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The Impact of Globalization on the Structural Power Control of Developed States in the 1990s and 2000s

Abstract: Due to its very nature, globalization undermines the government control. This paper focuses on the impact of globalization on developed states. In particular, it analyzes how globalization has affected each of the following four institutions: (i) governance, (ii) capital markets, (iii) welfare state, and (iv) labor market. This can be summarized as follows: governments have become limited in their decision making, domestic capital markets have transformed into branches of the global market and thus have not been able to freely promote domestic interests, the welfare state serves capitalism rather than protects the society and reduces inequality, and the labor market experiences the migration of workers to developed states, whereas industries moved offshore to developing states.

Key words: globalization, developed states, governance, welfare states, capital markets, labor market

1. Introduction

The collapse of the Bretton Woods system in the 1970s opened up intensive international trade, eventually leading to globalization. Since the 1990s, the globalization process was led by developed states (Ubi, 2008, p. 11, 12). These states promoted the growth of capital by adjusting their market structures to accommodate the global financial framework (Cerny, 1994, p. 319, 328, 329). This research paper focuses on how globalization reconstructs the political, social and economic structures of developed states.

The starting point for this paper is the functioning of two opposing forces underlying governments' policy decisions: The first is the *economic pressure* of capital providers, through capital institutions and markets and the managing of the production system. The opposite force is the *societal pressure* on decision makers represented by the democratic welfare institutions (social aid, health services, education and pensions).

In particular, the paper focuses on and discusses in detail the impact of globalization on the following four institutions: (i) *Governance* – the state shares its political-economic dominance with global political institutions, international institutions, regional trade institutions and private enterprises of transnational corporations, (ii) *global capital market* which coordinates the nation-states' capital markets and its international financial institutions to function in the dynamic process, (iii) *welfare state* that includes social welfare institutions in the case of workers' migration caused by globalization, and (iv) *labor market* which combines two related aspects, i.e. commodification in production as a result of pressure from capital providers and decommodification that stems from the welfare state, including the direct impact of globalization on the mobility of workers and industries.

2. The Effect of Globalization on the Nation State Governance

The potential to increase the growth of capital has been the main motive of developed states to support globalization. These states endorse global institutions by sharing political power to protect interests of the global market through a voluntary participation in agreements and institutions. Global institutions can be classified into three levels. The top-level comprises global institutions of the WTO, described in its homepage as follows: “[a]t its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments. The goal of the WTO is to ensure smooth trade flows, as predictably and freely as possible.”[1] The organization also operates a forum settling trade disputes and promoting equality in the trading process among member states. Another leading institution is the United Nations Organization (UNO) with its 193 member states and the primary role of settling political and violent conflicts. Moreover, the UNO promotes issues, such as peace, security, fighting climate change, encouraging sustainable development, human rights, and humanitarian aid in emergencies.[2]

Mid-level institutions include regional trade agreements signed for political and economic benefits, such as NAFTA (North American Free Trade Agreements), European Union free trade agreements, Mercosur (the Common Market of the South in Latin America), ACP (African Caribbean and Pacific) and ASEAN (Association of Southeast Asian Nations) (Robles Jr., 2008, p. 181). Finally, the bottom-level institutions include international financial institutions controlled by developed states. These are the International Monetary Fund (IMF) and the World Bank, which provide financial support to developing capitalist states (Guven, 2018, p. 392–393).

3. The impact of Globalization on the Capital Market

3.1. Political compatibilities

The globalized capital market is a collection of national capital markets embedded in a global framework with a “nerve knots” composition (Vaseliev, 2014). Initially, globalization worked through stock exchange markets of developed states; New York, London, Tokyo, Frankfurt, Amsterdam, Zurich and Hong Kong (Vaseliev, 2014, p. 207). After that, globalization worked through a competitive state framework. This fundamental framework enables national capital markets to participate in the global capital market. The theoretical basis of this framework is the *capital mobility hypothesis,* according to which capital flows freely across borders. A capital flow is necessary to ensure business opportunities and efficiency in competitive markets. (Cerny, 1994, p. 320–325).

[1] https://www.wto.org/english/the wto_e/whatis_e/who_we_are_e.htm (World Trade Organization), 02.10.2019.

[2] www.un.org/en/sections/about-un/overview/index.html (The United Nations), 12.03.2019.

3.2. The structure of the global market

Globalization provides a multi-systemic environment and opportunities that determine the success of markets. The market structure is defined and characterized using the following indicators: *competitiveness*, *liquidity*, *flexibility*, *price sensitivity*, *securitization*, *and complexity*. *Competitiveness* is the indication of the laissez-faire state of the market (Posner, Weyl, 2018, p. 353). Luigi Zingales (2012) refers to competitiveness as the “magic factor” which makes capitalism work fairly for everyone. It does so by limiting extremely high profits, exposing consumers to innovative substitutes produced by other firms, and by excluding inefficient actors (often politically connected) from the market (Zingales, 2012, p. 28, 29).

Liquidity refers to the volume of exchange in the financial market. High liquidity facilitates the exchange process. *Flexibility* indicates a large number of substitute investment instruments on the market. It enables the use of adequate investment instruments (Posner, Weyl, 2018, p. 177). *Price sensitivity* (also called price elasticity of demand) is defined as the percentage change in quantity demanded divided by the percentage change in price. High price sensitivity indicates a high rate of global market integration (Cerny, 1994, p. 332). *Securitization* is the transformation from the traditional banking systems in member states to a unified system that allows global and local actors to trade in securities. Consequently, securitization increases flexibility and price sensitivity in financial markets. Finally, *complexity* refers to a variety of sophisticated financial instruments, for example, a range of currency hedges, variable-rate bonds, perpetual notes, interest rate swaps, off-balance-sheet, and other innovative technologies in financial trade (Cerny, 1994, p. 333).

4. The impact of Globalization on the Welfare State

The welfare state approach contrasts with the capital growth approach in the sense that it aims to pull resources from the few to the many. Below, we analyze the impact of globalization on macro and micro levels.

There is an ambiguity on the macro level regarding the effect of globalization on the welfare state. There is no doubt that globalization decreases social security and increases the demand for compensation by the public. The government is the supply side for compensation through its welfare state institutions. The group of sceptics who focus on the supply side support regulations to limit compensation for the losers in globalization. The second group of scholars, who are more critical of the demand side, reject the claim that globalization affects the demand for increasing welfare expansion (Walter, 2010, p. 404). These two approaches are expressed by the so-called “efficiency hypothesis” (of the market) versus “compensation hypothesis” (of the welfare state) which are presented as follows:

– The *efficiency hypothesis* is a pro-market capitalization theory that represents the action of capital against the welfare state by exerting continuous pressure on the government to decrease corporate tax and labor-wage protection. Consequently, it reduces social spending and welfare state expansion (Lammers et al., 2008, p. 307).
– The *compensation hypothesis* protects the society from the competitiveness of globalized markets by compensating the losers. Essentially, it forces governments to

increase the expansion of the welfare state’s power against capital power (Lammers et al., 2008, p. 307).

In the following part, we present case studies that highlight the efficiency and compensation hypotheses. At the macro level, we present analyses by Kim and Zurlo (2009) and the coding scheme by Lammers et al. (2018), which enables to distinguish changes in the relative importance of two ideal type open methods of coordination accepted in intergovernmental dialogues expressed in EU reports. At the micro-level, we introduce the study by Walter (2010), whose analysis indicates an unambiguous impact of globalization on welfare state indicators.

4.1. Macro-level analyses

Kim and Zurlo (2009) analyze the economic globalization impact on the welfare state through the welfare regime type. To this end, they use Esping-Andersen’s (1990) typology of regimes, which classifies welfare states into three types: (i) maximum welfare state model which refers to the *social democratic model* of Scandinavian countries (Sweden, Denmark, Finland, and Norway), (ii) medium welfare state which refers to the *conservative model* of continental Europe (Austria, France, Germany, the Netherlands), and (iii) minimum welfare state which refers to the *liberal model* of Anglo-Saxon countries (U.S.A, Great Britain, Canada, Australia) (Esping-Andersen, 1990, p. 26–28, 31–32).

In their analysis, Kim and Zurlo (2009) use a mixed globalization modeling through five dependent variables: foreign direct investments (FDI), trade share, liberalization of capital transactions, currency transactions, and regulatory measures for the openness of the economy. These variables are integrated into the *investments and trade openness* (ITO) and the *economic system openness* (ESO) expressed as percentages of GDP. Moreover, the welfare state is represented by the *social expenditures* factor as GDP percentage (Kim, Zurlo, 2009, p. 132–133). They find that different “welfare regimes react differently to the impact of globalization” (p. 139). For example, “[…] concerning ITO, social expenditure in social democratic regimes is more sensitive to globalization pressures than in liberal and conservative regimes” (Kim, Zurlo, 2009, p. 139).

In a different macro-level study, Lammers et al. (2018) uses a coding scheme which enables to distinguish changes in the relative importance of two ideal type OMCs (open methods of coordination), which are customary in EU intergovernmental dialogues. They did not find systematic changes ín employment OMCs in their data from 2000–2014, but they found that policy discourses in social inclusion OMCs did change significantly after the global economic crisis in 2008. In this respect, despite the crisis, social investment was reduced and economic affairs favored. The above is in line with the efficiency hypothesis (Lammers et al., 2018, p. 316).

4.2. Micro-level analysis

Walter (2010) uses a different approach and analyzes the compensation hypothesis at the micro level while focusing on the individual. In this case, she suggests the following causal chain mechanisms: (i) Globalization causes an “insecurity impact” on the cognition of the individual, and (ii) it directs the individual towards “compensation demand” to protect him/her from becoming a “globalization loser”. Consequently, (iii) the individual, together with his/her relatives, prefers to vote for socially oriented parties, since (iv) these parties promote the expansion of the welfare state (Walter, 2010, p. 406–409).

5. The impact of Globalization on the Labor Market

In contrast to the market and welfare state, which are single role institutions, the labor market is an institution that plays a dual role. It includes both capital and welfare elements by operating capital’s production and using welfare expenditure. Consequently, the impact of globalization on the labor market is a composition of several factors.

Table 1 shows the impact of labor characteristics on low- and highly-skilled labor in globalization. In the following subsections, we explain the content of the table in more detail. In particular, the first subsection (“labor mobility”) explains the first two rows of Table 1, while subsequent subsections explain rows further down the table.

Table 1

Impact of labor market characteristic on low- and highly-skilled labor

Labor	Low-skilled labor	Highly-skilled & educated labor
Supply origins	Developing states	Developing states
Demand origins	Developed states and offshoring industries in developing states	Developed states
Vulnerability	Developing states and unorganized labor in developed states	
Standardizations		Developing states
Trans-National Corporations	Developing states	Developing states and developed states
Decrease of unionization	Developed states (in the industries)	
Labor –saving technology	Developed states	Developed states and developing states

5.1. Labor mobility

In the global labor market, labor forces from developed and developing states interact with each other. Developing states are characterized by weaker economies with high demographic rates, and hence by high unemployment rates. In addition, many developing states produce highly-skilled and highly-educated labor. This creates a problem because the overqualified labor supply does not match the low domestic demand on the local market. This supply of human power creates a “push effect” from a developing state towards developed states. Moreover, there is a high demand for highly-skilled workers in developed countries. It happens because of low demographics in these states and the necessity to maintain and pursue economic advantages in global competition. This creates a “pull effect” of highly-skilled workers from developing states towards developed states. The combined “push-pull effect” causes a so-called “brain drain,” a flow of highly-skilled and educated individuals from developing to developed states (Nonini, 2002, p. 9; Wickramasekara, 2008, p. 1248, 1251).

5.2. Vulnerability of workers

The global integration of labor markets generates conflicting effects among workers and employers. For example, the flexibility of changing jobs, working hours, and income opportunities both harms and benefits workers. Another effect is the decrease in bargaining power driven by the threat that industries will move offshore to produce benefits for companies. For example, in the U.S., 25% of outsourced workers suffered a reduction in wages. Therefore, Richard Trumka (2011), the president of the labor unions federation (AFL-CIO) in the U.S., suggests to integrate human and labor rights within the WTO and in regional trade agreements as mandatory standards (Trumka, 2011, p. 42–44).

5.3. Standardization

Standardization of labor skills and education is necessary for the allocation of jobs to be effective. The standardization helps developed states to absorb highly-qualified immigrants from developing states. Moreover, it supports transnational corporations (TNCs) in their global expansion strategies (Johnston, 1991, p. 115, 126).

5.4. Trans-national corporations (TNC)

TNCs are capitalistic enterprises committed to FDI (Foreign Direct Investments) and human power commodification, which have become the top movers of globalization through the following strategies: (i) pursuit of global-oriented (denationalized) policies and embedding of local enterprises; (ii) mergers and acquisitions involving local firms and subsidiaries; (iii) increasing their market power by using local property law and market’s imperfections; and (iv) competing successfully with rivals by implementing innovative products through R&D (Sat, 2009, p. 45–46).

5.5. Trade unionism under globalization

Two types of worker organizations lead to the promotion of social interests. The first type involves voluntary membership for maintaining and improving labor rights. This forces governments to enter collective bargaining, e.g. the U.S. labor system. The second type is the European labor involving membership of political labor parties or non-governmental organizations.

Globalization and privatization decrease the bargaining power of trade unions (due to offshoring to low-wage states). The rate of unionization in the private sector of the U.S.

is 8% compared with 50% in the non-competitive public sector. The unions of the American Federation of Law, Congress of Industrial Organizations (AFL-CIO), and “Change to Win” organizations represent only 17% of workers on the labor market. This figure is quite representative of other developed states too.

Globalization has even led to a change in the political culture of the labor market of the U.S. This has happened through actions of anti-globalization labor movements among government workers, government contractor’s employees, and aid beneficiaries. These movements forced the U.S. administration to protect their labor interests (wages, working hours and benefits) through legislative measures and subsidies for industries. Other developed states also increased protective measures for workers (enacting minimum wages in Germany and the United Kingdom (see Estricher, 2010, p. 415–417)).

5.6. “Labor-Saving” technology

Radical competition in the global market creates pressure to continuously maximize production efficiency. This promotes the development of labor-free technologies, such as industrial robots. On the one hand, innovative technologies contribute to the commodification of the production process in capital markets in general (Basu, 2016, p. 657). However, on the other hand, innovative technologies enhance human labor participation in global work and enable the creation of a vast network of industries or services at distant sites, e.g. in Bangalore, Manila, or Nairobi, controlled by London or New York-based corporate headquarters.

6. Conclusions

For globalization to contribute to economic growth, states have to adapt and reconstruct their institutions. As an illustration of the high growth rate, the US stock exchange Dow Jones index grew at a factor of 12, from 891.5 to 10,735 points between the 1980s and the 2000s (Vasiliev, 2014, p. 208). Moreover, because the US stock market includes many international firms, this tremendous growth also reflected global success.

We can summarize the impact of globalization on developed states by stating that *governments* became limited in their decision making regarding foreign policies and economic policies, foreign policies are restricted by the voluntary membership in international institutions and agreements, whereas economic policies are weakened by the increase in the power of capital. This forced governments to favor capitalist political interests, both on the global and domestic (globally integrated) markets. Moreover, *domestic capital markets* became branches of the global market and thus cannot freely promote local domestic interests. On the one hand, the *welfare state* remains continuously under the capitalist pressure to restrict its expansion, and, on the other hand, it is committed to the task of absorbing migrant workers in favor of capitalism. Lastly, the *labor market* responds to globalization through the immigration of workers to developed states and the offshoring of industries to developing states.

Since this paper focuses on developed states, to complete our understanding of the impact of globalization on the structural power of states, it is recommended that future research should analyze the impact of globalization on developing states. For example, globalization has led to openness and awareness of human rights and labor rights in these states. Additionally, as the markets are required to be more efficient because of global competition, this leads to the adoption of advanced production technologies. In general, these changes and developments profoundly affect the governance regimes in developing states.

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Wpływ globalizacji na kontrolę siły strukturalnej w państwach rozwiniętych w latach 90. i 2000

Streszczenie

Ze względu na swój charakter globalizacja podważa kontrolę rządu. W artykule skupiono się na wpływie globalizacji na kraje rozwinięte. W szczególności analizuje, w jaki sposób globalizacja wpłynęła na każdą z czterech następujących instytucji: (i) zarządzanie, (ii) rynki kapitałowe, (iii) państwo opiekuńcze oraz (iv) rynek pracy. Można to podsumować następująco: rządy ograniczyły się w podejmowaniu decyzji, krajowe rynki kapitałowe przekształciły się w gałęzie rynku globalnego i tym samym nie były w stanie swobodnie promować interesów wewnętrznych, państwo opiekuńcze służy raczej kapitalizmowi niż chroni społeczeństwo i zmniejsza nierówności, a rynek pracy doświadcza migracji pracowników do krajów rozwiniętych, podczas gdy branże przeniosły się za granicę do krajów rozwijających się.

Słowa kluczowe: globalizacja, kraje rozwinięte, zarządzanie, państwa opiekuńcze, rynki kapitałowe, rynek pracy

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