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Room for Differences? Social Policy in a Global Economy[1]

LARS OSBERG

In this volume there are those whose views are implicitly optimistic and those whose background music is less upbeat. Lars Osberg finds that "globalization" of trade in goods has in the past not imposed identical responses everywhere, particularly in terms of social policies. However, the World Trade Organization (WTO) represents a qualitatively new level of pressure for policy "harmonization," and it is not yet clear whether countries of different sizes and different levels of per capita gross domestic product (GDP) will continue to be able to find enough room to make their own policy adjustments in response to the emerging tensions of socio-cultural globalization.

Around the world, there is both widespread 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 worldwide trend toward cultural and social homogenization (more specifically,

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Americanization)? Might "globalization" imply that nations will no longer be able to implement different social policies appropriate to the specific needs and preferences of their different societies?

The subject of this chapter is the connection between globalization and social policy. The first section begins by discussing three different meanings of the term "globalization," while subsequent sections explore the implications of these differing conceptions for the analysis of globalization's impacts. The second section focuses in particular on the fairly narrow interpretation by 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, this section discusses the extent of current divergences in social policy among nations that are heavily dependent on trade.

The second section 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 now implementing "globalization" that will determine whether it tends to produce greater homogenization of social and economic policy.

The fourth section of the chapter is, frankly, more speculative. It suggests that the first section's adoption of the economist's conceptualization of globalization as "greater merchandise trade dependence" and the second section's use of the political-economy perspective of increasing commonality of economic regulation are both 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 that alter the demands citizens make of their governments, the long-run implications for social policy may be quite profound.

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

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 the 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 nineteenth century was in some ways more profound than globalization in the twentieth and twenty-first 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.[2] Hence globalization – in the sense of greater international economic interdependence – is not a new phenomenon.

In the nineteenth 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 nondiscriminatory 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 nineteenth 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 twentieth and

2 O'Rourke and Williamson (2000) 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 "free movement of labour" was only true in part of the world.

twenty-first centuries is clearly very different. Is the globalization process of the nineteenth century at all comparable to that of recent years?

During the nineteenth 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 an analysis of 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 gross domestic product is very common in economics – for example, in the excellent International Monetary Fund (IMF) survey paper by Crafts (2000).[3] 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 nineteenth century and the first three quarters of the twentieth century, the institutions that 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 the General Agreement on Tariffs and Trade (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 nontariff barriers to trade were largely untouched. Since 1994 the World Trade Organization 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 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.

3 See, in particular, pages 25-8. 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 that 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 that provide services (such as transportation, banking, and 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 toward "harmonizing" labour market regulations. As well, nations differ substantially in the extent to which some services (such as prisons, hospitals, medical services, and 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 toward the establishment of global "common rules" governing trade in goods and services – that is, the reduction over time in differences in the local regulatory and legal environments of goods, services, capital, and labour markets that 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 antiglobalization 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 that are both positive and negative. One can use the International Forum on Globalization and Contemporary Capitalism as a positive example of the greater tendency around the world to learn from comparative international experience. Even as recently as ten or twenty years ago, it was much rarer[4] 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 – for example, the Luxembourg Income Study data base. In part, it is due to the growth of international bureaucracies – for example, the Organization for Economic Cooperation and Development (OECD), the IMF, and the World Bank. The result is a globalization of social policy discourse and an increasingly dense net of linkages between opinion-forming elites.[5]

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 cultural and consumer products, teenagers in Wuhan, China, can disco dance 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 nineteenth century, it is increasingly ubiquitous. And

4 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.

5 However, a greater tendency toward 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 "Washington consensus" during the East Asia economic crisis of 1997-98.

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 that 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 – that is, the increasing commonality of cultural referents and symbolic discourse around the world.

If this is what one means by globalization, then it potentially has very strong implications for the sense of identity and norms of behaviour of individuals worldwide. 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 that seeks to improve equity in the distribution of economic wellbeing," it crucially depends 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.

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. In both the short and the long term, 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.[6] 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 accumulate, eventually leading 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.

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

The East Asian example epitomizes the hopes of the advocates of globalization.[7] However, the economic crisis[8] 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 that spread across an entire region. The policy question is whether globalization in East Asia went "too far" – that is, whether the gains from globalization for poor countries are mostly to be had in greater openness of merchandise trade and long-term investment, while openness to short-term capital flows exposes poor countries to much greater risks for smaller returns.[9]

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 become very small they have to compete for attention in a firm's decision making with international differences in myriad other cost factors (such as quality of infrastructure, labour relations, taxation regimes, etc.).[10] Since the largest tariffs have already been eliminated from international merchandise trade by several decades of trade liberalization, further reductions should not be expected 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, long-term investment, and technology transfer have

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

8 See, for example, Agénor et al. (1999) or Hill (1999).

9 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.

10 The WTO website notes that "Developed 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%."

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 the 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 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 programs 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, 6) note that "Social transfers vary enormously across the European Union."[11] Even within the US, 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 that compete directly in many of their important export markets and that 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 had only a single flat-rate social benefit. Canada has had a mixed system of old-age security, partially dependent on

11 "Total 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 et al. 2001, 6). See also Bowles and Wagman (undated), who also emphasize the extent of national variation in social spending.

prior earnings, while Australia has had a means-tested universal flat-rate pension. Australia has 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 mix of public and private provision – but two basic principles of the Canada Health Act are universality and public provision. All these programs 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 toward upward 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 workers 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 antipoverty transfers are typically a small percentage of total government expenditures and therefore make only a marginal difference to aggregate tax burdens. 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.

WHO RULES? "ACTIVE" SOCIAL POLICY AND THE NEW INSTITUTIONAL FRAMEWORK OF TRADE

What impact will the World Trade Organization have on social policy? If the only implication of the WTO were a continuation of past trends toward decreased tariffs on goods and increased merchandise trade, then the

WTO's role would not entail much that is new. 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 "nontariff 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.[12] 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 per cent of trade in banking, insurance, securities, and financial information. Extensions to the WTO are now under negotiation, but the outcome is far from certain. 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 wellbeing that market processes otherwise produce. Governments do social policy because there is a societal judgment that market processes have not produced equitable outcomes, but they now do it in different ways in different countries because societies differ both in outcomes and in the equity judgments 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 transfers). If, for example, factory closures create an unemployment problem, governments

12 The WTO website notes that GATT was in existence for nearly fifty years previously but also emphasizes the substantial changes that the WTO embodies.

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, 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[13] in labour markets is occurring at the same time as the WTO is setting new standards of noninterventionism. The transfer payments that "passive" social policy produced were generally not thought, in the GATT era, to represent barriers to trade.[14] 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.

Wage subsidies have, for example, often been proposed as ways to encourage firms to offer employment to disadvantaged workers. Such 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 programs can be either general in orientation or specifically focused 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

13 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 passé. 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.

14 One illustrative exception was the challenge to the Canadian Unemployment Insurance system by the US fishing industry, which argued that since fishermen in Canada could claim unemployment insurance 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.

specific industry before they give that industry an unfair trade advantage? Mandatory work programs 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 make this decision in the context of a specific case. Over time, a succession of judgments will build up a body of case law, and this accretion of precedent will form the set of constraints on governments. However, there is no reason to think that a series of individual judgments, made one by one, will in the end produce a desirable overall 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.

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 that 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 that has always had a high level of international trade and capitalist-market relations of production. Compared to the European members of the OECD, the Canadian government's policies are relatively noninterventionist, and a number of Canadian 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 in order to come into line with the WTO agenda – at least compared to China.

As a relatively poor country (at least in terms of its per capita GDP) with some regions of affluence (which are growing rapidly), China faces much greater structural problems in its efforts to ensure 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 softwood lumber exports to the US. Although Canada's signature of the Free Trade Agreement (FTA) with the US and of the North American Free Trade Agreement (NAFTA) with the US and Mexico as well as its accession to the WTO should have guaranteed Canadian softwood lumber exports tariff-free access to the US market, this has not actually happened (see Appendix). In 2001, for example, Canadian exports of softwood lumber to the US market faced countervail duties of 32 per cent[15] – 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 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 of 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, that sits directly beside the much larger US – 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

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

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 toward a "globalization of culture," in which these national differences in context are attenuated.

MCWORLD:[16] THE 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 that these understandings affect their behaviour.[17] For present purposes, all this chapter 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,

16 "Today's 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).

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

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 the First World War 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 most directly to a particular social reality.[18] 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 rules of 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 by 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 has provided incentives to Canadian advertisers to use magazines with original, Canadian-produced editorial content as a means of ensuring that the Canadian magazine sector retains 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[19] 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

18 For example, actual or potential racial conflict among US soldiers is a frequent theme of Vietnam-era movies but not of post–First World War European cinema.

19 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.

globally. As well, American multinational firms predominate globally. Although American culture has absorbed influences from many countries and some regional cultures do appear sometimes on the world stage (e.g., reggae music), the common cultural referents seen and heard around the world are primarily American in origin. Hence it is not so much cultural homogenization, as Americanization, that concerns the rest of the world.

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 US (or to 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.[20] Hence it was believed that *unlike in the US or Europe*, welfare-state bureaucracies to deliver old-age pensions, unemployment-insurance 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 they do so within a common expectation that it is certainly not normal to share income outside the nuclear family. American culture is also notoriously youth-oriented, showing 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 (e.g., 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 that has fulfilled many of the functions of social-insurance programs. However, such sharing depends on everyone taking these norms of obligation for granted (and support from the affluent is particularly cru-

20 Whether this was a reasonable presumption is another issue (see Osberg 1998).

cial). The question is whether those norms can, in the long run, withstand the 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 programs 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 this reality. One does not have to express a judgment 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 antipoverty social policies.

Social norms also affect the details of design and administration of social programs in many practical ways. A historical example of national differences is the payment of family allowances, which in Canada were payable to the mother and in Germany, 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 in a common pattern,[21] there will be similar pressures for converging modalities of program delivery, in addition to greater pressures for the establishment of similar programs of social insurance and income redistribution.

CONCLUSION: LEVELS OF GLOBALIZATION

This chapter 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

21 A number of data sets (such as the World Values Survey) have used comparable surveys of national values and attitudes to track this process.

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.

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 (harmonization of regulation, as in the WTO). Similarly, restrictions on the penetration of global culture into local societies in the past (e.g., local content requirements for television and cinemas) 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. The fourth section of this chapter 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 chapter 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, therefore, 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.

APPENDIX

Contingent Protectionism and the Continuance of US Power: The Canada-US Softwood Lumber Trade Issue

Canada's major aim in negotiating the FTA and NAFTA 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 antidumping duties. However, the softwood 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 US is softwood lumber, but a series of "antidumping" challenges by the US industry has, throughout the 1990s, repeatedly threatened punitive duties[22] 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 since 1995 of the WTO. 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 antidumping duties. Lumber exports from the parts of Canada where woodlands are privately owned are not affected by the threat of antidumping duties, and the US timber lobby's legal case for antidumping duties on softwood lumber would go away if all of Canada adopted the US model of private ownership of forests – that is, if the Canadian institutional structure of forest management were aligned with the US model.

Frankel (2000, 28) notes that in 1999 the number of antidumping cases launched in the US was double that in 1995 and that "the use of AD (antidumping) measures increased rapidly in the 1980s and 1990s because firms hit by increased imports have found it much easier to gain 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 antidumping remedies. The problem that the softwood lumber case illustrates is 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 that confers a significant cost advantage is "unfair." Charges of unfair competition can be avoided if other nations adopt US institutions, but many outside the US would see this as very costly (in a social sense), which raises the issue of US hegemony over other nations' institutional practices (without any voice in the setting of US institutions).

22 In the latest instalments of this long-running dispute, the United States imposed a 19.3 per cent tariff on Canadian softwood lumber on 10 August 2001 (see Simon 2001), followed by a second round of penalties on 31 October 2001, which brought the effective rate of duty to as high as 32 per cent (see McKenna and Scoffield 2002).

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.[23] But the prevalence of concerns with "dumping" over the years, and with environmental and labour issues more recently, illustrates that trade relations are always about production, as well as exchange. Behind the "free"-trade debate, there have always been arguments over what constitutes "fair" conditions of production – and it is the powerful who get to decide "what's fair."

Some smaller countries have been active in shaping the WTO agenda in the hope that a multilateral context for trade will provide constraints on US power. The counterargument is that although the WTO framework is heavily influenced by the US, and thus over time will constrain many policy choices to a set consistent with an American worldview,[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 the case of softwood lumber). In this 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 has 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."

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23 Some economists would argue that if foreigners want to pay for subsidies and give their goods away at below cost, why not buy cheap? Others would emphasize the longer-term impacts on industrial structure of predatory pricing.

24 As a concrete example, one can cite Frankel (2000, 24), who argues for product labelling because "consumers can if they choose exercise their right not to consume products that they view as environmentally or socially harmful or objectionable." 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.

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