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Room for Differences ?

Social Policy in a Global Economy

Lars Osberg

ISER Working Papers
Number 2002-9

Institute for Social and Economic Research

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ABSTRACT

What is "Globalization"? What is the connection between globalization and social policy? Section one of this essay begins by discussing three different meanings of the term "globalization", while subsequent sections explore the implications of those differing conceptions for the analysis of globalization's impacts.

For many economists, "globalization" is to be seen mainly as greater openness to international trade in goods. Section two therefore discusses the extent of current divergences in social policy among nations which are heavily dependent on trade, and argues that substantial heterogeneity in social policy can, *in general*, coexist with high levels of merchandise trade dependence.

However, in both trade and social policy, "the devil is in the details". Section three considers the political economy perspective that argues that trade between nations always happens within a specific institutional context of international agreements, and a specific balance of international power. The language of particular trade treaties, the case law of interpretive rulings that builds up over time and the balance of power that nations actually have in enforcing adherence to such rulings, will, to a greater or lesser degree, affect the room that governments have to implement divergent policies. Hence, from a political economy perspective, the WTO represents a major change in world governance, with potentially large implications for social policy (particularly "active" social policy) and disturbing questions for the democratic legitimacy of national governments.

Section four suggests that both the economist's conceptualization of globalization as "greater merchandise trade dependence" and the political economy perspective of increasing commonality of economic regulation are perhaps a bit narrow. From a socio-cultural perspective, the explosive growth of international travel, the penetration of multinational marketing and cultural products to every corner of the globe and the dramatic and ubiquitous development of global information access through the Internet may be some of the most important long run channels of a "Globalization of Culture". If globalization produces cultural changes which change the demands which citizens make of their governments, the long run implications for social policy may be quite profound.

The essay concludes with a brief discussion of the logical and practical relationships between these three conceptions of globalization.

Introduction:

Around the world, there is both widespead unease at the process of “globalization”, as well as hope that it can produce a more prosperous future. This combination of hope and unease is due to the fact that although it is easily agreed that globalization has many impacts, there is great uncertainty as to what they all are. Will globalization produce a new era of abundance, enlightened social policies and economic equity or will it primarily benefit an entrenched global elite? Does globalization imply a world wide trend to cultural and social homogenization (more specifically, Americanization)? Might globalization imply that nations will no longer be able to implement different social policies, as appropriate to the specific needs and preferences of their different societies?

The subject of this essay is the connection between globalization and social policy. Section one begins by discussing three different meanings of the term “globalization”, while subsequent sections explore the implications of those differing conceptions for the analysis of globalization’s impacts. Section two focuses on the fairly narrow interpretation of many economists that “globalization” is to be seen mainly as greater openness to international trade in goods. Since many worry that globalization will force a homogenization of social policies, it discusses the extent of current divergences in social policy among nations which are heavily dependent on trade.

Section two argues that substantial heterogeneity in social policy can, *in general*, coexist with high levels of merchandise trade dependence. However, in both trade and social policy, "the devil is in the details". A political economy perspective would argue that trade between nations always happens within a specific institutional context of international agreements, and a specific balance of international power. The language of particular trade treaties, the case law of interpretive rulings that builds up over time and the balance of power that nations actually have in enforcing adherence to such rulings, will, to a greater or lesser degree, affect the room that governments have to implement divergent policies. Hence, from a political economy perspective, it is the specific language, interpretation and power context of the trade treaties which now implement "Globalization" that will determine whether it tends to produce greater homogenization of social and economic policy.

Section four of the essay is, frankly, more speculative. It suggests that when section one adopts the economist's conceptualization of globalization as "greater merchandise trade dependence" and section two uses the political economy perspective of increasing commonality of economic regulation, they are both perhaps being a bit narrow. From a socio-cultural perspective, the explosive growth of international travel, the penetration of multinational marketing and cultural products to every corner of the globe and the dramatic and ubiquitous development of global information access through the Internet may be some of the most important long run channels of a "Globalization of Culture". If globalization produces cultural changes which change the demands which citizens make of their governments, the long run implications for social policy may be quite profound.

The essay concludes with a brief discussion of the logical and practical relationships between these three conceptions of globalization.

1. What is "Globalization"?

O'Rourke and Williamson (2000) have argued persuasively that globalization is not a new phenomenon, at least not in the sense of reduced obstacles to the movement of goods and factors of production across nations, and substantial interdependency of national factor and goods markets. Indeed, it can be argued that, at least in Europe and America, the globalization process of the late 19th century was in some ways more profound than globalization in the 20th and 21st centuries. The growth of world trade and the expansion of international

investment of the late nineteenth century occurred in an environment in which intercontinental movements of labour were considerably less impeded by barriers to immigration than they are now, or have been for the last fifty years[1]. Hence, globalization - in the sense of greater international economic interdependence - is not a new phenomenon.

In the 19th century much of the world was colonized, but for those states that were independent, national sovereignty had a clear meaning. Governments did not then have to worry about rulings by international agencies (such as the World Trade Organization) on whether or not domestic policies constituted “subsidization” to local enterprises. States could ban the importation of particular goods (e.g. on public health grounds, or for any reason at all) without running afoul of their obligations to international organizations. Governments were also perfectly free to offer advantages and subsidies to local businesses that were not made available to foreigners - the principle of non-discriminatory behaviour, or “national treatment” embedded in the limited number of trade treaties that existed was extremely limited and governments often implemented policies of local preference. In the 19th century, international markets became linked by trade, investment and the movement of labour - but largely in the absence of treaties, covenants and international agreements that constrained the domestic legislative and regulatory options of national governments. The institutional context of the 20th and 21st centuries is clearly very different. Is the globalization process of the 19th century at all comparable to that of recent years?

1.O=Rourke and Williamson emphasize the importance for both European and American economic development of the fact that from 1850 to 1910 labour surplus Europe exported millions of workers to labour scarce America, which improved average incomes in both places. During this same period there were substantial impediments to emigration from South Asia and China - hence Afree movement of labour@ was only true in part of the world.

During the 19th century, the main obstacles to international trade were (aside from transportation costs) high tariffs and occasional quotas on imports. Hence, since O'Rourke and Williamson (2000) think of globalization in terms of reduced obstacles to the movement of goods and factors of production across nations, and a consequent increase in the trade dependence of national economies, in analyzing this period it is tariffs and quotas on merchandise trade that are relevant. This usage of "globalization" as corresponding to increases in merchandise exports as a fraction of GDP is very common in economics - for example, in the excellent IMF survey paper of Crafts (2000)[2]. One definition of "globalization" is therefore:

> [1] the increase in linkages between national markets for goods that occurs when tariffs between nations are reduced and quantitative restrictions on imports are progressively abolished.

However, although this conception might be an adequate framework for analysis of the 19th century and the first three quarters of the 20th , the institutions which govern international trade relationships now have a much more comprehensive conception of "obstacles to trade". The expansion of world trade after the Second World War under the auspices of GATT occurred in an environment where nations agreed to reduce obstacles to trade in the form of tariffs and to foreswear (at least generally) quotas and quantitative limits on imports, but non-tariff barriers to trade were largely untouched. Since 1994, the World Trade Organization (WTO) has taken a much harder line. In reaction to the use of special institutions and programs to camouflage trade barriers, the mandate of the WTO has been to establish a common set of rules for all its members so that international trade can occur "on a level playing field". The arbiters of trade complaints then judge whether or not differences between nations in laws or regulations represent valid exercises of national sovereignty in the pursuit of domestic objectives (which just happen to affect trade flows) OR illegal attempts to influence trade flows (which also have an incidental impact on domestic policy objectives). Many areas have been touched by these disputes, but the regulation of cultural industries is a particularly important example.

[2]See, in particular, pages 25-28. Crafts does not explicitly define globalization but his emphasis on merchandise trade as a fraction of GDP is consistent.

As well, the historic emphasis in trade negotiations on freer trade in goods has been broadened in recent years to an attempt to establish free trade in goods and services. In the abstract, some economic theorists may think of both goods and services as simply "commodities", but international trade in services takes quite a different concrete form than trade in goods. Firms which produce export goods have a point of production whose labour relations and supply of capital are governed by the laws of the exporting country, with no necessary impact on the relations of production of the importing country. However, since a service typically cannot be stored, the actual production of services must usually occur where customers reside.

As a consequence, "free trade in services" really means allowing the foreign firms which provide services (such as transportation, banking or insurance) to enter domestic markets on an equal footing with local firms. In order to do that, foreign firms have to be able to produce abroad in much the same way as they do in their country of origin. Free trade in services therefore implies the freedom to import and export capital and technology (which is embodied in key workers and in the particular labour practices of foreign firms). If foreign-owned service firms are to compete in "service-importing" countries, the international regulatory environment therefore has to be compatible - which inevitably entails deregulating capital markets and pressures towards "harmonizing" labour market regulations. As well, nations differ substantially in the extent to which some services (such as prisons, hospitals, medical services or education) are considered at all appropriate for production in the private sector. Hence, many people fear that pressures for "free trade in services" may conflict with local autonomy in deciding the appropriate boundaries of public and private spheres of activity.

Given all this, in the current context a political economy perspective would look beyond trends in merchandise trade to changes in the institutional context of markets and might add the following to definition [1] of "globalization":

> [2] the tendency to establishment of global set of common rules governing trade in goods and services - i.e. the reduction over time in differences in the local regulatory and legal environments of goods, services, capital and labour markets which arise from the cumulative impact of international trade treaties and the interpretive decisions of the dispute settlement mechanisms that they establish.

However, although this is clearly a broader conception than definition [1], it may still miss much of the motivation of the anti-globalization movement. In a world in which one feature of popular protests against globalization is the destruction of local branches of the McDonald's hamburger chain, it is clear that symbols matter. There is something about globalization that creates fears (at least among many non-Americans) of the loss of local cultural identities and distinctiveness - and it is also clear that some people care deeply about the possibility of such a loss.

For centuries, the differences between local cultures around the world were partly sustained by their mutual isolation. That isolation is breaking down, with implications both positive and negative. Even as recently as ten or twenty years ago, it was much rarer[3] for domestic policy discussions to be exposed to international comparative experience. In part, the trend to greater international cross- learning in the policy formation process is driven by the recent development of comparable international data to judge policy outcomes (e.g. the Luxembourg Income Study data base). In part, it is due to the growth of international bureaucracies (e.g. the OECD, IMF and World Bank). The result is a globalization of social policy discourse and an increasingly dense net of linkages between opinion forming elites[4].

Conferences like the International Forum on Globalization and Contemporary Capitalism may be invisible to the broader public, but CNN or SkyTV are seen by many millions. When global media presence is combined with the multinational marketing of

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[3]Obviously, the history of China since 1970 provides an extreme case of greater openness to international influences - but the same tendency is apparent even in OECD countries.

[4]However, a greater tendency to agreement among international policy elites can only be counted as a benefit if they are agreeing on wise and effective policies. An international consensus in favour of bad policy ideas has even larger social costs than a national consensus. See Stiglitz (2000) for a discussion of some of the costs of the AWashington Consensus@ during the East Asia economic crisis of 1997-98.

cultural and consumer products, teenagers in China can disco to the tunes of Michael Jackson and Madonna and consumers around the world can come to a common understanding of what trademarks (like the Nike "swoosh") mean for high status consumption. Although the multinational marketing of consumer products has a history that goes back to the earlier phase of globalization in the 19th century, it is increasingly ubiquitous. And the delivery of a common message of style and consumerism to the far corners of the globe has been immensely assisted by recent technological advances in satellite TV transmission and reception.

Technological change has also made the Internet possible. The possibility of surfing the Web for breaking news, historic documents, statistics, chat rooms, pornography and consumer goods is of very recent origin, and there is much speculation about long term impacts. However, it is clear that Internet use around the world will increase substantially in future years, and a much wider spectrum of the world's population will have instant, common access to the same potential base of information (and misinformation).

All this suggests that globalization has a socio-cultural dimension, which implies that a third possible conception might be:

> [3] an increased salience of common shared global cultural space - i.e. the increasing commonality of cultural referents and symbolic discourse around the world.

If this is what one means by globalization, then it has potentially very strong implications for the sense of identity and norms of behaviour of individuals around the world. Since governments around the world often appeal to the feelings of patriotism and civic mindedness that a sense of national identity enables, governments have reason for concern. Since social policy can, for present purposes, be thought of as "that set of public policies which seeks to improve equity in the distribution of economic well being", it depends crucially on the idea of a national community, within which redistribution is seen as appropriate. Furthermore, social policy is always embedded in a particular understanding of equity and of appropriate social roles. If global cultural trends change national social norms and local feelings of national identity, there may be strong pressures for changes to social policy.

(2) Greater Trade in Goods - The Economists' Perspective on Globalization and Social Policy

It is often dangerous to generalize about the opinions of an entire occupational group - particularly a group as opinionated and cantankerous as economists. Nonetheless, it is also probably safe to say that the views of most economists on increased international trade in goods have been heavily influenced by Ricardo's theory of comparative advantage. In arguing that greater international specialization of production increases economic efficiency, this theory has two potential implications for social policy. The greater aggregate economic output enabled by trade is forecast to increase the resources potentially available to finance social policy initiatives, while the dislocations produced by greater trade dependence may increase the need for social policies to compensate those who lose out in the process. Because greater trade openness will hurt some industries, the initial structural adjustment to greater trade creates job losses in those sectors. As well, greater dependence on international markets often produces greater cyclical variability in aggregate output, and higher cyclical unemployment. Both in the short term and in the long run, greater trade openness therefore creates needs for social policy intervention. However, in principle a more efficient allocation of resources could enable those who lose from greater trade to be compensated for their losses, with something left over as a net social gain.

Critics of greater trade protest that these compensatory transfers are often not actually made - and if they are not, large sections of the populace may end up worse off in a freer trade environment[5]. However, advocates of trade liberalization (e.g. Frankel, 2000) tend to downplay the importance of such adverse impacts on income distribution and to emphasize the potential that greater trade may have for dynamic gains in an increased *rate of growth* of the economy. If there are dynamic gains in more rapid growth (perhaps due to more rapid international transfer of leading edge technologies), these gains in growth will rapidly cumulate to income gains that are considerably larger than the static gains in the *level* of output promised by the theory of comparative advantage.

It is this promise of a gain in the long run rate of economic growth that is the source of hope for globalization - particularly in the world's poorer nations. And prior to July 1997, one could point to the countries of East Asia (particularly Taiwan, Hong Kong, Indonesia, Korea, Thailand and Malaysia) as exemplifying the rewards in higher average incomes that greater integration into the world economy can bring to the citizens of poor nations. The export of labour intensive goods (such as textiles) was the initial stage, but exports of more complex commodities rapidly followed (e.g. Korean automobiles and Malaysian electronic goods) and these economies changed beyond recognition. Since 1997-98, the picture has become more clouded - but one should not forget the huge impact on living standards of the previous decades of economic growth.

The East Asian example epitomizes the hopes of the advocates of globalization[6]. However, the economic crisis[7] of 1997-98 has changed the debate. In particular, there is a new focus on the role played by capital market liberalization in enabling an initial crisis of financial confidence in a single nation to generalize into a major currency crisis and depression which spread across an entire region. The policy question is whether globalization in East Asia went "too far"- i.e. whether the gains from globalization for poor countries are mostly to be had in greater openness of merchandise trade and long term investment, while

[5]As well, Weisbrot et al (2001) question whether aggregate outcomes have improved during the period of globalization.

[6]Sub-Saharan Africa offers a much less optimistic picture of the cumulative impact of engagement in the global economy.

[7]See, for example, Agenor et al (1999) or Hill (1999).

openness to short term capital flows exposes poor countries to much greater risks, for smaller returns.[8]

In thinking about the *future* impacts of trade liberalization, however, one also should remember that one can, in general, expect diminishing returns from greater trade liberalization. Large tariffs have significant impacts on the location of economic activity, but small tariffs have small impacts - indeed when tariffs get very small they have to compete for attention in a firm's decision making with international differences in a myriad of other cost factors (such as quality of infrastructure, labour relations, taxation regimes, etc.)[9]. Since the largest tariffs have already been eliminated from international merchandise trade by several decades of trade liberalization, it is hard to expect further reductions to produce equally large efficiency gains.

As well, in thinking about the future, and the extension of liberalization to new domains of the economy, one should not forget that in attaining an efficient allocation of resources, the movement of commodities and of different factors of production are substitutes. In the classical theoretical example of trade between two nations with differing endowments of capital and labour, which produce capital intensive and labour intensive goods, one can trade goods with differing factor intensities, or the capital can move to the labour, or the labour can move to the capital. The implication is that if barriers to goods movement and long term investment and technology transfer have already been much reduced, the marginal gain from liberalization in another domain (such as services or short term capital movements) is likely to be smaller than if that liberalization had not already occurred.

Nevertheless, whatever the benefits of further trade liberalization, there has often been an agreement of both the political right and left on the impact of greater merchandise trade on social policy. From the left has come the worry that greater openness will produce a "race to

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[8]In introducing exchange controls at the height of the crisis, the Malaysian authorities clearly signalled their opinion. Rodrik (2001) argues that they were basically right, but the debate goes on. Note that free trade in financial services entails greater openness to short term capital flows.

[9] The WTO website notes: ADeveloped countries= tariff cuts are for the most part being phased in over five years from 1 January 1995. The result will be a 40% cut in their tariffs on industrial products, from an average of 6.3% to 3.8%. The value of imported industrial products that receive duty-free treatment in developed countries will jump from 20% to 44%.@

the bottom" in social policy, as states respond to the competitive pressures of imports on domestic firms by slashing the social benefits of workers. Under the slogan of "TINA" (There Is No Alternative), right wing commentators have often made a similar assertion - that social programmes must be cut if domestic firms are to remain competitive in the new global trading environment.

However, even when there is a complete absence of tariff barriers to merchandise trade, very substantial differences in social policy have persisted, for many years. Heady et al (2001) note, "Social transfers vary enormously across the European Union".[10] Even within the USA, where national legislation constrains state governments to a far greater degree than the member states of the European Union, there is substantial variability across states in the level of social benefits. [In 1997, for example, average monthly spending per social assistance recipient was nearly three times as high in Minnesota ($289.50) as in Mississippi ($107.20) - see Osberg (2000).]. These differences in social spending have been in place for many years and have evidently not prevented firms in these different jurisdictions from competing with each other successfully in a trading environment free of tariff barriers to merchandise trade.

As well, there have long been substantial differences in the structure of social policy delivery, in countries heavily dependent on trade, and competitive with each other. Many comparisons can be made - but just as an example, one can cite Australia and Canada, two OECD nations which compete directly in many of their important export markets and which resemble each other in cultural origin, population size, income level, and degree of trade dependence. Historically, Canada has had a nationally administered earnings related Unemployment Insurance plan and locally delivered social assistance while Australia has only had a single flat rate social benefit. Canada has had a mixed system of old age security, partially dependent on prior earnings, while Australia had a means tested universal flat rate pension. Australia had a national system of collective bargaining with wages awards by occupational group, but although Canadian firms are largely not unionized, where a union is certified, agreements are negotiated at the firm level. Australian health insurance is an uneasy

[10]ATotal social transfers vary from 19.9% (of household income) for Greece to 32.7% for Belgium; pensions range from 10.9% of household disposable income in Denmark to 23.4% for Italy; while non-pension social transfers range from 1.6% in Greece to 16.3% in Denmark.@ Heady, Mitrakos and Tsakloglu (2001:6) - see also Bowles and Wagman (undated) who also emphasize the extent of national variation in social spending.

mix of public and private provision - but two basic principles of the Canada Health Act are universality and public provision. All these programmes are continually subject to revision - but the basic point is the diversity of social policy delivery in two seemingly similar, heavily trade dependent nations.

Evidently, heavy dependence on merchandise trade and unique national social policies can coexist. Surveys (e.g. Brown, 2000; Bowles and Wagman (undated)) of the literature on the impact of merchandise trade on labour standards consequently alternate between discussion of the fears that globalization produces a race to the bottom and consideration of the hypothesis that greater trade produces a tendency to upwards convergence. This heterogeneity in outcomes arises partly because the longer term cost in aggregate technical efficiency of particular social policy choices is often ambiguous (e.g. greater labour market "flexibility" in the hiring and firing of firms has short run gains for firms but long run costs in decreased human capital formation through on the job training - hence lower productivity growth). Divergent social policies do impinge differentially on specific industries, but nations can "afford" to run different social policies because costs for some sectors are often balanced by benefits to others.

As well, the costs of anti-poverty transfers are typically a small percentage of total government expenditures, and therefore make only a marginal difference to aggregate tax burden. Because poor people have little, it does not take much to make a major difference in their lives. Hence, these transfers are very important to their recipients - but they are a much smaller percentage of the incomes of the affluent majority. As a result, although the pressures of international trade are often used as an excuse for the advocacy of particular social policy initiatives, nations have in the past competed successfully in international merchandise trade under a variety of substantially different social policy regimes. But if the WTO represents (as it advertises itself) an important new institution for the governance of trade relations, is this likely to be true in the future ?

3. "Active" Social Policy and the New Institutional Framework of Trade

What impact will the World Trade Organization (WTO) have on social policy? If the only implication of the WTO was a continuation of past trends to decreased tariffs on goods and increased merchandise trade, then there would not be much new about it. In this case,

evidence from the past on the coexistence of substantial trade dependency and social policy heterogeneity would be directly relevant. However, the WTO is, in at least two important respects, qualitatively different from the GATT regime that preceded it. Since the WTO is aggressively pursuing "non-tariff barriers" (and the trade complaints adjudication process cannot be appealed) and since trade regulation under the WTO is being extended to the service sector, it represents a new institutional framework, and past data may be of limited relevance.

The WTO was established in 1995, so it is now (April, 2002) only seven years old[11]. Clearly, there has not yet been much time in which to assess the cumulative impact of this new institutional framework for international trade. Some parts of the framework are even younger - for example, it was only in 1997 that seventy members of the WTO concluded a financial services deal covering more than 95% of trade in banking, insurance, securities and financial information. Extensions to the WTO are now under negotiation. In practice, it is the trade complaints adjudication process that will give specificity to the general language of these treaties, but trade cases take time to be concluded. Since it is the *cumulative* impact of the adjudication decisions of trade tribunals that will determine the ultimate set of international restrictions on national sovereignty, one cannot yet know for certain what the WTO framework will ultimately imply.

Hence, much of the anxiety about the WTO framework is necessarily about what it might produce in the future - in particular, the constraints it might imply on new directions in social policy. In market economies, a core concern of social policy is to remedy inequity in the distribution of economic well being that market processes otherwise produce. Governments do social policy because there is a societal judgement that market processes have not produced equitable outcomes, but they now do it in different ways in different countries because societies differ in both outcomes and in the equity judgements made about outcomes.

However, in general a social policy problem can be approached in two ways. Governments can either intervene in market processes to affect the distribution of market incomes (primarily by influencing wages and/or access to employment) or the state can transfer income, or change taxes, to affect the distribution of net income (after taxes and

[11]The WTO Website notes that the GATT was in existence for nearly fifty year previously, but also emphasizes the substantial changes which the WTO embodies.

transfers). If, for example, factory closures create an unemployment problem, governments can respond with unemployment insurance or welfare payments, to mitigate the impact of joblessness on family incomes. Historically, these responses have been very important in offsetting the social stresses that regional inequalities and cyclical instability otherwise create for a capitalist economy, but in recent years such transfer payments have been criticized in much of the literature as being "passive" social policy. Alternatively, by subsidizing a factory's operations (perhaps by giving a wage subsidy or providing infrastructure or training its labour force without charge), governments can help to ensure that workers continue to receive earnings, and do not need transfer payments. This latter sort of intervention is now often referred to as "active" social policy, and is increasingly popular as a policy direction in OECD countries (see Arjona et al, 2001).

The problem is that the shift in emphasis in social policy to active interventionism[12] in labour markets is occurring at the same time as the WTO is setting new standards of non-interventionism. The transfer payments that "passive" social policy produced were generally not thought, in the GATT era, to represent barriers to trade.[13] However, it is inescapable that when nations apply different "active" social policy designs, industrial sectors will be differentially affected - which will necessarily alter the balance of international competitive advantage at the industry level. In "active" social policy, the policy objective is to change market outcomes, typically by changing the profitability to firms of hiring specific groups of workers – and the more engaged firms are in international trade, the more their competitive position will be affected by "active" social policy.

As an example, consider wage subsidies – a policy instrument which has often been proposed as ways to encourage firms to offer employment to disadvantaged workers. Such

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[12]In part, this represents a new labelling of policy interventions. Although, for example, a 1970s government would have advertised its commitment to regional policy (motivated by the social imperative of redressing regional disadvantage), this rhetoric is now passe. The language of the 1990s emphasized the necessity for an active national social policy to redress regional social exclusion - using similar methods as in the 1970s.

[13]

One illustrative exception was the challenge to the Canadian Unemployment Insurance system by the US fishing industry who argued that since fishermen in Canada could claim UI in the off-season, while similar workers in the US could not, the Canadian industry derived an unfair competitive advantage and should be subject to countervailing duties.

subsidies also alter the relative costs of firms (indeed they are intended to), which may give an advantage to a particular industry in export markets, or in competing with imports. Under what circumstances would wage subsidies be ruled an illegal subsidy in international trade? Training programmes can be either general in orientation or specifically focussed on job relevant skills in particular industries - and the latter skills are often best taught on the job. How far can governments go in training workers for the needs of a specific industry before they give that industry an unfair trade advantage? Mandatory work programmes for social assistance clients provide firms with almost free labour - should a trade panel consider this a subsidy to local firms that is not available to their foreign competitors?

Eventually, a WTO panel will likely be asked to decide, in the context of a specific case. Over time, a succession of judgements will build up a body of case law and it is this accretion of precedent that will form the set of constraints on governments. However, there is no reason to think that a series of individual judgements, made one by one, will in the end produce a desirable over all policy design. And even if the WTO panels have some eye on the social implications of their decisions, these will still not be the result of any sort of national or democratic process.

3.1 Country Differences in WTO impact

Thus far, the discussion of the WTO has been rather general, but in actual practice its impact will depend on the national context in which it operates. A useful example of differing contexts for trade rulings is Canada and China - two countries which are polar cases along a number of dimensions that are crucial to assessing the likely impacts of the WTO, namely:

[1] Economic Development

[2] Institutional Framework

[3] International Power

[4] Socio-Cultural History

Canada is a rich nation which has always had a high level of international trade and capitalist market relations of production. Compared to the European members of the OECD, its state is relatively non-interventionist and a number of its institutional practices (such as industrial relations or unemployment insurance) are closer to the American than to the

European model of capitalist development. Hence, Canada is likely to have relatively few adjustments to make to come into line with the WTO agenda - at least compared to China.

As a relatively poor country (at least in average per capita GDP terms) with some regions of affluence (which are growing rapidly), China faces much greater structural problems of ensuring regional and social balance. The transition from a closed planned economy to an open, market oriented system is very recent, and creates much unevenness and sudden new inequalities - in a context of very incomplete social welfare mechanisms (e.g. for retirement pensions or unemployment benefits). The Chinese case is also greatly complicated by the rapid transition, and uncertainty, in economic institutions and systems of market regulation and property rights that it is now undergoing. Even in a country with a well developed system of property rights and long habituation to market based relations of production, there would be huge pressure on the social policy system to intervene via "active" social policy to avoid social discontent. As it is, there is clearly much greater potential for WTO rulings to conflict with national political and social priorities in China than in Canada.

On the other hand, China is more powerful than Canada. Although Canada is more affluent, its population is 30 million, compared to China's 1.3 Billion. Nobody pretends that Canada is a "Great Power" in international terms, while China clearly is. Power matters - in international trade, as in other issues.

As an example, one can cite Canada's experience with soft wood lumber exports to the USA. Although Canada's signature of the Free Trade Agreement (FTA) with the USA and the North American Free Trade Agreement (NAFTA) with the USA and Mexico and Canada's accession to the WTO should have guaranteed Canadian soft wood lumber exports tariff free access to the US market, this has not actually happened. (See Appendix A). At the time of writing (April 2002), Canadian exports of softwood lumber to the US market faced countervail duties of 29%[14] - even though Canada's legal case for tariff free access has been upheld on four separate occasions in US courts. In short, for Canada it is clear that formal guarantees of trade access matter less than the political power of internal US trade lobbies. The WTO has not, in actual fact, been able to impose a rules based system when it does not

[14]See McKenna and Chase (2002). It appears that these duties will only be withdrawn if provincial governments agree to align timber sales to the US institutional model and if Canada accepts a transitional export levy and drops its case at the World Trade Organization (see Winsor, 2001).

suit the interests of the US for it to do so. However, it is less likely that China could get pushed around in the same way – China's power may shield it from some of the impacts that the WTO would otherwise have on domestic social policy.

Canada and China also view the impact of globalization in general, and the WTO in particular, from very different perspectives - particularly with regard to social norms and cultural identity. Canada is a relatively young nation, populated by immigrants with diverse cultural origins, which sits directly beside the much larger USA - hence Canadian authors have often been concerned with defining what it is that is unique and different in Canadian culture, and with preserving it from Americanization. With huge size, relative ethnic homogeneity and thousands of years of history, China does not have the same worries about national identity. Furthermore, in China there are many who remember the excesses of the Cultural Revolution, which was both isolationist and destructive of China's traditional cultural heritage. In the Chinese context, opening the country to foreign trade and rediscovering ancient traditions are both reactions to the Cultural Revolution experience and are seen as quite compatible. Since Canada, like other countries, did not experience a Cultural Revolution, trade openness is more often seen as a threat to national cultural uniqueness.

As a consequence of these differences in context and history, "Globalization" is likely to have different impacts in different places - but the question remains as to whether there is a trend to a "Globalization of Culture", in which these national differences in context are attenuated.

4. McWorld:[15] Social Policy Implications of Global Culture

What is the relationship between socio-cultural globalization and social policy ? The term “culture” can be used in the narrow meaning of cultural products (such as music, books, movies, television, etc.,) and it is these aspects of culture that are directly affected by globalization. However, the term “culture” can also be used in the broader sociological sense of a society’s norms, values and associated patterns of behaviour, which are the factors that affect social policy.

The relationship between these two understandings, or aspects, of culture is clearly complex. For example, some art is created in reaction to existing sociological norms, as artists attempt to hold up an unflattering mirror to their society and present a critique of current behaviours. Simultaneously, other artists may seek to exemplify, glorify, or summarize aspects of their society. However, underlying the efforts of both is the idea that art matters - that cultural products help to define the frame of discourse within which individuals interpret their world, and these understandings affect their behaviour[16]. For present purposes, all this essay needs to assert is that changes in the types of cultural products produced and consumed (i.e. culture in the narrow sense) will affect norms, values and behaviours. The issue is then whether, and to what degree, a process of globalization of symbolic culture will have social policy impacts.

One of the social functions of cultural products (such as books, TV shows, plays, movies and music) is to enable a society to express its dilemmas and grapple with its issues. For example, films about life in the trenches during World War I were important in enabling European societies to come to terms with the aftermath of that war during the 1920s, and films about the Vietnam War were similarly important to Americans after that conflict. However, although there is often something universal in a good film, cultural products like cinema speak

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[15]ATodayʼs youth live, communicate and act in a wired world of corporate logos, symbols and branding. "McWorld" is the symbolic term often used to capture the new realities of corporate-driven globalization which engulf young people today.@ Clarke and Depp (2001: 1)

[16]Many national governments (not just in China) have instinctively grasped the importance of popular culture and sought consciously to influence its evolution.

most directly to a particular social reality[17]. If cultural products are to speak to the specific, local issues of a society, local cultural industries have to be financially viable. However, this may be more unlikely under the WTO, as illustrated by the case of the Canadian magazine industry.

Cultural industries (e.g. magazines, books, movies) are characterized by a relatively high cost of production of the first copy, but low marginal costs of reproduction. Hence, American producers often have an inherent structural competitive advantage. Because their fixed costs of production are spread over a very large domestic market, and their marginal costs of reproduction (including any small changes required to customize for a particular foreign market) are fairly small, they can often underprice local producers. Because of this market advantage, Canadian governments have long been aware that the maintenance of a distinctly Canadian culture requires market intervention. To that end, since 1965 Canadian tax law provided incentives to Canadian advertisers to use magazines with original Canadian produced editorial content, as a means of ensuring that the Canadian magazine sector retained financial viability. However, when American magazine publishers appealed this discriminatory treatment of their subsidiary Canadian editions, a WTO panel agreed, and the practical consequence was that Canadian cultural policy had to be changed - in a way unanticipated[18] at the time Canada acceded to the WTO.

Of course, the increasing commonality of cultural referents and symbolic discourse around the world is not some sort of general, unspecific set of events. In fact, it is American television, movies and music that are dominant globally. As well, American multinational firms predominate globally. Granted that American culture has absorbed influences from many countries and that some regional cultures do appear sometimes on the world stage (e.g. Reggae music). However, the common cultural referents seen and heard around the world are primarily American in origin - so it is not so much cultural homogenization, as Americanization, that concerns the rest of the world.

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[17]For example, actual or potential racial conflict among US soldiers is a frequent theme of Vietnam era movies, but not of post World War I European cinema.

[18]An outside observer cannot verify what was in the minds of Canada=s trade negotiators in the early 1990s. However, one can easily verify that this consequence of accession to the WTO was not part of the Parliamentary or broader public debate, so there is no sense in which public consent was invited or obtained.

Why might that matter for social policy ?

One important reason is that some countries have based much of their social policy framework (or lack of it) on the presumption of continued cultural dissimilarity to the USA (or European countries, in general). The East Asian countries, for example, did not establish much by way of a retirement security system for older workers or an unemployment insurance system for jobless workers, even during their years of booming growth. The argument (e.g. in Malaysia) was that their citizens could depend on the support of a large extended family in their retirement years, or in the event of personal misfortunes such as unemployment or disability.[19] Hence, it was believed that unlike the USA or Europe, welfare state bureaucracies to deliver old age pensions, UI benefits or Workers Compensation payments were not needed.

Can one expect to have both substantially common global cultural products (e.g. movies, TV shows and popular music) and a substantially different set of private attitudes with respect to obligations to share with an extended family? The American norm is the nuclear family - television shows may portray its tensions, but within a common expectation that it is certainly not normal to share income outside the nuclear family. American culture is also notoriously youth oriented, with relatively little respect for parents or the elderly - popular US culture sends the message that such disrespect is quite normal. The social policies of American governments are quite consistent with the fact that in the US there is no expectation that adult children will devotedly support their aged parents when they retire, and that any support for distant relatives (for example, for an unemployed cousin) would be an unusual act of generosity. Since support of the elderly, or distant relatives, is not normal behaviour, governments have to fill the gap.

Strong norms of mutual obligation and sharing within the extended family have, in many countries, enabled the extended family to be the social institution which has fulfilled many of the functions of social insurance programmes. However, that sharing depends on everyone taking those norms of obligation for granted (and the support of the affluent is particularly crucial). The question is whether those norms can, in the long run, withstand the

[19]Whether or not this was a reasonable presumption is another issue - see Osberg (1998).

influence of repeated media suggestions that they are, basically, a bit weird (in terms of the values portrayed in the global culture).

Social norms affect the need for social insurance programmes and also the need for income redistribution. In some societies, both sex before marriage and divorce after marriage are unthinkable. In some very traditional societies, the penalties for either are extreme. In US society, both are common, and much American popular culture reflects the dilemmas associated with that. One does not have to express a judgement about the morality or personal happiness connected with either premarital sex or divorce, to recognize that both produce single parent households. Such households are very likely to be poor, in all societies, and to need substantial social support in income and services - and in traditional societies such families are often ostracized. To the extent that cultural media affect, in the long run, norms of sexual behaviour and family formation, they will have impacts on the need for some types of anti-poverty social policies.

Social norms also affect the details of design and administration of social programmes in many practical ways. A historical example of national differences is the payment of family allowances, which in Canada were payable to the mother, while in Germany benefits were payable to the father. In both cases, the intention was to benefit the children, but the national norm of familial financial control was clearly different. Such national norms are reflected in the structure of domestically produced television, radio and music - but not in the global cultural product that is absorbed via satellite television. To the extent that such social norms converge on a common pattern[20], there will be similar pressures for converging modalities of programme delivery, in addition to greater pressures for the establishment of similar programmes of social insurance and income redistribution .

[20] There are a number of data sets (such as the World Values Survey) that have used comparable surveys of national values and attitudes to track this process.

5. Conclusion: Levels of Globalization

This essay has argued that there is good historic data to indicate that the expansion of international trade in goods – "globalization" in the sense of the term used by some economists - is consistent with a variety of social policy regimes at the national level. It has also argued that although it is clear that there are now many anxieties about the process, globalization in the sense of the cumulative harmonization of the rules governing trade is being implemented by a relatively new institution (the WTO), and definitive statements about the implications of rulings that have not yet been written cannot now be made. Meanwhile, globalization in the socio-cultural sense is being partly driven by new technologies (such as satellite TV and the Internet) - hence data from the past on social impacts are not available. Uncertainty is therefore unavoidable.

However, we do know that, to some extent, the economic, political economy and socio-cultural conceptions of globalization are separable. We know that there were long periods of expansion of international merchandise trade, without the establishment of anything comparable to the WTO. The specific institutional features of the WTO were established as a consequence of deliberate political decisions, which could have been made differently. Hence, one cannot argue that globalization in the first sense (expanding merchandise trade) necessarily entails globalization in the second sense (i.e. harmonization of regulation, as in the WTO). Similarly, there have been restrictions on the penetration of global culture into local societies in the past (e.g. local content requirements for television and cinemas) which coexisted with expansions of merchandise trade - so it cannot be argued that globalization of trade in goods necessarily entails socio-cultural globalization.

Nevertheless, there are also some clear linkages. Section 4 has noted the difficulties Canada has experienced in trying to maintain a local magazine industry, under WTO regulation. The issue of "free" trade in cultural and intellectual products, versus the maintenance of local cultural diversity, will clearly be heavily influenced by the emerging body of WTO decisions. Hence, globalization in the political economy sense will have a strong influence on socio-cultural globalization.

This essay has argued that it is the political economy and socio-cultural meanings of globalization that are likely to have the greatest impacts on the delivery of social policy at the national level in future years. Although much remains uncertain, the bottom line is that in the longer term there are likely to be substantial pressures on national governments to further

“harmonize” their policy frameworks - especially for “active” social policy. However, “Greater Pressure for Social Policy Harmonization” is really just a nicer way of saying that nation states are losing distinctiveness and sovereignty.

Section 4 has already discussed pressures on the distinctiveness of national cultures, but the impact of globalization on national sovereignty is also likely to be very important for social policy in the longer term. In democratic countries social policy is implemented by the state and the legitimacy of state power depends on there being a widespread belief that social and economic outcomes are governed by laws that ultimately reflect the popular will - i.e. that laws and regulations are the decisions of sovereign, democratically elected national governments[21]. As effective control over an increasing number of issues is transferred above the nation state to multinational agencies, and as national sovereignty over an increasing number of issues is eroded, there is a perception that national governments are being reduced to being the implementation agents for trade treaties, as interpreted by a murky set of multinational bodies. The democratic deficit in the governance of those agencies therefore creates the risk that the legitimacy of state power will be undermined over time.

Since trade cases take time to be concluded and since it is the *cumulative* impact of the adjudication decisions of trade tribunals that will determine the ultimate set of international restrictions on national sovereignty, one cannot yet know for certain what the WTO framework will ultimately imply. Hence, much of the anxiety about the WTO framework is necessarily about what it might produce in the future. Yet the WTO website states quite clearly that accession to the WTO implies an irreversible loss of national sovereignty: “Under WTO rules, once a commitment has been made to liberalize a sector of trade, it is difficult to reverse. The

[21]Since there may be procedural controversies over particular elections (e.g. George Bush Jr.’s election as US President despite losing the national popular vote, based on a highly contested razor thin margin in counted ballots in Florida), this has to be interpreted as an expectation that *eventually* the popular will prevails - which implies that it has to be possible to reverse the decisions of governments who may have lacked a real popular mandate.
A cynic might argue that in OECD countries, the actual mechanisms of democratic governance really represent a sophisticated system for the management by economic elites of incipient class conflict and social and political discontents – but even so, such a system depends for its efficacy on the widespread *belief* that the state ultimately acts in accordance with the popular will.

rules also discourage a range of unwise policies. For businesses, that means greater certainty and clarity about trading conditions. For governments it can often mean good discipline."[22]

The calm assurance of WTO beneficence in providing "good discipline" and preventing "unwise policies" ignores the basic reality that people will often disagree about what an "unwise policy" is and about how to distinguish between bad and good discipline. In a democracy, citizens are told that such disagreements are quite normal and that argument and political debate are socially acceptable, and feasible, means of changing policy outcomes, by influencing the opinions of other citizens. In a democracy, a necessary part of the process is that voters retain the capability to change their minds - to elect a different government with a different policy approach. The legitimacy of the state in a democratic society depends on the idea that, in resolving disagreements about policy, peaceful change is possible - people have the right to have different opinions and to try to convince others of their point of view, on the premise that such public debate can ultimately affect public policy.

However, the irreversibility of the WTO process implies that such democratic debate is pointless. The temporary electoral advantage of a particular government can, if it signs on to the WTO, embed in concrete a long term policy direction - whose full dimensions may well not be clear to governments (or their electorates) at the time of signature.

What becomes of the legitimacy of national governments in this context? If national governments could point to an enduring gain in their citizens' incomes coming from undisputed trade access, there might be some solace for the electorate, but the widespread publicity surrounding a series of unilateral "anti-dumping" barriers to trade erected by the US (see Appendix 1) is much more likely to breed popular cynicism about the whole structure of trade governance. Whatever rhetoric there may be about an international system of trade law, it only takes a few high profile cases to undermine belief in its even handedness.

Amazingly, the WTO lists as a *benefit* the fact that "Quite often, governments use the WTO as a welcome external constraint on their policies." However, the long term impact of a loss of national control, combined with a perception that in the end the powerful get their way, is likely to undermine considerably the legitimacy of the democratic state. As the recent

[22]The WTO website lists this as Benefit (No. 10) of the WTO. It is argued there, without any recognition whatsoever of what this means for the accountability of a democratic process, that "Quite often, governments use the WTO as a welcome external constraint on their policies."

decline in voting among the electorates of OECD countries illustrates, when there is a widespread perception that politicians are “all the same”, or “irrelevant”, many citizens may disengage from the political process. In doing so, they may open the door for more extreme elements (as the le Pen experience in the 2002 Presidential elections in France illustrates). Although it is clear that such developments would have strong social policy consequences, they are hard to predict exactly – but they are also unlikely to be consistent with the historic ideals of tolerance and equity that have underpinned political discourse in the liberal democracies for so many years.

Remarkably, the WTO labels as “Myth No. 10" the idea that the WTO is anti-democratic. see http://www.wto.org/english/thewto_e/whatis_e/10ben_e/10b10_e.htm

Appendix A

Contingent Protectionism and the Continuance of US Power:

The example of the Canada - USA Soft Wood Lumber Trade Issue

Canada's major aim in negotiating the Free Trade Agreement (FTA – signed in 1988) and North American Free Trade Agreement (NAFTA – signed in 1993) was to escape "contingent protectionism" - the chance that politically powerful US lobbies could mobilize support for a complaint of "unfair competition", which would potentially open Canadian exporters up to punitive anti-dumping duties. However, the soft wood lumber case provides an illuminating example of the divergence between formal guarantees and actual trade relations in the real world of power politics.

Canada's single largest net export to the USA is softwood lumber, but a series of "anti-dumping" challenges by the US industry has, throughout the 1990s, repeatedly threatened punitive duties[23] and forced the Canadian industry to adopt "voluntary" export quotas - despite the existence since 1988 of a Free Trade Agreement with the US and the existence of the WTO since 1995. The nub of the issue is that in most provinces of Canada, forestry land is publicly owned and granted to lumber firms on large, long term leases (which enables economies of scale in lumber mills), while US woodlands are privately owned, and often relatively small in scale. The US industry complains that this system of leases on Canadian public woodlands gives an "unfair advantage" to producers, and has used this as an excuse for countervail and anti-dumping duties. Lumber exports from the Eastern Provinces of Canada where woodlands are privately owned were not affected by the threat of anti-dumping duties, and the US timber lobby's legal case for anti-dumping duties on softwood lumber would go away if all of Canada adopted the US model of private ownership of forests - i.e. if the Canadian institutional structure of forest management were aligned to the US model.

Frankel (2000;28) notes that in 1999 the number of anti-dumping cases launched in the US was double that in 1995 and "the use of AD (anti-dumping) measures increased rapidly in the 1980s and 1990s because firms hit by increased imports have found it much easier to gain

[23]In the latest instalments of this long running dispute, the United States imposed a 19.3 percent tariff on Canadian softwood lumber on August 10, 2001 [See Simon (2001)], followed by a second round of penalties on October 31, 2001 which brought the effective rate of duty to as high as 32 per cent. (Globe and Mail, 31/10/01). On March 23, 2002, the tariff was finalized at 29%. (McKenna and Chase, 2002).

protection under the antidumping laws than under the safeguard laws". He also notes that the US is unlikely to agree to any limitation on its right to pursue anti-dumping remedies. The problem which the softwood lumber case illustrates is the fact that the US continues to define what constitutes "unfair competition". US producers have the incentive to claim that any difference between the US and a foreign nation's institutional structure which confers a significant cost advantage is "unfair". Charges of unfair competition can be avoided if other nations adopt US institutions, but many outside the USA would see this as very costly (in a social sense) and this raises the issue of US hegemony over other nations' institutional practices (without any voice in the setting of US institutions).

If nations never enquired about the origins of the cost advantages of their trading partners, then issues of the "fairness" of the production process would not arise. This is more or less the assumption of introductory economics texts and some economists argue that if foreigners want to pay for subsidies and give their goods away at below cost, why not buy cheap? However, the prevalence of concerns with "dumping" over the years, and environmental and labour issues more recently, illustrates the fact that trade relations are always about production, as well as exchange. Sitting behind the "free" trade debate there have always been arguments over what are "fair" conditions of production - and it is the powerful who get to decide "what's fair".

The major reason why some smaller countries have been active in the WTO agenda is the hope that a multilateral context for trade would provide constraints on US power. The counter argument is that although the WTO framework is heavily influenced by the US, and over time will constrain many policy choices to a set consistent with an American world view[24], on particular trade issues the US also effectively retains the possibility of opting out and imposing a bilateral solution (when domestically convenient - as in softwood lumber with Canada, or in the 30% tariff on steel imports from Europe, Asia and South America

[24]As a concrete example, one can cite Frankel, who argues for product labelling because Aconsumers can if they choose exercise their right not to consume products that they view as environmentally or socially harmful or objectionable@. (2000:24) Clearly, consumers are seen as having an individual right not to consume (which is the American/WTO model), but the same people, as citizens, are not seen as having the right to collective action through local governments to the same end . This model of the balance between individual and collective rights has not, historically, been embraced by all countries.

imposed unilaterally in March 2002 or honey imports from Argentina, or a long list of others (see Sanger (2002) or Rohter(2002)). In that bilateral discussion the reference point for "fairness" is likely to be current American institutional practice and treaty guarantees can count for little - as Winsor (2001) notes: "Canada has won in court or in panels of the North American free-trade agreement four times in the past, but the protectionist clout of the U.S. Department of Commerce and the U.S. foreign trade office have overridden those legal victories and Canada have always been forced to accept quotas and export duties to keep its share of the U.S. market from growing beyond about 30 per cent." As a consequence, many in Canada have concluded that "actions speak louder than words" and that the truer meaning of "free" trade is "trade convenient to politically powerful American interests."

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