<u>ps389/cics301</u>: Lecture Notes

Professor Franzese

Globalization & the New Politics of Embedded Liberalism

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(Part A: Preface – Chapter 1, & Background)

I. Preface & Motivation:

A. When asked, used to say book about:

1. "…how national institutions—primarily electoral & labor-market institutions—shape the political & policy responses of [developed-democratic] governments to globalization."

2. "…about how domestic politics reacts to & interacts with the global economy & how institutions structure these relationships."

B. Now frame issues as:

1. "…the political backlash vs. globalization in Anglo-American dem's…"

2. "…the future of the global economy is at stake, and possibly international peace & stability as well."

C. At start, likelihood of political backlash *vs.* globalization, one which might potentially undermine longstanding foreign-economic policy-commit.'s to economic openness & multilateralism seemed remote

1. …idea might originate in Anglo-Amer. dems even more remote.

2. Econ historians noting similarities late-19/early-20 C & now [see figs]

International Trade: *Then* (end-19th/start-20th C) & *Now* (end-20th/Start-21st C)

- Nearly complete convergence in agricultural commodity markets over course of 19th C.
- Overall picture hardly uniform, but largely common story: steep drop trade from 1920 to 1950, w/ recovery to those pre-WWI levels only by 1970s (tho. mostly past, some well past, by 1990s).
  - [See also Figure next page for last 2 centuries of Global Imports/GDP…]
- **New Developments in modern era:**
  - Manufactures exports from the developing world;
  - Rise of intra-industry and intra-firm trade;
  - Trade in services also (not just goods (manufactures & commodities)).

Table 8.3 Merchandise exports as a share of GDP (constant prices, per cent)

Region	*1820*	*1870*	*1913*	*1929*	*1950*	*1973*	*1998*
France	1.3	4.9	7.8	8.6	7.6	15.2	28.7
Germany	n.a.	9.5	16.1	12.8	6.2	23.8	38.9
UK	3.1	12.2	17.5	13.3	11.3	14.0	25.0
Western Europe	n.a.	10.0	16.3	13.3	9.4	20.9	29.7*
US	2.0	2.5	3.7	3.6	3.0	4.9	10.1
Japan	n.a.	0.2	2.4	3.5	2.2	7.7	13.4
Argentina	n.a.	9.4	6.8	6.1	2.4	2.1	7.0
Brazil	n.a.	12.2	9.8	6.9	3.9	2.5	5.4
Latin America	n.a.	9.0	9.5	9.7	6.2	4.6	6.2*
China	n.a.	0.7	1.7	1.8	2.6	1.5	4.9
India	n.a.	2.6	4.6	3.7	2.9	2.01	2.4
Asia (including Japan)	n.a.	1.3	2.6	2.8	2.3	4.4	7.2*
World	1.0	4.6	7.9	9.0	5.5	10.5	17.2

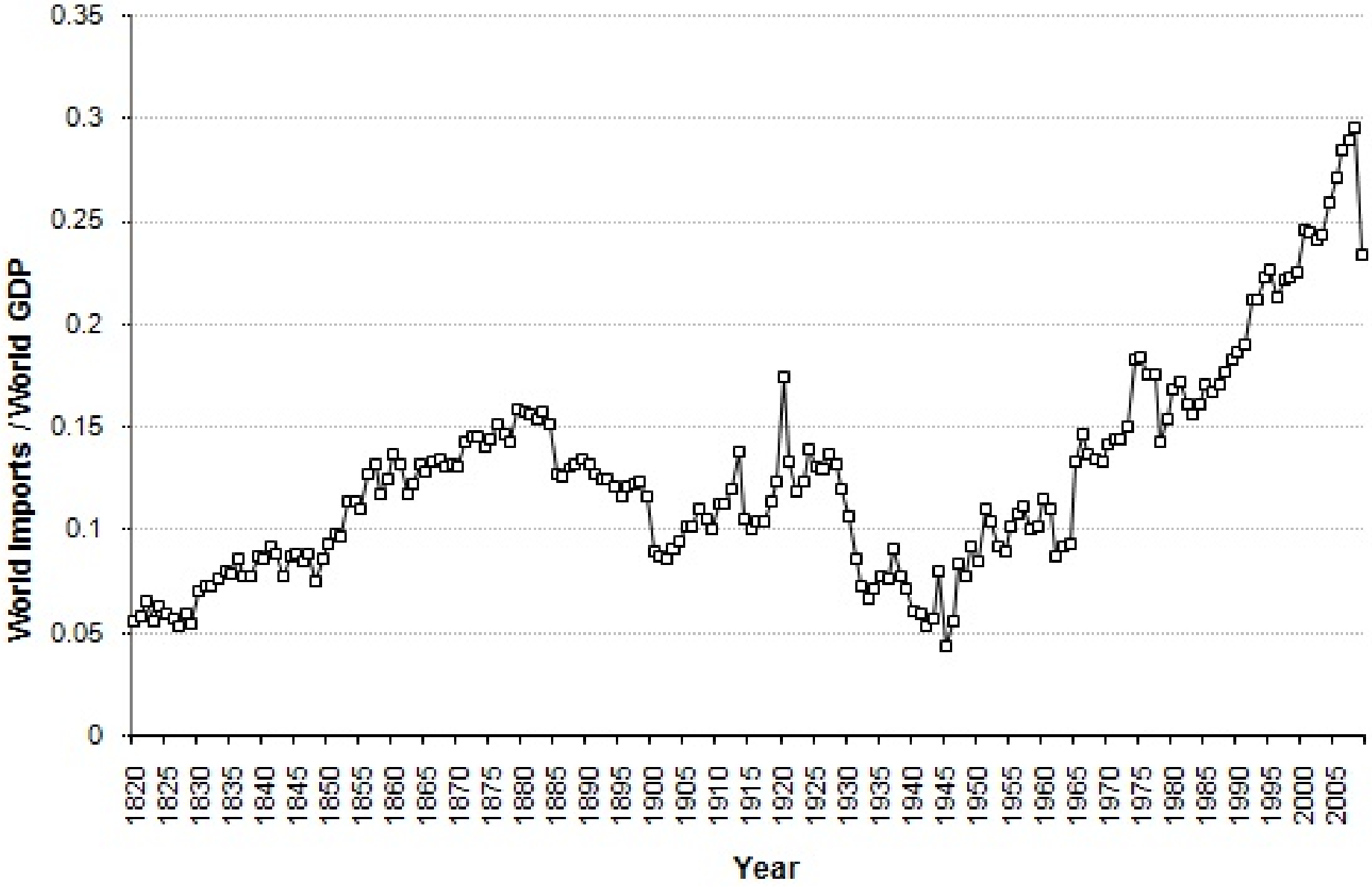
Source: O'Rourke, 'Europe and the Causes of Globalization, 1790 to 2000' in Henryk Kierzkowski (ed.), *Europe and Globalization* (Basingstoke: Palgrave Macmillan, 2002), p. 70

* 1992

Table 8.4 Total trade to GDP (current prices, per cent)

	1870	*1910*	*1950*	*1995*
UK	41	44	30	57
France	33	35	23	43
Germany	37	38	27	46
Italy	21	28	21	49
Denmark	52	69	53	64
US	14	11	9	24
Canada	30	30	37	71
Japan	10	30	19	17

Source: Richard E. Baldwin and Philippe Martin, 'Two Waves of Globalization: Superficial Similarities, Fundamental Differences', National Bureau of Economic Research Working Paper 6904, www.nber.org, January 1999.



Source: Chase-Dunn & Kwon (2011) (http://irows.ucr.edu/papers/irows60/irows60.htm)

International Capital Markets: *Then & Now*

In the 19th C, capital markets actually did a much better job at transferring savings from rich countries to finance investment in developing ones.

- Today there is much more trading in short-term instruments (currencies & stocks).
- Today, FDI in developing world is much more concentrated in a few destinations in particular (although 'developing world' is perhaps more global now than was then).
- More direct investment today due to the rise of transnational corporations and the multi-nationalization (MNC's) of production (& so a lot of this is intra- developed world)

- From data, relative to GDP, can see that in terms of accumulated stock of capital & globally (at left), collapse post 1920, not recover until 1980s; and, in terms of magnitudes of flows by major countries (as shares GDP), similar timing of collapse, and recovery not even by 1990s…
  - [Feldstien-Horioka comparison next slide…]

Table 8.5 Foreign assets over world GDP (per cent)

1870	6.9
1900	18.6
1914	17.5
1930	8.4
1945	4.9
1960	6.4
1980	17.7
1995	56.8

Source: Nicholas Crafts, *Globalization and Growth in the Twentieth Century*, IMF Working Paper WP/00/44 (Washington DC: International Monetary Fund, 2000).

Table 8.6 Capital flows since 1870 (average absolute value of current account as per cent of GDP)

	UK	*USA*	*Argentina*	*Australia*	*Canada*	*France*	*Germany*	*Italy*	*Japan*
1870–1889	4.6	0.7	18.7	8.2	7.0	2.4	1.7	1.2	0.6
1890–1913	4.6	1.0	6.2	4.1	7.0	1.3	1.5	1.8	2.4
1919–1926	2.7	1.7	4.9	4.2	2.5	2.8	2.4	4.2	2.1
1927–1931	1.9	0.7	3.7	5.9	2.7	1.4	2.0	1.5	0.6
1932–1939	1.1	0.4	1.6	1.7	2.6	1.0	0.6	0.7	1.0
1947–1959	1.2	0.6	2.3	3.4	2.3	1.5	2.0	1.4	1.3
1960–1973	0.8	0.5	1.0	2.3	1.2	0.6	1.0	2.1	1.0
1974–1989	1.5	1.4	1.9	3.6	1.7	0.8	2.1	1.3	1.8
1989–1996	2.6	1.2	2.0	4.5	4.0	0.7	2.7	1.6	2.1

Source: Alan M. Taylor, 'International Capital Mobility in History: The Savings–Investment Relationship', National Bureau of Economic Research Working Paper 5743, www.nber.org, 1996.

- Again, see the collapse starting around 1920, to very high levels (of closure) emerging from WWII in 1950s, and not recover until 1970s/80s (here timing of Bretton Woods collapse, & the relaxing of capital controls that went with it, is quite apparent).

The Feldstein-Horioka Coefficient (1872 – 1982)

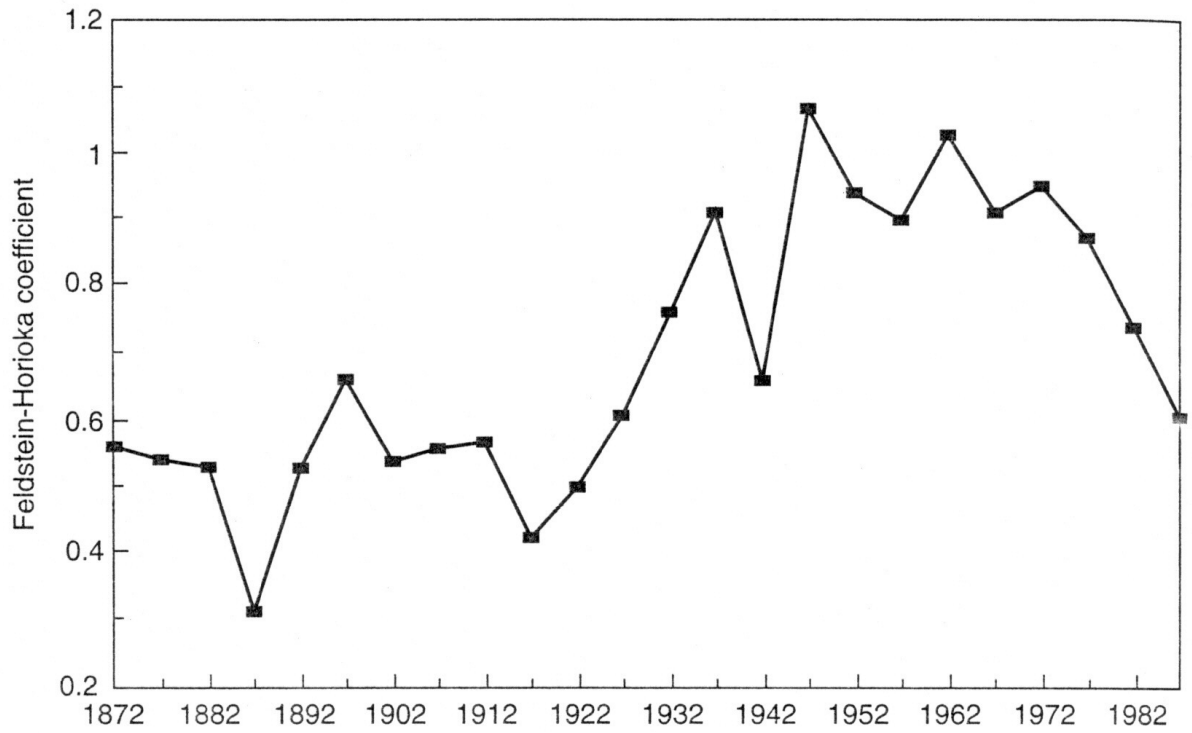


Figure 11.3
Feldstein-Horioka correlation in history. Note: The Feldstein-Horioka coefficient is the slope coefficient in a regression of investment shares on savings shares. Regressions are for a cross-section of countries in each five-year period. Source: Taylor (1996), revised 1997 version.

International Migration: Then and Now

- 1815-1915: 60m from Europe; 10m from Russia; 12m from China; 6m from Japan…
- Perhaps the single most important difference between globalization *then* and globalization *now*: immigration much more tightly controlled now.
- "Controls on migration create the world's biggest economic distortion—the discrepancy in rewards to labour" (Wolf 2004, p. 117).
  - Figures below are from McKeown (2004)—show war-time collapses immigration, and/but also that the 1930's decline predates WWII…
  - Some U.S.-only data on next slides show the familiar longer-term pattern…

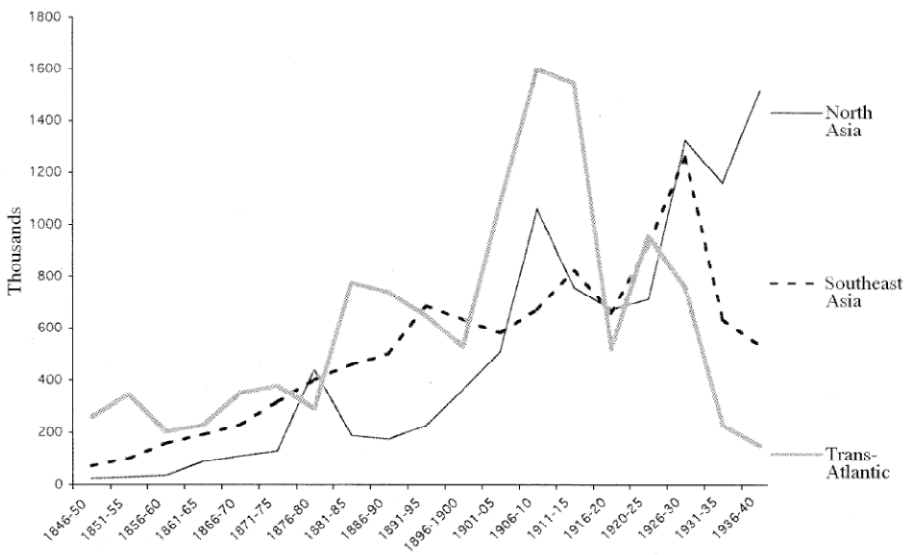


FIGURE 2. Global migrations (five-year averages).

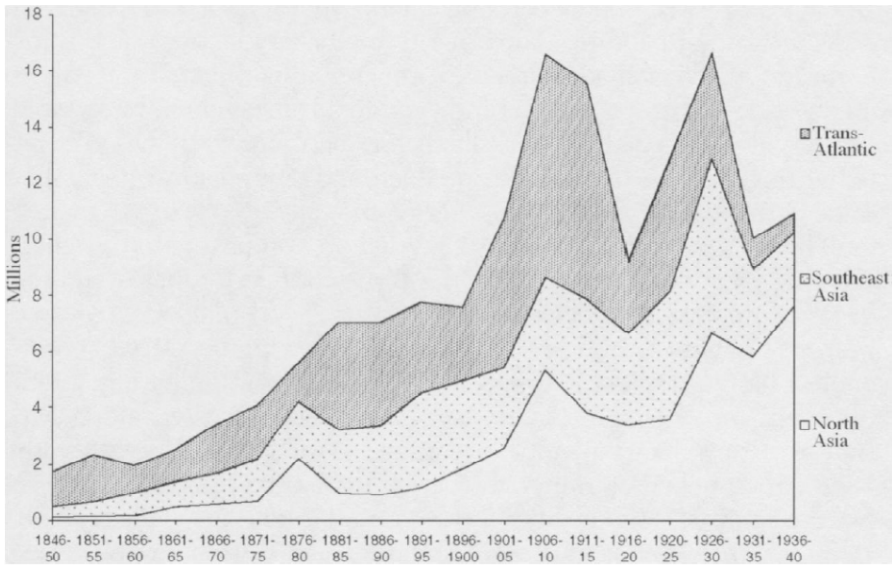
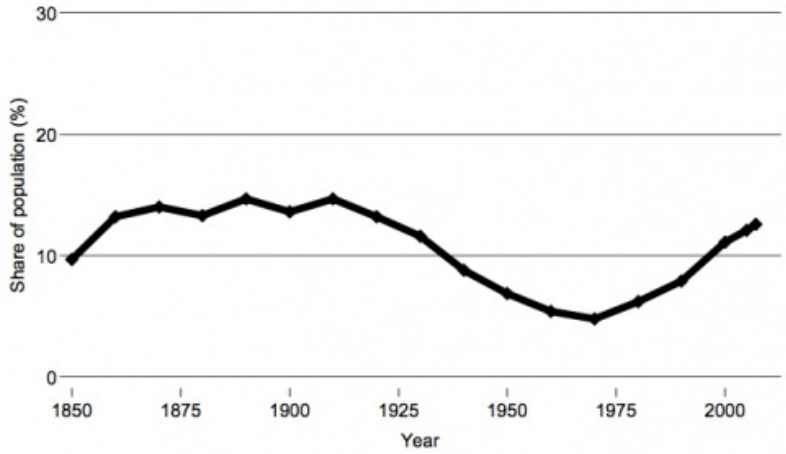


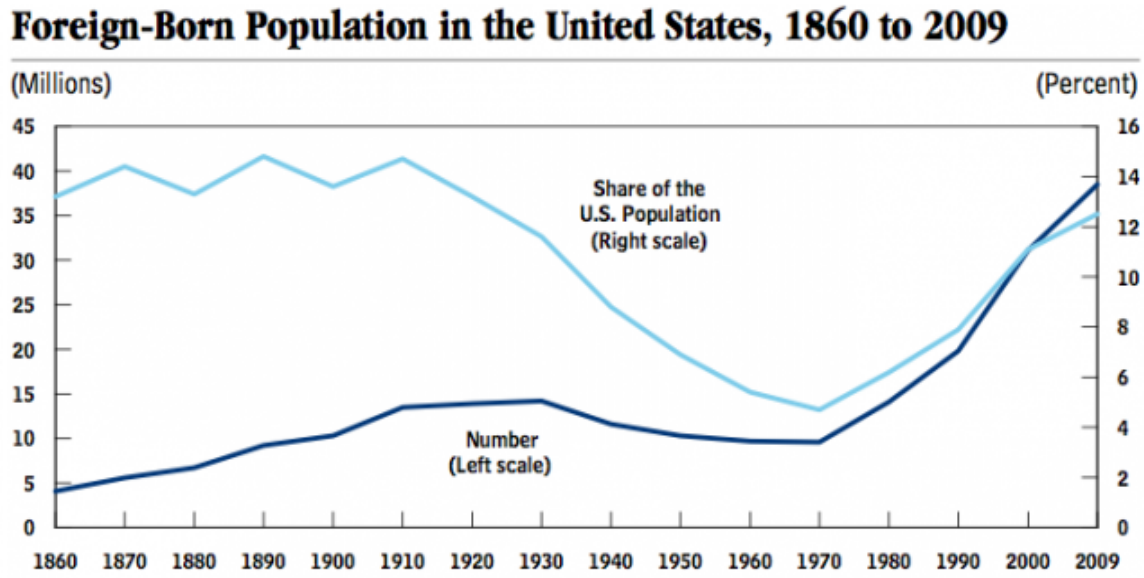
FIGURE 1. Aggregated global migration (five-year totals).

Foreign-born share of U.S. population:

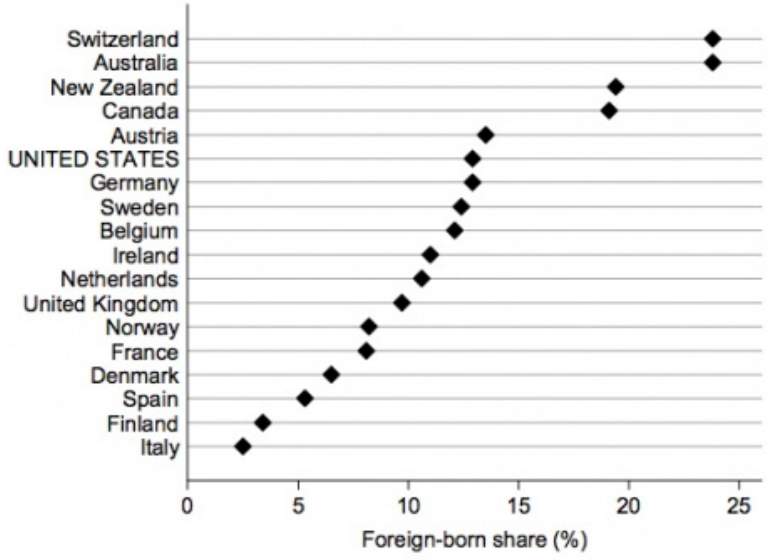


Note: Foreign-born share of the U.S. population. These data include both legal and illegal immigrants.

Source: U.S. Census Bureau, www.census.gov.



Some Comparison:



Note: Foreign-born share of the population, 2005.

Source: OECD, *International Migration Outlook 2008*.

3. Econ historians noting similarities of late-19/early-20 C to now… …and drawing some pretty ominous conclusions:

"The interwar decades saw a return to autarkic trade policies, the breakdown of international capital markets, and an end to mass migration. Global capital markets have only recently regained the ground they lost during that era, and migration is unlikely ever to regain the levels achieved prior to World War I. It would be comforting to think that the interwar *de-globalization* was an exogenous shock, brought about by the onset of the Great War, events that had nothing at all to do with the globalization forces that had been at work previously. Were this true, we could reason that interwar autarkic reactions could be avoided today, so long as the international community keeps the peace. The evidence presented here suggests that this view of interwar *de-globalization* is both incorrect and misleading. The correct view is that a political backlash developed in response to the actual or perceived distributional effects of globalization. The backlash led to the re-imposition of tariffs and the adoption of immigration restrictions, even before the Great War. Far from being destroyed by unforeseen and exogenous political events, globalization, at least in part, destroyed itself."

(O'Rourke & Williamson (2001), *Globalization and History*, pp. 286-287)

Why did the international economy collapse in the 1930s?

Conventional Wisdom:

Much of the blame to be placed on World War I. Economic adjustment after the War was difficult. The U.S. refused to write off war debts. The War itself did not really settle anything. So competitive beggar-thy-neighbor policies were inevitable.

O'Rourke and Williamson:

The conventional-wisdom explanation is, for the most part, incorrect. The collapse of the international economy in the 1930s has to be viewed as the culmination of globalization backlash that began to emerge decades earlier in the late 1800s.

This WWI explanation is still commonly accepted today only b/c we have very poor understanding of late 19th C international economic history: In particular:

Fail to recognize massive economic changes over mid/late 19th C to early 20th C, as seen in tremendous degree of international price (goods & wages) convergence, which evidence an earlier era of globalization, and it's political-economically radically, tragically destabilizing effects.

(The destabilizing effects come from distributional effects in convergence of low real-wage countries catching up to high real-wage ones; real wages in relatively developed countries relatively stagnant/decline while real returns to capital soar.)

Quick aside on convergence: Two (by Two) types…

σ-convergence versus **β-convergence**: σ-convergence gauged by levels of dispersion (e.g., measures of variance). β-convergence is degree to which prices (returns) in low-price (low-return) ctrys rise faster than prices (returns) in high-price (return) ctrys (so low is "catching up" to high).

Unconditional Convergence vs. **Conditional Convergence**: *Unconditional*: Poor (low-wage, low-return) countries catch up to rich (high-wage, high-return) countries. (We can observe this type of convergence directly in comparative historical record.) *Conditional*: Poor (low-wage, low-return) countries catch up to rich (high-wage, high-return) countries, but only when considered post- researchers' controls for other factors that limit their growth. (We can't observe this type of convergence directly; we uncover it using multivariate statistical techniques. E.g., Controlling for levels of societal education, countries' real-wage growth-rates over some period are declining in their initial real-wage levels.)

O'Rourke&Williamson show tremendous convergence of real wages (then-developing world catching up to then developed) in 1st globalization (late 19th-early 20th C):

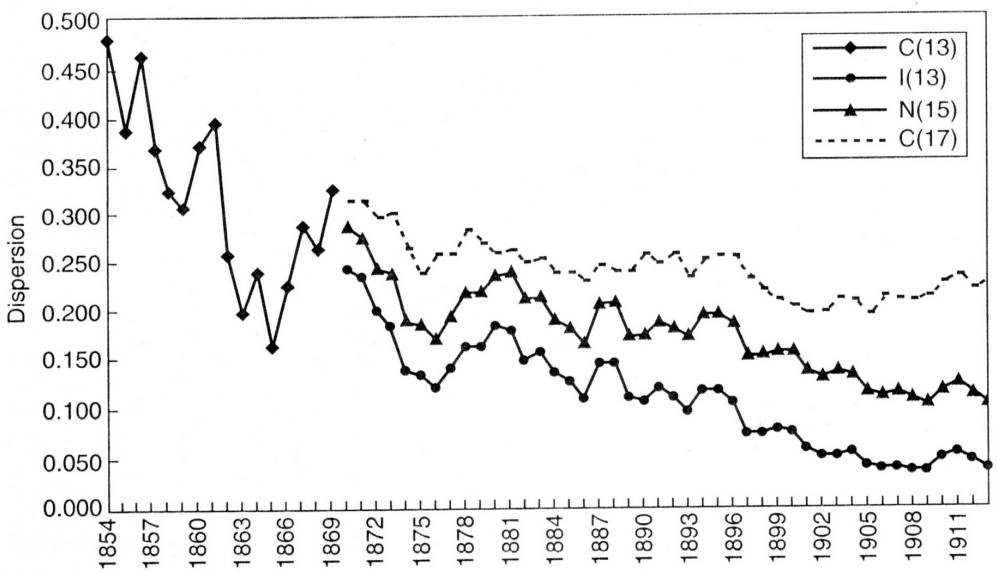


Figure 2.2
International real wage dispersion, 1854–1913. Source: Williamson (1995, table A2.1); revised in O'Rourke and Williamson (1997).

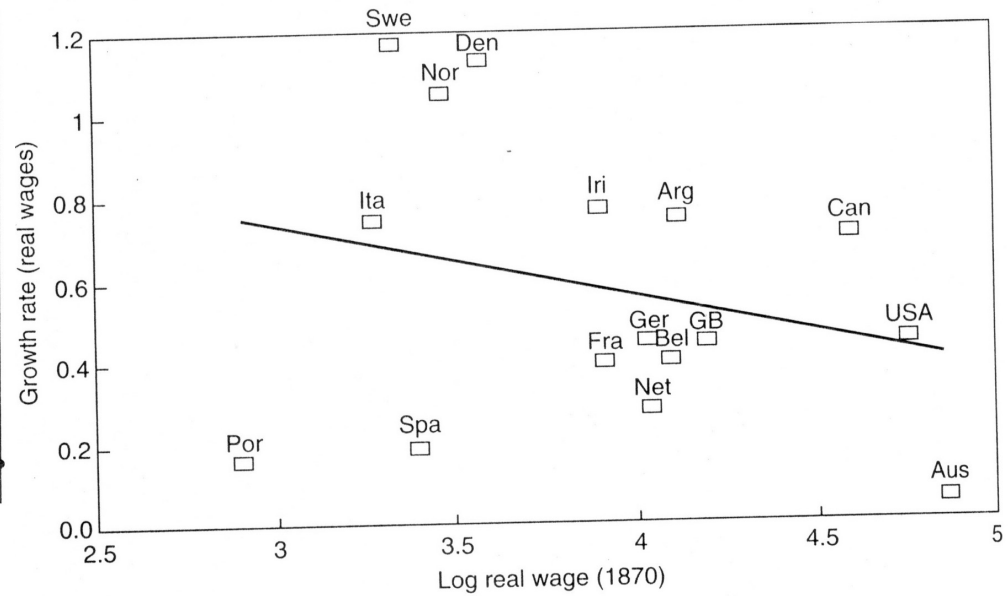


Figure 14.1
"Unconditional" real wage convergence, 1870–1913. Source: O'Rourke and Williamson

4. Econ historians noting similarities late-19/early-20 C & now… …have drawn some pretty ominous conclusions…

a) …but possibility that emerging discontent in later era would see repeat of 1930s, where international economy would collapse under global depression & beggar-thy-neighbor foreign-economic policies dismissed

b) [Policymakers & publics had learned, right?

(1) Beggar-thy-neighbor only exacerbated problems, ultimately beggar-thyself;

(2) Fiscal-tightening & monetary non-response of prewar reactions to economic bust only exacerbated & prolonged problems;

(3) Fiscal & monetary expansions of late 30's & WWII were what finally eased grip Great Depression (These lessons all learned…right?)]

c) But maybe 1930s [or 90s Japan(?)] "our new historical reference point"?

(1) UK immigration reform under rhetoric save "British Jobs 4 Brit. Workers"

(2) US stimulation package implemented with "Buy America" clause…

(3) At height of econ crisis, US intelligence chief pronounced global economy #1 security threat to US, replacing Al Qaeda & global terrorism).

d) However, Hays thinks full 1930s scenario unlikely because:

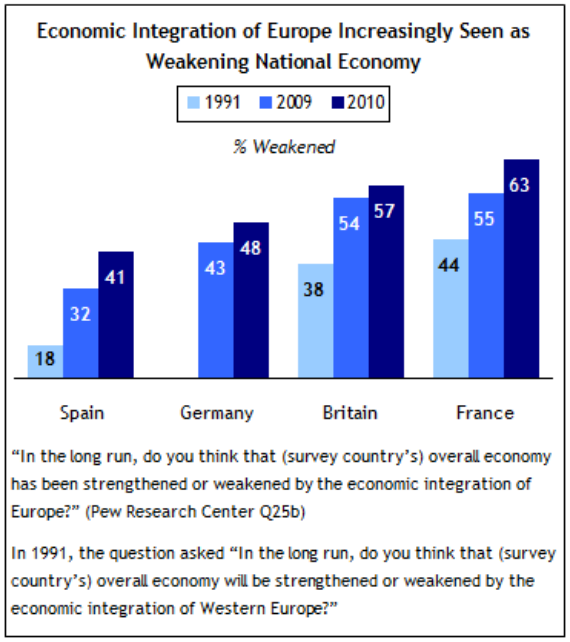
(1) Policymakers [& publics?] *have* learned [some] important lessons from interwar period, even though…

(2) …risks to int'l economy most serious today since end of World War II.

II. <u>Chapter 1</u>: Economic Globalization & Domestic Politics in the Developed Democracies

A. *Setting:*

1. Around [dev'd-dem.] world, growing political opposition liberalization trade, rising foreign investment & inflows foreign workers. Beginning to affect public policy:



   a) EU "enlargement fatigue" (e.g., fig. @ right):

      (1) French & Dutch voters reject E.U. constitution

      (2) Govt. attempts limit cross-border mergers & acq's in 'strategic' sectors like banking, steel, energy

   b) US:

      (1) GW Bush had fight intense battle to win Trade Promotion Authority from reluctant Congress

      (2) Kerry '04 campaign: outsourcing CEOs=*traitors*

      (3) CAFTA passed House by 1 vote in 2005

      (4) Dozens of anti-China trade bills introduced Congress recent years

   c) Collapse Doha round of WTO multilateral trade negotiations

   d) Why? Where will this have lasting consequences? What are the implications global economy & international relations?

2. *C&IPE* long argued domestic political foundation of current liberal int'l econ was/is implicit bargain b/w gov & citizens: **EMBEDDED LIBERALISM**

a) [a.k.a., or related concepts: *postwar settlement*, *class compromise*]

b) Govt's protect cit's from "vagaries international economy, primarily through the provision of social insurance [& macroeconomic management,] and, more recently, with active labor-market programs" in exchange for:

c) "political support for policies like *free trade* that drive econ globaliz'n."

(1) Without this support, governments reluctant endorse econ openness

(2) [DISCUSS this trade: who are 'sides'? what getting? Arg a bit vague on this…]

(3) [EXPLAIN the problem to which Embedded Liberalism was answer: need review Trade Theory & the Stolper-Samuelson Theorem (see next slides…)]

d) Some argue revenue constraints from globalization production & finance making gov't end of bargain increasingly difficult sustain:

(1) Int'l financial mobility [bond markets] "discipline" borrowing;

(2) MNCs move production to evade taxation.

(3) This is ***Rodrik's Globalization Dilemma***, = "***crisis of embedded liberalism***".

e) Troubling because:

(1) Trade key source growth & prosperity late 20th into early 21st C (as it was in late-19th into early 20th C)

(2) & reversal globalization trends last time in late-1920s/early-30s followed by global econ collapse, political disintegrations, & world war.

Comparative Advantage & International Trade

I. Simple (Ricardian) *Comparative Advantage*:

A. Ricardo's Examples (slightly amended): [hrs to produce in tables; 100 hrs total endow]

1. Absolute Advantage:

	Wine	Cloth
Portugal	10	25
England	15	20

a) Specialization & Export/Import:

(1) Not surprising here that, since Portugal better at producing wine and England at producing cloth, trade will induce England to specialize in cloth & export surplus to Portugal to buy (import) wine, & Portugal the reverse

b) Gains from Trade: little surprise either that both better off than without trade.

(1) For instance, w/o trade Eng could produce & consume 4 units wine & 2 cloth; With trade, it could produce 5 cloth, consume 2, & sell 3 surplus cloth in Portugal (export) where could buy (import) 7.5 wine w/ those 3 cloth.

(2) Port w/o trade could, e.g., produce & consume 2 cloth & 5 wine; With trade, it could produce 10 wine, consume 5 and export 5 surplus to Eng where could by 3.75 cloth.

(3) Notice that gains come from being able to separate the production & consumption bundles, producing at one relative-price ratio, *p*, (the domestic *p*) and consuming at another (the foreign or, more gen'ly, global *p*). (More generally, will produce some bundle at world prices & consume some different bundle at same world prices.)

2. Comparative Advantage: Now Portugal has absolute advantage in both goods

	Wine	Wheat
Portugal	10	15
England	15	20

a) ***Principle of Comparative Advantage***: specialize in, produce more, & export by ***relative efficiency***; and all parties gain.

(1) Portugal: cost of wine in terms of wheat is .66 units; England: wine costs .75 units wheat. Wine is more efficiently produced relative to wheat in Portugal (wine-relative-to-wheat in Port compared to wine-relative-to-wheat in Eng). Portugal has a comparative advantage in wine production.

(2) Flip Side: England: cost of wheat in terms of wine is 1.33 units; Portugal cost of wheat in terms of wine is 1.5 units. England is *relatively* more efficient in wheat production; i.e., Eng has comp advantage in wheat.

(3) Portugal specializes in wine production, producing 10 units, and exports its surplus. England specializes in wheat production, producing 5 units, and exporting its surplus.

b) ***Gains from Trade:*** even though Port has absolute advantage in production of both goods, ***both*** countries gain from trade.

(1) For instance, w/o trade Eng could produce & consume 4 units wine & 2 wheat; With trade, it could produce 5 wheat, consume 2, & export 3 surplus wheat to Portugal where could buy 4.5 units wine.

(2) Portugal w/o trade could, e.g., produce & consume 4 wine & 4 wheat; With trade, it could produce 10 wine, consume 4 and export 6 surplus to Eng where could by 4.5 wheat.

(3) Notice that gains seem somewhat weaker here; this because gains from trade increasing in the diversity of the economies that trade & these hypothetical Eng & Port wine & wheat more similar than previous example.

c) Principle of Comparative Advantage $\Rightarrow$ countries, in aggregate & on-average, benefit from free trade.

B. Standard Baseline 2x2x1 Model:

1. 2 countries (**A** & **B**)

2. 2 goods (**X** & **Y**)

3. 1 factor of production (Labor, **L**)

C. Ctry **A** *absolute advantage* over **B** in production **X** if can produce **X** more efficiently (w/ less **L**).

1. *Production function*: equation that maps input, **L**, into output, **X** or **Y**.

2. For examples, in A and B: $X=a_{LX}L_X$, $X=b_{LX}L_x$, A has absolute advantage in production of **X**, if $a_{LX} > b_{LX}$.

3. Gains from Absolute Advantage in Trade: If $a_{LX} > b_{LX}$ and $a_{LY} < b_{LY}$, i.e., if **A** has absolute advantage in **X** and **B** has absolute advantage in **Y**, then rather intuitive that each would benefit from specializing in production of good it produces more efficiently and trading for the other.

D. **A** has ***comparative advantage*** in production **X**, relative to **B**, if **A**'s opportunity cost of producing **X** in terms of good **Y** is less than **B**'s, or in terms of production functions, if $(a_{LX} / a_{LY}) > (b_{LX} / b_{LY})$.

1. Comparative advantage is "twice relative": 1) comparison of the countries' 2) relative productivities.

2. Each ctry specializes in & exports its ***comparative advantages***, not it's absolute advantages &, doing so, both countries better off, regardless of absolute advantage.

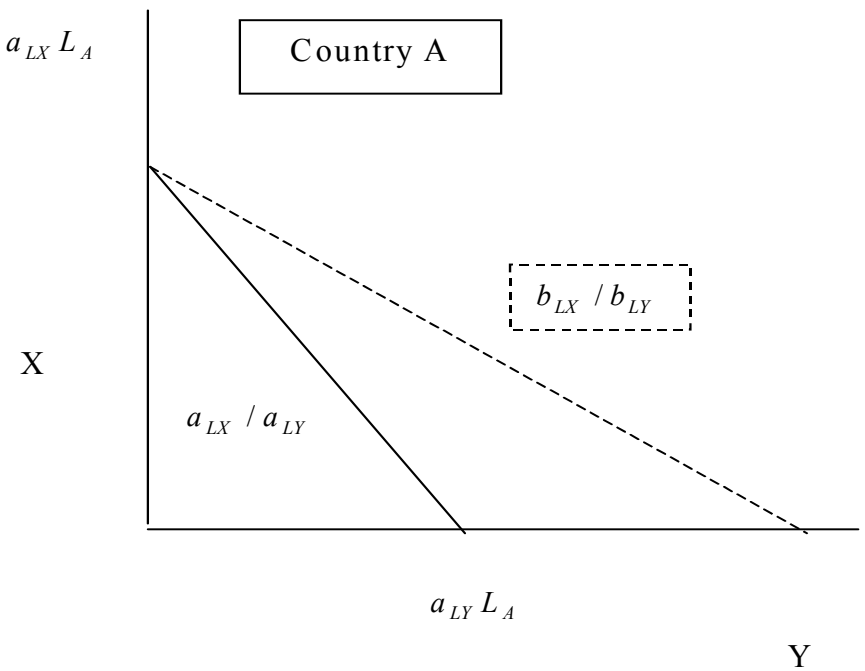
3. B/c *comparative advantage* is relative, every ctry has *comparative advantage* in something: here, with two goods, **A** *comparative advantage* in **X** ⇔ **B** *comparative advantage* in **Y.**

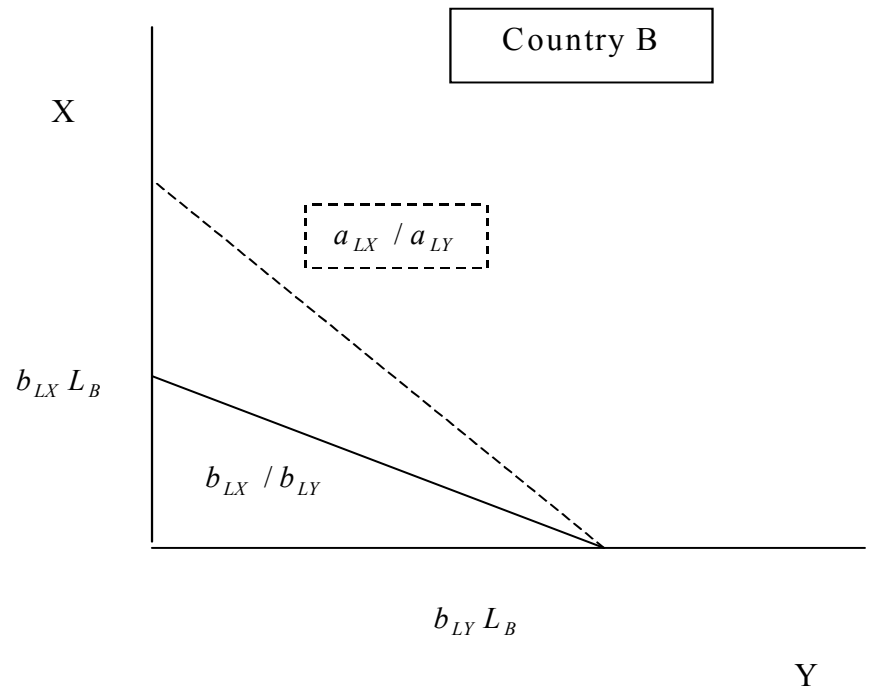
a) In fact, gains from trade come from ability to produce at domestic price-ratios and translate that production into consumption at foreign/global price-ratios.

b) And gains from trade (to both parties) thereby increase in diversity of economies trading.

E. ***Production Possibility Frontiers (PPF's)***: maximum **X** that a ctry can produce for each level of **Y** produced & v.v. I.e., the limits of output capacity given tech (coefficients) and resources (**L**).

1. Production functions & $L=L_x+L_y \Rightarrow$ $X = a_{LX} L_A - (a_{LX} / a_{LY})Y$ and $X = b_{LX} L_B - (b_{LX} / b_{LY})Y$
2. Graphically (solid lines are PPF's):
3. **Country A has *comparative advantage* in X ⇒ steeper PPF than B** (note: PPF goes higher on X).
4. **A** specializes in **X**, trades **X** for **Y**, (at *p* somewhere b/w 2 autarky *p* (i.e., between a_{LX}/a_{LY} & b_{LX}/b_{LY}, i.e., between the slopes of the 2 PPF's).
5. Dotted line: **A**'s *consumption possibility frontier* with trade, now seen higher than if have to consume & produce same bundle. Another way to see the gains from trade.
6. A Heckscher-Ohlin (Rybczynski, Jones, Stolper-Samuelson) example (taken from a paper making an argument about globalization & ***di***vergence from Franzese & Mosher '02) next slide.





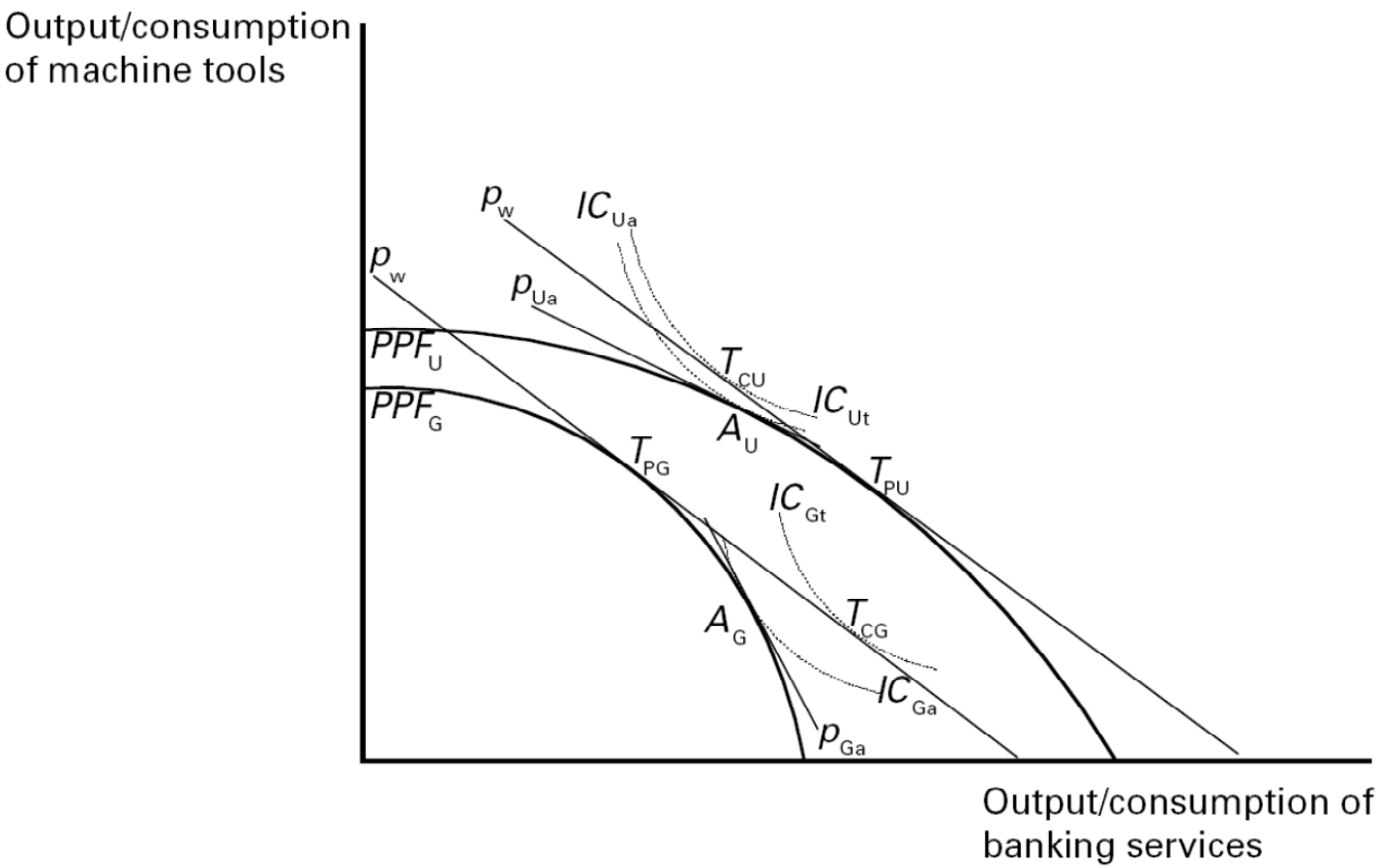
F. Heckscher-Ohlin (Rybczynski, Jones, Stolper-Samuelson): Set-Up

1. Comparative advantages come from relative endowments of *factors of production*. Countries are, e.g., relatively capital-rich (rel'ly labor-poor), *K/L* rel'ly high, or rel'ly labor-rich (cap.-poor), *K/L* rel'ly low.

2. Production of different goods/services is relatively capital-intensive or relatively labor-intensive. Relatively capital-rich countries can produce more of capital-intensive goods at lower relative cost.

   a) In figure, e.g., machine-tools production physical-capital intensive relative to human-capital-intensive banking services, and Germany (U.S.) relatively physical-capital (human-capital) rich.

3. PPF_G & PPF_U are hypothetical PPFs for Germany & U.S. [As drawn, Ger. (US) has lower (higher) total factor endowment or total-factor productivity, but comparative advantage in physical-capital-intensive machine tools (human-capital intensive banking services).]



4. A_G & A_U are their productions & consumptions under autarky [no trade].

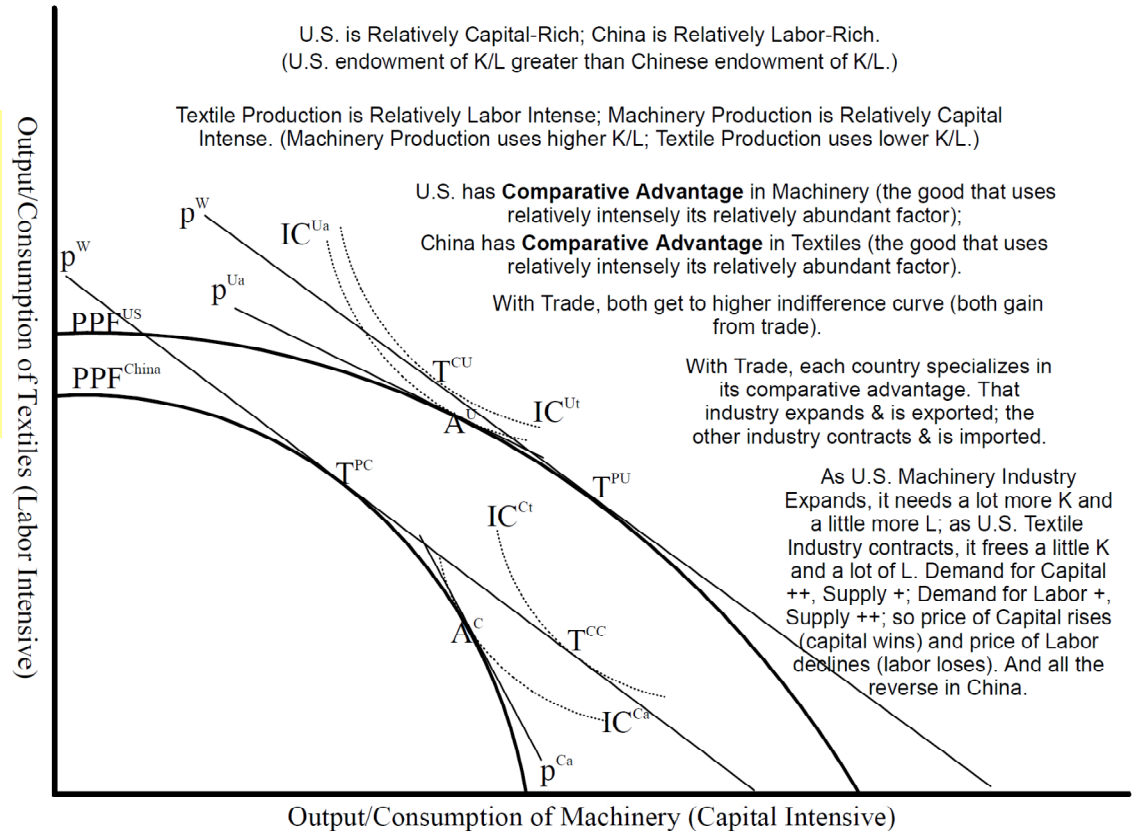
5. T_{PG} & T_{PU} and T_{CG} & T_{CU} are productions and consumptions under trade. Trade allows these differ; can sell & purchase different bundles at world prices.

6. IC = (aggregate) consumers' *indifference curves* under autarky (IC_a) and under free-trade (IC_t).

7. *p* lines are relative prices: p_{Ga}, p_{Ua}, & p_W.

G. Heckscher-Ohlin (Rybczynski, Jones, Stolper-Samuelson): **Conclusions**

1. Increasing trade induces countries to specialize in & export goods that use their locally relatively abundant factor intensively; those industries expand. They import goods that use locally rel'ly scarce factor intensively, & those industries contract.



2. To expand cap-intense industry, X, Machinery, as rel'ly capital-rich ctry, US, would do, resources must shift from labor-intense industry, Y, Textiles.

3. Supply of Capital/Labor is released in lower ratio as Y shrinks than demand for Cap/Lab grows as X expands. Thus, price of Capital/Labor bid up (excess demand) & price of labor is pushed down (excess supply). All the reverse occurs in labor-rich country, China.

4. **Stolper-Samuelson:** In fact, can show that, in the capital-rich country, the price of capital rises relative to price of both the exported and the imported good, whereas the price of labor falls relative to the price of both goods. Again, the reverse happens in relatively labor-rich countries.

5. To restate: **In rel'ly capital-rich countries, capital gains from trade in real terms & labor loses in real terms. In rel'ly labor-rich countries, labor gains & capital loses, in real terms. (Locally rel'ly abundant (scarce) factor gains (loses) b/c, under autarky, its rel-price was lower (higher) than world-trade *p*.)**

a) (Can still show total gains > total losses, but, w/o adequate redistribution, trade ⇒ winners *& losers*.)

b) Developed = relatively capital-rich; Developing = relatively labor-rich.

c) ⇒ labor anti-trade & capital pro-trade in developed; cap. anti-trade & lab. pro- in developing.

d) Since # lab > # cap, dev'd *dem*'s needed reassure if wanted int'l econ open (*embedded liberalism*); & developing ctrys' wealthy & powerful (cap) needed repress if wanted restrict trade to keep rents.

3. So, to restate: The domestic political foundation of current liberal int'l econ was an implicit bargain b/w govt & cit's: **EMBEDDED LIBERALISM**

a) [Dev'd Dem] Govt's protect cit's from "vagaries international economy, primarily through provision social insurance [& macroecon manage,] and, more recently, with active-labor-market [ALM] programs" in exchange for:

b) "political support for policies like *free trade* that drive econ globaliz'n."

c) Without this support, [dev'd dem] govts reluctant endorse econ openness – b/c, in dev'd dem's, a majority would tend anti-trade/open (w/ good reason).

d) Some argue revenue constraints from globalization production & finance making gov't end of bargain increasingly difficult sustain:

(1) Int'l financial mobility [bond markets] "discipline" borrowing;

(2) MNCs move production to evade taxation.

(3) This is ***Rodrik's Globalization Dilemma***, = "***crisis of embedded liberalism***".

e) [Recall figures from next slide illustrate (in a way) both sides of this…]

f) Troubling because:

(1) Trade key source growth & prosperity late 20th into early 21st C (as it was in late-19th into early 20th C)

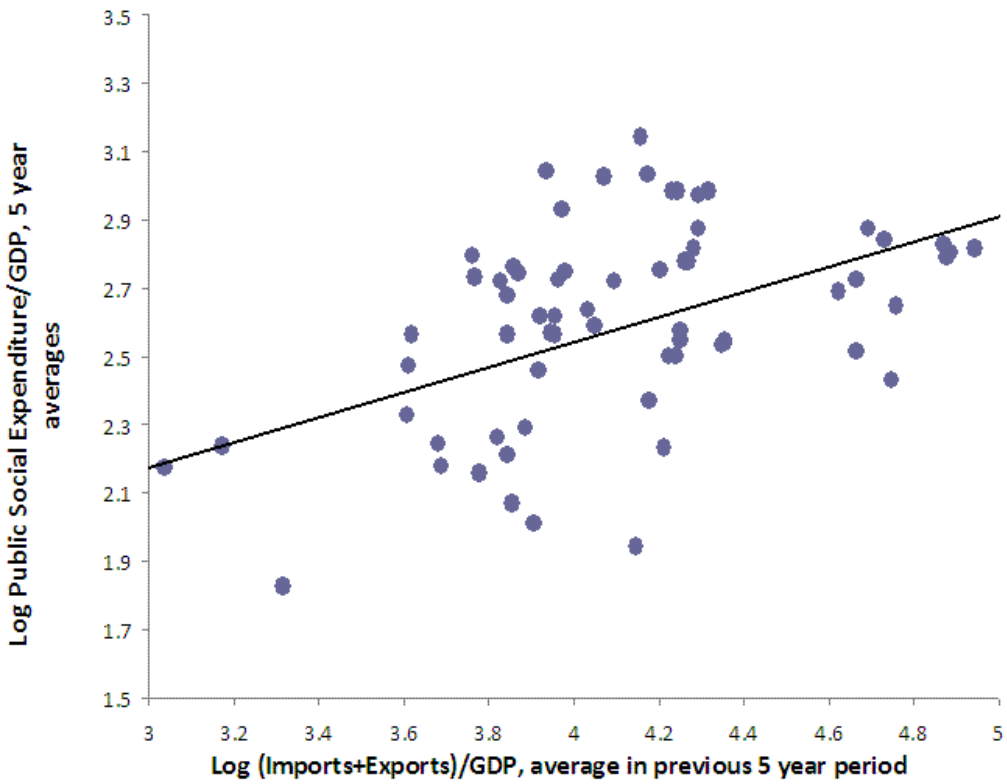
(2) & reversal globalization trends last time in late-1920s/early-30s followed by global econ collapse, political disintegrations, & world war.

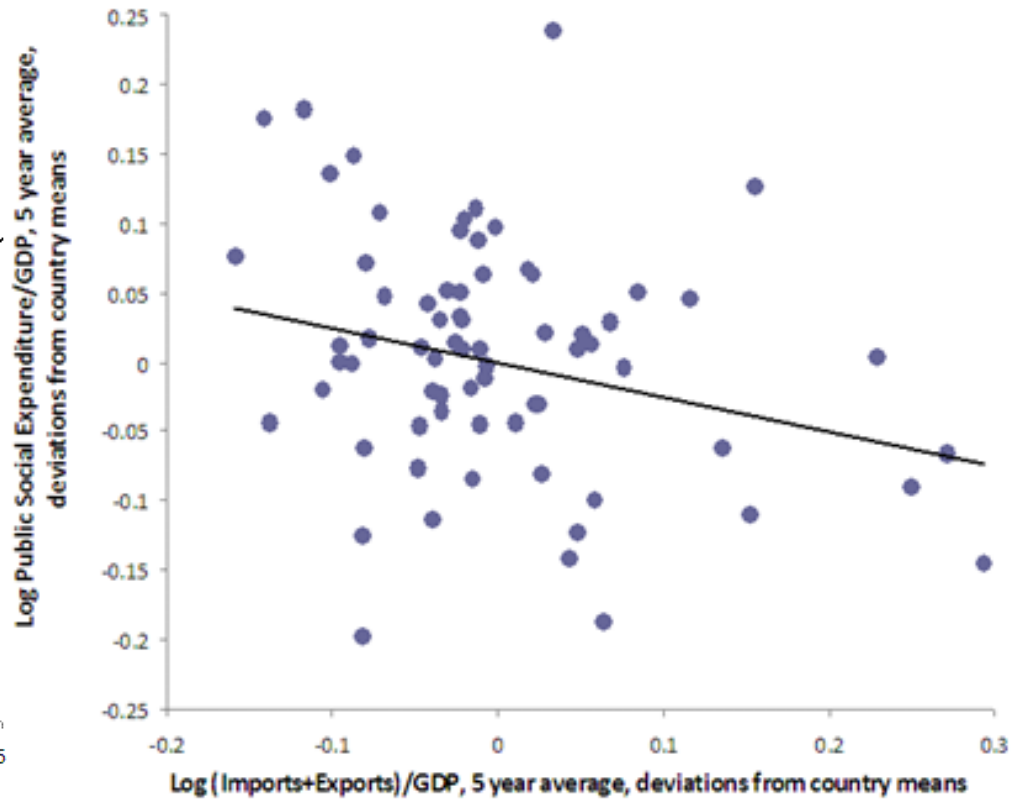
Figures from Bertola & La Prete (2008):

Compare relationship in levels 1960-90 averages [at left] – (now w/ background from Hays, Rodrik, Ruggie): was that higher int'l econ exposure associated w/ larger social safety-net & more-active Keynesian management b/c dev'd dem populations exposed to int'l risks demand public policies provide some insurance, compensation, assurance (safety nets & such), and dev'd dem governments committed to int'l econ open provided it.

– to changes/trends since [at right] (roughly; deviations from country mean & trend & other); here, some modestly clear signs of the Gobalization ⇒ Welfare-State Retrenchment:

–Rodrik's *globalization dilemma*/Hays' *crisis embedded liberalism*: globalization simultaneously increases 1) pub demands for safety nets & the like and 2) constrains ability of gov'ts to fund them:





4. **Hays' CORE ARGUMENT**: Rodrik's globalization dilemma/crisis embedded liberalism not equally sharp for all countries:

a) *Combination of Majoritarian Democracy & Decentralized Labor Markets* exacerbates political problems govts committed to economic openness face,

b) & countries with this institutional mix are most susceptible to political backlash against globalization

(1) List includes US & UK, two pillars of postwar int'l econ openness, Australia, key player int'l talks as a leader in Cairns group of agricultural free-traders, and Canada, another G8 & agricultural exporter.

(2) Plus, Germany & Japan undertaking liberalizing (& majoritarian-izing in Japan's case) reforms moving their political-economies in this direction.

5. Book engages core globalization research in political economy, which:

a) Focus small European pol-econ's with large welfare states;

b) Downplayed constraints from rising capital mobility;

c) Ignored public attitudes toward international economy.

6. Concludes [on normative side]:

a) New bargain *Embedded Liberalism* needed, particularly in world's most-powerful nations, to sustain economic globalization:

b) Will require "carefully crafted compensatory programs" designed with eye to political sustainability.

B. *Alternative Views of Globalization & Domestic Politics in Literature*

1. Long studied; increasingly heavy emphasis. Central, & debated, Q's:

   a) Does economic globalization, increasing internationalization financial markets in particular, ⇒ [Keynesian] welfare-state retrenchment?

   b) Is international economy [i.e., the system of international openness in trade & finance] vulnerable to political backlash vs. this globalization?

   c) Can ***corporatist systems* of industrial relations** [define; elaborate…] survive *multinationalization* economic production (i.e., MNCs & outsource)?

      (1) Quickly, for now: corporatist systems = strong, *encompassing* labor org's (that bargain with correspondingly strong, encompassing employer org's). Considerable theory & evidence that, unlike strong but non-encompassing bargaining, this sort of industrial relations yields certain economic efficiencies, different efficiencies than those associated with weak org's (competitive labor-markets). Briefly, corp systems highly flexible & responsive in real-wages; competitive markets, esp. w/ some strength but non-encomp org's, flex too but adjusts via (un)employment.

2. Can i.d. *Globalization Optimists & Pessimists* by response to such Qs:

   a) *Optimists*: view relationship domestic politics & economic globaliz'n as two being largely compatible, vs.

   b) *Pessimists*: emphasize tensions between politics at the national level & growth international markets.

   c) *Hays*: not take sides, draw relative analytic strengths each to bridge.

3. Pessimists: *emphasize constraints from economic openness*

a) Rodrik (1997), *Has Globalization Gone Too Far?* [& later *The Globalization Paradox*] Hays labels **"Rodrik's globalization dilemma"**:

(1) Globalization ⇒ ↑political demands on govts provide social insurance & other public goods, while at the same time…

(2) Globalization ⇒ ↑constraints public revenue & finance, thereby undermining govts' abilities fund such spending.

b) Political & Economic forces from globalization pulling govts oppositely:

(1) Pessimists would note as supportive evidence, for examples: signs welfare-state retrenchment, and of declining taxes, esp. capital taxes.

c) Concerns are that one side in this tension will win (either is concerning):

(1) Erosion of popular sovereignty, & ultimately a diminishing of democracy, as democratic control over domestic economic policy constrained, or

(2) Political backlash v. globalization ⇒ govt withdrawal from econ openness with similar consequences to last withdrawal from globalization of 1930s

(3) (Interestingly: econ historians emphasize latter; pol-sci's former.)

d) Notice: All this emphasizes domestic political consequences economic globalization rather than effects of politics on international economy; i.e., glob'z'n taken as exogenous & irreversible, a given fact, to which else adjusts.

e) Hays w/ pessimists on reality of competitive constraints from glob'z'n, but notes that not equally constraining on all countries. More in places w/ heavier reliance on cap taxes, which majoritarian dem. (also depends cap-lab endow).

4. Optimists: *[e.g., **"varieties of capitalism"** scholars (Define; Explain: see Franzese & Mosher as ref'd below & above)] downplay globalization's constraints & instead emphasize democratic choice. See relationship of global economy & domestic politics as mutually reinforcing:*

a) Societies that prefer regulated economies, activ-/intervention-ist govts, & income equality will only see these preferences strengthened by glob'z'n;

b) Cross-national differences, incl. pol-econ institutions, ⇒ maneuver room;

c) ⇒ Divergent responses to globalization: organized (coordinated) market economies (CMEs) retain & even enhance their distinct variety of capitalism, liberal market economies (LMEs) become even more so [quotes Kitschelt, p6:]

"The more organized market economies remain organized, interventionist, regulatory, & socially supportive, and they continue to seek to manage adaptation through cooperation and concertation among collective organizations and governments. The liberal market economies are becoming even more liberal, with a weakening of social supports and an increased emphasis on individual merit and markets."

ASIDE: Recall, we saw this set of arguments about "not convergence, instead maneuvering room or more-than-maneuvering-room" before, when we introduced Clark's book:

General Gist of Most Counters: *Maneuvering Room* b/c

Other national differences (e.g., commercial, regulatory, & other policy; lab-mrkt instits; availability intermed-supply; final-mrkt proximity; etc.) also affect invest-locate.

Plus, other factors than cap. mob. affect govts' tax policies.

Garrett: Certain Left-Lab combo's efficient, so not fled.

I.e., certain combos left govt w/ soc-welf, ALMP, coord-barg, & related as or more effic. than neolib minimalism & cons. govt; so cap not flee such combos.

Boix: Left-PubInv & Right-MinIntervene econ'ly close & suff'ly pol. effective

Pub human- & physical-cap investment=alternative to neolib minimalism that sufficiently efficient macroec'ly to attract/retain capital & politically to support left electorally.

VoC: Institutions & Public Policies ⇒ comparative advantage ⇒ divergence (not convergence)

Hall&Soskice '01: complex national networks of PE inst's confer comparative advantages; draw broad distinction b/w coordinated market economies (**CME**'s) and liberal market economies (**LME**'s)

Mosher&Franzese '02: VoC ⇒ [see that machine-tools & banking-services figure again…]

Fixed-capital mobility & ***trade*** integration spurs specialization (of Public Policies & Political-Economic Inst'l-Struct too);

Only ***liquid-capital*** mobility spurs int'l tax-competition, & it has other implications than commonly thought ⇒ Strategic Interdependence & Race to a "Bottom" that is ill-defined, variable, and not necessarily ≥0.

Swank: Domestic political & institutional constraints

Inst'l structure polity & welf sys itself shape domestic pol-resp to integ. Arg not fundamentally challenge exclusive or superior macroec effic. neolib min'ism; Rather, stresses primacy domestic political conditions in determine nature & mag of welf/tax-policy reactions to int'l econ integ.

Hays: Domestic pol-econ struct (cap-lab endowment & majority/consensus dem; labor-market organization) condition response to increased cap mobility. (this is arg. elaborated in book…)

Basinger-Hallerberg; Franzese-Hays: *Strategic Interdependence:* insofar as any these constrain one state, they ease capital-competition for others.

Rodrik & others: also could expect ↑globalization to ↑demand public protection from vicissitudes global economy; so demand ↑ while ability to supply ↓.]

d) Hays: pressures from ↑ trade & capital integration:

(1) ⇒ ↓ social-welfare effort in countries w/ LMEs & majoritarian political systems (i.e., systems where "losers" not represented in policymaking)

(2) ⇒ ↑ social-welfare effort in countries w/ CMEs & proportional political systems (i.e., systems that encourage accommodation by "winners" of "losers").

(a) Hays is siding with the optimists here, that responses to globalization's pressures are different in differently constituted political economies.

e) Since they contend constraints exaggerated, some optimists argue the fears of backlash are exaggerated too:

(1) Often implicit in V.o.C. & related arguments about divergent responses to globalization that these divergent responses tell us about societies' preferences.

(2) If public wants address primarily one side Rodrik's dilemma, then elect cand's / parties associated w/ that side's policies; If want other, then elect alternatives.

(a) Hays will disagree with optimists here: no sign responses in majoritarian liberal-market economies fit public preferences re: globalization.

5. Distinction & framing of optimists v. pessimists useful for some purposes, but also obscures much, like…two underlying debates:

a) Does globalization force convergence to some neoliberal minimal govt economic policies?

b) Likelihood of a backlash, & whether globalization is reversible?

6. Some problems in inferring 'societal preferences' from policy, e.g.:

a) Survey evidence from paradigmatic LME, the U.S., clear: globalization greatly worries most Americans, increasingly so as it has progressed:

(1) Clear, sizable, & growing majority anti-trade: 1999 → 2004, % say US should actively promote int'l trade: 32% ↓9pts to 23%; % keep or slow it: ↑10pts to 67%

(2) Evidence conditional support trade (i.e., that embedded liberalism might work): 60% take "support trade & govt should have programs for job losers" over "support trade & govt should not have such programs" or "not support trade"

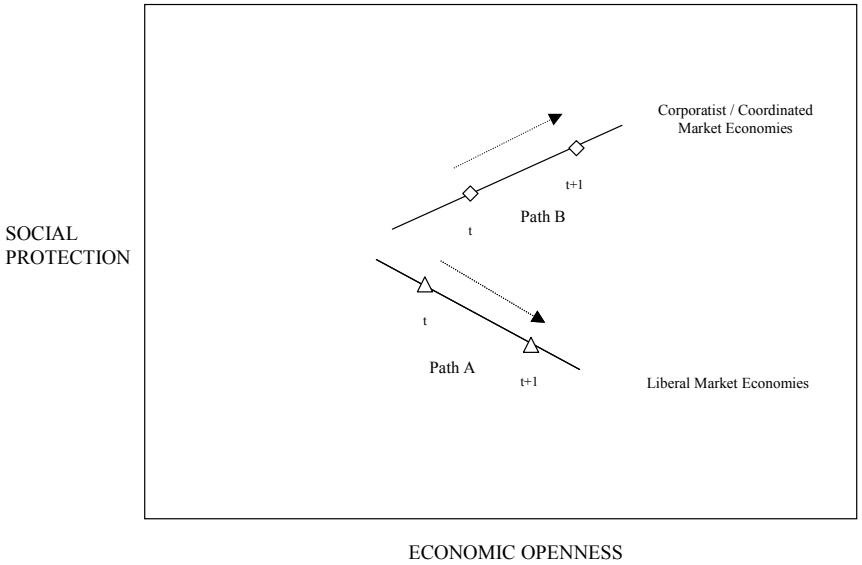
(a) Conditional support ↓5 pts; Unconditional support ↓6 pts; & no support ↑8pts.

(b) 63% in 2004 said govt programs job losers inadequate, ↑6pts from 57% in '99 [& note: this was a period of strong economic performance].

(3) *These high & rising glob'z'n concerns among US public also affecting policy*:

(a) Summ. '02 grant trade authority Bush only after 8-yr stalemate, & incl. provisions

(b) McCain's acceptance speech @ Repub convention endorsed expanded trade-adjust. assistance & experimental wage-insurance older workers provision therein.



b) Hays: Some correct & some missing on both optimist & pessimist side:

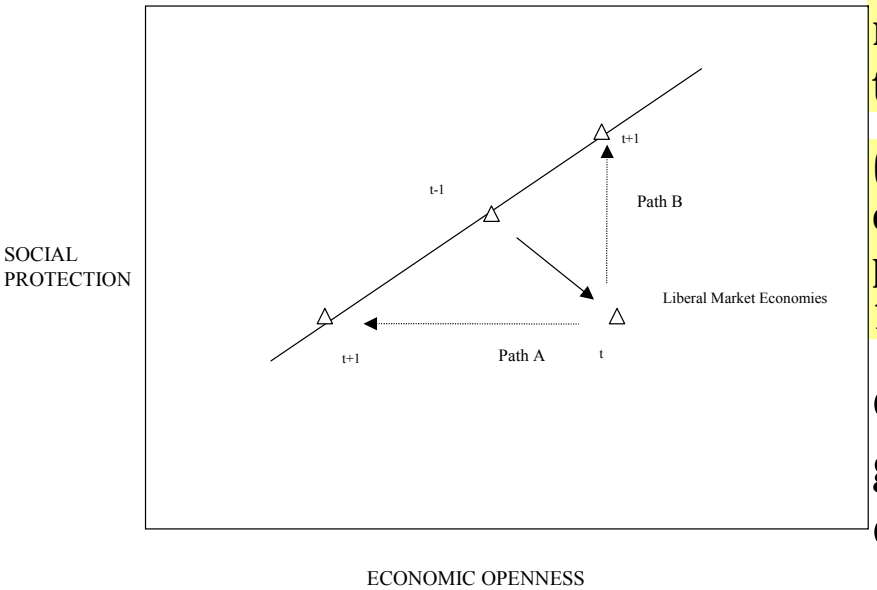
(1) Optimists & other proponents "divergent-paths" argument correct that responses LME's & CME's to globalization have differed, but no sign in evidence that this divergence reflects societal preferences.

(2) Pessimists neglect domestic institutions, so cannot show why constraints particularly binding/effective in LMEs or why growing discontent especially there.

c) Most importantly for Hays, they differ on explanation why LMEs headed down greater exposure & smaller safety-net path:

(1) Optimists: freely chosen divergent path, so politically sustainable.

(2) Pessimists: globalization constrains exposure-response path to shrink safety-net, while also spurring demand opposite policy-trend, so thorny, potentially dangerous dilemma: unsustainable.



(a) Fig 1.1 (top-left), optimists' view, but Rodrik's globalization dilemma (pessimists' view) paints Fig 1.2 (solid arrow is actual path, neither Path A nor B a palatable alternative. Path A is like 1920-50 de-globalization; Path B is unsustainable).

d) Finally, 3rd grp, ***globalization skeptics***, argue glob'z'n does neither effectively ↑ demand & nor ↑ constraints. (Addressed & dismissed below.)

7. **Hays:** explanation for why majoritarian democracies w/ LME's take path they do also implies they especially susceptible political backlash.

a) [Critic/skeptics may raise 3 challenge (addressed later) to this dire concl:]

(1) Some trends in international economy make openness less risky for workers in current globalization than it was in past;

(2) Globalization is largely irreversible: can't *de-globalize*;

(3) Globalization's losers can be compensated.

C. Hays' Argument (Summary review/outline):

1. Part pessimist, part optimist—divergent paths real, constraints real, extent of dilemma varies, depends heavily on domestic PE institutions.

a) Where openness more linked to unemployment & labor-market risk, demand insurance & compensation greater: ***liberal-market economies***.

b) Where countries more dependent capital taxation for revenue, constraints from tax competition greater: ***majoritarian democracies*** (esp. large, wealthy).

c) Conditions ripest for backlash (i.e., globalization dilemma sharpest) in majoritarian LME's, which Anglo-America, which were also ironically the pillars postwar social-compact of ***Embedded Liberalism***.

2. Arg. Part I: *Globalization & the Crisis of Embedded Liberalism*

a) Ruggie's (1982) *Embedded Liberalism:*

(1) Int'l community learned 2 things collapse gold std & interwar econ &*ff*:

(a) Int'l economy crumbles if states pursue unilateral, beggar-thy-neighbor

(b) Govt's cannot ignore internal costs adjust to external econ shocks: trade causes dislocations & risk that generates political opposition which dem leaders must attend

(2) ***Embedded Liberalism***: postwar domestic social compact where govts exchange Keynesian welfare-state (KWS) policies to cushion citizens against vagaries int'l econ for public support for openness.

b) Demand & Supply behind Embedded Liberalism:

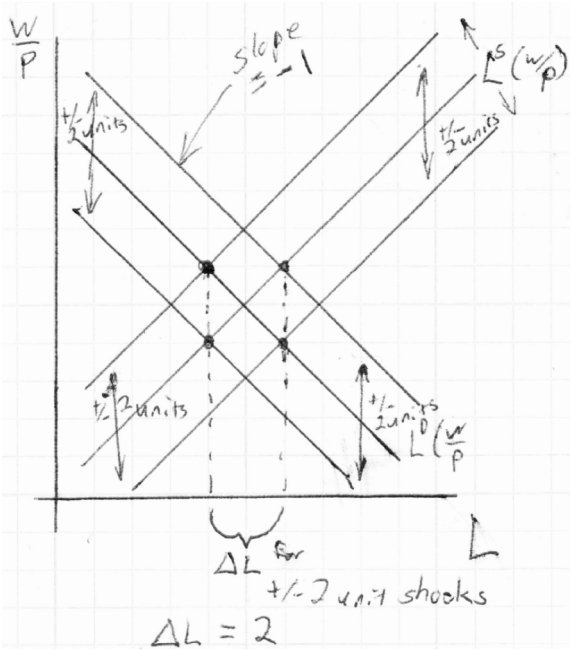
(1) Worker's exposed risk *demand* help;

(2) Govts committed econ openness *supply* it, preferring insurance & adjustment assistance to tariffs & restrictions.

(3) ***Rodrik's (1997) globalization dilemma = crisis embedded liberalism; but (HAYS:) sharpness of that dilemma & degree of that crisis varies, according to links of openness to labor-market uncertainty and to extent & severity of public-revenue constraint, which links depend on political-economic institutions (in labor market and political systems particularly)***.

3. Arg. Part II: *Competitive Labor-Markets & Demand for Assistance*

a) Globalization flattens domestic labor-demand curves (↑ elasticity)



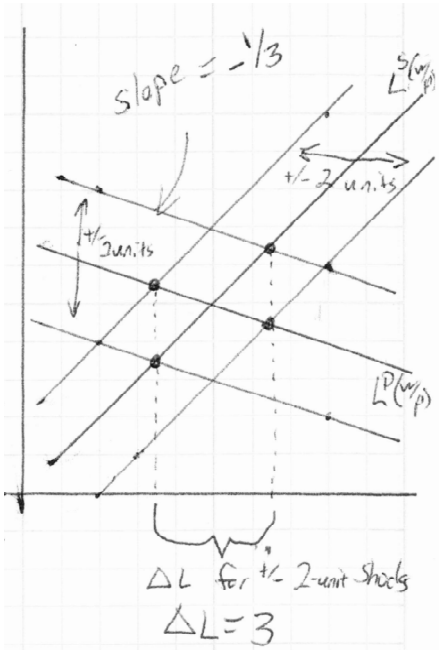
(1) Outsource, FDI, etc. ⇒ easier substitute foreign for domestic labor

(2) => response of domestic wage-bill to shocks is much greater.

(3) [In LME's, response (relatively) more in employment than in CME's where more in real-wages (& smoothed/dampened).]

b) Labor-market institutions:

(1) ***Liberal labor-markets*** = flexible = easy hire & fire ⇒ trade volatility passes into employment volatility more directly.



(2) ***"Coordinated" or "corporatist" labor-markets***: institutions designed sustain employment in face of econ (in fact, esp. int'l econ) shocks/volatility:

(a) Do so via real-wage "moderation"—i.e., essentially, coordinate response to shocks in real-wage, & not to employment, [n.b., & current workers get more of gains (again, react is in wages more than employment) on upside]

(b) N.b., cost of this is labor-market rigidity, long-term unemploy, which concentrated in 'outsider' groups, as opposed 'corporatist' bargaining-system 'insiders'.

c) => Workers in LMEs = more globalization anxiety [n.b., both have reason be anxious, but much more in LME]

4. Arg. Part III: *Majoritarian Democracy & Supply of Assistance*

a) Broad distinction *majoritarian v. proportional* drawn here (see figs nxt):

(1) Majoritarian responds to median voter; losing groups have minimal influence

(2) Proportional responds to (weighted) average; losing groups often retain enough influence to force compromise or even to require consensus.

b) Majoritarian accordingly will rely more-heavily capital tax:

(1) Median voter relatively capital poor—not much income capital[—probably even participation-weighted median—]therefore wants revenue-max cap tax.

(2) Increased capital mobility raises elasticity capital tax-base w.r.t. tax-rate, so desired/feasible capital-tax & so revenue declines with mobility.

c) Proportional will rely less-heavily on capital tax:

(1) Minority capital-holders able diffuse, even defeat, popular demand cap tax.

(2) Public revenue needs [which greater due to the greater responsiveness to the demand for assistance] met more by other taxes (labor & consumption).

(a) [Note: empirically, definitely greater capital tax in LME's than CME's.

(b) Puzzle since most other distributional issues have LME less 'equitable'.

(c) Hays' answer one of more-plausible explan.'s …]

d) ⇒ Globalization's Revenue Constraints tougher on Majoritarian Dem's.

From Powell (2001): *Elections as Instruments of Democracy*

- Electoral rules
  - Plurality/Majority vs. Proportional Representation
- Policymaking rules
  - Concentrated vs. diffused authority [all policymaking power in one actor (P.M. in UK, e.g.) vs. distributed across many (e.g., Pres, Cong, Fed States, etc. in U.S.) & particularly with rules to protect/empower opposition

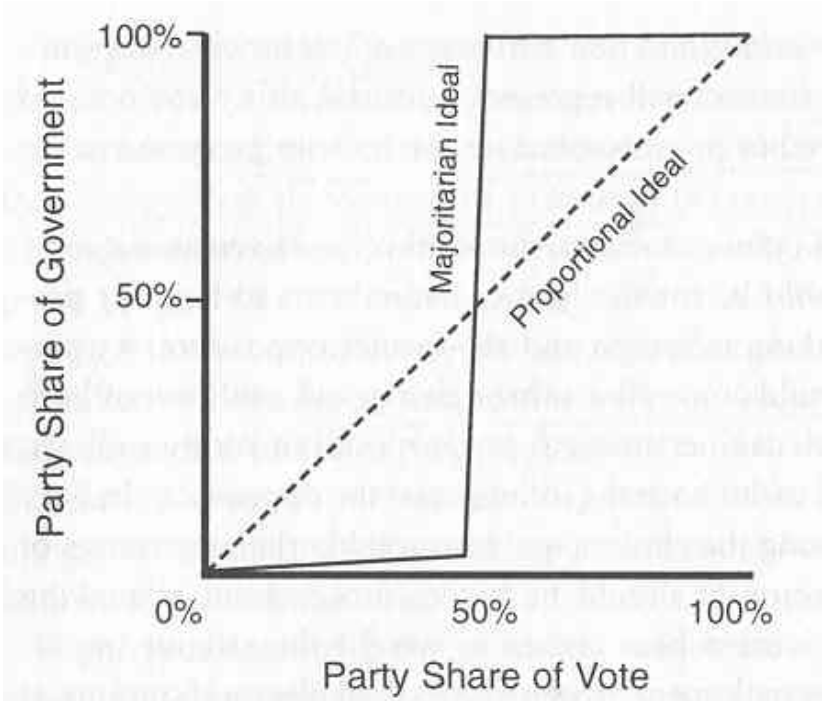


Figure 6.1. Two Ideals of Democratic Responsiveness

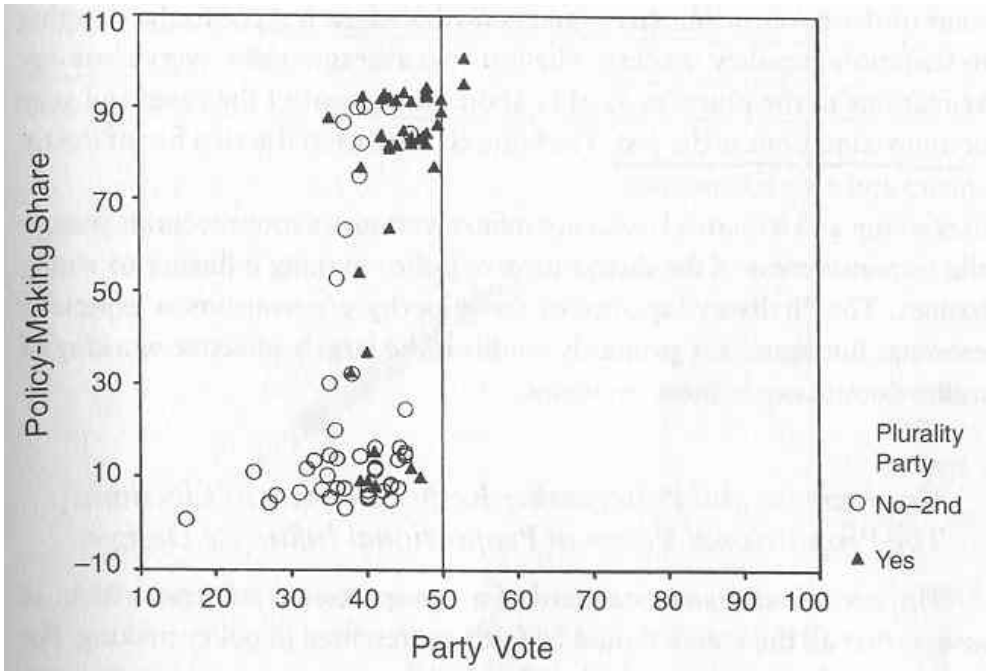


Figure 6.3. Majoritarian Design Systems: Party Votes and Policy Making Share

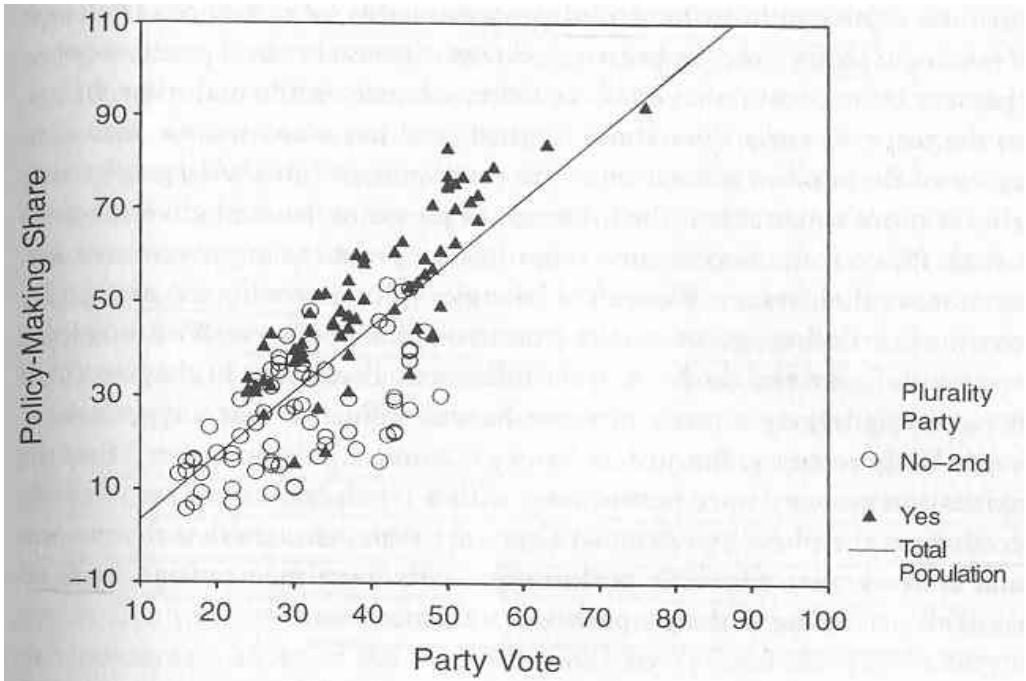


Figure 6.5. Proportional Design Systems: Party Votes and Policy-Making Share

D. *Introductory Chapter also offers Summary of the book's Evidence:*

1. Micro-level: connects trade expose, gov spend, & individ. support open

   a) Data: two ISSP surveys 1995 & 2003 in Australia, Austria, Canada, Germany, New Zealand, Norway, Spain, Sweden, U.K., & U.S.

   b) Results broadly consistent embedded-liberalism thesis:

      (1) Strongest trade oppose from individuals employed in high-import sectors.

      (2) Yet policymakers can bolster trade support, even in these sectors:

         (a) ↑net replacement-rates of UE insurance ⇒↑ support trade among tradable-sector workers & the unemployed;

         (b) ↑ active-labor-market (ALM) programs spend does not, or not as effectively, not among these workers; but ↑ employ-protection legislation (EPL) does.

         (c) and v.v. ↑ EPL ⇒↓ support & ↑ ALM⇒ ↑ support among unemployed.

            (i) [Can explain these differences very logically, by the way. See discussion below.]

2. Macro-level:

   a) Aggregate exposure to imports correlates strongly w/ govt spend.

      (1) Magnitude of this effect depends % workers employed in tradable sectors,

      (2) &, to lesser extent, on extent of unemployment spells.

   b) Macro Data: Austral, Austria, Belg, Can, Den, Fin, Fran, Germ, Ire, Italy, Jap, Netherlands, New Zeal, Norw, Port, Spain, Swe, Switz, U.K., & U.S., 1960-2000.

   c) Micro & Macro findings suggest *embedded liberalism* bargain important part contemporary politics international economic openness, even in countries w/ strong right-wing parties & liberal-market economies like U.S.

[Not sure we'll cover more than chs. 1-2. Summary what's in 3-4:

3. Chapter 3: relations wages & trade-related shocks, openness, employ
   a) Shocks in LME's passed to workers in terms of employment;
   b) Trade openness ⇒ ↑ elasticity of labor demand esp. in LME's;
   c) CME: employers & workers coord responses shocks⇒dampens volatility;
   d) ⇒ Trade generates more employment volatility in LME's than CME's.
4. Chapter 4: tax policies of majoritarian dem's, esp. those with richest capital-endowment, most constrained by ↑ int'l capital mobility.
   a) B/c these were most dependent on cap taxes, seen largest ↓ cap-tax rates.
   b) E.g., U.K. & Neth. tax reforms starting 1980's, w/ ↑ Eur Econ Integration:
      (1) U.K. near revenue-max capital-tax rate, & it was large source revenue: could cut rate or lose revenue anyway to tax-base flight. Reforms cut rate.
      (2) Dutch far less dependent on cap-taxes; so Eur integrate not raise same challenges; reform results ↑ if any change effective cap-tax rates.
5. Chapter 5: countries that relied heavily cap-tax face ↑↑ budgetary pressures at same time experience ↑ ↑ employment volatility, so see also sharpest budgetary pressures from these developments.

E. Intro also addresses some of possible reasons one might think 'Crisis of Embedded Liberalism' overstated (critics/skeptics mentioned previously):

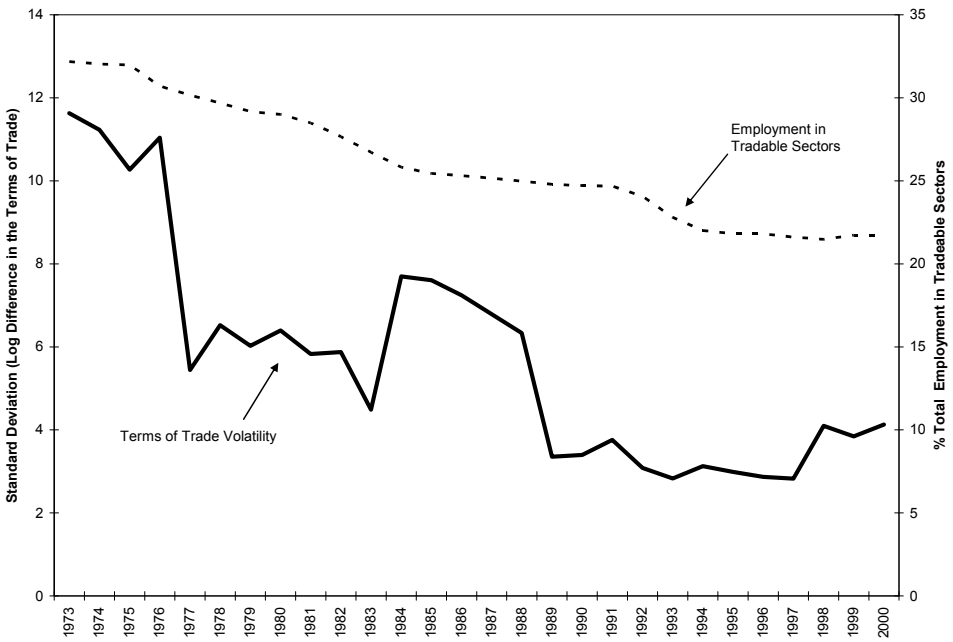
1. Some economic trends may be lessening the sources of the dilemma:

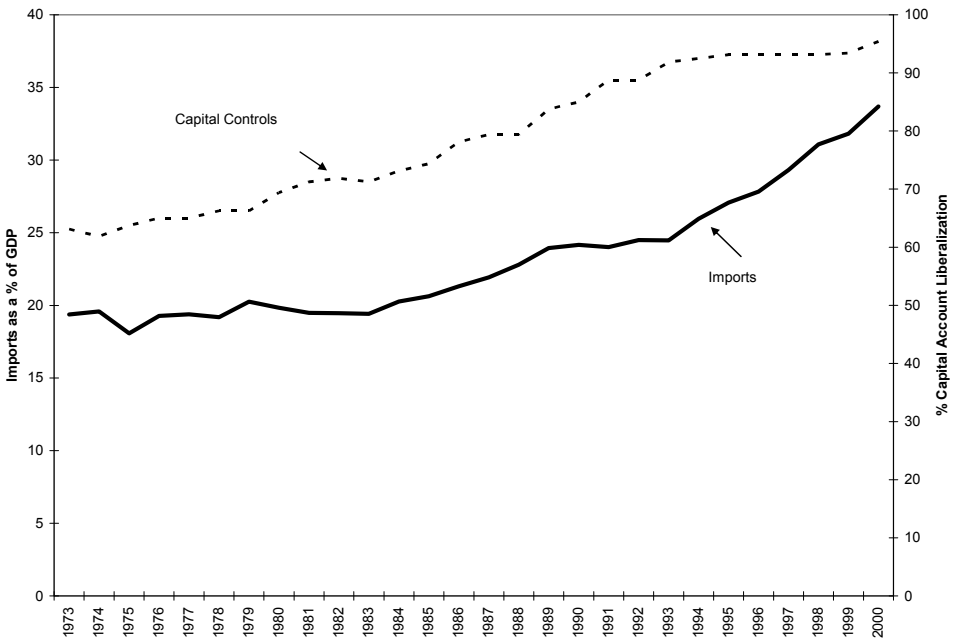
   a) Growing service (non-tradeable?) relative manufacturing & agriculture

   b) (increasing) Relative stability of global prices?

   c) So: rising import-compete & capital mobility, yes, but that's against declining instability & risk from that exposure affecting a shrinking share?

[Terms of Trade = Export Prices/Import Prices; Left Fig. shows gen'l decline volatility through mid-90s, a little rise back by early '00.] [Left Fig. also shows decline share employment in "tradable"=agri+manu (so rise serv.).] [But right Fig. shows rise import share GDP and rise of CapAcct Liberalization (% CapAcct transacts not regulated).]





d) Insofar as services remain non-traded ⇒ fewer workers exposed to trade competition & so lower levels political opposition free-trade policies.

(1) Chapter 2 does support these conclusions that non-exposed workers less anti-trade, but:

(2) Services sectors becoming increasingly exposed international competition:

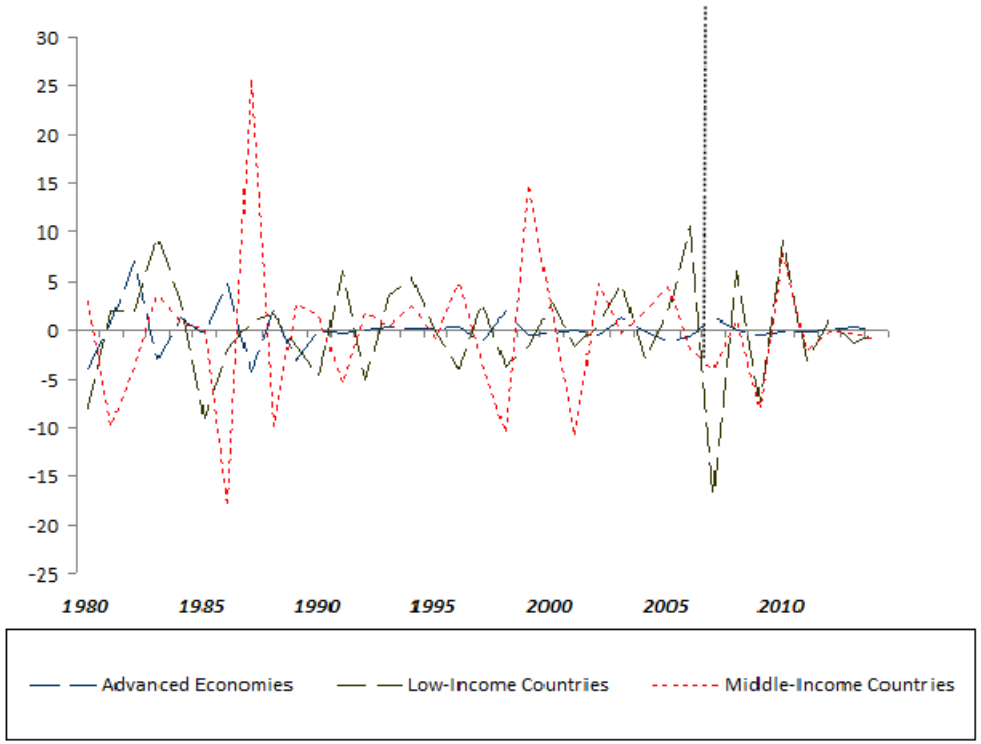
(a) US BurEcAn'sis: 1995 = $197B exports & $130B imports; 2005: $360 & $281B.

(b) Across all types serves: phone centers (sales, tech-supp), H.R., law, finance, edu…

(c) Actually, using industrial-concentration measures, Jensen & Kletzer now (2005) estimate 13.7% total US employ in *tradable services*; only 12.4% total *tradable manu*

e) Re: int'l price-stability, Hays args no reason expect 90s ToT stability continue indef'ly. [See oil prices & Iraq conflicts &*ff*, global financial crises, e.g.]

(1) Fig @ right from Berg & Spatafora, IMF, 2011: hard see, but maybe continue ↓ volatility in Hays fig from '00-now in dev'd world (blue dashes), mid-income ctrys (red dots) maybe some ↑, & big ↑ since'00 in low-income ctrys (olive dashes)]



2. Globalization is exogenous & irreversible; Critics' arguments here are:

a) Degree of interdependence & benefits so great, reversal is unimaginable.

b) Globalization largely driven by exogenous forces of tech & org'l change. Int'l econ beyond control of states, rather a structural constraint upon them.

c) Hays respond: Useful assume global'ztn exog. for analytical purposes, but historical record strongly contradicts claim *globalization irreversible & exog.:*

(1) Reversed before (most recently early 20th C, & many same arg's pre-WWI

(2) Economic historians tend be most concerned reversal & to see late 19th & early 20th C as parallel for late 20th & early 21st.

(a) O'Rourke & Williamson (1999): distributional effects globalization that era fueled reaction later then; seems parallel today.

(b) Frieden (2006, xvi): "As was case 100 years ago, many people now take integrated world economy for granted, regard it as natural state of things, & expect that will last forever. Yet bases on which global capitalism rests today are not very different from what they were in 1900, & potential for their disruption is as present today as then."

(c) Bordo et al. (2003) intro to *Globalization in Historical Perspective*: "if we fear that the violent political reaction to globalization seen recently in Seattle, Ottawa, Gothenberg, and Genoa might cause a political retreat from liberal policy, then it would pay to look carefully at the twenty years of so before World War I."

(d) Globalization's losers then—landowners in core Europe & workers at fringes & in the new world—became the political opponents of economic openness later on.

(e) Today, low to medium skilled workers (in dev'd dems) most to lose from glob'z'n. Fear is that globalization induced labor-market uncertainty & feelings economic-insecurity will fuel support for protectionism & possibility of a protectionist backlash.

d) James (2001) *End of Globalization* goes beyond econ self-interest; also:

(1) Initial idealism 1920's re: efficacy managing global probs via int'l institutions ⇒ unreasonable expectations, & multilateral options became targets resentment.

(2) Spurred develop nationalist ideologies like Soviet communism & Italo-German fascism (& perhaps, differently, its Japanese variant).

(3) Interwar backlash more than response to global econ integration but *vs.* internationalism broadly. [Also sounds familiar…]

(4) So, the unconcerned say, econ historians may be right re: econ parallels then & now, but *political & social preconditions for backlash missing today*.

(a) Optimists' divergent-paths arg. ⇒ the strength of right in LME's means reaction not going to happen there; voters don't want it &, even if did, no party offering it.

(b) Reassuring: no common nationalist agenda seems unite today's glob'n opponents. Leaders of todays' anti-neoliberal globalization movements not espouse nationalism. (Some? Maybe? But not same, unifying nationalism certainly across various strands.) But James' argument begs questions:

(i) *Radical nationalism* cause or effect? Did ntnl'ism enable govts justify & adopt beggar-thy-neighbor unilateralism of last "end of globalization"? Or, did failing int'l econ fuel flames radical nationalism? [Some serious scholarly work arg either way.]

(ii) Even if no comparable unifying ideologies today, doesn't mean safe: political change on a much smaller scale could produce same unraveling embedded liberalism.

(iii) Could see "Critical realignment" (Nardulli 1995:p11 defines concept from American politics research, as an "abrupt, large, and enduring form of change in prevailing electoral patterns, one that is initiated by a critical election and results in a significantly different partisan balance in the electorate.") These realignments overcome institutional checks & balances that stabilize policy in normal times.

(iv) Other scholars, particularly macro-partisanship researchers, argue change more gradual & continuous than abrupt (Erikson et al. 2002).

(c) For Hays, not matter abrupt or gradual, only that econ Δs can bring partisan Δs & incorporation new voters sufficient to re-formulate policy eqba on major scale:

(i) E.g., careful microlevel studies of New Deal show such realign brought FDR to power. Brown (1988): both partisan conversion & entry new voters explain New Deal Realignment.

(ii) Voters abandoned Republican Party in 1932 not because Democrats offered a coherent set of policy alternatives to end the Depression—this came later—but rather because the electorate was frustrated with ineffective Republican "solutions."

e) "My point is to make explicit and challenge what is frequently implicit in the *Varieties of Capitalism* literature: that the underlying societal preferences driving policy divergence among the developed democracies are fixed. If this were true, the current policy trajectory of the LME's would be stable, and globalization would be, for all intents and purposes, irreversible. In this book I show that, in majoritarian democracies with liberal market economies, globalization is generating the kind of conditions that historically have led to significant political change by making existing voters frustrated with status quo policies and by mobilizing new voters. We should not dismiss the potential for a backlash against globalization because we discount the possibility of significant political change."

(1) [Consider current climate, Tea Partiers & Occupiers, in this perspective…?]

3. A new bargain of embedded liberalism?

a) Many suggested. Hays' arg's tend focus rel'ly more on pol sustainability:

(1) Majoritarian LME's could try labor reform toward CME (to defuse some of source opposition). Tried in U.K. 70's & Australia 80's. Not clear worked econ'ly but, very clear not sustainable pol'ly. Not robust to partisan change.

(2) Improve supply-side lab-mrkt function, e.g., by ALM? If work, keep UE low & ↑ flex w/o abandon embed lib= *New-Left* & *3rd-Way* strategies (Blair&Gordon U.K). Jury out;

b) However, Hays emph: need also consider options' political sustainability:

(1) Thatcher's privatization work polit'ly b/c made & bolstered own constituency

(2) Could argue postwar left's Keynesian & Welf-State worked pol'ly same reason.

(3) ALM less likely basis political solution b/c, if works:

(a) Raises human capital which may undermine traditional core left base;

(b) Bolsters 'outsiders' in conflict of interest vs. 'insiders', traditional core left base

(c) Success requires support firms, which highly contingent on specific design policy:

(i) Firm-specific-skills vs. general-skills training, e.g., former may bolster demand insurance but firms may be more threatened by latter.

(ii) Insofar as ALM enhances cross-sector mobility, ⇒some shift trade from 'pressure politics' (industry/spec-interest) to 'partisan politics' (class-based), where at least Left may be less able disposed to take pro-trade stance

(4) Majoritarian LME's could enhance insurance provision

(a) but, to do so at acceptable cost, econ'ly & esp. pol'ly, need reform so UE side-effect not so large & debilitating; and still may not be robust to partisan change.

(b) Some such moves: Hays 'trade-adjustment'&'older-worker insurance' good starts.

c) Problem, in short, is no sufficient replacement yet for role postwar Keynesian Welfare State in sustaining openness-spurred growth politically.