Title
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Author
Fligstein, Neil

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Is Globalization the Cause of the Crises of Welfare States?*

Neil Fligstein
Department of Sociology
University of California
Berkeley, Ca. 94720
U.S.A.

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Abstract

Economic globalization refers to three related processes: 1) the growth in the world economy, 2) the change in the relations between first and third world countries that has resulted from the use of information technologies to reorganize production nationally and globally, and 3) the integration of world financial markets. These processes are often held responsible for deindustrialization in advanced industrial societies, increases in income inequality, and pressures on welfare states to transform worker protection and benefits. I demonstrate that the changes in the world economy are much smaller, more gradual, and unevenly spread across societies than the globalization thesis suggests. More importantly, the links between globalization and its alleged negative outcomes are tenuous at best. The paper then explores what is generating the crises, particularly in Europe.

Introduction

There is a lot of discussion today about the issue of the globalization of the world economy and its ultimate effects on governments and stratification in both the advanced and less advanced industrial societies. This paper considers more closely the case of the OECD countries and the alleged impact of globalization on welfare states. I focus on questioning the rhetoric both empirically and normatively. My main conclusion is that under most definitions of globalization, the evidence that exists just does not support the view that the growth of the world economy is responsible for deindustrialization, increases in income inequality, or the transformations of welfare states of advanced societies.

If globalization is not producing these crises, what is? There are a large number of complex things going on. There has been a sustained transformation of the American economy during the 1980s and a set of political reforms that deregulated business activities and tried to dismantle the welfare state. This transformation was a response to the crisis of American capitalism in the 1970s and has resulted in mergers, plant closings, downsizings, and more concern with short term profits. I have described this transformation as the emergence of the "shareholder value" conception of control (Fligstein, 1996). This view argues that the only persons who have rights over corporate activities should be shareholders and the only concern of firms is to maximize profits for those shareholders.

The American view was partially couched as a response to competition with Japanese firms (Jensen, 1989). It is now being touted as the solution to all competitive problems presumed to arise from increases in world trade. The rhetoric of globalization and the policy implications of the American perspective have become part of the worldwide epistemic community of economists as reflected in the policies of the World Bank and the OECD. The

argument is that the appropriate response to the global economy is to relax rules that protect workers, allow more inequality by lowering tax rates on high income earners, and promote the "shareholder value" conception of control by giving firms flexibility to invest and disinvest how they choose. Governments, from this perspective, should dismantle welfare programs and worker protection to promote "flexible" labor markets, cut budget deficits and tax rates, and keep inflation and interest rates low. The only virtuous thing governments can do is to fund more education to aid workers in adjusting to the new economy (Reich, 1992).

This rhetoric has found its way into political debate around western Europe where there is a fiscal crisis of the welfare state. My view is that the Europeans' problems are not caused by globalization as it is typically used, but are traceable to slow economic growth, the trend away from manufacturing towards services, different societal trade-offs in favor of equity, and the resultant increased demands for services. As I will show, trade cannot be the main culprit. Indeed, if the European economies are so uncompetitive, it is hard to explain why trade has rapidly increased across western Europe in the past 15 years (and the European societies were already amongst the most trade dependent in the world). The troubles are not likely to disappear, but it is not obvious that the solution is to adopt the American shareholder value approach and dismantle social safety nets or change work rules to strip workers of rights.

I want to conclude by considering how social scientists interested in social justice issues can engage in both empirical and normative analyses that produce a counter discourse to the one generated by economics and its major opponent, marxism (or what's left of it). I argue that capitalism remains rooted in nations, even in markets where there are global participants, and this reflects the historical construction of national economic and political elites and the resulting social organization that lie at the bases of their governments and economies. Moreover, capitalist firms remain dependent on national governments and local labor forces to provide

them with stable political conditions, infrastructure, trade protection, trade agreements, competition policies, privileged access to capital markets, and bailouts. Because of this interdependence, I argue that societies have the continued right to make claims on firms. This is a normative argument that goes beyond stakeholder rights as it is usually used, because it demonstrates that everyone in society is a stakeholder, not just those involved with a certain firm.

What is globalization?

Globalization generally refers to three processes.[1] First, there has been an increase in the amount of world trade such that firms do not just compete in their own economy, but against firms from economies around the world. A corollary of this increase is that the nature of world competition has changed. Firms are using information technologies to distribute their productive activities to wherever in the world factors prices are low (Castells, 1996). First world jobs can be transferred to third world countries because factories can be controlled, skills can be transferred, and wages are sufficiently low that they make up for any additional transactions costs and lower productivity that might exist (Shaiken, 1990).

The second meaning of globalization is that the rise of the so-called Asian tigers has come at the expense of first world jobs in Europe and North America. U.S., Japanese, and to a lesser degree, European firms have transferred productive activities to Asia's inexpensive, but relatively highly skilled labor forces. The fast growth of these economies is attributed to a number of factors: state led development processes that produced infrastructure, ease of investment, high investment in human capital, and political stability and openness to foreign capital (Wade, 1990; Akyuz and Gore, 1996; Campos and Root, 1996; Evans, 1995; World Bank, 1996).

The final meaning of globalization is that the world financial markets for debt, equity, and particularly currency, have grown substantially.

Analysts critical of these markets (Harvey, 1990; Block, 1996; Castells, 1996: 435-6) see the huge amount of currency being traded daily as a sign the central banks cannot control currency flows. Moreover, speculators in these markets can cause runs on currencies of a given country if they perceive that the current economic policies are likely to result in high inflation or high interest rates. World debt markets also limit fiscal policy options by pricing credit at a high level. Together, world financial markets operate to force governments to pursue monetary and fiscal policies that promote low inflation, slow economic growth, and curb deficit spending.

The growth of the world economy and its shift to a reliance on information technology are viewed as having several negative effects on developed countries. First, deindustrialization (ie. the hollowing out of manufacturing by the closing of plants) means that high wage blue collar jobs are disappearing (Bluestone and Harrison, 1984). Since these workers often have few skills, they have a hard time finding new jobs. A larger pool of unskilled labor also creates the condition of further depressing wages for low skill jobs.

Second, the new jobs being created by the global economy are for people with a high level of skill, what Robert Reich has called "knowledge workers" (1992). These workers get paid more because they have the ideas and skills that make economic integration possible. Since their productivity is high, their pay is going up. Taken together, these two forces produce a perverse set of outcomes. Returns to human capital are increasing for those at the top of the skill distribution while they are decreasing for those at the bottom. This creates more societal income and wage inequality.

Governments become trapped by two aspects of globalization. The demand for government services increases because of laid off workers and their families and the increased wage pressure on low income families. Governments try to care for these workers and have to run expansionary fiscal policies. Unfortunately, if they do so, they face a number of problems.

Governments have difficulty raising taxes in general and cannot raise

taxes on corporations because that will only encourage firms to move offshore. This accelerates the impact of globalization on deindustrialization by discouraging capital formation. Governments have to be careful about running large budget deficits because over time, world currency markets will force down the value of their currency. This will increase the costs of financing deficits by world debt markets who will demand higher interest rates. High interest rates will translate into slower economic activity.

Governments are therefore trapped by not being able to respond to globalization which produces deindustrialization and more inequality. Virtuous governments can only run economic policies that promote low inflation, low tariff barriers, and cut back on protection for workers and their families in the hopes of attracting foreign investment to stimulate economic growth. The only positive thing governments can do is invest in education.

Critique of Globalization Arguments

I want to begin by pointing out that this basic story is shared by both the economics profession and their principle opposition, scholars who share more marxist premises. For the economists, this analysis of global trade and its effects on economic growth is a good thing because it will eventually result in more wealth even if it produces short run problems of increased inequality. For the marxists, it is a bad thing because people are losing more and more control over their lives and this is thus, a new phase of capitalism that is even more virulent than the last. For different theoretical and political reasons, both economics and marxism want to have economic forces be structural, inevitable, and everywhere dominating action.

Readers familiar with these arguments will think that they have been proven beyond reproach and that my skepticism must be based on no more than fancy. But I want to suggest that the evidence is more ambiguous and we

should be skeptical of globalization claims for logical, theoretical, and empirical reasons.

My logical argument is that it is a strong claim to assert that any one structural shift is causing everything we observe. Given what we know about how most social processes work, they usually reflect complex causes working together in different ways across time and space. It should take a lot of evidence to convince us that the globalization story is true. Put another way, there is a lot of variation of outcomes in the social world, and thus a single changing variable, like world global trade, has a hard time being the mechanism that explains things that are changing at different rates in different places. From a logical point of view, at the very least, one would expect that societies that were more susceptible to world trade ought to be experiencing these pressures more seriously than societies that were experiencing them less seriously. I want to be more systematic and take issue with each of the three views of globalization and their alleged effects by reviewing some of the evidence.

The Slow Expansion and Unevenness of Global Trade

While world trade has increased, it was only in 1994 that trade passed its previous high in 1913, as a percentage of world economic activity (Sacks and Warner, 1995; Wade, 1996). Even more important, the previous high level of world trade was 15.8% of world GDP and today world trade stands at 16.9% of world GDP. The two World Wars so greatly disrupted world trade that it took 50 years to return that trade to its pre World War I level.

(Table 1 about here)

Table 1 presents evidence on the patterns of world trade since 1980. Between 1980 and 1995, world trade more than doubled. But over the same period, world GDP more than doubled as well. In 1995, world trade in 1995 stood at 16.9% of the world's GDP (OECD, 1996). Over the postwar era, trade has generally been increasing faster than world GDP. But it has done so in

starts and stops. During the decade of the 1980s, trade decreased as a percentage of world economic activity. Trade began to grow dramatically in the 1990s, but slowed in 1996 (World Trade Organization, 1997: 3). World trade has increased, but in the context of longterm world economic growth, and in the context of the size and growth of the world economy, it is not at levels that suggest national economies are being overwhelmed (for the long view, see Kenwood and Loughheed, 1994).

Another claim of globalization, is that the mix of products has changed. The claim is that it used to be that developed countries' trade with developing countries' was for commodities and not finished manufacturing goods, while trade between advanced industrial societies was primarily in finished goods. Now, globalization means that third world countries are engaging in first world manufacturing.

Bairoch (1996) summarizes a great deal of this evidence for the long run. He concludes that most world trade is between OECD countries and that this has changed little (it was about 65% in 1913) in the past 90 years. He also concludes that the mix of raw materials and finished goods in this trade has roughly remained the same over the century.

Table 1 presents evidence for the past 15 years that corroborates this view. While the developed world's percentage of trade has gone up and down (it currently stands at almost 67%), it has not trended downward. Moreover, developed countries percentage of manufacturing exports has actually increased in the past 15 years. Table 1 also shows that developed countries are trading with one another at higher levels, while developing countries have focussed on trading more developing countries over time. Contrary to globalization arguments, the main pattern of trade is a stable share for developed countries, developed countries trading more with each other, and more of that trade is in manufactured goods. This is not a picture of a world where jobs and economic activities are being shifted to low wage areas. Instead, there is continuity in trade shares and a tendency for the developed world to increase trade internally for the highest value added goods.

(Table 2 about here)

How can this be, given the great economic growth in Asia? Table 2 presents results on the shares of world imports and exports in the regions of the world. There has been a great deal of stability in the shares of world trade for North America, Europe, Latin America, and Japan. Africa, the Middle East, Eastern Europe, and the countries of the former Soviet Union have all seen decreases in their shares. The greatest increase has been in Asia. While this evidence corroborates the view that the Asian societies have seen a great increase in their exports, the share of trade going to developed countries (North America, Europe and Japan) has not decreased as a result of the growth. Instead, it is the share of the rest of the developing economies that has decreased.[2]

Table 2 also presents information about imports. While Asian societies have seen a great increase in exports, their imports exceed their exports. This reflects their importation of raw materials and equipment to produce economic growth. The EU and Japan have been running trade surpluses suggesting that their goods are competitive in the world. The U.S. has run a persistent and large trade deficit. While U.S. exports have grown substantially, U.S. imports have risen as dramatically.

Table 3 examines the structure of world trade by looking at the origin and destination of trade in 1993. This table shows that the largest trading partner for western European societies is western Europe. It also demonstrates that 46.5% of exports from Asian societies end up in Asia. North America (here defined as the U.S. and Canada) has the most diversified trade profile. Their exports are predominantly to one another with the rest almost evenly divided between Asia, Europe, and the rest of the world.

(Table 3 about here)

The picture that emerges from these tables is a world where trade is increasing in absolute terms (from almost $2 trillion to almost $5 trillion in 15 years), but not dramatically in relative terms (from 14% to 16.9% of world GDP). The direction of trade remains predominantly from developed to

developed societies, and the share of manufacturing trade that originates in developed societies has actually increased. While Asia has grown in exports, it has not taken trade shares away from the developed world. The societies that have not gained as much in trade have been the rest of the developing world. In sum, increases in trade have been gradual and there is no evidence that the developed world has lost out.

These surprising patterns deserve to be examined more closely by disaggregating trade by products and regions. Table 4 presents evidence relevant to globalization arguments. It has been argued that one of the sectors where the forces of globalization are most prevalent is information technology and telecommunication equipment. Table 4 shows that this sector produced $379.4 billion in trade in 1993, a sizeable number. But, it for only about 10% of world exports and about 1.5% of world GDP. The largest trade volumes continue to be for commodities like grain, oil, other raw materials, and metals, chemicals, and more traditional manufactured industrial goods like machines, electrical equipment, and automobile and other transportation equipment.

(Table 4 about here)

The bottom of the table presents data on the shares of each of the regions production of exports by industrial sector. The European Union (EU) ships most of its production within its confines. This has increased over time (OECD, 1996). Trade between the U.S. and Canada is mainly for mining products and manufactured goods. The bulk of exports outside of North America end up in Asia where the U.S. and Canada ship large amounts of office and telecommunication equipment. A surprising amount of Asian exports end up in Asia, particularly for agricultural, mining, and manufactured products. Asian exports a lot of office and telecommunications equipment to the rest of the world. Much of this ends up in the U.S.

(Table 4 about here)

The last part of table 4 presents the relative shares of world exports by sectors. The EU produces about 44% of world trade. It is overrepresented

in manufactured goods and underepresented in mining and office and telecommunications equipment. North America produces about 17% of exports and is underrepresented in mining and overrepresented in agricultural and computer goods. Most of its goods end up in North America, followed by Asia. Asia accounts for about 27% of world trade and is underrepresented in every category but office and telecommunication equipment. The rest of the world, mostly developing countries is overrepresented in mining and agriculture; ie. raw material production.

This table gives insight into what is true and what is not true about the globalization story. Asian societies have rapidly increased their exports and these are disproportionately office and telecommunications equipment. This fuels the belief that high technology manufacturing has fled to Asia. But, while the dollar amounts of these exports are large ($193.1 billion in 1993), relative to world trade, these amounts are not as significant (about 5%). Asian manufacturing outside of this sector is below their share of exports which implies that the advantage in office and telecommunications equipment has not spread overall to manufacturing.

(Table 5 about here)

Societies where trade dependence is low are by definition less at risk from external trade and should be less open to its negative and positive effects. Table 5 presents exports as a percentage of GDP from 1970 to 1995 for the core OECD countries. The U.S. economy has about 8% of its economy involved in exports, up from about 4% in 1970 (OECD, 1996). This is a significant increase that come about slowly. Japan's exports as a percentage of GDP have actually decreased in the past 10 years. German exports total 21% of GDP in 1995.[3] In general, the Europeans are the most trade dependent and the U.S. and Japan the least. This implies that if increasing world trade volumes are producing pressures for changes, Europe should be most hard hit.

There is a general lesson here. While trade has increased worldwide, it has increased heterogeneously in several ways. Some goods and services are traded heavily, like silicon chips, while others are barely traded at all,

like potato chips. Some sectors of societies are more vulnerable to trade than others depending on the size of that sector and the ability of firms in that society to produce products. But this does not necessarily imply that all trade sectors in a given society are going to be winners or losers. There is a tendency to have a merchantilist view of trade; ie. that it is a zero sum game whereby if one society gains another uses. This, of course, is economically naive in at least two ways. Societies do not compete, firms do. While there are going to be winners and losers in every society, economic growth on which industries are growing (ie. finding customers for their products), which ones are not, and how much (Krugman, 1995 a; b). Moreover, trade does produce economic growth and new jobs in all countries.

Globalization can only be a force for economic and political change to the degree that it effects different sectors of a given society consistently in a negative way. So, some societies may be more vulnerable than others depending on the level of their trade dependency and the overall success or failure of their products. I have presented evidence that implies that advanced industrial societies continue to dominate world trade and compete more with one another than with developing societies. Having said this, the world's economy is divided by products, regions, and trade dependence reflecting the heterogeneity of the paths of development of developed and developing societies.

Change or Continuity in the Organization of Production?

One of the central claims of globalization theorists, is that in the past 15 years, trade has changed not just quantitatively, but qualitatively. So, we are now in the world of the information society where information technology is driving world trade. (I note that table 4 showed that while the industry is large, it constitutes only 10% of world trade.) The evidence that information technology has qualitatively changed the way capitalist firms

operate in the world economy and hence, global competition more generally, is difficult to assemble.

Manuel Castells (1996) has recently tried to do so. Even Castells is led to admit that firms across the world have organized themselves in very different ways (1996: chapter 3). His evidence shows that Asian firms in Japan, Korea, and Taiwan are organized differently from one another and from the U.S. and European firms (1996: 190). This conclusion is supported by the wider scholarship (see reviews by Fligstein and Freeland, 1995; Whitley, 1992; Biggart and Hamilton, 1988; Wade, 1996). Nonetheless, he wants to claim that all of these differences are subsumable under the rubric of "informationalism".

This debate over the spread of "informalionalism" or "networks" has several problems. First, the features of organizations that scholars focus on differ from study to study. Second, it is nearly impossible to assess whether or not these features are decisive for organizational success because success is rarely defined. Third, the data to evaluate multiple causes and effects of success are hard to compile. Finally, the definition of this new global form is notoriously slippery. "Informationalism" as an organizational model for Castells includes business networks of suppliers and customers, the use of information technology to redistribute the economic activities of firms, global competition, the state's participation in promoting high technology, and the emergence and consolidation of the network enterprise (1996: 196-7). One can see that even if one is sympathetic to his argument, it is not clear that these are all one phenomena and it is not clear that they define something new that is transformative.

It is the case that all of these factors have been part of the world economy for the past 100 years with the exception of the recent advances in information technologies. There have been global supply networks, global competition between firms, the use of new transportation and communication technologies to engage in more trade, and governments playing a large number of roles in facilitating trade. The idea that firms only recently discovered

the phenomena of outsourcing or depending on supply chains flies in the face of business history which can track these phenomena to before World War I (Chandler, 1990).

The largest firms in the world economy have organized themselves on a worldwide scale for at least the past 100 years (Wilkins, 1970; 1974; Vernon, 1970; Chandler, 1990; Dunning, 1984). To current globologists, it may come as a surprise that the worldwide organization of production by multinationals has been a phenomena that existed before World War II (Stopford and Wells, 1972) and arguably from much earlier (Dunning, 1984; Wilkins, 1970; 74). Stopford and Wells (1972) examine how a sample of multinational firms reorganized themselves in a step by step fashion to coordinate production on a world scale during the 1950s and 1960s. Raymond Vernon (1970), in the same era, thought that transnational firms had become such a world power that they were not attached to any society. Japanese business networks pre-date the Second World War and Korean networks were modelled on Japanese organization (Hamilton and Biggart, 1988).

The "informationalism" argument assumes technology is driving social change. One could easily make technology the dependent variable given what I have already noted about the activities of large multinational corporations. The demand for computer equipment, telecommunications, and new and faster forms of transportation since World War II came about precisely because large corporations were trying to take advantage of business opportunities and control widespread activities. Computer companies, and later computer chip and software producers, had huge incentives to build bigger and more powerful machines. At the very least, a believer in the transformed world economy would want to argue that the desire to coordinate more effectively on a world scale stimulated the production of these technologies and that helped increase world wide production (Krugman, 1995a).

But, there is no systematic evidence to show that "informationalism" has produced a qualitative change in firm organization even for multinationals. There is also no data to suggest that network organizations

(firms that contract out most of their activities) have substantially reorganized the population of multinationals. Even more important, it is not clear what implications this network form and "informationalism" in general has for the 83% of the world economy not involved in trade. It is not surprising that scholars who study organization structures across societies conclude that there are myriad forms that operate with surprisingly different logics, even in the same industries.

Does Globalization cause deindustrialization and inequality?

So far, I have painted a picture of globalization as being more gradual over time, less revolutionary in its impacts on economies and firms, and more uneven in its economic effects on the organization of firms and societies. This more complex picture should at least caution us, to want to connect the growth of world trade more closely to its alleged negative effects, deindustrialization (the transfer of jobs from first to third world economies) and increases in wage and income inequality. I will proceed by first considering the U.S. evidence for these changes, since many of the most careful studies have been done here. It is generally accepted amongst economists, that only about 10-20% of the loss of manufacturing jobs in the U.S. is directly traceable to plant relocation in other countries (Krugman, 1994; 1995a; b; Bluestone, 1994; Gottschalk and Joyce, 1994; and the papers in Danziger and Gottschalk, 1995). Most observers also agree that at least half of these jobs were lost to OECD countries like Japan and not the Third World (Krugman, 1995 a; b). This makes sense given the evidence I presented earlier which shows that OECD countries mainly trade with one another.

Most deindustrialization has a well known cause: improvements in technological processes (Krugman, 1994; 1995b). People have been replaced by new and more efficient technologies that increase the productivity of the remaining workers and eliminate the jobs of others. Even radical economists in the U.S., like Bluestone and Harrison (1982) believe that most

deindustrialization reflected changes in technology.

It is useful to make this argument more concrete by considering an example. One place where some people try to tell a globalization story, is the collapse of the U.S. steel industry. After World War II, the U.S. Steel industry was the largest and most modern in the world. By 1970, it was in shambles. The conventional story is that basic steel production moved offshore to where there was cheaper labor and U.S. steel producers could not compete.

But that story does not hold up. A world market for steel already existed after the Second World War. U.S. firms dominated that market (Hogan, 1970). This dominance occurred even as wages in the U.S. were anywhere from 10 to 15 times higher than their principal competitors (Hogan, 1970). Moreover, U.S., firms enjoyed several other advantages: low capital costs, cheap raw materials and a good transportation system. By the 1960s, wages had closed between the U.S. and western Europe and Japan (its principal competitors in the steel business) to a 3 to 1 ratio and material costs continued to be in the U.S. favor. German firms had to rely on expensive coal and Japanese firms had to transport both coal and iron ore from great distances. I note two important facts about the world market for steel at this time. U.S. wage disadvantages were decreasing, not increasing, and the principal competitors were not third world countries, but Germany and Japan.

What happened during the 1960s, is that the leading firms in the U.S. steel industry invested in obsolete technology for complex reasons, including that the new technologies were unproven on a large scale (Fligstein, 1990; Bluestone and Harrison, 1985; Hogan, 1971; 1984). Both German and Japanese firms invested in these technologies. The technologies greatly lowered the cost of producing steel and wiped out the American cost advantages. This produced a glut of steel in the world market and given that the cost of replacing obsolete technology was prohibitive, American firms fell into decline (Hogan, 1984). In basic steel, we lost our lead, not to third world countries, but to Japan and Germany, and we did so, not because of cheap

labor, but because American managers invested in the wrong technology.

Another common assertion is that is that as trade in OECD countries has increased, wages have increased for high skilled workers and decreased for low skill workers. While there is evidence that wage inequality has increased, very little of it has to do with trade dependence. The societies with the highest trade dependence in 1980 were in Europe and the one with the lowest, the U.S. At the time, both wage and income inequality in America were higher by a substantial margin (Gottschalk and Smeeding, 1995; Smeeding, et. al., 1990).[4]

The two countries that have experienced the greatest increases in income inequality in the OECD in the past 15 years have been the U.S. and Britain (Gottschalk and Smeeding, 1995). The more trade dependent societies of Germany and western European actually experienced declines in income inequality during the 1980s and some small increases during the 1990s. The increases were small in magnitude, given that European incomes were much more equal to begin with, and the observed changes were much smaller in percentage terms than the U.S. (Gottschalk and Smeeding, 1995).

Most economists in the U.S. who have studied these changes agree that increases in trade can explain, at most, 10-20% of the change in U.S. income inequality (Krugman, 1995b; Bluestone, 1994; Harrison and Bluestone, 1988; see the papers in Danziger and Gottschalk, 1993). Instead, economists think a large number of factors explain the U.S. increases in income inequality including technological change, deindustrialization, more wage inequality within occupations, the decline in unions, downsizing, the increase in part-time employment, changes in tax policy that favor the well off, and the general lack of public policy to transfer incomes.

Most economists stress how technological changes involved the entire economy, not just trade sensitive sectors. As machines replaced people, particularly, as computers took over many manufacturing jobs, people with the skills to use these technologies were highly rewarded while people without those skills suffered. Technology is thought to be the "culprit" that

produced much of deindustrialization and wage inequality in the U.S. by mainstream economists, not trade (Krugman, 1994). But a fair amount of inequality developed as a result of growing inequality within occupations. Frank and Cook (1995) argue that this reflected processes whereby "star" performers in professions commanded a great deal of the salary increases. A small subset of doctors, lawyers, professors, stock brokers, and other professionals has captured more of the rewards.

Economists have also focussed attention upon the more sociological factors driving the reorganization of work in the U.S. The increases in downsizing, the decline of unions, and increase in part-time workers has had effects on income distribution and the growing insecurity of workers. Changes in tax laws that favored more well off people played some part as well. The careful studies in Danziger and Gottschalk conclude that many of these factors contributed to increases in income inequality. Bluestone (1994) tries to partition the effect of all of these factors and concludes that between 80-90% of the change is not trade related.

Wage differences between skilled and unskilled workers across western Europe have increased, but no where near the magnitude of the U.S. and they were much lower in 1980. The data on returns to schooling are more sketchy, but do not reveal dramatic patterns showing that higher educated people are able to cash in at much higher rates (see the papers in Smeeding et. al,, 1990). Indeed, in some European societies like Sweden, people with college degrees do not gain a huge premium (Smeeding et. al, 1990).

I think I have provided a quick, but sufficient review to make the reader skeptical of globalization arguments. There is enough prima facie evidence to suggest that world trade, while growing, is not dominating the advanced industrial economies to the extent people claim. Firms across societies and industries have been organized globally for most of the postwar era, and while information technologies are useful in that endeavor, the continued expansion of multinational corporations has more to do with the growth of markets than technology.

Trade also does not appear to be driving deindustrialization or increases in wage and income inequality per se. Deindustrialization is driven primarily by technological change, not relative wage rates. Cross national data on income inequality shows there have been few changes in the societies where trade is greatest, those in western Europe, while the greatest changes have taken place in the least trade reliant society, the U.S. Close examination of U.S. data, shows increasing inequality is not highly related to trade.

Politics, Governments, and Financial Markets

I would now like to turn my focus to the argument that governments are more constrained as a result of globalization. There are two parts of this argument, one concerning the role of international financial markets and their effect on monetary policies, and the other about industrial transformation and its effect on welfare state programs (for arguments on both sides of the issue, see Cable, 1995; Garrett, 1995; Kitschelt, et. al., forthcoming; Pierson, 1994; Uusitallo, 1990).

Most globalization arguments do not assert that globalization has changed the financing of firms. Instead, the arguments are usually pitched at a higher level of abstraction. Nonetheless, it is useful to note that in general, there remains a great deal of persistent differences in the way property rights and the relations between banks, equity, and debt markets are organized across societies and there is little evidence to suggest that one set of arrangements produces the highest level of economic development (Cox, 1986; see the review in Fligstein and Freeland, 1995).

I would like to remind readers that governments have been instrumentally in the creation of financial markets since the middle ages. Indeed, the first financial market in the world was created by the king of England to raise money to support military activities (Carruthers, 1997). In 1788, the French government found itself in a fiscal crisis whereby its debt

load was about 50% of its budget. Because it had exhausted its ability to borrow money, it responded by trying to tax the nobility. The nobles resisted and forced the king to take the unprecedented action of calling an "Estates General", a general meeting where representatives of the three Estates of society would gather. The meeting was not able to resolve the issue of taxation and in the summer of 1789, the French Revolution began (Rude, 198).

The purpose of these stories is to remind the reader that the issue of the relation between the development of financial markets and governments' fiscal and monetary policy have been going on for a long time. Governments, for a variety of reasons, have helped create financial markets to benefit themselves and to help capitalists. Governments, for instance, are responsible for producing the world currency markets, as they moved from fixed exchange rates to market determined rates since the 1960s (Dean and Pringle, 1995).

After World War II, governments attempted to control exchange rates by fixing them and guaranteeing to back them up through the sale of gold. As world trade increased in the postwar era, governments found it more difficult to control exchange rates. Currency markets came into existence to determine the relative price of currencies based on the supply of and demand for any given currency. The creation of these markets could be taken as a failure of sovereign states to control the value of their money. But, currency markets serve useful functions for governments and firms. One major function is to allow multinational firms to hedge their risks. Firms buy futures contracts on a given set of currencies and place bets on both sides: ie. that the price of two currencies will both go up and go down.

It has been frequently noted that huge amounts of money change hands in these markets daily and this is the source of power for these markets. What is not well understood, is that this process often stabilizes currency relationships in the short run. Most of the traders who move money try to take advantage of small differences in currency prices across markets located around the world. So, if I can buy dollars for 1.50 marks in one place and

1.51 marks in another, I can make money by buying lower and selling higher. These opportunities usually appear fleetingly because many traders leap in, and the differences disappear quickly stabilizing the price of currencies. Changes in the relative value of currencies tends to be gradual which helps trade and governments. Governments can then attempt to keep their currencies in a band by buying and selling into the market.

Central banks in the past 20 years, have generally shifted their role from managing the business cycle through the control of money supply and interest rates to trying to promote price stability (Dean and Pringle, 1995). One argument that is sometimes made is that this is proof that currency markets rule because exchange rates will quickly reflect the inflation expectations of currency traders and limit bankers to focussing on inflation.

The problem with this argument is that it gets the story backwards. As a result of the oil shocks of the 1970s, there was low economic growth and high inflation across many OECD countries. To tame this inflation, many of the central bankers, notably Paul Volcker in the U.S., forced interest rates higher and produced a deep recession. Since then, central bankers have more consistently attempted to insure price stability as they were convinced that monetary policies that stimulated money supply or loan growth led to uncontrollable domestic price inflation. Currency traders come to recognize the potential for bad economic outcomes and tend to sell currencies where governments might be acting in an inflationary manner.

There are two other downsides to these markets. First, many market participants are not using the markets to hedge currency fluctuations, but instead to make bets for or against a given currency. This means that no useful economic function is being served. Second, if traders think that a given currency is suddenly in trouble, they can punish the holders of that currency. One way to understand this, is that markets tend to overshoot the real exchange rate by over or undervaluing a given currency. These processes are what gives rise to fears about how currency markets can effect national

interest rates and hence monetary policy.

The problem is that the degree to which this happens and the role governments play in these processes turn out to be complex. Almost all of the recent crises are the result of intended or unintended governmental policy which was framed around the politics of domestic constituencies. While currency markets may have punished currencies, it was usually after long time lags and extensive policy errors.

A good case in point is the Mexican situation where a recent dissertation argued that domestic politics was behind all of the changes in financial policy in the past 20 years (Kessler, 1997). The peso devaluation in 1994 is often viewed as a causal outcome of the financial markets, but the events implicate governments and politics in a more ambiguous way (McKinnon, 1996). At least two years before the devaluation, it was well known that the Mexican currency was overvalued (McKinnon, 1996). Six months before the devaluation, one estimate was that the currency was overvalued by at least 25% and maybe as much as 50%. The Mexican government, with the consent and approval of the American government, tried to prop the peso up. Why? Because there was about to be an election, and the leaders of the PRI, who had prided themselves on professional handling of the economy, did not want negative news about the economy. They kept the peso propped up by spending foreign reserves to buy pesos. People in the financial community around the world knew this and given that the peso was being supported by large reserves, traders did not sell pesos (McKinnon, 1996).

But about May 1994, the Mexican government stopped reporting its currency reserves on a monthly basis. At first, they claimed that the reports were to be issued, but that statistical errors and technical problems prevented them from doing so. By the fall of 1994, it was not clear how deep the government reserves were. About that time, Mexican bankers began selling off pesos and peso denominated bonds in large quantities (Kessler, 1997; McKinnon, 1996). They obviously had a better sense of where the government stood and they sold out as quickly as they could. This, of course, put more

pressure on foreign reserves, and as time went on, it became clear that the government could not prop the price of the peso up. They continued to refuse to issue reports concerning their current account situation.

In December, after six months and continued heavy selling by Mexican banks, the peso began to drop precipitously. The Mexican government reached the point where it could no longer had current account reserves to support the peso. The U.S. bailout served two purposes. First, it gave the Mexican government more reserves to stabilize the currency. Second, it bailed out U.S. bondholders who were caught with peso denominated bonds that now were worth less than 50% of their original value.

This case shows, that yes, world financial markets eventually punished the peso. But it also shows the Mexican and American governments, for basically political reasons, propped it up in the first place. Mexican bankers were saved while the Mexican people were sacrificed (U.S. bondholders were bailed out) leading to speculation that because of their close links to the government, they had privileged information (McKinnon, 1996). This is a complex story that implicates markets, governments, and economic elites. It also does not make international currency traders the obvious scapegoats.

The creation of world markets for equity and debt have also served useful purposes for firms and governments. The growth of equity markets has increased the capital firms and their owners can draw on, and the increased growth in corporate bond markets make it easier to borrow money at lower interest rates to fund new investment. Debt markets for government bonds have also grown internationally. The size of these markets means that governments can borrow money for less interest than they might otherwise. The OECD governments have run huge deficits throughout the past 15 years and these would have been more difficult to fund without international markets.

Governments and firms have always needed to borrow money to fund their activities. World financial markets have grown in size and complexity. But it is difficult to ascertain if government dependence on these markets has

increased to the point of limiting fiscal and monetary policy. If governments want to borrow money, they can, albeit they may have to pay higher interest rates. Moreover, there is reason to believe that governments have benefitted as much from these markets by being able to run deficits and produce some exchange rate stability.

Welfare State Reform Is National Politics

The last link to explore empirically is between globalization and the alleged declines in welfare state capacities to provide for people. I start with my major conclusion upfront: the only advanced industrial society that has undertaken an overhaul of its social welfare system has been the society where trade dependence amongst OECD countries is amongst the lowest; ie. the U.S.. While most European societies have made adjustments to their benefit systems, these have so far been mostly tinkering, not wholesale changes (Garrett, 1995; Kitshelt, et. al., forthcoming; Uusitillo, 1990).

In discussing comparative welfare states, it is often difficult to appreciate how huge the gap is between the U.S. and Europe. While there are differences within Europe as well (Esping-Anderson, 1990), a brief comparison of some of the entitlements across societies makes this point forcefully.

(Table 6 about here)

Table 6 presents data from Smeeding, et. al. (1990) that consider how transfer payments affect the percentage of people in poverty in advanced industrial societies. Before transfer payments, poverty rates are between 19.2 and 27.7 percent of the population. After transfer payments, rates of poverty show that in the U.S., almost 12% of people remain in households beneath the poverty line, while in all European societies with the exception of Britain, these rates range from 2.8-5.2%. This substantial redistribution of income and wealth dramatically demonstrates how different the U.S is from the rest of the industrial world (with the exception of Japan). I note that this study used data before the recent revision of welfare in the U.S.

(Table 7 about here)

Table 7 presents data that shows that U.S. expenditures on social protection are about half of those of other OECD countries, with the exception of Japan. The lack of a redistributive social policy in the U.S. not only results in higher rates of poverty, but also higher levels of income inequality. This was true before inequality began to increase in the U.S. in the past 15 years.

Indeed, in comparing social benefits societies provide, the U.S. is an outlier on the low end of every possible indicator (Skocpol and Amenta, 1986). This has been consistently true for the past 30 years. European benefits expanded during the 1960s and 1970s as their economies expanded and this expansion slowed since their economies slowed from the late 1970s (Esping-Anderson, 1989). There have some few shifts in these policies in the past seven years, but not of major consequence.

Unemployment benefits in Europe average about 70-80% of previous wages with no caps and can be collected for long periods of time. In the U.S. unemployment benefits are set by state governments. In California, one of the more generous states, benefits are up to 25% of previous wages, capped at $1000 a month, and collectable for only six months. Health care across western Europe, is by and large paid for by government. Healthcare costs across western Europe average between 5-10% of GDP in state run systems with universal access. In the market oriented U.S., they are now approaching 17% of GDP if one includes the cost of private insurance and at least 25% of people are not covered (OECD, 1996). All European societies provide parents with one year paid leave after the birth of a child and jobs have to be held open for the person on leave. Many societies also provide paternal leave. In the U.S., there is no employment security for new parents.

Table 7 shows that Europeans average between 1500 to 1600 hours of work per year compared to Americans who work 1780 hours a year. This translates into roughly 25-35 fewer days a year. Labor market policies across Europe require firms to pay for national holidays, provide for at least four weeks

paid vacation above and beyond that, and up to four weeks paid sick leave. In Germany, the government recently tried to change the law that workers who did not take their sick leave were not to be paid for it (they currently are). Workers staged large demonstrations protested and the government backed off.

(Table 8 about here)

One fact that frequently is discussed in comparing Europe to the U.S. is unemployment rates. Table 8 presents data on unemployment rates in various countries in the past 20 years. In western Europe, unemployment rates began to grow in the early 1980s and have remained high in both recessions and periods of economic growth. American unemployment rates have gone up and down depending on economic conditions. This data has frequently been taken as evidence that European work rules and preventing employers from hiring workers.

But this story is too simple. Table 7 presents evidence on the prevalence of part-time employment amongst prime age working males across societies. The U.S. has almost 12% of its work force employed part-time. In Germany and France, these numbers are 2.9 and 4.1% respectively. Surveys have revealed that in the U.S., about more than half of the part-time workers wish they had full-time jobs. Since Europeans often have the choice about whether or not to work because of high unemployment and health benefits, involuntary part-time employment is relatively minor. If one adds these workers to the U.S. unemployment figure, one can see that U.S. and European unemployment rates begin to converge more than they diverge. Put another way, Europe's generous level of social benefits mean that workers have the choice to be selective about work, while in the U.S., workers have no choice but to work. They must accept part-time work when they cannot find full time work.

In sum, the OECD societies that have been the most open to trade, ie. western Europe, have the highest social welfare benefits in the world and relatively low amounts of wage and income inequality, while in the U.S., the least dependent on trade, has the fewest benefits, has undertaken an onerous revision of its welfare benefits and tolerates the highest levels of income

and wage inequality. Unemployment in Europe is very high compared to the U.S. But, a large part of that gap is attributable to low U.S. benefits which force involuntary part-time employment. Europeans' social safety nets make them less poor and less likely to have to accept work that they do not want. During the economic troubles of the 1990s, there have been some revisions in European welfare states benefits, but they remain well above U.S. levels (Kitschelt, et. al, forthcoming).

Crisis, what Crisis?

I hope that my quick run down of some of the important patterns of the evidence regarding the amount of globalization, its character, and its alleged effects on deindustrialization, income inequality, and reorganization of welfare states has at least shaken reader's confidence in the claim of globologists of every sort. There is not clear evidence that globalization, however defined, has changed qualitatively in the past 15 years and there is even less evidence that it is mostly responsible for increases in inequality across OECD countries or directly forced welfare states to be transformed.

A counterargument goes, then what is all the chatter about and why do states appear so fiscally strained? I would like to argue that welfare states, particularly in Europe, are experiencing stress, but the causes have more to do with domestic economics and politics than local ones. Similarly, the situation in America is also being driven by domestic politics. In a society with low tax rates by world standards and the lowest budget deficit on a proportional basis, the current politics in Washington are focussed on balancing the budget and cutting taxes. I will return to the American situation. But first, I think it is useful to consider the factors affecting the Europeans.

The major factor in the attacks on the European welfare states stems from the failure of social democratic and Keynsian policies to stimulate the European economies. The Single Market Program of the EU has helped increase

trade, but not enough to produce additional growth in the EU. Unemployment has remained high in Europe since the late 1970s and economic growth is best described as sluggish. All current economic policies appear to be simply failing.

Pressures on welfare states for spending are increasing in two ways. Because of slow growth, there has been high and persistent unemployment across Europe and this is expensive to support. Even more difficult is the aging of the populations which produce more demand for health care and social security. The European pension systems are in disastrous shape, much worse than the U.S.

European welfare states consume about 45-50% of their societies' GDP and offer generous benefits as I have already noted. Given high unemployment and high rates of taxation and extensive social benefits, it is difficult to see how European governments can raise taxes. Now that many of them have committed to the trying to form a single currency, it is increasingly difficult to run deficits.

Another big problem for European welfare states is the end of the Cold War. From the perspective of the "left", social democracy was a humane way to deal with the problems created by capitalism. From the perspective of the right, European social democracy (and American support of it was predicated on this) was a bulwark against communism. While it might have placed a lot of emphasis on equality, it was still democratic. The end of the Soviet Union has produced an intellectual threat for social democracy as the right can now argue that social democracy restricts freedom and undermines initiative, as it did the Soviet Union. Intellectually, social democrats are on the defensive.

The failure of communism to provide a just society and perhaps, the intellectual exhaustion of social democracy means there is a lack of a clear alternative political agenda. It is easy to see neoliberalism as a capitalist plot. But, the problem is, that social democratic redistributive policies and classical Keynsian approaches to stimulating the economy (running deficits

and cutting taxes) are not working. So, neoliberalism with its agenda of deregulation, tax cutting, and cutting back on welfare state policies, is viewed as the only set of alternatives.

Herbert Kitshelt (1995) has shown that support for social democratic parties has eroded as the economy has shifted from blue collar manufacturing to service workers. Electoral support for the welfare states has eroded as younger workers employed in services are more skeptical of governments and vote more with conservative parties.

Yet, in spite of slow growing economies, high unemployment, high taxes, generous welfare states, and breakdowns of traditional social democratic coalitions, no European society except for Britain has tried to make serious cutbacks. Outside of the Tory Party in Britain, no large party exists in western Europe that claims to want to engage in taking apart the welfare states (and the degree to which this actually occurred in Britain is not so clear, see Pierson, 1994).

This does not mean that these societies will not have changes or that the changes that have occurred are not real. But Europeans support equity in their societies and remain firmly supportive of their current social arrangements. All political parties including left, center, and right do not want to dismantle the welfare state, but undertake actions to reform it in order to preserve it (Kluegel, et. al., 1995).

Globalization and Neoliberalism as an American Project

I have hinted that the ideology of globalization can be separated from its "real" effects. I would like to briefly discuss some of the changes that have transformed the American economy and labor relations in the past 15 years. Then I would like to consider how these changes are "universalized" to all advanced economies. I believe that this intellectual process is what produces the globalization rhetoric in both its neoliberal and neomarxist forms.

The American economy during the 1970s was beset by high inflation, slow economic growth, and poor performance by large firms. The causes of this "malaise" are complex, but begin with the first "oil shock" in 1973. What is interesting and important, is how this crisis became "defined" and "solved". When Ronald Reagan came to power in 1980, he did so with the idea that markets were a better way to organize society than governments. He proposed a deregulatory agenda whereby taxes were cut, government regulation attacked, and government was to be cut.

In the core of the American economy, the idea took hold that firms were nothing more than their balance sheets and their basic function was to provide returns to owners or shareholders. Therefore, assets on balance sheets that were underperforming were to be sold off, and the profits either dispersed to shareholders or reinvested where higher rates of return might appear. This view of the firm was a response to the 1970s where managers had decided in the face of low stock market prices, high asset inflation, and high interest rates, to understate the value of their assets and finance their expansions with cash (Friedman, 1987). Financial investors began to realize that because of low stock prices, firms could be bought up and broken up, with the potential for great gain. So, began the merger movement of the 1980s.

As the decade evolved, the shareholder value conception of the firm emerged from financial economics (see, Jensen, 1989 for a polemic on this point), and argued that financial performance was the only criteria to invoke in making strategic decisions. It can be demonstrated that many of the tactics of firms in the 1980s, mergers, divestitures, taking on debt, buying back stock, union busting, downsizing, closing plants even if they remained profitable, and laying off workers even if the firm was profitable, are related (Fligstein and Markowitz, 1987). In the 1980s, it was not only blue collar workers who lost jobs, but middle managers as well. Managers in firms reduced costs any way they could and paid attention only to the financial valuation of the firm.

Public policy reinforced this view. The conservative rhetoric of personal responsibility and the intimation that everything governments did was bad, while everything that occurred in and around markets was good, became dominant. The increases in income, wage, and wealth inequality that resulted from these processes was first denied and then seen to be natural.

Analysts of the American economy began to see this "new model" as the solution to America's competition problems from the 1970s, and the Japanese challenge of the early 1980s (again, see Jensen, 1989). The rhetoric about global competition and the use of the "shareholder" value conception of the firm became allied. A focus on shareholder value would make firms "lean and mean" and this would aid them in competition, both domestically, but also against the Japanese.

An ideology is a set of ideas that reflect a point of view. The ideology of globalization and shareholder value have become united, where globalization is now not just the Japanese challenge, but now the challenge of a more diffuse "other" and shareholder value means that firms should maximize profits for owners and governments should just stay out of it. This ideology is a generalization about the American experience.

For Europeans, the U.S. economy from afar appears to be booming and creating jobs, while theirs appear to be failing. People like straightforward stories that suggest exactly how to get the outcomes they want. But there are lots of dangers in this particular story. Europeans do not appreciate how much inequality there is in America and how little governments do to help people. This has intensified as firms defeated labor, ruthlessly redeployed assets, and laid off workers and managers.

One interesting question, is this set of ideas worked? The answer, of course, depends on what you mean. While American firms have increased their exports substantially, the U.S. continues to run a substantial trade deficit. If lean and mean American firms are so competitive, why hasn't this extended across the economy? The American economy has created a large number of jobs, but a substantial percentage of them are low wage and part-time. Income

inequality continues to increase as a result. So while jobs are being created and the economy grows, there is a growing amount of inequality made worse by the growth of low wage and part-time employment.

Conclusion

I have tried to provide arguments and evidence against accepting too quickly the neoliberal and neomarxist view that the globalization of production has produced a new stage of capitalism, one where inequality will increase, governments are increasingly irrelevant, and the tyranny of the skilled meritocracy will reign. We are in a period of change, but I would suggest that what is lacking is a normative argument to make sense of these changes.

There are two normative issues I would like to emphasize. We should resist globalization as a rhetorical device to justify any social or economic policies that do not directly follow in an empirically observable fashion. Free trade has proved to increase the wealth of nations. But, there is no empirical evidence suggesting that removing social safety nets for people and making them insecure contributes to economic growth.

Since corporations depend on states to produce rules to govern markets, firms' relations, property rights, barriers and access to trading and more generally public goods for all to consume, they have responsibilities to society more generally (Fligstein forthcoming). In Europe, the leaders of most large firms feel this responsibility, like the members of their societies as a whole. They consider themselves members of society and because of that membership, they are in a partnership with society. This idea sounds utopian to an American audience used to hearing that "greed is good" and that there are only shareholder, not stakeholder rights in corporations. But, this kind of moral agreement is what makes European social democracies special, and so far able to resist the siren song of American style markets.

This stage of capitalism is not about globalization and why it will

reduce all of us to either being winners or losers. Instead, the real problems of advanced societies are being subsumed into the globalization rhetoric as a universalization of the American experience. The claim that others must accept downsizing, insecurity, increased inequality, and less access to health care, housing and education as a consequence of the domination of the world market is just that: a claim.

I have tried to show that the facts undermine or call into question this claim. It is the case that every national capitalism works differently. Capitalist firms need governments and societies to extract wealth for their shareholders. Social justice means recognizing these interdependencies and trying to use them to spell out rights and responsibilities.

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Footnotes

1. I restrict my discussion to the economic uses of globalization. There has also been discussion of how world culture has changed as a result of the increase of global transactions.

2. This does not imply that trade is a zero sum game (ie. that Asia has gained at the expense of the rest of the developing world). In fact, the amount of exports has increased in all societies, In Asia it has been increasing at a faster rate.

3. The trend here is misleading as the last two data points include East Germany.

4. Table 6 presents gini coefficients from Smeeding et. al. that show this.