framing macroeconomic policy. An elegant statement of the options holds that:

> *governments and central banks cannot simultaneously maintain the independence of their internal monetary policies, stabilise their exchange rates and permit unrestricted inward and outward capital movements. As interest rates, inflation rates and exchange rates influence one another under conditions of openness, over time only two*

of these policy goals at most can be achieved.
(Pauly, 1997, p.23, summarising Mundell, 1962 and Fleming, 1962).

The most significant application of this theorem is as follows. The Keynesian policies which served to maintain full employment and sustain output in the post-war 'Golden Age' were made possible by the existence of capital controls and a fixed exchange rate. Now, if interest rates are reduced to stimulate the economy there is a danger of capital exit which inhibits investment and output growth, leading to a fall in the exchange rate and imported inflation. The collapse of the Mitterand growth policy in 1982 is frequently cited as the classic example of the way government intentions can be defeated by such over-riding constraints.

After the painful experience of inflation in the 1970s, inflation control has become the dominant target of macroeconomic policy, and individual countries, and also the European Eurozone as a whole, have legislated independence of their central bank with the explicit remit to maintain the value of the currency - as a means as much of retaining the confidence of international capital markets as to avoid the internal distributional strains caused by inflation. This subordination of monetary policy to inflation targets, (under conditions of free capital movement) has the effect, first, of making fiscal policy and supply-side policies the sole means of regulating output and employment, and secondly of leaving the exchange rate to the vagaries of capital flows. And as was shown at the very beginning of the century by the investment flows from Europe to the US, and the consequent fall in the Euro - in spite of the favourable growth performance of European economies - those vagaries can be very considerable.

Even the last weapon in the armoury of nation-states - fiscal policies -are greatly constrained by the pressures of regime competition. Developing countries, seeking direct investment from overseas - often as much for the technology and managerial skills, and the opportunities for their nationals to learn that knowledge and acquire those skills, as for the capital they bring - have long been in competition to offer favourable tax breaks, and other amenities. And having obtained such notoriously 'footloose' investments (those particularly whose product is exported rather than aimed at the host country's domestic market), they have had to trim their tax regime to the need to keep them. (Though Japan, Korea and now China showed some skill in happily letting them go as soon as the necessary learning had been done.)

In the industrial countries, with economies now increasingly geared towards services, the inward investment they seek, and the domestic business they hope not to lose, are increasingly in services, especially the most lucrative financial services, which are even more footloose than manufacturing. The turn of the century saw a general reduction in corporation tax throughout Europe, and an intense dispute over proposals for a unified European withholding tax on bond market transactions between Britain (which claimed it would have most to lose from a migration of bond market business to New York) and the rest of the European Union. A report to the Helsinki summit meeting of the European Union in December 1999 identified 66 different types of preferential tax treatment given by European governments to attract foreign firms. In the Netherlands, for example, the government will negotiate secret advance agreements with foreign firms on how much tax they will pay; in Gibraltar branches of non-resident companies are tax-exempt (Economist Survey, 2000, p.12).

The over-riding importance, for governments of leading industrial democracies, of maintaining 'national competitiveness' gives business interests an important leverage over policies. Protecting the environment, slowing global warming, may in principle be universally acknowledged to be a good thing. But a country which tries to respond to those global problems by regulating business more enthusiastically than others, risks being punished by the flight of important firms abroad. This need to attract or retain business organisations affects not only levels of business taxes, and environmental regulations, but also accounting systems, disclosure requirements, and banking regulation.

It also affects individual taxation with implications for social structure and the welfare system. Business decisions are not only taken with an eye to profit; the managers who make those decisions also have preferences - in some cases strong preferences - for where they want to live and be personally taxed. The movement to reduce the level of taxes on high personal incomes began in the early 1980s under President Reagan in the US and Margaret Thatcher in Britain, as their neo-liberal doctrines gained ascendancy over the social democratic (in America 'Great Society') tendencies of the 1960s and 1970s. 'Rewarding enterprise' came to seem more important than holding down income inequalities through redistributive taxation. The spread of that movement - Japan reduced the top rate of income tax in 1998 and both France and Germany did so in their major tax reforms of 2000 - may be attributed in part to (i) the diffusion of neo-liberal ideologies, and the belief that self-interested competition, rather than public service or any other kind of altruism, is the only effective, and an equally morally satisfactory, motive for procuring economic efficiency, (ii) the greater saliency of that economic efficiency - 'national competitiveness' - in national political agendas, as world trade expanded and international market competition intensified, together with (iii) the decline of the national solidarities which had formerly underpinned social democracy, (partly a matter of 'privatised atomisation', partly of the cosmopolitan 'globalisation of consciousness'). It may also (iv) be attributed to electoral demonstration effect; governments may find it hard to get re-elected if they are charged with taxing harder than other governments. But regime competition - the need to attract businessmen to get business - undoubtedly played a part. (And also to attract sports and media stars and others of the winners who increasingly - another aspect of global markets - 'take all' (Frank and Cook, 1995). (Luciano Pavarotti was for several years in legal dispute with the Italian government which claimed that he legally should be deemed still to live in Modena, and not in Monte Carlo as he claimed.)

The threat that multinational companies may shift their physical locations - with serious consequences for employment, output and tax revenue in the country they leave - is one constraint on state policies. Their ability, by transfer pricing (of transactions among their various national affiliates) and other accounting devices, to shift their taxable income from one jurisdiction to another, without any shift in the physical locations of their activities, is another. The leading media company News Corporation was estimated to have earned $2.3 billion profits in Britain between 1987 and 2000, but paid no corporation tax (Economist Survey, 2000, p.2). The off-shore tax havens, of which the Cayman islands is the most well-known, thrive on the largely nominal presence of the headquarters of multinational companies and the very low taxes on their very large profits. An OECD report noted in 1998 that total direct investment by G7 countries in tax havens in the Caribbean and South Pacific grew more than five-fold between 1985 and 1994 to over $200 billion (*ibid*. p.13). A 1994 study estimated that 26 percent of the assets and 31 percent of the profits of American multinationals were registered in tax havens where they had only 4 percent of their workers (Hines, 1994, quoted in Economist Survey, 2000, p.13).

This erosion of the tax base came to be treated with increasing seriousness at the turn of the century. The concern was intensified by the growing use of the internet, which greatly reduced the cost of running global businesses nominally from tax havens, as well as putting many economic transactions beyond the scope of value added taxes. For the attempts at a concerted attack on the tax havens, see below.

3. Income Distribution

Keynes once wrote about the globalised world on the eve of the first world war.

> *The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep: he could at the same time adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits....*

(Keynes 1919, pp.6-7, quoted in Temin, 1999, p.77).

The proportion of the world's population - even of Britain's population - to whom such amenities were available was, of course, minute. Globalisation brings undoubted benefits to the affluent members of hegemonic countries. But how widespread are the benefits it brings?

Very widespread according to most economic theory. Traditional theories of static comparative advantage - why Portugal and Britain could both profit from exchanging wine and wool - have, it is now agreed, little relevance to the practical assessment of the effects of free trade on the distribution of the benefits of economic *growth* under conditions of rapid technological change, intensified competition in global markets, and free movement of capital and of highly skilled workers.

One strand of opposition to globalisation/free trade comes from those groups among, for example, the demonstrators surrounding the WTO meeting in Seattle in 1999, who argue that for rich countries to allow unfettered access to their markets of the products of low-wage countries is to connive at the pitiless exploitation of impoverished workers, and children in poor countries – all to produce profits for rich-country multinational corporations. Protectionism was calculated by UNCTAD to have cost developing countries US$700 billion in exports in 1999 (FT, 7 February 2000), and it does not escape notice that this argument is put most forcefully by the trade unions whose members' jobs may be threatened by such imports. In the 1930s it took the form of protest about "social dumping". In the 1990s the terminology was updated to "abuse of human rights". And the demand that trade restrictions should be applied to countries which did not accept a fair labour standards convention gathered strength, especially in the US. It had sufficient power to influence a Democratic administration in the run up to an election for it to become a formal American proposal at the 1999 WTO meeting.

The liberal free-trader's answer to such arguments about sweatshops and child labour is, wrote one observer: go tell that "to the workers of southern China who have escaped from back-breaking agricultural misery and are making their way, through sweatshop conditions it is true, to genuine prosperity and independence of living" (Martin, 1997).

It is not hard to find foundation for that rebuttal in economic history. Japan over a century and a half has gone from being a country where 85 percent of the population did indeed live in backbreaking agricultural misery to being an affluent industrial nation. South Korea, and the other so-called Newly Industrialising Economies or Asian Tigers, have followed the same trajectory by essentially the same means, leveraging their cheap labour advantage to expand exports, especially of manufactures, thereby acquiring the foreign exchange to import capital goods embodying superior technologies, learning those technologies and eventually developing the capacity to join more 'advanced' nations in pushing the technology frontier forward.

It was a Japanese economist, Akamatsu, who elaborated the famous 'flying geese' analogy: nations move in the same direction but at different distances from the leader; labour-intensive industries with simple technology become unprofitable as the extra value-added from those industries cause wages to rise and they are passed on to the 'goose' next in line.

Note, however, the by no means universal conditions under which this trajectory has hitherto been successfully followed: conditions which Adam Smith summed up when he talked of 'peace, good government and the regular collection of taxes' as a prerequisite for increasing the wealth of nations. Some of the most salient are: a strong central government whose strength lies in the quality of political leaders and administrators, more concerned with promoting the national interest than with feathering their own nests through the corrupt use of power; a high savings rate; substantial investment in education, health and the physical infrastructure for industry and trade; a supply of intelligent and resourceful entrepreneurs, more interested in building something lasting than in gambling on movements in market prices. The trajectory has also involved, at least until a quite advanced stage of development, controls over external trade, and even stronger controls over capital movements in and out of the country - even in countries such as Taiwan and South Korea, hailed during the Cold War as models of free enterprise development (Wade, 1989).

The absence of some or all of these conditions in many countries largely explains the growing gap in national *per capita* incomes in the 1990s. The UNDP's *Human Development Report 1999* contrasts the successful growth trajectories of countries such as those in Asia, Chile, The Dominican Republic, India, Mauritius, Poland, Turkey and many other countries - all of which increased their exports by more than 5 percent a year in the 1990s, with the 55 countries, mostly in Sub-Saharan Africa, Eastern Europe and the former Soviet Union, where *per capita* incomes have declined over the decade (UNDP, 1999, p.3).

The same report provides striking measures of just how skewed the distribution of the world's income is. The fifth of the world's population living in the highest income category had 86 percent of world GDP, 82 percent of exports, and 74 percent of the world's telephone lines. Those in the poorest fifth had about 1 percent of each (1.5 percent of the telephone lines). The three richest Americans had assets greater than the combined annual income of the 600 million people living in what the UN classifies as 'least developed countries' (*ibid.*).

The conditions listed above as prerequisites for taking part in world economic growth fall into two categories; internal - good government, infrastructure-building and a capable and entrepreneurial population - and external or border conditions - the ability to control markets and capital flows. The first is given by history - cultural traditions, geography, population size and homogeneity, the accidents of political leadership and external challenges (*ie,* the sort of factors which explain the century's gap between the beginning of an indigenously-controlled industrialisation drive in Japan and China, two countries with very similar cultural resources). The second has frequently been dictated by external pressure - from the 'unequal treaties' which the Western powers imposed on Japan, Korea and China in the mid-nineteenth century, to the requirements imposed on developing countries in the 1980s and 1990s by the IMF, the World Bank and bilateral donors as a condition for receiving aid or debt relief.

Much controversy surrounds the charge that the latter - 'conditionalities' imposed by aid donors - are responsible for increasing poverty in the third world. Only NGO protest groups are likely to argue 'solely responsible'. A much broader spectrum of opinion would hold that economic deterioration largely attributable to the internal conditions listed above (greatly exacerbated by brain drain accelerated by globalisation - the tendency of their most able people to find jobs abroad) were further exacerbated by the imposed 'conditionalities' inspired by doctrinaire bias in favour of free market solutions to all problems. A supplementary argument would put the blame not only on aid donor pressure, but also on ideological contagion - the embrace of liberal free-market doctrines by third-world economic managers, many of who were trained in the US. (Or to a mixture of the last two: collusion between donor and donee administrators equally biased towards liberalisation, using outside coercion as a strategy to overcome domestic opposition.)

It is indisputable that many of those in rich countries responsible for framing policy towards developing countries are, indeed, totally committed to liberal free trade ideologies (with varying degrees of self-interested awareness of how much these policies give the maximum freedom of action to their own countries' bankers and businessmen). But there is a counter-argument that does not rely on doctrinaire convictions which goes as follows. In many developing countries there is a choice between exposure to the vagaries of markets or leaving allocative power in the hands of bureaucrats who are both incompetent and corrupt. And markets are the better choice. As for exploitation by transnationals, it often is true that the only thing worse than being exploited is not being exploited - left in poverty.

The drafting of the World Bank's *World Development Report 2000* was a focus for public controversy on these issues between extremists on both sides of the argument, but there was widespread endorsement for the report's conclusions (IHT, 14 September 2000, p.17):

> *numerous recent studies show that in most developing countries, the poor benefit as much as any group, if not more, from policies that open markets to free trade and control inflation....But...economic growth tended to be higher in countries where the*

> *gap between rich and poor was smallest and governments had effective programs to equalise incomes. [Moreover] since even well-functioning markets tend to under-invest in activities such as developing vaccines or drought-resistant crops, government interventions will be needed to rescue a region now trapped in poverty* ***ie, African countries ravaged by drought and AIDS****.*

The question remains whether there is any political will to increase the flow of resources from the rich countries to the poor to help in such government interventions. The trend is all the other way. Official development assistance amounted to 1.4 percent of the GNP of recipient countries in 1990, 0.7 percent in 1997 - respectively 14 and 11 dollars *per capita.* The Development Assistance Committee of the OECD (DAC) set an aid target of 0.7 percent of rich country donors' GNP already in the 1970s. It has never been even approximately reached, except by the Scandinavian countries and the Netherlands which ranged between 0.79 and 0.97 in 1997. The average for the 28 members of the DAC, stood at 0.33 percent of GNP in 1986/7; at 0.22 in 1997. The fall in the United State's contribution after the end of cold-war competition - from 0.21 to 0.09 between the two years - was particularly striking.

One final point about the North-South income gap and the controversy over free trade and growth policy, it involves not only globalisation but also pressures from global organisations and the influence of the US over their policies. It is a new version of the 150-year-old argument about infant industry protection which is still highly relevant in its original form - *eg,* should China embrace Intel and Microsoft, or hold them at arms length while building its own computer industry. The new versions involve, first, how far should one extend the principle to protection of senile industries while under reconstruction (*eg,* steel industries in Russia and Eastern Europe) or rely on the shock therapy of instant liberalisation - openness to globalisation - in the hope that the chaos will eventually prove creative? (Or even in the belief, strong in the early 1990s, but given ten years of Russian chaotic decline, weakened since, that the stronger the shock and the more painful the reaction, the quicker the recovery.) The second major new issue is: can one apply the same arguments to the finance industry as to manufacturing?

There is now a general consensus that premature liberalisation of finance was an important factor in precipitating the Asian crisis. “In the early 1990s, East Asian countries had liberalised their financial and capital markets - not because they needed to attract more funds (savings rates were already 30 percent or more) but because of international pressure, including some from the US Treasury Department” (Stiglitz, 2000). There is an equally strong argument that the remedies to the crisis which the IMF insisted on, especially high interest rates, exacerbated the domestic problems of the afflicted countries, and served further to globalise (or Americanise) control over their economies by bankrupting local firms and banks (*ibid.*).

Besides the North-South gap in average incomes among countries, a separate issue is whether globalisation and the factor-price-equalisation effects of free trade are a factor, or a major factor, in the growth in income inequality observed *within* the rich countries, but more particularly in countries such as the US and the UK with the most ‘flexible’ labour markets, where employment and wages are less constrained by convention or by organisational bargaining and more completely left to market supply and demand. One can discern three positions.

1. Free trade does indeed produce the ‘wild geese’ pattern. It lowers wages in, and ultimately displaces, labour-intensive, low-value-added production in the rich countries and replaces it by low-wage imports. Therefore, protection, especially in the form of anti-social-dumping conventions designed to raise wages in low-income countries, are necessary, patriotic and just.

2. The displacement is clear. So are immediate ill effects on wages and employment which the social security system should take care of. But the destruction is creative. Displacement means also a freeing of resources for investment in new higher-value-added production. Provided

markets adequately channel financial and entrepreneurial resources towards these new branches, and provided the education and training infrastructure retools the displaced humans, there can be an enhancement of *per capita* income without any skewing of its distribution. The skewing of the distribution actually observed - the measured increase in inequality - is because of inadequate education and training, and can be cured.

3. The cure is not so easy, however excellent the education and training infrastructure might be. As technological complexity increases, the learning requirements for competence also increase. Effectiveness in learning depends not only on access to learning opportunities, but also on native learning ability, which is normally distributed in most populations. As learning demands increase, learning abilities are pushed to their limits, and the wage premium for high learning ability and the wage penalty for low learning ability both increase.

One long-term implication of the third, and most plausible, position, is that growing income inequality among countries and within countries are not in fact separate issues as suggested above. Globalisation may be seen as leading to a new world class structure in which Motorola's Bangalore sub-contractor and Rumania's leading opera singer join the Wall Street banker in the upper income bracket, while the garment worker in Shanghai, and the former employee of a defunct shoe industry in Nottingham find themselves together in the bottom bracket.

The question is whether, what happened in the early manufacturing stages of industrialisation within individual countries will happen on a world scale - whether the border-transcending objective income categories will breed border-transcending solidarities - class-consciousness.

It is not difficult to discern the makings of a ruling class in what Huntington calls Davos Culture - the shared assumptions about individualism, free markets and the harassments of democratic politics among the thousand or so people who attend the World Economic Forum in Davos and are drawn from the ranks of those who "control virtually all international institutions, many of the world's governments, and the bulk of the world's economic and military capabilities" (Huntington, 1996, p.57). A Financial Times journalist calls them the 'cosmocrats'.

> *Cosmopolitan in taste and Anglo-American in outlook, these are the people who attend business-school weddings, fill up the premium seats on airplanes and provide the officer ranks of most of the world's companies. They constitute a more meritocratic ruling class than we have ever seen, a much broader one, an uneasy one, perhaps, but a ruling class nevertheless.*
> (Financial Times, 27 May 2000).

But for a ruling class to become aware of its collective interest in maintaining its power and begin to co-ordinate its activities to that end, it needs perceived threats from the ruled. Some would see such a catalytic threat in the sudden emergence at the turn of the century of globally organised protest groups capable of disrupting the meetings of international organisations such as the World Trade Organisation, the IMF and the World Bank, and of organising boycotts of multinational corporations such as Monsanto. The suddenness of the emergence is clearly explained by the rapidity of the diffusion of internet communication. The first such campaign, involving the linking up of over 600 organisations in 70 countries, was the 'tidal wave of electronically amplified public opposition' to the Multilateral Agreement on Investment, an OECD initiative which had the broad objective of securing 'national treatment' for foreign-owned firms (Kobrin, 1998, p.97). The campaign was an important factor in killing the proposal. By the summer of the year 2000, in the environmental field alone, the Union of International Associations claimed on its web site to be a 'clearing house for information on over 40,000 international non-profit organisations and constituencies'.

Before concluding that we see here the world-scale vindication of Marx and Engels' assertion that "all history is the history of class struggle", it is important to note, first, that the garment workers of Shanghai and the redundant shoe factory operatives of Nottingham did not play much of a role in that protest movement, except as objects of concern on the part of sympathetic middle-class activists. And secondly, that the protest movements attracted by international bodies are extremely heterogeneous and by no means all agents of class struggle. There are environmentalists who are more interested in the preservation of animal species than in humans, there are trade union protectionists who want to keep jobs for their friends rather than create them in Shanghai, and there are visceral antinomians who find the streets around international meetings a more exciting place to rampage than football stadiums, as well as the conscientious NGOs of the 'development lobby' driven by sympathetic concern for the world's poor.

In the history of nation-state revolutions - and reform concessions by ruling classes fearful of revolutions - the middle-class activist has often played a catalytic role, but popular street demonstrations have been crucial. Perhaps the analogous alliance of forces on a global scale will be (as was effectively the case in the defeat of the Multilateral Agreement on Investment) cooperation between rich country activists and those leaders of developing countries who have not been integrated into Davos Culture. The threats (the equivalent of the mob threatening to take the Bastille) might be provided by what the US State Department used to call 'rogue states' and decided in the year 2000 to call instead, 'states of special concern'. Such a development, however, seems unlikely given the collapse of all attempts to organise a common front among the governments of poor countries, starting with the foundering of the non-aligned country conferences in the 1980s.

4. Global Society and Global Governance

'Class struggle' implies the existence of a discernible society, power within which is the object of struggle. Any notion of a global class struggle implies a notion of a world society. This gives rise to two questions: the 'world civil society' question and the 'emergent world state' question.

The civil society question is: do - (a) intensified cross-border personal contacts and (b) the growth of scientific knowledge leading to intensified awareness of shared global problems - global warming, the loss of bio-diversity, the exhaustion of natural resources, wind-borne pollution and radiation - lead to a corresponding 'globalisation of consciousness' - a sense of membership in a world society which competes with, and can sometimes transcend, a sense of membership in a nation-state, much as, in the 19th century Neapolitans and Piedmontese came to see themselves as Italians, well before an Italian state came into existence.

It must surely do so. For centuries, transnational civil-society associations hardly existed outside of the Catholic church, the one religion with a unified organisation and universal rather than national pretensions. Today they proliferate at an extraordinary rate. Hinsley noted how their formation accelerated at the beginning of the last century: he discovered 131 founded between 1875 and 1899, and 353 between 1900 and 1919 (Hinsley, 1963). A century later, new formations must be running at hundreds a week. The globalised anti-globalisation protest groups are only a small fraction of a vast array of international associations - professional groups (the International Association for Bridge and Structural Engineering, for Small Hydro, of Convention and Visitor Bureaus) hobby groups (international associations of martial arts schools, wood-carvers, philatelists) and 'movement' groups (new religions, humanists, feminists, acupuncturists and growers of organic vegetables). Transnational civil society has its dark side too - international drug syndicates, international networks of paedophiles.

A less important, but more obvious, factor in the 'globalisation of consciousness' is the homogenisation of the urban material, musical and artistic cultures of the world. In the 1950s this was sometimes called the Cocacolonisation and in the 1990s the Macdonaldisation of the world, though American dominance is hardly complete. If there is an emergent world culture, Mozart operas, sushi, pizza, salsa dancing, and karate are all part of it, even if it is largely the American version of those things (Chicago-style deep-pan pizza, for instance) that gets diffused.

Huntington believes that these superficial processes of homogenisation tell one little about any emergent consensus on values. “The essence of Western culture is the Magna Carta not the Magna Mac”: civilisations are still bound to clash; people wearing jeans and listening to American pop music can still be making bombs to blow up American planes (Huntington, 1996, p.58). As against this, one can point to such developments as the slow evolution over fifty years of steadily more effective procedures and principles in the UN's Commission on Human Rights (Farer, 1988), and the creation of the International Criminal Court for war crimes in 1998, as evidence of the greater stretch of sympathies, a stronger sense that moral responsibilities cross frontiers, which is part of what one means by global consciousness.

The ‘world civil society’ question is intimately related to the ‘emergent world state’ question. If there really was a widespread and deep sense of belonging to a ‘global neighbourhood’ (Commission, 1995), it would be easier to get agreement, say, on the curbing of greenhouse emissions to deal with that neighbourhood's shared problems. Nations would be less willing to play free rider in the production of international public goods, such as -to leap to the coercive heart of what governmental power means - the creation of a UN rapid reaction force.

Far short of that, which still seems a utopian vision, in workaday matters in which there are no great clashes of interest, and much convenience to be gained by co-operation, international organisations - fragments of a potential world government system - have presented few problems. The International Postal Union, the World Maritime Organisation, the World Meteorological Office - all inter-, not transnational organisations, under the control of governments but with a great deal of autonomy - have long been functioning with much benefit and little international friction. The World Trade Organisation is more controversial, but precisely because it is (like national parliaments) a forum for reaching a painful consensus on the rules trading nations should observe and (like national court systems) for adjudicating the interpretation of rules that have been agreed.

The area in which there is a real vacuum, a near-absence of internationally agreed rules or means of enforcing them is finance. The concern evoked by the successive financial crises of the 1990s (Mexico, Asia, Russia) provoked anxious, even frantic, discussion of the need for a new ‘financial architecture’.

There are two rather separate consequences of the unregulated, anarchic, casino nature of financial markets that cause concern (Strange, 1986 and 1999). The first is the vulnerability, particularly of weak developing country economies, to sudden shifts of international capital. Specific organisational remedies, such as the Soros plan for a system of cross-border loan insurance, managed by a monitoring organisation which sets limits to capital inflows in the light of the likely volume effects on the macro-economy of the recipient country (Weinstein, 1998) have found little favour, (the devil is in the details), but there are many who advocate an evolutionary solution. The Financial Stability Forum, established in the wake of the Russian crisis at the G8 meeting in 1998 should, it is argued, be allowed to grow into a World Financial Authority with a clear leadership responsibility for gradually evolving prudential rules (Eatwell and Taylor, 2000).

More widespread is the view that the remedy lies not in international organisation but in a reassertion of state over market. Nation-states should partially reclaim sovereignty over their economies by retaining or reintroducing capital controls. Even the IMF, which before the Asian and Russian crises was pushing (under American pressure) for full capital account convertibility in all member states, has since backed off, even if it is far from recommending such a deviation from free market principles (Blinder, 2000, 57). The Chilean system of taxing capital inflows finds more favour than measures to control outflows such as were imposed *ad hoc* in Malaysia in 1998.

The other aspect of the problem is financial contagion, the fear that since the interdependence of financial institutions is so great, and since risk is inherent in systems which depend for profits on borrowing short and lending long, the collapse of one major bank or securities firm might have disastrous knock-on effects -a collapse of confidence, hence of credit, more failures, and a general economic slow-down which, as in the 1930s, could become world-wide. Such fears were crystallised by the near-collapse of the highly-leveraged Long Term Capital Management hedge fund when it seemed, in the wake of the Russian crisis, about to have to make panic sales of its trillion-dollar investments with disastrous effects on financial markets. The 'public good' concern with market confidence (supplemented, perhaps, by the more immediate self-interest of individuals) led the Federal Reserve to organise the rapid arm-twisting mobilisation of a US$3.6 billion rescue fund from banks and securities companies.

Something less *ad hoc* is obviously required. The framework - or at least the scaffolding of such a framework - is in place, in the Basle Committee on Banking Supervision located within the Bank for International Settlements, and in the International Organisation of Securities Commissions. Both organisations have negotiated agreements concerning the supervision of financial markets and their participants, and in particular concerning the minimum capital reserves which banks and brokers must have in order to operate internationally. The rules have become progressively more detailed - nearly always in response to some crisis - but "remain patchy and inadequate as a form of governance of the financial system" (Underhill, 1997, p.43). The Financial Stability Forum created in 1998 - again in response to crisis - was not obviously more capable of creating something less patchy and inadequate than the existing committees.

5. Extrapolations, Hard Power and Soft Power, National Distinctiveness

The words 'growing' and 'increasing' have been used in all too many of the foregoing sentences. If one extrapolates the trends implicit in those sentences, the world may be assumed to be moving towards continually increasing integration and interdependence, increasing interpenetration of cultures. The alternative - a retreat from globalisation, a reassertion of nation-state autonomy, greater protectionism in trade, greater political control over markets - is always possible, particularly if the instabilities of global financial markets plunge the world into crisis and depression.

But if further globalisation is in store, will it continue to be anarchic globalisation, or will there be a sufficient concern with the public goods problem to add progressively and adequately to the framework of market rules necessary to prevent the recurrence of crises, whether they result from gambling excesses (more politely termed inadequate risk management), or from failure to co-ordinate national macroeconomic policies?

'Public goods' conjures up an image of a community of citizens equally concerned with the fate of their polity, equally willing to sacrifice short-term individual interests for commonly shared objectives. The reality of world power is not like that. In financial regulation, "the closed nature of policy communities and the growing dependence of regulators and supervisors on private market interests, has meant that regulatory standards are increasingly aligned to the preferences of the largest global market players" (Underhill, 1997, p.43). And those players are predominantly American, more so than when those words were written; since 1997 American investment banks have increased their dominance in the City of London and made increasing inroads in Tokyo and Frankfurt.

As a typical example of the mixture of private and public interest as motivations for institution-building, the American acceptance of the Basle Committee's capital requirements scheme in the 1980s (a prerequisite for its adoption) was as much prompted by the 'level playing field' concern to defend American banks against competition from foreign banks with less rigorous requirements, as by the public goods concern with prudential regulations as a means of ensuring stability of the system (Underhill, 1997, p.29).

It is the power of the US government, working in harmony with US financial institutions, to dominate the rule-making processes of creating an international order - in the World Bank and the IMF as well as in the BIS - which provides far greater justification than Hollywood or MacDonald's for asserting that globalisation means, in effect, Americanisation.

Which is not to say that cultural influences do not count. What Nye (1990) called hard power - military power and economic power, the ability to coerce others to give you what you want - and soft power - cultural and ideological influence, the ability to make others want the same things as you - intimately interact. The feedback effect of the greatest importance is through the world-wide diffusion of liberal free-market ideology - the belief that free market competition and consumer sovereignty constitute the only recipe for economic efficiency and progress, the belief that markets allocate resources more efficiently than can government and that allocation of resources by government (apart from minimal social security safety nets) should be resorted to only in the case of obvious market failure (*eg*, roads and defence), that corporations should be managed in such a way as to maximise shareholder value, and that the use of the stock market as a means of buying and selling corporate control is an essential guarantor of efficiency. The diffusion of those ideas has been greatly aided by the fact that - thanks to the prestige which accompanies American power, and thanks to generous scholarship funding out of American wealth - American graduate schools in economics, law and political science have trained large numbers of the world's elite opinion leaders. At the same time and for the same reasons, the graduate schools of Europe and Japan that train those who do not go to the US have come increasingly to reflect the same ideology. And that ideology, promoting 'level playing field' market competition throughout the world, gives advantages to the teams with the strongest competitors. It allows them increasingly to absorb (buy out) their competitors, and thus further reinforces the power, prestige and wealth which gave the US its cultural hegemony in the first place.

Among the leading industrial powers, Japan and to varying degrees the countries of continental Europe, retain institutions based on a different ideology - one which, while recognising the virtues of market competition in many spheres, (a) accepts that labour market flexibility should be sacrificed to both worker protection and the fostering of organisational loyalties, (b) expects organisational loyalties to preclude the buying and selling of companies through the stock exchange, (c) expects managers to have a broader range of responsibilities - to employees and other stakeholders - than a mere obligation to maximise shareholder returns, and (d) retains, as a token of citizen solidarity and mutual responsibility, a large public sector for health, education and collective social insurance whose universal equal-rights nature is expected to minimise the need for safety nets.

The institutional differences between countries dominated by the neo-liberal and those by the latter type of, what might roughly be called social-democratic, thinking has given rise to a considerable literature on different types (Anglo-Saxon, Rhenish, Asian) of capitalism (Albert, 1991; Crouch and Streeck, 1997). At the turn of the century it was obvious that the social-democratic ideology was on the defensive. One symptomatic conflict in Germany (which, with its co-determination structure in industry, was the most thorough-going European example of the social-democratic model) was over the attempt of the European competition directorate, supported by the German commercial banks, to cut back the (privileged) public role of the Länder banks.

As the century began there was no doubt which way market forces were pressing. The capital flows which caused a collapse of the Euro and cast a shadow over the whole European project was, 'according to American officials' (whose cooperation in intervention on behalf of the Euro would be essential) without remedy "unless and until Europe shows more commitment to overhauling its restrictive labour market and generous welfare systems which are seen as a barrier to growth" (IHT, 20 Sept. 2000). The question is whether defence against such pressures will remain possible or whether market forces (especially the continuing integration of capital markets) plus cultural hegemony, will reshape all the world's economies in the same neo-liberal mould, as some confidently predict (Friedman, 1999). The possibility of the survival of something different is greatest in East Asia, not least because of the much wider cultural gap between the US and Japan, Korea or China than between the US and Europe. Much will depend on the rate of growth, and the consequent weight in the world economy, of China, a country with a population ten times greater than Japan's, thirty times greater than Korea's and four times greater than that of the US (Dore, 2000).

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