Comparative Institutions and Response to Globalization

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In what ways do political institutions influence policy outcomes toward the processes of globalizations? The fundamentals of the debate are familiar to every one: can we predict national choices by knowing preferences (what the interest groups want) or do the mechanisms of preference aggregation have an autonomous impact on the outcome?

Important research continues to be done on each of these. Increasingly important research is also being done on the interaction of them, and on dimensions of the interaction which deal less with preferences and institutions alone and more with bargaining, commitments, strategic interaction, credibility and the like. And increasingly researchers are noting elements of interaction with lie in features of civil society (de facto forms of power, rather than de jure, and intermediate structures like NGOs, professional associations, etc.

1. Institutions vs. Preferences. Step one is familiar to everyone. We can hold institutions constant, and vary the preferences to explore their impact on the policy outcomes ; we can hold preferences constant and vary the institutions, to highlight the impact of institutions .We have substantial literature explore these two outlying positions. Rogowski's Commerce and Coalitions , various Frieden papers and early Milner writing represent the preferences dominated view. Another branch of Rogowski , Milner, Martin explores the impact of political institutions, the line of McNollGast , and many other

institutionalists in political science, and the work of many economists (Grossman and Helpman, Persson and Tabellini, political economy people, Keefer, Levine, etc.)

On the preferences side, the dominant concern continues to be "principles of cleavage" issue which lies at the core of such inquiries--- on what dimension of disagreement over policy drives political conflict. . Class (Stolper Samuelson's factor cost) vs. Sector (Ricardo Viner and specific assets) generate different alignments. Either is deductively possible, as Hiscox notes, so what happens depends on historical conditions, the degree of asset specificity and factor mobility. The consequences for globalization n politics are familiar: the S/S factor costs logic makes the scarce factor vulnerable to trade: the low skilled in the US, the highly skilled in poor countries.

So we have abundant pressure on labor in the US and in Europe. Labor no longer allies with free trade, but also . The owners of capital have no reason to protect the labor force, which breaks up the New Deal Coalition. High skilled workers who could benefit from open trade become resistant to wage equalization measures, which breaks up the Scandinavian model Social Democratic coalition. In earlier periods, certain kinds of firms wanted government assistance of various kinds and would bargain with labor to get it; those sources of bargain have eroded in new conditions of globalization.

Related to this approach, though somewhat separate in its intellectual origins, is the notion of "institutional complementarity" (Milgrom and Roberts) used by the Varieties of Capitalism authors. It follows the logic of Ricardo Viner and concern for specific assets, but broadens out considerably what gets considered. .Asset specificity can be construed far more widely than looking at machines or workers: it includes the education and training, the price setting, research and development – a large range of

practices which influence production strategies or regimes. Policy preferences in response to globalization turn on what regime you have: OME firms want to protect their extensive investment in workers, machines, supplier relationships ,etc. so they may protect welfare , tax, job security and other rules that preserve stability. LME firms will by contrast support whatever gives them flexibility, thus will respond to pressures for fluidity with demands for more – thus to moves against the structures that sustain institutional complementarity, hence a regime of de regulation in prices, education, corporate governance, et. al. Possibly, the shift in corporate governance toward shareholder value and away from preservation of the firm contributes to this: managers and owners have less and less incentive to think of the firm in a larger societal context: long run needs of skills and technology, hence less incentive for investment in public goods like infrastructure and health.

The VoC logic suggests thus a different coalitional alignment around social and welfare issues raised by globalization (Mares, Estevez-Abe, et. al.) It also broadens the realm of policy issues that need analysis in mapping out preferences and interests – what I want in policy X turns on what happens as well in Policy Y, so for explanation, there is a more complex game going on that is typical in evaluating coalitions where these dimensions are treated separately. (Hanson, Sheve, Slaughter for example look at fiscal policy; one could add taxes.)

A another step down this path problemmatizes interests more broadly: do the actors in the globalization game have “choices” and if so what influences them? A interests approach tends to locate preferences in conditions: properly specify the conditions, the interest will be clear, hence the preference. But what if actors have more

than one choice arising from a given set of conditions? Something else is going on. Firms in a particular technology may vary in their strategy and structure: on how they combine the ingredients into modes of organization and practice. Suzanne Berger is exploring such options in looking at firm strategies --- American firms slash labor costs, Italian firms try to conserve production locally or at least nearby. Some of these choices may have to do with VOC variables. Others have something to do with "networks" and policies for their promotion – the various elements of the Italian "district" model – on which more below.

What it takes to understand fully the micro-incentives of actors may indeed be more complex than we suppose. Thus the issue is less whether interests are "problematic" as a category, than debates about what it means fully to specify all the variables in play that shape incentives thus interests. From S/S to Ricardo/Viner was a move to look at asset specificity. From R/V to VOC variables is a move to look at certain intermediate structures like unions, corporate forms, trade associations. Moving down toward family, ethnicity and trust relationships as we find in "anthro-economics" gets into even more detail. As do this, general observations about factor prices, and simple trade models become less relevant, and also harder to model, harder to test.

Institutions:

Institutions' work has deepened our understanding of how variance in arrangements shapes policy outcomes. Rogowski and colleagues argue that majoritarian institutions produce more consumer friendly policies, thus lower prices, more competition, etc. , than do majoritarian ones. Gourevitch and Shinn find that majoritarian political systems are more likely to generate diffuse shareholder corporate governance

systems than are consensus political systems, which sustain blockholding and/or stakeholder models of governance. Pagano and Volpin show a similar outcome examining electoral systems (PR yielding blocking holding, single member plurality producing diffusion. Shugart and Carey explore the impact of Presidential vs. Parliamentary structures on policy making in Latin America . Persson and Tabellini, Grossman and Helpman, have introduced these distinctions among political institutions into economics discipline.

We see the correlations among institutions and outcomes. We are perhaps less well developed on the causal mechanism: Consensus structures seem to make commitments more credible – because the bargains if struck will be sustained, so more likely to make the bargain. This is the logic behind the tendency for CME outcomes in Consensus systems, and LME outcomes in Majoritarian outcomes. But Consensus systems may also make deals better--- thus faster to change along with the high veto: Sweden and Netherlands have carried out social security reforms of the kind the US is having trouble generating. (Bonoli)

The CME/LME differentiation are well described by VoC authors. They are also seen as having important implications for coalitions and preferences that cut the opposite from class conflict predictions (Mares, Esteves-Abe , et.al). So the politics of sequencing, origins and stability are less well understood. The logic says we have two alternative poles in equilibrium. Does this mean there can be no change along one dimension without change in all >? DO they move together, or in sequence? What sequence? Changes are taking place --- in some elements of corporate governance,

pensions, social services.. but when do these amount to a change in type , not just degree? And what are the mechanisms?

What impact do these have on responses to globalization. There is a trade off between speed of response and credibility of change (MacIntyre). At first cut, the majoritarian systems move faster: without veto points, they can respond to incentives from the market through politics. We would imagine thus where de regulation pressures are strong they would go faster than in consensus systems. On the other hand, the ability to change fast makes these systems have credibility problems in having the deals stick: so there may be more volatility. At a second cut, it may also be that low veto systems exacerbate political conflict, as people dig in their heels. Consensus systems may allow for slower decisions, but more believable bargains: each side can participate in shaping a deal. Thus welfare systems reforms may actually go through Consensus system more readily, despite the initial assumption the opposite would be the case. Sweden may be able to carry out reforms which Bush cannot workout in the US. Denmark as Martin notes took some time to ratify European agreements, but the process made it more credible.

Institutions round two: *de jure* vs. *de facto* power: The dominant tradition on political institutions has focuses on the *de jure* arrangements of parchment institutions: presidential vs. parliamentary, electoral law, parliamentary or referendum processes. Some of these are more durable than others – electoral laws and parliamentary processes are easier to change than formal arrangements.

Less work has gone into the secondary institutions that interact with formal ones: political parties, interest group organizations, trade and professional associations. These matter, and deserve more study.

Acemoglou and Robinson ("Unbundling institutions") explore the distinction between *de facto* and *de jure* institutions, to argue that *de facto* can and often does unravel *de jure*. No *de jure* institutional deal can be secure against those whose de facto powers gives them the ability to unravel the arrangements. Latin America is of course famous as a locus of such activity, as is Africa. Levine and others raise this issue in recent work about institutions, as has Kauffman at the World Bank.

We know this but we don't' study it very well. None of these authors provide any way of measuring *de facto* power. Their concepts of what that might be is rather limited: mostly they talk about military capacity. But there are important other elements, sometimes noted, sometimes not : a) capacity to organize – for political parties, etc, but also for "direct action" --- strikes, of labor or capital, or demonstrations (throwing artichokes or building barricades) b) capacity to block key functions --- electricity, health and sanitation, etc. c) property --- the distribution of wealth, not income, and the various capacities that go with it; d) news and other media resources.

We have all sorts of data about political institutions but not much about the distribution of *de facto* capacity for political influence.

<u>Public Policy and capacity for collective action and collective solidarities</u>. These themes are all the more serious as political struggles are often about that: how to create defend or destroy organizations which provide capacity for action or which define solidiarities. Margaret Thatcher dismantled Council Estate Housing to as weaken the

influence of TUC leaders and break up solidarities. FDR supported unions to build organizations that supported him politically. We know that difference in union strength across countries has an impact on policy outcomes. But what is our model as to why? Unions mediate between individuals and events to help frame their meaning, thus the effect on voting. But unions also organize action for lobbying.

Why break up Social Security? It breaks up solidarities and support for collective programs. But social security is not an organization of activist members. CalPERS is. Governor Schwartzenegger proposes to dismantle CalPERS – this would unravel an institution which lobbies the SEC, pushes companies, and supports candidates for elective office. So it has an impact on the political game.

We have studied such relationships to some degree in Europe by trying to measure corporatism, but more needs to be done.

How countries respond to trade is influenced then by the social institutions that mediate between preferences and formal institutions. Social networks can be mechanisms for coordination, trust, commitment. They substitute for formal arrangements (Laitin -Posner, McMillan-Woodruff-Naughton, Krebs). A lot of micro work is developing on this, especially on developing countries where formal law and political institutions are weak. This is very clear in literature on corporate governance, shareholder protections, etc. It is studied re networks in trade (Rausch and Trindade) – that ethnic ties influence trade patterns, for example. But it is not well integrated into our political economy debates about preferences and institutions.

Similarly we have not well integrated work on supply chains, location, agglomeration affects, and the like into this literature.

In sum: the foundational work of mapping cleavages on the one side, so as to generate and test prediction about preferences, and about formal institutions so as to generate and test predictions about patterned preference aggregation is well underway.

Our next steps are to integrate and extend.

a. how do bargains get made – who undertakes the transactions costs to construct bargains?
b. What makes the bargains credible?
c. What social as well as formal mechanisms influence power, and influence the ability to make and sustain bargains?
d. What kinds of information are generated in different systems to what kinds of voters and political players to produce outcomes?