Governance in a Global Economy: Political Authority in Transition

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Contemporary debate over globalization casts its political effects as both revolutionary and contradictory. Globalization, it is claimed, drains political authority from nation-states, long the dominant form of political organization in world politics. The state's monopoly of familiar governance functions erodes as authority migrates down to newly empowered regions, provinces, and municipalities; up to supranational organizations; and laterally to such private firms and transnational non-governmental organizations (NGOs) that acquire previously "public" responsibilities.

Skeptics contest these alleged effects of globalization. National governments jealously guard many traditional spheres of governance, particularly defense, criminal justice, and immigration. Rather than a beleaguered and ineffectual fossil, the nation-state enjoys enduring popularity at the dawn of the new millennium. The enhanced authority of private actors is partially or wholly offset by new public activism in areas such as environmental or consumer protection. In their protests against a deregulated and integrated global market, transnational political movements often rely on national governments for policy change rather than reformed and transformed international institutions.

Sorting through these contradictory claims requires careful definition of governance and a theoretical frame for examining more systematically the links between globalization and governance. In this essay, we summarize and reflect upon a larger, collaborative study recently published under the same title (Kahler and Lake 2003). That collective effort found that the effects of globalization on governance at all levels are more complex and contingent than many observers claim. Globalization exerts a profound impact on economic and political life. Important shifts in the locus of authority have occurred, sometimes in the predicted directions, but these trends are neither universal nor uniform. To explain this diversity, we outline a political model of authority migration based explicitly on actors, their preferences, and their strategic interaction. Rather than the familiar portrait of globalization as an inexorable and impersonal set of market forces that compels passive states to comply with its dictates, we emphasize globalization's effects on governance through political actors. Globalization changes the policy preferences of some actors, increases the bargaining power of others, and opens new institutional options for still others. In this way, we reintroduce agency and choice into the story of globalization and governance.

Governance Defined

Governance can be understood as that subset of restraints that rests on authority, where authority in the paradigmatic definition is a social relationship in which "A (a person or occupant of an office) wills B to follow A and B voluntarily complies" (Scheppele and Soltan 1987, 194). In other words, governance is characterized by decisions issued by one actor that a second is expected to obey. Governance is not government (Young 1999). Many social and political units—among them families and clans, firms, labor unions, alliances, and empires—govern social interactions and can possess authority, at least in regard to their members. Nation-states assert sovereign authority and claim a monopoly over the legitimate use of force, but they represent only one type of governance structure. Corporations, NGOs, international standard-setting bodies, and many other entities all act authoritatively within the global system. In other words, all can contribute to international governance.

Governance varies along several dimensions, but the one most relevant to levels or sites of governance is centralization of authority. Authority can be highly concentrated—vested in a single, hierarchical entity with claims to exclusive jurisdiction, as in totalitarian national states or the transnational Roman Catholic Church or widely dispersed among individual nodes exercising only limited jurisdiction. Exemplars of the latter model include the United States and Switzerland, decentralized federal states with large spheres of private activity. More sites of authority produce a more decentralized system. International anarchy—a system of sovereign states—consists of actors without any overarching authority and, thus, constitutes a highly decentralized governance structure. Another term for such decentralized systems is multi-level governance (see Hooghe and Marks 2001).

Sites of authority are often difficult to identify. Modern governance structures are typically composed of chains of delegated authority with, at each level, more or less "agency slack" (see Kiewiet and McCubbins

1991). When not carefully monitored, authority that is delegated can be "lost"—transferred, permanently if unofficially, to agents. Delegations and transfers of authority can be observationally equivalent, and thus it can be difficult to distinguish who has authority in complex patterns of governance. This is a central question in the literature on the European Court of Justice (ECJ), for instance (Alter 1998). Unless mechanisms of oversight are carefully crafted and vigilantly maintained, even democratically elected legislators may begin to act on their own interests rather than those of their constituents. In such cases, whether authority is actually vested in citizens or their representatives can be hard to discern.

Debates over globalization's effects on governance often hinge on the same distinction between delegated and transferred authority. When states create international dispute settlement procedures, for instance, they may delegate authority to the new entity, allowing it to act on their behalf only so long as decisions are compatible with their interests, or, more rarely, they may transfer previously sovereign powers to an autonomous entity whose rulings are granted supremacy and direct effect. As the history of the ECJ attests, separating delegated from transferred authority—and, thus, locating the ultimate site of governance—is often difficult.

Globalization and Sites of Governance in Historical Perspective

The sites of political authority migrated in identifiable directions during the pre-1914 and post-1945 eras of global economic integration. The similarities and differences in sites of authority across the two periods provide an initial and incomplete test of the political consequences of globalization.

Rather than political fragmentation, which has produced nearly two hundred sovereign units in today's global system, large-scale units dominated world politics and the international economy in the decades before World War I. These states and empires were reluctant to delegate powers to international institutions, but were often decentralized internally. By 1914, a highly integrated capitalist economy was populated by relatively large political units. Economic and political integration increased in tandem (see Lake and O'Mahony 2003). This outcome is anomalous in light of models, discussed below, that associate an open world economy with political fragmentation and a bias toward smaller political units. Globalization appears to produce incentives for large-scale territorial governance in one era and not in the other.

A second key difference in governance between the two periods of globalization was the scarcity of international institutions with substantial delegated authority before 1914. Governments created narrowly defined functional organizations related directly to spillovers from economic integration (e.g., the International Telegraph Union), as well as several currency unions, but the authorities delegated to these few institutions were very limited. National and imperial polities with large internal markets may have reduced the need for delegation upward to international organizations. Today, of course, international and regional organizations proliferate.

Despite these differences, the two periods of globalization share a common bias toward decentralized governance by subordinate units. Care must be taken in measuring centralization of governance: many federations are shams, whatever their constitutional outlines, and as research discussed below indicates, different dimensions of decentralization can move in conflicting directions. Nevertheless, apart from the United States, nearly all of the successful federations were constructed in the late nineteenth century. Although created through amalgamation, rather than devolution from an existing state, these were genuine federations with significant powers vested in subnational units. Even the British Empire, largest of the era, was characterized by substantial decentralization. Arguments over subsidiarity—the appropriate assignment of governance functions to difference levels—were a constant in intra-imperial relations (Davis and Huttenback 1986).

From 1914 to 1945 the double crisis of war and depression brought economic disintegration and heightened centralization of governance functions and political authority at the level of the nation-state. The New Deal in the United States; Hitler's *Gleichshaltung*, which eliminated the federal character of Germany; Stalinism in the Soviet Union; Peronism in Argentina; and Vargas' *Estado Novo* in Brazil were exemplars of this trend. Delegation of governance functions to international and regional institutions was also arrested during the decades of economic closure. Although the League of Nations system had created a number of new international organizations, few functioned as designed.

In the latter half of the twentieth century, economic integration resumed among the industrialized economies and within the Soviet bloc; some authority migrated to international and regional institutions as economic interdependence increased. Economic liberalization and the creation of a European common market reduced pressures for further political amalgamation among the OECD economies. In the industrialized world, fiscal centralization peaked around 1950 (Oates 1999). This era of globalization produced significant devolution across the advanced industrialized states and beyond (documented in Hooghe and Marks 2001, esp. 191–212; and Jun and Wright 1996).

In the developing world, in striking contrast to the earlier era of globalization, economic disintegration and subsequent globalization witnessed the creation of large numbers of small-scale polities. Under conditions of policy-induced economic disintegration, the developing world was hostile to any model of governance other than the sovereign (little delegation to international or regional institutions), centralized (little devolution to sub-national units) nation-state. Before the 1990s, efforts at economic integration in the developing world had typically failed; large post-colonial federations seldom survived. Nation-states remained the principal political units in the international system. Renewed economic integration after 1980, however, produced a wave of regional institution-building. Unlike the earlier generation of regional institutions, these were delegated a modest increment of authority by their members.

This all too brief examination of globalization's effects on the sites of authority over the past century highlights one anomaly and two trends. Posing an important puzzle for contemporary theories, economic integration has been associated with both large- and small-scale political units. There is no simple relationship between globalization and the scale of political units. More uniformly, globalization appears to favor political devolution within nation-states, particularly in the earlier period of globalization, and to stimulate modest delegation to international institutions. The decades of economic closure at mid-century saw the greatest concentration of governance functions at the level of the nation-state. Since World War II, and in ways similar to the first period of globalization, political authority has been migrating at the margins downward to regional entities, upwards to international organizations, and laterally to private actors.

The authors in our collaborative study, however, emphasize the contingency of these trends during the contemporary era of globalization. Even in the areas of international finance and monetary affairs, where globalization has extended furthest, no clear trend toward supranational (regional or global) governance is apparent (Cohen 2003; Eichengreen 2003; Mattli 2003). Similarly, there is also no single trend toward decentralization of national authority.[1] A larger role for private actors in global governance, in turn, may be a complement rather than a substitute for actions by national governments (Mattli 2003; Haufler 2003). Although the number of national standards and regulations may appear to decline, the coercive power of the state remains an important actor in the background, one which can be invoked if private initiatives at the international level fail in the eyes of powerful political actors. In this sense, private governance may reinforce rather than replace the regulatory power of states.

These variegated and contingent findings should not be misread. The structure of global governance is evolving. Our evidence of evolutionary rather than revolutionary authority migration does not mean that the state has been rendered ineffective, as anti-globalists charge, nor that it will forever be the locus of political activity within the international system, as realists expect. Because of the apparently muted nature of these findings, understanding how, when, and where globalization affects sites of authority becomes an even more important and daunting challenge.

Explaining the Effects Of Globalization On Governance: Economic Models

Contemporary scholarship has yielded only a partial, unsystematic, and ultimately inconclusive body of theorizing on the relationship between globalization and governance. Most existing models of authority migration are drawn from economics and tend to be driven by either a logic of functionalism or efficiency. Functionalism explains outcomes by their anticipated effects. Efficiency-based explanations expect outcomes to trend toward those that produce the greatest utility; in most cases, this is assumed to be equivalent to the greatest net wealth and to entail a heavy reliance upon market exchange.

In most functionalist accounts, globalization produces an upward migration in the site of authority to the regional and the supranational levels. Efforts to solve transnational problems (cross-border spillovers) generate a process of expanding supranational authority, of which the European Union is the exemplar (Haas 1958; Keohane and Hoffmann 1991; Mattli 1999). Solving one transnational problem can also change the incentives of the parties in a second area through issue linkages or through the self-interested actions of politicians in the new supranational entities. Pressures for yet greater expansions of international authority steadily build and eventually lead to new forms of governance. This approach awards a central role to both regional institutions behaving strategically and domestic interests, governmental and non-governmental, that may forge transnational alliances to forward their goals (Mattli and Slaughter 1998).

Efficiency-based explanations are similar in structure: governance responds to shifting costs and benefits of market integration. In this vein, economists have devised a series of models in which the size and shape of states are expected to conform with the least costly means of delivering goods and services to constituents (Casella and Feinstein 1990; Alesina and Spolaore 1997; Bolton and Roland 1997; Alesina, Spolaore, and Wacziarg 2000). The assumed starting point or baseline is governance at the national level. Change in governance results from a tug of war between two powerful variables. Heterogeneous preferences over public goods bias governance toward levels closer to an electorate. Externalities and economies of scale in public goods provision encourage migration of authority to a supranational level. Politics in these models balances public goods provision closer to any given elector's preferences against possibly higher-cost (less efficient) provision of public goods (see Martin 2003; Hiscox 2003). These models posit a further trade-off between the benefits of economic integration, in the form of lower transaction costs within a single market, and the costs of political integration, particularly policies less reflective of individual preferences. When barriers to international trade are high, the benefits of national economic integration are relatively large. In those circumstances, states have an incentive to expand their internal market by increasing the area and population they control. When barriers to international trade fall, the benefits of national economic integration decline, relative to other political goals, and the state can be expected to shrink.

These economic explanations for variation in sites of authority display three common shortcomings. First, their predictions do not always match empirical regularities and tend to imply uniform changes in governance when actual patterns are more varied. In particular, they have difficulty accounting for the differences between the first and second eras of globalization. Second, explanations based on these models are typically under-determined. Each highlights a need that is compatible with alternative governance structures and, therefore, each falls short of explaining the particular institutions that are actually observed. Scale economies, for instance, are a necessary part of nearly all explanations of unit size and form. At the same time, such economies can be realized in many different ways: through the cooperative efforts of separate and independent units, long term partnerships like alliances or customs unions, confederations and supranational institutions that "pool" sovereignty, or hierarchies in the form of states and empires (Lake 1999). Economic explanations are powerful, but they often point to multiple institutional solutions.

Finally, the conception of politics that lies at the core of these models is underdeveloped. Groups or states may demand changes in governance, but actors do not always get what they want. Even casual observers of politics know that the most efficient institution is not always adopted. Missing from functionalist and efficiency-based explanations are actors with competing interests and an understanding of how they aggregate or bargain over those interests. Globalization is an important environmental change that is affecting states but its influence and constraints are mediated by national politics and institutions. Surmounting the limitations of economic approaches requires a shift from problems and solutions to actors and their strategic choices.

A Political Model of Governance Change

A fully developed political model that connects globalization to migration in sites of authority is not yet available, but the components of such a model are clear. A political model begins with the distributional effects of globalization. As is now well known, economic interdependence creates winners and losers within and between societies. The insights developed in international political economy over the past decade about the preferences of different actors can be applied in a relatively straightforward way to the analysis of governance structures. A political approach then turns to institutions that aggregate group preferences and shape the outcomes we observe. Winners from globalization try to preserve favorable institutions or alter governance structures to further "lock in" their winnings. Losers try to shift decisions to governance structures more amenable to their influence and pressure. Debates about supranationalism, decentralization, and the respective roles of public and private sectors are, thus, often struggles over institutions that will produce results favoring some groups or interests at the expense of others. In short, in a political model, contests over governance are ultimately contests over policy.

Preferences

Both the aggregate benefits and particular costs associated with globalization motivate group conflict. Globalization's effects are distributed across groups within countries in predictable ways—improving the welfare of some, harming that of others—and creating relatively clear lines of cleavage within societies.[2] Winners and losers from globalization then pursue their interests into the political arena. Losers seek to impede greater integration, if possible, or press winners to share their gains through redistributive policies.[3] Winners, on the other hand, seek to solidify integration and retain as much of the gains as possible. The outcome of this struggle depends crucially upon the initial starting point—although winners become more politically powerful, they may still remain a minority force—and on the political institutions in which they compete. Nonetheless, the distributional consequences of globalization, at least to a first approximation, structure the preferences and interests of important groups within society.

Economic integration has not produced changes in the sites of authority that match its global reach. One explanation for this lack of fit lies in the search for political influence by both winners and losers. Political actors may respond to efficiency concerns over time, but they are more likely to concentrate on assigning governance functions to venues in which their political influence is maximized and, thus, their policy preferences best served. Contrary to the economic models discussed above, strategies of capture on the part of particular actors will often trump broader concerns over public goods and externalities. Issue-area will also influence the strategies of actors, particularly whether they are intent on restraining national governments or influencing their conduct. The contrast between currency regionalization and financial regulation, both driven in large measure by globalization, illustrates the importance of such forum shopping (Cohen 2003; Eichengreen 2003). An internationalist coalition, made up of financial and manufacturing interests with strong links to the world economy, plays an important political role in both of these issue-areas. In the case of currency regionalization, internationalists typically favor movement of monetary policy to the supranational level (or into the hands of another national central bank) as a means of constraining national authorities. Loss of influence at the national level is compensated by the creation of supranational entities that are more likely to pursue policies that internationalist business interests prefer. In the case of financial regulation, however, internationalists often prefer to work with national authorities, at least in the developed states. Financial institutions cannot be certain that any international entity created for regulatory purposes will offer the same, reliable channels of influence as national regulatory authorities. In addition, any global entity will award some voice to their chief critics in the emerging market capitals. Although global regulation might well be more "efficient," it is not the politically favored outcome in this case.

Even when preferences of actors do not follow in a straightforward way from their positions in the international economy, starting with the interests of the actors is a necessary first step in understanding the politics of globalization and authority migration. But institutions are an equally necessary second step.

Institutions

In a political model, institutions matter. Most of the economic models are institution-free and political influence is closely associated with economic weight. Yet, institutions refract and distort that simple economic determinism, mediating and shaping political outcomes. One prominent effect of institutions on the link between globalization and sites of authority is their amplification or dilution of policy preferences. Even if globalization influences policy preferences in predictable ways, its effects are mediated by political institutions. Institutions and the bargaining context that they create are critical intervening variables linking actors and governance outcomes.

In influencing the sites of authority, globalization strengthens political actors favoring economic openness; those actors, in turn, will promote favorable institutions to ensure that their preferences are translated into policy. If a dominant political coalition favors economic openness and creates institutions to enhance the credibility of such policy commitments, a backlash against globalization may only change those policies with difficulty or after considerable delay. Conversely, even though globalization weakens political actors opposed to economic openness, they may still be able to block initiatives at home or, with other similar groups, transfer policy to other levels of decision-making more favorable to their interests. Whenever the position of the "median voter" at one level of governance differs from that at another level, one or more groups may benefit from shifting the site of governance.

If the struggle over governance is, at its core, a struggle over policy, then the preferences of the actors and the rules of existing institutions will be important determinants of these conflicts and their outcomes. The voices and policy preferences heard within the IMF, for instance, will depend upon group interests articulated through national political institutions and then negotiated in accord with the current rules of the institution. We expect such "normal politics" to comprise the majority of cases of governance change in international politics. In these cases, the tools available to political scientists can be very useful in explaining the strategies and choices of the actors and the outcomes observed.

It is precisely because important, politically powerful groups dislike outcomes produced by existing institutions that governance becomes contested. Since *who* gets to decide and *how* decisions are reached matters, the site and nature of authority becomes an object of political conflict. Knowing what the conflict is about, whose interests are at stake, and how existing institutions shape political competition can help us understand where authority gets sited, how accountable the governors are, and to whom they are accountable. Together, a focus on the preferences of actors and the institutions within which they struggle provide the foundation for a political theory of globalization and governance.

Future Research on Globalization and Governance

Explaining the effects of globalization on governance will require further elaboration and refinement of the political model presented in shorthand here. The apparently contradictory effects produced by globalization—for example, more or less decentralization of governance within national polities—may be resolved by extending this actor-oriented and politically driven model. Such revised models will move beyond changes in actor preferences, cost-benefit calculations, and capabilities to the bargaining and institutional context of the key political actors. For example, as Garrett and Rodden (2003) point out, an alteration in the calculus of costs and benefits on the periphery may produce different results depending on the institutional parameters of bargaining. Credible threats of secession may produce either decentralization or fiscal centralization to "buy off" those threats (or a combination of the two). An explicit model of bargaining and a better understanding of the political institutions through which such battles are fought are required for more definitive conclusions. Van Houten's (2003) emphasis on systems of party competition as a key variable only reinforces these directives for the future.

The institutional element of the model is not the only part that requires further development. A simple model of "winners" and "losers" from globalization hardly captures effectively the ways in which globalization shapes actor preferences. Many of the new actors mobilized by globalization, and who are often its most ferocious critics, cannot be categorized easily in terms of their institutional preferences (ranging from reformers of global governance to die-hard proponents of governance in the small) or explanations for those preferences. Few, apart from the representatives of unskilled labor and agriculture in the rich countries, can be categorized as "losers" from globalization in material terms. Preferences can be endogenized in another way as well. Although preferences over globalization may drive institutional and policy preferences, institutions may also shape individual preferences in directions that are not easily predicted. For example, organized labor in many labor-rich economies should favor the liberalization of trade, but their organizational and ideological loyalties may direct their political behavior in the opposite direction.

The research agenda on globalization and governance intersects with and enriches other existing lines of research on institutions. The attention of international relations scholars has for some time been directed to institutional variation and its explanation. Globalization presents an important candidate variable and a set of models for explaining some portion of the variation in regional and global institutions. One particularly powerful theme in this research has been the question of institutional substitution and complementarity: Do institutions at the global or regional level serve to reinforce or replace the governance functions of national institutions (Martin and Simmons 1998)? Too much of the popular debate over globalization has been driven by an assumption of the substitution effect, particularly in the case of private governance. In several policy areas, such as setting standards, however, private governance does not stand independent of public governance (Mattli 2003). Governments help define the institutional arena in which bargaining between private actors occurs, and through their continuing regulatory power set one of the possible outcomes should bargaining break down. In a joint public-private context, such as standards, national bodies that aggregate interests within states are central to the success of international bodies. States that do this well may have a leg up in international negotiations, behooving firms to work with rather than outside or against public authorities.

Finally, and in less familiar fashion, the research agenda on globalization and sites of authority connects to the study of federalism, where debates over the "Delaware effect" and other consequences of economic integration in a multi-level polity can be connected to similar arguments at other levels of governance. It is this promise of integrating the study of political institutions across previously isolated levels—sub-national, national, regional, global—that has been opened by the debates surrounding globalization and governance.

Notes

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1. For different findings on decentralization, see Martin 2003; Hiscox 2003; Garrett and Rodden 2003; and Van Houten 2003.

2. Frieden and Rogowski (1996) summarize the literature. Garrett (2001) looks at both intra- and international distributional issues. In addition to its distributive effects on existing political actors, globalization may also increase the number of actors with preferences over particular policies and governance structures. As economic integration expands, new groups are mobilized into politics because of transnational spillovers, including environmentalists, consumers, and other activists who are increasingly concerned with not only where but also how goods are produced. These new actors often have preferences over governance that are difficult to explain using a simple political economy logic. Martin (2003) examines the emergence of new NGOs that are driven by non-material externalities: the exploitation of children in the sex tourism industry in other countries. Haufler (2003) describes the growing activism of NGOs around environmental issues.

3. On who protests against globalization, see Lichbach and Almeida 2001.

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