GLOBALIZATION, INTERNATIONALIZATION AND ECONOMIC SOVEREIGNTY

IN THE SMALL EUROPEAN STATES

by

MICHAEL G. MITCHELL

(Under the Direction of Christopher S. Allen)

ABSTRACT

This study examines how the external pressures of globalization and internationalization have impacted the economic policy-making autonomy (or “economic sovereignty”) of eight small European states. Earlier research by Peter Katzenstein established these countries’ ability to achieve economic objectives despite exposure to internationalization. Since Katzenstein’s study, extensive literature on economic globalization has called into question the continued validity of his findings. My purpose is to test the relative impacts of globalization and internationalization to determine their effects on economic sovereignty, conceptualized here as the functionality of corporatism, social welfare outputs and popular political participation. This study finds evidence that globalization is a phenomenon distinct from internationalization, and that it has a negative impact on economic sovereignty. While these findings require further examination, they form the basis of a potentially new direction in the study of economic globalization.

INDEX WORDS: Globalization, Internationalization, Small European States, Corporations, Sovereignty, Corporatism, Social Welfare, Political Economy

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MICHAEL G. MITCHELL

BS, Georgia Institute of Technology, 1997

MA, University of Georgia, 2000

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MICHAEL G. MITCHELL

Major Professor: Christopher S. Allen

Committee: Markus M. L. Crepaz
Maurits Van der Veen
Howard J. Wiarda

Electronic Version Approved:

Maureen Grasso7
Dean of the Graduate School
The University of Georgia
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For Stacey from whom all good things come.

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Stacey Mitchell decided to visit the Baldwin Hall computer lab on July 3, 2002. I thank her for that and for everything since.

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INTRODUCTION

The purpose of this study is to examine how the external pressures of globalization and internationalization have impacted the economic policy-making autonomy (what I label "economic sovereignty") of eight small European states in the last decade of the 20th century.[1] Although Peter Katzenstein's work in the 1980s established these countries' ability to achieve economic objectives under challenging circumstances, subsequent research regarding economic globalization calls Katzenstein's findings into question.

A gap in the literature exists regarding the continued validity of Katzenstein's findings in light of the subsequent globalization literature, thus creating a puzzle worthy of examination. I argue that while the small European states are well-adapted to the pressures of internationalization, they are not well-suited to those of globalization. Firms that were once cooperative "national champions" contributing to the economic success of the small European states have become global enterprises in subsequent decades. These companies have dispersed their production capacity around the world. Where once these firms were "in the same boat" as labor and the state, their interests no longer coincide with their former "social partners." Indeed, globalization itself is a strategy by which these global enterprises may undermine the social model Katzenstein described. Consequently, as the exposure of the small European states to globalization increases, their degree of autonomy over economic policy—which I label "economic sovereignty"—may be expected to decrease.

[1] The definitive studies by Katzenstein examined Austria, Belgium, Denmark, the Netherlands, Norway, Sweden and Switzerland. This study will also include Finland.

In the 1970s and 1980s, a body of literature emerged in international and comparative political economy which examined the unique record of the "small European states" (Katzenstein 1983, 1984, 1985; Cameron 1978; Stephens 1979). Despite being "exposed to developments in international markets and dependent on actors beyond their reach" (Katzenstein 1983, 92), these states maintained a high level of economic growth and a high standard of living. Peter Katzenstein, in his groundbreaking research on the subject, attributed these accomplishments to the economic institutions which these states developed to survive their exposure. More specifically, the small European states used democratic corporatist industrial policies and compensatory social programs to mediate the risks and shocks inherent to their vulnerable positions in the international economy.

Katzenstein defined democratic corporatism as “the voluntary, cooperative regulation of conflicts over economic and social issues through highly structured and interpenetrated sets of political relationships by business, the unions, and the state, augmented at times by political parties.”[2] This system was a functional response to the structural vulnerabilities with which these countries contended. The smallness of these countries’ domestic markets required them to be open to international trade: to export those goods which they produced in order to achieve economies of scale, and to import many of the goods that larger countries produced domestically. Unlike economic powers like United States, Germany or Japan, these countries had little influence over terms of trade in international markets.

In this precarious situation, prolonged conflicts between business and labor became a “luxury” the small European states could not afford. The eventual result was the corporatist system in which disputes over economic policy were settled through bargaining between the three *social partners*: business, labor and the state. Central to this system was the need

[2] The definition of the term “corporatism,” like the definitions of the terms “globalization” and “democracy,” is a matter of great debate. For a comprehensive overview, see Wiarda (1997).

for mutual concessions: by labor in the form of reduced strikes and moderated demands for higher wages; by business in the form of acceptance of a comprehensive social welfare state; and by the state in the form of acceptance of bargained outcomes between labor and business.

Katzenstein found that democratic corporatism combined with extensive social insurance produced impressive economic outcomes in the small European states. Cooperation between the social partners resulted in high levels of social solidarity, an impressive ability to adapt to external economic change, and high standards of living.

Since Katzenstein's work in the early 1980s, much of the literature in political economy has been devoted to the phenomenon of *economic globalization* and its potential impact on the state.[3] Some scholars have claimed that globalization has fundamentally eroded the economic policy autonomy of states. Others reject this view, arguing that globalization is more myth than reality. The debate between these positions has been a major and ongoing theme in the scholarship of political economy.

Despite this divide, scholars on both sides of the debate do have one thing in common: both often fail to make any distinction between *internationalization*, to which Katzenstein found the small European states to be well-adapted, and *globalization*. It is common in the globalization literature that these two terms are used interchangeably.

More recent scholarship has suggested that globalization and internationalization can be understood to be distinct phenomena (Held 1999; Held and McGrew 2000, 2003, 2007; Scholte 1997, 2000, 2005). Jan Aart Scholte (2005, 54) in particular argues that internationalization involves "a growth of transactions and interdependence between countries." International trade or foreign direct investment (FDI), for example, are common measures of internationalization,

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[3] The term "globalization" has been used by scholars to describe changes taking place in many fields, including culture, technology, marketing, business, communications and linguistics, just to name a few. Strange (1996, xii) described the term "globalization" as one of a "string of vague and woolly words, freely bandied about in the literature, but whose precise meaning is seldom if ever clearly defined." Strange's observation is central to this study's thesis that the globalization debate is largely due to imprecise usage of the term. This study uses the term in the context of political economy. For an examination of globalization as it is applied to other fields, see Scholte (2000, 41-61).

and measure interactions *between* countries. In contrast, globalization involves “a shift in the nature of social space [wherein] social connections substantially transcend territorial geography” (Scholte 2005, 61).

Where internationalization is a matter of crossing from one sovereign territory to another, globalization is a matter of “supraterritoriality” or “connections that substantially transcend territorial geography.” Such connections can “extend anywhere across the planet at the same time,” as well as “move anywhere on the planet in no time” These supranational connections, Scholte emphasizes, “are not adequately mapped on a territorial grid” (Scholte 2005, 61). They cannot be fully expressed or understood in terms of relations between territorial states.

Unfortunately, this new perspective in the globalization literature remains, for the most part, untested. Few systematic measures of this supranational globalization are available. This is because most existing measures of globalization rely on data which is conceptualized in purely international terms (international trade and FDI, for instance).

In light of the globalization debate which has arisen in the past quarter century, it is time to revisit Katzenstein’s model and findings to account for the effect of the (potentially) new phenomenon of globalization, particularly because the small European states, with their record of adaptability to *internationalization*, represent a significant laboratory in which to study the impact of *globalization*.[4] I therefore pose the following research question:

How have globalization (i.e., supranationalization*) and internationalization impacted the economic sovereignty of the small European states since Katzenstein’s findings in the early 1980s?*

The answer to this question, I find, is highly complex. Although many questions remain, I present evidence in this study which shows a pronounced trend toward globalization in the small European states. While the effect of globalization on democratic corporatism is not

[4] I explore the significance of these countries in greater detail in section 1.5 below.

entirely clear, there is a distinct indication that globalization has weakened social welfare outputs and popular political participation. These effects, furthermore, appear to be largely independent of the impact of internationalization.

1.1. Economic Sovereignty

The research question asks what impact globalization and internationalization have had on the economic sovereignty of the state. Clearly the answer to this question may depend in part on how "economic sovereignty" is defined.[5] For the purposes of this study, economic sovereignty is defined as a state's autonomy to make fiscal and monetary policy, as demonstrated by its ability to achieve preferred economic goals and outcomes.

Several qualifications to this definition are necessary. This definition implies that the state can act without outside mitigating influences. One may object that, given the constraints described by Katzenstein, the small European states have diminished economic sovereignty even under the best conditions. There is obviously validity in this perspective, at least when looking at these countries relative to other successful capitalist democracies. But the central point of Katzenstein's research is the exceptional ability of these states to effectively maintain sovereignty despite their situations; indeed it is the *maintenance* of economic sovereignty that is most remarkable about these countries. Their sovereignty is, in essence, *revealed* by their ability to achieve economic *outcomes* which are comparable to larger, more economically independent democracies such as the United States, Germany and Japan. This point—that sovereignty can be revealed via outcomes—is central to the argument I present here.

[5] If it is defined as the continuation of the democratic state itself (at one extreme), then clearly there has been no reduction in economic sovereignty among any of the leading capitalist democracies. If the term implies virtually autarkic control over all aspects of the national economy (at the other extreme), then no capitalist democracy possesses it. I endeavor to use the term in a more balance respect.

This qualification is only heightened by the role of the European Union. By 2010, four of the small European states can be described as definitely having lost some degree of economic sovereignty in the form of the European Monetary Union (EMU). Austria, Belgium, Finland and the Netherlands are participants in the single currency, and have thus lost autonomy over monetary policy. These states have also accepted at least nominal constraints to fiscal policy as part of EMU, promising to keep budget deficits within agreed limits.[6]

More broadly, to the degree that the European Union itself has become a vehicle for the imposition of neoliberal orthodoxy, six of the eight small European states—as members of the EU—have lost economic sovereignty as a consequence of their membership.[7] Indeed, to the degree to which business has worked to use the EU as a project for "negative" integration, the EU can be seen as an extension of firms' own national-level assault on the very social model which Katzenstein described. The most noticeable of these constraints on sovereignty have occurred since the introduction of the euro, and thus are beyond the scope of this study. While exploration of these themes is of course directly related to the project at hand, it is not addressed in detail in this study.

A second qualification involves the measurement of sovereignty. The definition introduced above implies that the economic goals and outcomes of the state or the society are knowable and measurable. While this assumption can be problematic for some countries, in the small European states, I contend that this is not the case. This is because Katzenstein's work provides a clear basis by which to define measure the goals and outcomes of the small European states up to the early 1980s. The same research provides a metric by which to evaluate the degree to which these goals and outcomes have been maintained since that time.

[6] The "stretching" of these limits has contributed to the European sovereign debt crises of the late 2000s.
[7] The exceptions of course are Norway and Switzerland.

Chapters three and four examine the theoretical and methodological aspects of these matters in greater detail. My objective in this chapter is to introduce the concept of economic sovereignty as it is used in this study as briefly and clearly as possible. To do this, we must return to Katzenstein's research. Katzenstein's dependent variable is the *economic success* of the small European states, which he defines (1985, 29) as "the extent to which social coalitions, political institutions, and public policies facilitate or impede shifts in the factors of production that increase economic efficiency with due regard to the requirements of political legitimacy." Essentially, Katzenstein argues that the institutional arrangements employed in the small European states have created a balance between economic growth and social equity, allowing for the former without sacrificing the later. The practical outcomes in these countries have been a high standard of living, high wages, and low levels of both poverty and inequality (Katzenstein 1985, 18). Because there is considerable evidence of public support for the continuation of these outputs (Swank 1998, 2002), it is reasonable to assume that the state has an interest in maintaining both these outcomes, and the institutions that are responsible for them. Thus their continuation is an expression of economic sovereignty. Conversely, failure in this regard may be evidence of the diminution of economic sovereignty.

Economic sovereignty in the small European states thus becomes a matter both of maintaining institutions that facilitate desired economic outputs as well as the outputs themselves. Simply measuring the maintenance of institutions themselves is insufficient. Institutions tend to be "sticky," and to continue even when they are no longer able to adequately perform the functions for which they were designed (Hall and Taylor 1996; Thelen 1999; Streeck and Thelen 2005). Specifically, in the small European states economic sovereignty involves those institutions to which Katzenstein (1985) attributed the success of these countries, as well as the economic outputs for which these institutions were responsible. Thus, for the small European states, economic sovereignty entails the maintenance of institutions of democratic corporatism; the continuation of the desired solidaristic outputs of social welfare; and the continuation of high levels of popular political participation.[8]

For Katzenstein, of course, corporatism was the main independent variable. Central to this study is the contention that globalization may break down the bonds of corporatism by weakening the commitment of "domestic" global corporations to the system. For this reason, democratic corporatism must be treated here as a dependent variable. The compensatory social welfare system is understood to be both an extension of democratic corporatism (that is, part of the grand bargain between business and labor) and a set of state institutions which exist independently from corporatism in order to achieve desired economic goals. Tying the two together in Katzenstein's formulation is the voting public, whose continued political participation keep the system democratic.

To fully capture the economic policy autonomy of the state, it is necessary to examine both the institutional health of democratic corporatism, the capacity of the welfare state to continue to produce desired social outcomes, and the level of popular political participation. Regarding such social welfare outputs, Crepaz (2002) notes that the outputs of the welfare state, such as the ability to reduce poverty, is a more telling measure of its vitality than inputs, such as the amount spent on welfare programs. I follow this sound reasoning, as I explain in detail in chapters three and four. I examine both the theoretical and methodological aspects of these indicators of economic sovereignty in chapters three and four, respectively.

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1.2. The Globalization Literature

A wide variety of typologies have been used to describe the divisions in the globalization literature. Scholars have been described as globalization “believers” or “skeptics;” scholarship has been described as either advocating or opposing globalization. Often the literature is presented as a debate between a conventional wisdom (that globalization is a reality that variously threatens, erodes or homogenizes states) and “challenges” to this conventional wisdom.[9]

The literature is usually divided based upon differences in attitude about globalization, without recognizing that the disagreements often arise from first principles. What is often missing in existing typologies is an explicit recognition of definitional differences in globalization. I contend that this is the most significant division in the entire literature, and that differences regarding the *impact* of globalization flow from differences over the *definition* of the phenomenon.

As I introduced above, there is a divide in the globalization literature between those who view globalization as synonymous with internationalization, and those who—at least nominally—view the two as distinct phenomena. Scholarly debates about globalization frequently reach an impasse because the scholars themselves fail to acknowledge—or even to realize—that they are making arguments about two different phenomena.

One of the objectives of this research is to explicitly acknowledge the definitional difference in the literature, and to test the impact of *both* concepts of globalization simultaneously. The first step toward this goal is to introduce the two models of globalization, which I call the internationalization model and the supranationalization model.

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[9] Ironically, the challengers often seem to dominate the debate, making one question whether the conventional wisdom” and “challenger” labels ought not be reversed.

1.2.1. The Internationalization Model (IM) of Globalization

Globalization is synonymous with internationalization. It is defined as an increase in cross-border connections and interdependence between national economies. It is measured in international terms (for example, international trade or foreign direct investment as a percentage of GDP). IM scholars trace the history of globalization back for centuries or even millennia. Globalization (i.e., internationalization) is not only old: it is also cyclical. At some times it intensifies (i.e. greater volumes of cross-border transactions) while at other times it declines. What some scholars view as a new era of globalization in recent decades is viewed by IM scholars as simply the latest waxing in the historical cycle. IM researchers argue that globalization is mainly driven—some scholars would use the term *controlled*—by states, or is an agentless structural force. While periods of intensification of globalization may put pressure on state resources and sovereignty, states are resilient. They are able to compensate, especially through social welfare programs and economic regulation. For IM scholars, Katzenstein's work on the small European states represents a perfect example of state resilience in the face of globalization.

1.2.2. The Supranationalization Model (SM) of Globalization

Globalization and internationalization are seen as separate phenomena: internationalization may be the antecedent of globalization, but the latter is not the same as the former. Globalization is defined as the transcendence of territorial space, most importantly political and economic borders and jurisdictions. While internationalization (crossing borders) has indeed existed for centuries, the transcendence of geographic limitations is a development of the late 20th and early 21st centuries. Globalization is driven primarily by capitalist interests, in the form of corporations or investors. Because these agents of globalization have become relatively free of the constraints of geography,[10] while the state remains territorially fixed, capital has the ability to redeploy resources out of countries with unprofitable regulatory or tax systems, and into those with more profitable arrangements. This so-called "exit option" (borrowing the term from Hirschman's work on organizational politics) allows capital to play states against one another, causing states to compete with one another to make their economies the most business-friendly (i.e., a "race to the bottom").

1.2.3. A Brief Critique of the Literature

IM studies find claims that globalization threatens state sovereignty to be greatly exaggerated. This finding is often based on impressive quantitative analysis which demonstrates that as measures of globalization (i.e., internationalization) increase, measures of state sovereignty (such as the resilience of the welfare state, levels of taxation, etc.) remain stable (Crepaz 2002; Garrett 1998; Swank 1998, 2000, 2002). These studies, however, ignore supranational concepts of globalization. Essentially, they demonstrate that *internationalization* does not weaken sovereignty, but they are silent as to the impact of *supranationalization*; indeed, often they are silent as to its very existence.

What would seem to be needed is a simultaneous test of both the *cross-border* and the *trans-border* concepts of globalization. IM studies do not provide such a test. This is an important shortcoming in the model, which calls into question the validity of IM measurements of globalization.[11] IM studies may not entirely capture the phenomenon of economic

[10] The constraints in question are especially political in nature, but also those of distance and time. These are discussed in detail in chapter two.

[11] Measurements may be considered valid when "the measurements [accurately] reflect what the investigator is trying to measure" (King, Keohane, and Verba 1994, 151). This does not necessarily imply that SM arguments are correct and IM arguments are incorrect. It may well be that, as IM scholars contend, internationalization is really all there is; that globalization is a matter of an increase in the intensity of an old phenomenon rather than a new one altogether.

globalization using cross-border measures alone. The seriousness of such measurement error, however, can only be known by testing *both* concepts of globalization.[12]

By defining globalization in supranational terms, and distinguishing supranational *globalization* from *internationalization*, SM research opens the study of globalization to the possibility that something new and different is occurring, something IM research forecloses upon by definition. The point here is that SM scholars, unlike their IM counterparts, offer the prospect for simultaneous testing.

The weakness of the SM perspective is in many ways the mirror image of that of the IM literature. IM studies offer clearly operationalized measures of globalization (as internationalization), but do not address the potential difference between the international and supranational definitions of the phenomenon. SM studies do address this difference, but offer only uneven or anecdotal measurements of supranational globalization. Unlike IM studies, which point to well-established measures such as international trade and foreign direct investment to operationalize globalization (that is, *internationalization*), the SM literature can provide no systematic measures of globalization (that is, *supranationalization*).

In this respect SM research falls victim to the fact that supraterritorial relations remain difficult to measure, because data is collected primarily in national or international terms (Scholte 2000, 19-20). As a result, SM scholars sometimes adopt their own version of Potter Stewart's standard in a similarly awkward situation: *I know it when I see it*. What is necessary is a new measure that more closely operationalizes economic activities that *transcend* rather than *cross* borders.

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[12] It does not necessarily follow that such a test would disprove the IM hypothesis. If, for example, one were to find a high level of multicollinearity between measures of *internationalization* and *supranationalization*, one might conclude that the later was, as IM scholars often claim, no different from the former. Another interpretation, of course, could be that the later measure was not operationalized properly. See methodological discussion in chapter four.

Furthermore, in their treatment of capital interests, SM scholars seem not to acknowledge that all corporations are not equal, either in size or mobility. A "large" firm and a "global" firm are not necessarily the same thing. A firm may be large without being global. Simply being "large" does not necessarily mean that a firm has an unlimited exit option in every situation.

SM scholars emphasize the role of capital mobility in weakening state sovereignty. Simply put, the exit option of supranational capital requires states to cater to global capital interests. This is a provocative, highly significant argument worthy of careful and detailed consideration. Proper consideration, however, is made more difficult by two problems. These are the lack of a precise measurement of the mobility of such capital, and what I call the "touch-down" problem.

The first problem involves the measurement of capital mobility itself. SM scholars imply that the more mobile the capital, the less sovereign the state. Case studies of specific state-firm interactions are occasionally offered to support this hypothesis. These are important, but generalization from individual cases to broad patterns of activity are problematic. Unfortunately, the SM literature can offer no broad evidence that mobility actually weakens sovereignty. To do so would require rigorous measurement of both mobility *and* sovereignty. SM scholars have thus far failed to provide such measurements.

The SM literature also tends to oversimplify firm interests. Firms may have interests beyond low taxation or deregulation. They may prioritize a highly skilled workforce or political stability, for instance. Indeed, Robert Reich's prescription for states in a world of global capital mobility is to increase "left" supply-side investments (in education and the expansion of workers' skills, most notably) to attract high-tech firms to employ high-wage workers (Reich 1991; see also Boix 1998).

The "relativity" of the exit option available to capital is also problematic. A firm that has not yet achieved a global scale of operations—i.e., whose assets are relatively concentrated in only one or a few countries—may find exit too costly or impractical. Conversely, a country faced with a threat of exit from a firm whose impact on the national economy is relatively small may decide that the impact of exit is insufficient to justify any modification of the policies that instigated the threat (Strange 1998, 368). But no systematic theory or model is offered to capture such interactions, or more importantly, the aggregation of such interactions at the national level.

This leads to the second problem introduced above: what I call—for want of a better label—the "touch-down" problem. Aspects of globalization "'touch down' at territorial locations, but they are also global in the sense that they can extend anywhere in the world at the same time" (Scholte 2000, 48). The implication is that supranational actors, processes and activities interact and intersect national states and local economies, and thereby tie the "national" to the "supranational." Such interactions are central to an understanding of the impact of globalization on the state. But how do we measure the interaction of the supranational and the national, when even the measurement of supranational phenomena alone is so difficult?

Put another way, the objective here is to measure the impact of globalization when it "touches down" at a particular (national) place and time. Imagine the touch-down of a tornado or the land-fall of a hurricane—meteorological phenomena that affect the territories of states, but are themselves "stateless". The best known measurements for such storms focus not simply on the size and strength of the storm itself, but on their effect on territory. When we refer to a "category four" hurricane, for example, our interest is only partly in the dimensions and energy of the hurricane itself. We are primarily interested in its impact on the communities in its path.

The same can be said of the supranational model of globalization. What is necessary is not simply a measure of the "stateless" phenomenon of globalization, but one that captures its "touch-down;" the impact of globalization on a specific local economy at a specific time. Such interactions are difficult to measure, but they are absolutely necessary to evaluate SM claims about the impact of globalization on the state.

In summary, a theory of globalization is needed which incorporates the methodological contributions of IM operationalization with the definitional utility offered by SM studies. Such a theory would allow us to evaluate the impact of both conceptual models of globalization on the policy-making autonomy of the state. The purpose of this study is to take the first step toward just such a theory.

1.3. Core Assumptions and Methodological Parameters

Before proceeding to the hypotheses examined in this study, I shall digress briefly to specify several core assumptions on which the current research is based. One of the central premises of this research is that much of the debate in the globalization literature is caused by a failure among scholars to recognize the differences in their various core assumptions about globalization. Two scholars may have a long and completely unproductive debate about the nature of globalization without ever recognizing that their arguments are based on completely contradictory core assumptions. Such scholars are not talking *to* one another but *past* one another. They are speaking different languages, but do not realize it, and thus are confounded when their arguments are mutually unintelligible.

I wish to avoid this situation as much as possible herein. My objective is that scholars who both agree and disagree with me have a clear understanding of the basis of my argument, and how it may be similar to or different from their own. I believe this is the single most important key to the formulation of a generally accepted theory of globalization. While I have no illusions that this research represents such a theory, I do at least hope that it sheds light on the centrality of core assumptions, thus facilitating such a breakthrough in future research, by whomever may make it.

That said, I offer five core assumptions of this research regarding globalization.

- I define globalization as an increase in the number and significance of economic actors which seek profit supranationally: that is, via multiple operations which extend virtually anywhere at the same time (simultaneity), and are coordinated everywhere in no time (instantaneity) (Scholte 2005, 61). These *global economic actors* (GEA) operate and coordinate profit seeking activities with increasingly limited constraint from geopolitical borders. They are engaged in supranational globalization, distinct from internationalization: which is characterized by economic activity which occurs across borders between actors of distinct nationalities.

- From this perspective, globalization is not a matter of the convergence of regulatory regimes, or business practices; integration of markets; or the homogenization of consumer preferences. To the extent that these may occur, they are the *result* of the operations of global economic actors.

- While the impetus to seek profit supranationally has existed for a long time, the means to do so have existed only since the 20th century, in the form of technological innovations in communications and transportation. Prior to these, economic actors pursuing global profit had to settle for profiting internationally. With technological innovations, many *international* economic actors have transformed themselves into *global* economic actors. Thus internationalization is the antecedent to supranational globalization.

- Supranational operations yield profits by creating advantages for GEAs relative to other actors which affect return on investment (labor and the state). The more supranational the operations of a GEA, the greater its bargaining power in its interactions with these other actors. GEAs engaged in portfolio investment may be perfectly mobile (able to relocate assets at virtually no cost and in virtually no time), but GEAs engaged in direct investment (production of consumer products) are not. Relocation of physical assets incurs substantial costs, and without perfect information regarding profit maximization options. Supranationalization allows these production GEAs to reallocate existing productive capacity at costs which are outweighed by expected gains, thus approximating "exit" mobility, and fragmenting the power of labor or the state (Ietto-Gillies 2005).

- GEAs exhibit varying degrees of supranationalization (i.e., of simultaneity and instantaneity). National economies exhibit varying degrees of exposure to supranational globalization (i.e., the activities of GEAs intersect some economies more than others). The impact of globalization on the economic policy-making autonomy (economic sovereignty) of states is therefore variable rather than uniform.

In addition to these core assumptions about globalization, I add two methodological parameters specific to this particular study, which I elaborate later in this chapter and in chapters three and four. First, the global economic actors described above may be *global investors* (engaged in portfolio investment, the financing of capitalist ventures without control over real assets) or *global enterprises* (engaged in direct investment, or production of goods and services with control over real assets).[13] Because Katzenstein's work was concerned with the later rather than the former, only this aspect of globalization is emphasized in this study.

Finance is undoubtedly a significant component of the globalization phenomenon. Global investors likely achieve a near perfect degree of supranationality, and several global financial crises since the 1980s have demonstrated the magnitude of global finance. However, including both halves of the globalization picture is beyond the scope and resources of this research. Exploration of the impact of global investors is ripe for exploration, especially in the current economic climate. I intend this study of the impact of global enterprises to be a basis for pursuing such research in the future.

Second, a study updating Katzenstein might seem to call for an idiographic approach involving detailed qualitative analysis of the small European states. This could be done as a within-case study. For example, a most similar systems design could be applied to the study of two global enterprises in their relations with a particular state and the peak association(s) of labor therein. One might predict that the "more global" of the two enterprises would exercise greater bargaining power relative to the state and labor. A between-cases approach could also be taken. Another most similar systems design could compare changes in economic sovereignty between two of the small European states.

[13] There is not a strict line of demarcation between the two, especially with regard to global enterprises which themselves finance the ventures of other enterprises, invest in various securities, or engage in currency exchange arbitrage, while engaged in production themselves.

Nevertheless, this study will take a more nomothetic and quantitative approach to the impact of globalization on the small European states. I do this because my objective here is to provide a basis for comparison of the relative impact of the internationalization and supranationalization models of globalization. This can best be done quantitatively—essentially, in the language most frequently used by the dominant internationalization model itself. This provides the broadest basis for generalizability to all of the small European states, as well as a basis for future research. A more qualitative, idiographic approach in addition to the approach taken here would indeed be both interesting and significant, and a logical next step after the completion of this first stage of my research.

1.4. Core Hypotheses

As I discuss earlier in the chapter, it seems time to revisit Katzenstein's model and findings to account for the effect of the (potentially) new phenomenon of globalization, which has dominated the political economy literature in the past quarter century. To this end, I proposed this research question: *How have globalization (that is, supranationalization) and internationalization impacted the economic sovereignty of the small European states since Katzenstein's findings in the early 1980s?*

In this research I examine three core hypotheses which offer very different answers to this question.

1.4.1. The Globalization Hypothesis

The main hypothesis presented here argues that as a country's exposure to supranational globalization increases, its degree of policy making autonomy (economic sovereignty) decreases. This effect is independent of the impact of internationalization, which does not weaken economic sovereignty.

This hypothesis is grounded in the SM perspective described above. It seeks to improve upon the model's measurement problems, and more rigorously define and describe interactions between capital and the state.

In the small European states, exposure to globalization should weaken the outcomes achieved by democratic corporatism, if not the institutions of corporatism themselves. This is because institutions themselves are often "sticky," and do not change easily or quickly (Streeck and Thelen 2005). While an institution may remain, however, it may no longer be functional: it may no longer produce the results for which it was designed. Globalization, I contend, weakens the functionality of the institutions of democratic corporatism found in the small European states. Thus as a country's exposure to globalization increases, its institutions of democratic corporatism (such as comprehensive bargaining, participation in peak associations) should weaken, as should the functional outcomes of these institutions (such as wage solidarity, labor peace, income equality).

Globalization may be expected to have this effect because it undermines the basis of social partnership upon which democratic corporatism is founded. I contend that the largest capital interests in the small European states, once *international* in nature (i.e., embedded in one country but trading across borders), have become increasingly *global* in nature (i.e., possessing capital investments across the globe, and conceptualizing their interests and strategies in global rather than national or international terms). These global economic actors therefore have increasingly different interests than those of the state or labor, both of which continue to be domestically-oriented. Thus these firms have less interest—or less need—to maintain the institutions of democratic corporatism. From their perspective, they have "outgrown" national-level corporatist institutions.

Unlike the SM perspective presented above, I argue that global status may make actual physical relocation unnecessary. The very fact of global operations makes it possible to replace complete relocation with the more easily achieved re-routing of production operations. Assume, for example, a firm manufactures a particular product for global sales distribution in multiple countries. Currently, 20% of the manufacturing takes place in country A. The remaining 80% takes place at multiple sites in multiple countries. The firm decides to pursue a tax concession in country A which it has already gained elsewhere. Rather than threatening to leave country A, the firm can simply threaten to "re-weight" the distribution of production: for instance, by reducing production in A to 5% of total production and correspondingly increasing production elsewhere.

By re-routing production between multiple facilities, and increasing and decreasing the respective labor forces, the firm can reap the advantages of relocation without incurring the most significant costs (for example, having to shutter or sell its physical assets in country A). Furthermore, if the government of A accedes to the firm's demands, production can be restored to its original levels much more quickly, and again without having to actually relocate physical assets. This course of action is only available to the firm because of the inherent advantages derived from global operations. I examine these advantages in greater detail in chapter three.

In countries in which such global economic actors play a prominent role in the domestic economy, they should exercise increased bargaining power over the state (what I call "leverage") due to their global position, per the example above. Economic sovereignty may be expected to decline.

Globalization should not be understood as a uniform force, however. Just as some regions may be more exposed to hurricanes or tornadoes, some countries may be more exposed to globalization, depending upon the importance of global economic actors to the domestic economy. In countries in which global economic actors play a limited role in the domestic economy, or in which firms remain more "international" than "global" (i.e., firms continue to be strongly rooted in the domestic economy, and their operations abroad mainly take the form of trade rather than production), firms should exercise less leverage over the state. Economic sovereignty may be expected to remain relatively stable.

1.4.2. The Internationalization Hypothesis

I also propose a hypothesis based on the internationalization model:

As a country's exposure to internationalization increases, its degree of economic sovereignty remains stable, or becomes more robust. Supranationalization is mostly a myth or exaggeration, and has no impact on sovereignty.

The globalization hypothesis presented in the previous section is based upon the assumption that internationalization and globalization are distinct phenomena. It assumes that a transformation has occurred in the operations of economic actors from activities based on internationalization to activities based on globalization. This transformation fundamentally weakens economic sovereignty in the small European states. Many scholars would disagree with this assumption. This is the basis for the internationalization hypothesis.

This hypothesis is based upon the assumption that globalization and internationalization are indeed the same phenomenon. Supranationalization, which some scholars label globalization, is no more than heightened internationalization (i.e., greater volume of trade and investment rather than a qualitatively or quantitatively different phenomenon). It may be much less: only a myth or exaggeration. A quantitative change in the volume of internationalization does not represent a qualitative change in the nature of internationalization. Business interests in the small European states remain embedded in the domestic economy of their home countries; they simply do even more business across borders (particularly in the form of trade). The political economy of the small European state in the late 20th and early 21st centuries is therefore not fundamentally different from that of the mid to late 20th century. Democratic corporatism still works, and the results Katzenstein found should still hold today.

1.4.3. Demographic Change Hypothesis

As the endogenous pressures of demographic change increase, the functionality of the institutions of democratic corporatism (though not economic sovereignty itself) decreases.

The main and first alternative hypotheses are both based on the assumption that globalization or internationalization is the primary challenge to economic sovereignty in the small European states. A different perspective, advocated most prominently by Gøsta Esping-Andersen (1999), argues that our focus should be on internal rather than external pressures. This is the basis for the second alternative hypothesis.

Esping-Andersen and others argue that the economic and welfare systems of many European democracies, designed in the 1950s and 1960s, are now inadequate to address the realities of contemporary society. In recent decades, he argues, important changes have occurred in society and the economy: the service sector has become more prominent relative to manufacturing; multi-income families with working women have replaced single (male) income earner families; fertility rates have declined (Esping-Anderson 1999, 5).

While contemporary economic realities are very different from those of the 1950s, many of the institutions of the 1950s remain largely intact. This results in a decline in their functionality, and poorer performance. While the state's autonomy to make economic policy remains intact, the policies and institutions themselves no longer achieve the outcomes they did in the era for which they were designed.

1.5. Plan of the Book

In chapter two, I present a detailed examination of the globalization literature using the typology discussed earlier. The internationalization and supranationalization models are discussed using a four-part framework which considers each model's *definition* of globalization, its view of the *origin* of the phenomenon, its assumptions about *agency*, and its perspective on globalization's *impact* on the economic sovereignty of the state. I find that neither model is completely satisfactory as the "last word" on globalization and suggest a way forward.

Chapter three offers a theory of globalization, using the four-part framework from chapter two. I propose to build upon the existing supranationalization model by explicitly delineating between globalization and internationalization, and by addressing the “touch-down” problem. The result is an attempt to distinguish between globalization as a phenomenon and a country’s exposure to it.

Chapter four presents a research design which seeks to translate theory into empirically testable quantitative measures. While operationalizing the two alternative hypotheses (i.e., the internationalization model and Esping-Andersen’s “demographic change” model) is relatively easy, operationalizing the exposure of a country’s economy to supranational globalization is quite challenging.

This study employs multivariate regression to test the competing hypotheses. The dependent variable is economic sovereignty, defined here as the policy-making autonomy of a state to pursue and achieve economic goals. In the case of the small European states, this means the ability to adapt to changing economic conditions in the furtherance of goals. I operationalize economic sovereignty using a number of variables which measure the three components of sovereignty in the small European states: democratic corporatism, social welfare, and political participation. Observations are taken at four year intervals for each of the eight countries examined.

The main independent variable is a country’s exposure to supranational globalization. This is operationalized using an index based upon the degree to which a national economy is dependent upon global firms, which themselves are evaluated based upon their degree of “globality.” Variables included to measure the alternative hypotheses include measures of internationalization (including international trade and foreign direct investment) as well as measures of demographic change (labor feminization, societal aging, and service sector employment). Additionally, several control variables are included.

While the use of qualitative or quantitative designs may be equally valid in the study of social phenomena, the objectives of this study particularly lend themselves to quantitative examination. This may at first seem to be an odd assertion, given the small number of cases and the limited number of observations. Under these conditions, a qualitative approach might seem more appropriate. Furthermore, this study involves concepts which have in the past proven exceptionally difficult for researchers to quantify, including globalization, sovereignty, and corporatism.

Despite these potential problems, there are important theoretical reasons why a quantitative approach is appropriate for this study. I seek to measure the difficult supranational model of globalization in an attempt to allow for a dialogue between IM and SM scholars. This has been limited by differences in methodology. A study that evaluates the range of globalization hypotheses using a common methodological framework would therefore make a significant contribution to the literature. It would allow diverse and even contradictory conclusions, supported by diverse methodological models, to be directly compared. Appraisal of the relative merits of each would then be possible, because they would be evaluated using a common research design.

In their widely referenced *Designing Social Inquiry* King, Keohane, and Verba (1994, ix) argue that "the logic of good quantitative and good qualitative research designs do not fundamentally differ." The authors claim that the "same underlying logic provides the framework for each research approach," and that differences between them are "only stylistic and are methodologically and substantively unimportant" (King, Keohane, and Verba 1994, 3-4). The decision to employ a qualitative or quantitative research design is dictated by the subject of the research and by the resources appropriate to its study.

Differences in subject and resources explain the significant divide in the globalization literature between qualitative and quantitative studies. For SM scholars, the study of supranational concepts of globalization may seem to preclude quantitative formulation or statistical testing. How does one systematically quantify something that has been defined as obliquely as "a process or set of processes which embodies a transformation in the spatial organization of social relations and transactions" (Held et. al. 1999, 16)? This is particularly difficult given that most of the political economy data usually considered relevant is presented in international form. Thus many of the most significant contributions to this literature have been quantitative.

IM studies, on the other hand, have found the phenomenon quite amenable to quantification and statistical testing. This is because they have frequently interpreted globalization not as a “supranational” phenomenon, but as an “international” one. If globalization is conceptualized not as the transcendence of borders, but as the crossing of them in increasingly greater volume, then data constructed from a state-level perspective becomes not only appropriate to the study of the phenomenon, but also easily obtainable. Where measures of foreign direct investment and international trade are insufficiently “supranational” for scholars examining globalization as a supranational phenomenon, they are perfect for scholars seeking data on the volume of cross-border economic interactions.

Testing the relative merits of the SM and IM approaches is akin to adjudicating a dispute in which the parties speak different languages. One must first define a common mode of communication before considering the relative merits of the contestants. In this case, I propose—to extend the metaphor—to teach one of the parties to speak the language of the other. I use a common analytical model to test competing theories that have most frequently been tested in isolation from one another.

This can best be achieved through regression analysis. Although frequently presented as a departure from the dominant paradigm in political economy, IM studies have become the most widely-accepted perspective in the scholarly study of the phenomenon. I believe that this is primarily the result of the inability of SM scholars to present systematic empirical evidence which supports their hypothesis. Those who advocate a supranational conceptualization of globalization must, if they are to lend support to their hypothesis, measure globalization in a comprehensive, rigorous way. An advance in quantification of “supranationalization” would best achieve this. While such an advance is not easily achieved, this study attempts to take the first steps toward it.

The results of this research are presented in chapter five. My findings are mixed. While several of the core assumptions of this study appear to be validated, the results clearly indicate that this study should be viewed as the beginning rather than the end of this research agenda.

The next step in this agenda is discussed in chapter six. I review the successes and setbacks of the present study, consider how the research can be improved, and map a plan for the next stage of the project.

1.6. A Note on Significance

Anyone who has read this far into the chapter may have noted a certain irony in my project: I propose to better understand *globalization* through an analysis of the *small* European states. It is well worth asking whether anything useful can be learned about the former by an examination of the latter. How can the experiences of such small countries inform the study of such an enormous phenomenon? The reasonable reader may choose not to read further without a persuasive answer to this question, and so it is incumbent upon me to convince the reader that the chapters which follow are not simply a waste of time.

I believe that the records of the small European states can in fact tell us a great deal about the impact of globalization on the state in general. The small European states represent an important test case which allows us to elucidate trends in globalization. Katzenstein's research demonstrated that these countries were institutionally adapted to survive (and even to thrive) in the hostile economic environment of exposure to world markets beyond their control. This has informed the IM literature introduced above, leading scholars such as Geoffrey Garrett (1998) to conclude that even small states can mediate the negative effects of internationalization.

A study that specifically examines the impact of globalization—conceptualized both in international and in supranational terms—on the small European states allows us to evaluate the capacity of states specifically adapted to survive in the face of internationalization to meet the (potential) challenge of supranationalization. These countries represent a critical case study: a "least likely" observation with extra inferential utility. As such the small European states may help us evaluate diverse and conflicting claims about globalization.

It would seem highly unlikely that the small European states, with institutions specifically designed to withstand the vulnerabilities of globalization (at least in the form of internationalization), would be significantly weakened by the phenomenon. The small European states therefore represent a "least likely" observation which would seem unlikely to accord with the prediction that globalization weakens state sovereignty.

If, as indicated by their past success, these countries continue to thrive in the face of even supranational globalization, this finding would represent a "baseline" measure for testing other industrial democracies. Conversely, a finding that these countries' economic sovereignty have been weakened by supranational globalization would indicate that even those states which would seem to be best adapted to the phenomenon are not up to its challenge. A great deal can therefore be inferred from an examination of globalization's impact on the small European states. This is clearly an important reason to update Katzenstein's research.

1.7. Conclusion

As the globalization literature has proliferated, an amusing trend has emerged. New volumes or journal articles on the subject often begin with an apology for contributing to the literature. Scholte (2000, xiii), for example, begins his fine study of globalization with the following passage:

> Not another book on globalization! No doubt many a prospective reader will at first despair that a further title has squeezed onto

> already overcrowded shelves. Has this hype-propelled bandwagon not already slaughtered too many trees?

Such apologetic tones are illustrative of the increasing lack of marginal utility derived from studies of globalization. This study seeks to rectify this situation by taking the globalization literature in a new and hopefully promising direction.

CHAPTER 2

LITERATURE REVIEW

In the previous chapter I introduced the puzzle that inspires this research: the need to update past research on the economic performance of the small European states to account for the impact of economic globalization, and the lack of clarity in the definition of globalization. This chapter examines both this past performance and the globalization literature in greater detail. I first review Peter Katzenstein's (1983, 1984, 1985) groundbreaking research into the small European states. While Katzenstein's examination of the small European states made an important contribution to international and comparative political economy, it ends with the early 1980s, just as globalization became an increasingly debated phenomenon in the field. The corporatist systems of the small European states would seem to be tailor-made to mediate the challenges of globalization. But have they? How have globalization and internationalization impacted the economic sovereignty—defined here as a state's autonomy to make economic policy, as demonstrated by its ability to achieve preferred economic goals and outcomes—of the small European states since Katzenstein's findings in the early 1980s?[14] Research is called for which addresses this questions.

I next turn to the globalization literature itself. While few scholars since Katzenstein have specifically addressed the effects of globalization on the small European states, many have examined the impact of globalization on the state in general. I therefore review the globalization debate with an eye to its application to the research at hand.

This is no small task. The globalization debate is often one of first premises. Scholars have yet to reach a consensus regarding the very existence of the phenomenon, and

[14] For a discussion of economic sovereignty, see chapter one (section 1.1) as well as chapters three and four.

disagreements expand from there. For this reason, I present a four-question framework to organize my examination of the literature.

Using this framework, two broad perspectives in the globalization literature are examined. The first of these is the *internationalization* model (IM). This is the dominant perspective in the literature, although its adherents often present it as a challenge to the popular—if not scholarly—conventional wisdom that globalization has fundamentally changed the nature of political economy. The second perspective, the *supranationalization* model (SM), contains aspects of this "conventional wisdom," although its esteem among scholars of political economy seems rather low. SM scholars emphasize the ability of capital interests (the primary agents of globalization) to transcend political boundaries and regulatory jurisdictions. Such capital mobility, they argue, has weakened the ability of the state to regulate domestic economies, thus reducing state sovereignty, and strengthening economic actors who are increasingly "stateless."

I discuss the contributions and shortcomings of each model, and find that neither is adequate to be the "last word" on globalization. Most importantly, neither has successfully measured the "supranational" component of globalization that IM scholars reject and SM scholars embrace.

Is it possible to transcend the state, and thus engage in economic activities on a global scale, without the limitations of national economic regulation, support or influence? If so, how does this impact the state? In the final section of the chapter, I argue that neither of the two dominant models can satisfactorily answer this question, although both attempt to do so. IM scholars dismiss the idea of a transcendent or supranational globalization as a myth or exaggeration. Capital may flow more quickly and in greater volume *between* states, but it cannot transcend them. SM scholars, argue that transnational corporations *are* able to operate without regard to national distinctions, and their mobility has allowed many firms to effectively "escape" the restrictions and limitations of the state.

Unfortunately, scholars from neither perspective have found a way to systematically *measure* this idea of transcendence. IM scholars cannot legitimately dismiss it if they do not test it, and they cannot test it if they rely solely on international (rather than supranational) data. In a sense, SM scholars have an equal but opposite problem. Unlike IM research, they conclude that supranational globalization *is* weakening states. Like their IM counterparts, however, they have no systematic evidence. While IM scholars cite a lack of evidence of supranationalization as support that the phenomenon doesn't exist, SM scholars look to anecdotal evidence to demonstrate that it does. Neither is entirely satisfactory. I conclude that it is necessary to measure the supranational concept of globalization side by side with the international concept if we are to be able to test both, and that we must test both in order to begin to answer the questions presented here.

I now turn to the starting point for these matters: Peter Katzenstein's research into the political economy of the small European states.

2.1. Katzenstein's Small States

Katzenstein begins with a relatively simple puzzle: the surprising success of the small European states in the post-war era. By the early 1980s, these countries were political and economic "overachievers," accomplishing much more than might be expected given their size. As Katzenstein (1983, 92) notes:

> Exposed to developments in international markets and dependent on actors beyond their reach, the small, advanced industrial states have, in fact, maintained both successful political strategies and coherent domestic structures since World War II. In the process, they have achieved standards of living that, if they do not constitute absolutely the highest, certainly are among the very highest achieved anywhere in the world.

Indeed, some had surpassed the United States in key measures of economic success:

> By 1982 five European states has surpassed the United States in per capita gross domestic product (GDP), among them Switzerland, Sweden, Norway and Denmark. The average

> Norwegian or Danish family today enjoys a standard of living higher than its American counterpart (Katzenstein 1985, 18).

How, Katzenstein asks, have these states, with their small populations, lack of economies of scale, and dependence upon world markets beyond their control managed not only to survive but to thrive?

The answer, Katzenstein argues, is democratic corporatism. Katzenstein (1983, 116) defines democratic corporatism as

> the voluntary, cooperative regulation of conflicts over economic and social issues through highly structured and interpenetrated sets of political relationships by business, the unions, and the state, augmented at times by political parties.

Katzenstein presents corporatism in the small European states as a functional response to the structural vulnerabilities with which these countries must contend. To understand the utility of the corporatist system, however, we must first understand the structural constraints facing these countries: small size and world markets.

First and most obviously, the small European states are *small*. "Smallness," as Katzenstein describes it, refers not only to geography or population, but to small economies and particularly small domestic markets. Because these countries

> do not offer the necessary economies of scale to a number of industries absolutely critical to the functioning of a modern economy, the small European states must import a wide range of goods which the large, advanced industrial countries produce domestically…[S]mall domestic markets [also] lead the small European states to seek their specialization and economies of scale in export markets. Dependence on imports and the necessity to export make the economies of the small European states both more open and more specialized than those of the large industrial states (Katzenstein 1985, 95).

Economic smallness renders the small European states "open and vulnerable to developments in the international economy" (Katzenstein 1985, 93). Economic openness in the small European states is not a policy option open to debate and modification, as it might be in the larger industrial democracies, nor is it "based on disinterested notions of aggregate world welfare" (Katzenstein 1985, 106). It is instead a reality necessitated by smallness. In their international economic relations, the small European states do not enjoy the advantages of independence, nor simply face the challenges of interdependence. Instead, they must contend with dependence upon world markets over which they can exercise little influence or leverage, again because of their smallness relative to economic powers like the United States, Germany or Japan.

These conditions, Katzenstein argues, have led the small European states to adopt corporatist structures, allowing them to make the best of their dependence and vulnerability. The external threats to these countries require all interests therein to cooperate with each other. Unlike larger countries like the United States or Britain, a contentious brand of industrial relations cannot be indulged. The small European states cannot afford the "luxury" of open and prolonged conflicts between business and labor or other class-based political strife.[15] Katzenstein contends that these countries' experiences in the 1930s and 1940s reinforced a norm of consensus and cooperation.[16] Interests in the small European states, both business and labor, left and right, "became convinced that they should impose strict limits on domestic quarrels, which they viewed as a luxury in a hostile and dangerous world" (Katzenstein 1985, 30). The result was a "compelling need for consensus" leading to "truces between business community and labor movement" in the form of formal industrial agreements (Katzenstein 1985, 34).

Katzenstein (1985, 32) describes three basic elements of democratic corporatism in the small European states:

> An ideology of social partnership expressed at the national level; a relatively centralized and concentrated system of interest groups; and voluntary and informal coordination of conflicting

[15] This does not preclude, of course, class-based political parties from competing in democratic elections, but it does constrain the industrial policies of such parties once in government.
[16] For a detailed examination of the historical origins of corporatism in the small European states, see Katzenstein (1985, 136-190).

> objectives through continuous political bargaining between interest groups, state bureaucracies and political parties.

I examine each of these—social partnership, interest group centralization, and political bargaining—in turn.

Social partnership refers to “political arrangements that manage to couple narrowly conceived group interests with shared interpretations of the collective good,” and which in turn “mitigate class conflict.”(32) Here again, a cultural perception of smallness and vulnerability is key:

> …political metaphors reinforce the historical memories of the 1930s and 1940s. They emphasize that all members of society are in the same small boat, that the waves are high, and that everyone must help pull the oars. Domestic quarrels are a luxury that prudent persons will not tolerate in such adverse circumstances (35).

The centralization and concentration of interest groups is Katzenstein’s second element of democratic corporatism. Unlike the more pluralist, free-for-all competition of American interest group politics, “interest groups in corporatist systems are aptly called ‘peak associations’ because power is exercised at the summit over a relatively compliant base.” (33) Business and labor in particular are usually well organized into a small number of interest groups that cover broad industrial sectors and culminate in national representation of interests. This system allows us to point to very few entities and, with confidence, describe them as the effective representatives of all business or all labor interests in the country.

Partnership and centralization come together in political bargaining, Katzenstein’s third element of democratic corporatism:

> Bargaining is voluntary, informal, and continuous. It achieves a coordination of conflicting objectives among political actors. Political preferences in different sectors of policy are traded off one against another. Victory or defeat on a given issue does not lead to an escalating spiral of conflict because a continuous sequence of political bargains makes all actors aware that victory today can easily turn into defeat tomorrow. The predictability of the process enhances the flexibility of the actors (33).

Bargaining on a tripartite basis, with business, labor and the state as participants, allows interests to mediate and resolve "conflicts over economic and social issues through highly structured and interpenetrated sets of political relationships." (Katzenstein 1983, 116) Conflicts over wages and prices, workers benefits, and concessions to encourage corporate competitiveness are all subject to—and often the object of—these tripartite negotiations. Unable to afford the economic inefficiencies of resolving such matters by *competitive* means through strikes, lockouts, and the mobilization of public opinion, the small European states do so by *cooperative* means through bargaining. This allows the small European states the flexibility to adjust to changes in the world markets on which these countries are so dependent.

The institutional arrangements of democratic corporatism thus allow the small European states to pursue "the dual strategy of international liberalization and domestic compensation." (94) As discussed above, the small European states have had little choice but to embrace economic openness to world markets. Small size inhibits protectionism, because of the risk of retaliation which, given their dependence on trade, strikes at the very heart of these countries' economies. Larger, more economically self-sufficient countries like the United States may be able to absorb the costs of protectionism; the small European states cannot. Thus these countries have been "among the persistent champions of a liberal international trade regime." (105) Such an arrangement is preferred "not because it eliminates dependence, but because it diffuses such dependence in a wider market rather than concentrating it on particular states." (106)

Because the small European states are "dependent on a global economy which is beyond their control," their citizens are exposed to significant economic insecurity. Under such conditions, popular discontent might be expected to be a significant threat to both economic and political stability. Katzenstein notes, however, that these countries are known for their stability and "low voltage politics." (95) This is attributed to strategies of domestic compensation. In the small European states, "governments of the right, center and left have all tended to rely on the public economy to counter some of the harmful effects of an open economy." (109) Economic vulnerability leads to insecurity, and so public programs compensate to ensure stability.

Rates of social welfare spending in the small European states have been greater than those in the larger industrial democracies (Katzenstein 1985, 54-57). Programs have generally emphasized transfer payments, in the form of income maintenance arrangements, pensions and family allowances. Furthermore, social welfare programs in the small European states have often placed greater emphasis on universal benefits than the more means-tested systems of larger industrial states. If everyone is indeed in the same boat, threatened by the same waves, then everyone also deserves access to the same benefits, or at least a reasonable threshold thereof.

The economic success of the small European states can therefore be attributed to the "dual strategy of international liberalization and domestic compensation, based on corporatist political structures." (Katzentein 1983, 94) But how exactly is "success" itself defined? Katzenstein (1985) argues that the appropriate metric for success is to be found in

> the extent to which social coalitions, political institutions, and public policies facilitate or impede shifts in the factors of production that increase economic efficiency with due regard to the requirements of political legitimacy (29).

Success is therefore a matter of the smoothness of adjustment to external change. It is not to be found in an increase in sovereignty or independence, but in a maintenance of economic viability through concerted action by all relevant domestic actors. While this formulation may appear somewhat theoretical and difficult to formulate in material terms, it does imply certain more concrete components. Success, Katzenstein indicates, can be found in increased "economic efficiency." But such efficiencies cannot come at the expense of "political legitimacy." The combination of the two is the object of democratic capitalism itself (with perhaps a few neoliberal exceptions): a thriving economy with a healthy growth rate, the achievement of which does not sacrifice standards of equality and fairness across classes and sectors of society.[17]

2.2. Revisiting Katzenstein: Introduction to the Globalization Literature

Katzenstein's work has frequently been cited for its contribution to the study of political economy. Along with David Cameron's earlier work, Katzenstein's findings that openness to international trade correlates highly with social spending levels helped spur a body of literature examining the ability of states to compensate for the insecurities of participation in international markets. In particular, Garrett, Crepaz and Swank have each argued that exposure to the international economy does not necessarily diminish the state's ability to pursue economic objectives, because states are able to compensate for their exposure, particularly through compensatory welfare policies.

More specifically, this research has sought to counter the argument that globalization has weakened the state, leading scholars to argue that the so-called "powerless state" is a myth (Weiss 1998). Katzenstein's research demonstrates that even the smallest capitalist democracies have been able to thrive in world markets because of functional institutional arrangements. These findings have done much to inform and inspire this body of literature.

Katzenstein's research presents a picture of highly successful states that have exercised economic sovereignty effectively to counter the vulnerabilities of exposure to world markets. This has been achieved by employing corporatist institutional arrangements which manage economic openness and facilitate a system of domestic compensation.

[17] Katzenstein (1985, 28) specifically rejects both "economic performance" and "political performance" as sufficient standards by which to judge the success of the small European states. Economic performance (using measures of growth in gross domestic product, unemployment or inflation, for example) is easy to aggregate but difficult to explain. Measures of political performance, Katzenstein argues, poses problems that are the inverse of those of economic performance. This does not mean, however, that operationalization of Katzenstein's definition of success can be achieved only through qualitative examination. For an argument advocating a concrete, material operationalization of Katzenstein's definition, see chapter four.

Katzenstein's data ends with the late 1970s and early 1980s. In subsequent decades, much scholarship in international and comparative political economy has been devoted to the phenomenon of economic globalization, and particularly to globalization's impact on state sovereignty. The research, however, has failed to produce a consensus, not only about the impact of the phenomenon, but about its very nature. No standard definition of globalization is generally accepted, for example. Most importantly for our purposes, the impact of globalization on the small European states in the decades since Katzenstein's research is unclear. In light of the globalization debate which has arisen in the past quarter century, it is time to revisit Katzenstein's model and findings to account for the effect of the (potentially) new phenomenon of globalization.

Why should we revisit Katzenstein? What can decades-old research on relatively small, unique countries tell us about the impact of globalization more broadly?

One answer comes from Katzenstein himself, who addresses the question in his original research. Katzenstein (1985, 200) notes that, "as the large, advanced industrial states grope toward more adequate ways of responding to the risks and opportunities of the international economy," their increased dependence upon and vulnerability to world markets gives them more in common with the small European states. In such a situation,

> the large states could therefore do worse than look to the example of the small European states for lessons in how to react politically to conditions that are new to us and old for them (Katzenstein 1985, 206).

From this perspective of the late 1970s and early 1980s, the small European states offer larger states a "road map" for their economic futures. Katzenstein's findings are generally accepted as an accurate description of the small European states up to the 1980s. Whether the model still holds true, given the neoliberal orthodoxy of the decades since, is an open question. Is Katzenstein's road map out of date? Do the post-war corporatist strategies of the small

European states still offer larger states a strategy to deal with the more recent phenomenon of supranational globalization? To answer this question, Katzenstein's findings must be updated.

Revisiting Katzenstein's research also allows us to take advantage of the unique insights into globalization offered by the small European states. These states represent a critical case study, which may help us evaluate diverse and conflicting claims about globalization. King, Keohane, and Verba (1994, 209) refer to the extra inferential utility of certain types of case studies:

> If the investigator chooses a case study that seems on *a priori* grounds unlikely to accord with theoretical predictions—a "least-likely" observation—but the theory turns out to be correct regardless, the theory will have passed a difficult test, and we will have reason to support it with greater confidence.

Katzenstein describes the small European states as particularly well-adapted to maintaining sovereignty and indeed thriving, despite their exposure to the shocks of the international economy. It would seem highly unlikely that these states, with institutions specifically designed to withstand the vulnerabilities of exposure to world markets, would be significantly weakened by globalization. The small European states therefore represent a "least likely" observation which would seem unlikely to accord with the prediction that globalization weakens state sovereignty.

These countries are an important "test case." If, as indicated by their past success, these states continue to thrive in the face of globalization, this finding would serve as a baseline measure for testing other industrial democracies. Conversely, a finding that these states have been weakened by globalization would indicate that even those states which would seem to be best adapted to the phenomenon are not up to its challenge. A great deal can therefore be inferred from an examination of globalization's impact on the small European states. This is clearly an important reason to revisit Katzenstein's research.

Any research involving economic globalization presents unique challenges. Unlike more settled fields of inquiry, in which debate may take place on the margins, the globalization literature is characterized by fundamental disagreements over the most basic questions:

> Many debates about globalization never get past disputes over starting premises. For one thing, people often hold radically different definitions of the term. As a result they talk past each other (Scholte 2000, 14-15).

Studies of globalization can be found in the fields of communications, technology, transportation, management and business, economics, geography, sociology and political science, among many others. This study is confined to *economic globalization*, as studied by international and comparative political economy: those aspects of the phenomenon dealing with the organization, mobility and diffusion of capital and capitalism. Even within this narrower scope, there is fundamental disagreement between those who view globalization as synonymous with internationalization, and those who believe the phenomenon is supranational.

2.3. Globalization: Four Questions

My examination of the globalization literature utilizes a framework of four questions. This framework is applied below to the two dominant paradigms in the globalization literature: what I call the *internationalization* model (IM: section 2.4) and the *supranationalization* model (SM: section 2.5). These questions examine the underlying assumptions of globalization research to understand how and why different studies reach different conclusions. Disagreements in the globalization literature often stem from differing assumptions. Two studies which appear to disagree about the age of globalization may in fact each have fundamentally different definitions of globalization itself. Their positions may not even be incompatible: both may agree that internationalization is an old phenomenon, for example, but disagree about whether internationalization *is* in fact globalization. By examining basic assumptions, it is possible to get a clearer picture of the cleavages in the globalization literature. Table 2-1 presents the questions I use to do this. Each of these questions is considered in turn.

An examination of any globalization research must begin by asking how the study *defines* the phenomenon. Differing definitions of globalization, especially when such differences are not explicitly acknowledged, lead to much of the confusion in the literature. Indeed, “due to irreconcilable definitions, many globalization debates are stalemated from the outset” (Scholte 2000, 17). In addition to examining the definition of globalization, it is also important to examine the measurements that flow from a given definition.

Table 2-1: Four Questions About Globalization	
Definition:	How is globalization defined and measured?
Origin:	What is the origin of globalization?
Agency:	Who or what are the agents of globalization?
Impact:	What is the impact of globalization on the state, and particularly on economic sovereignty?

Next, it is important to determine a study’s position on the origin of globalization. Again, scholars offer widely differing accounts. Some claim that globalization is a phenomenon unique to the late 20^{th} and early 21^{st} centuries. Others find globalization to be both many centuries old and cyclical in nature.

A study’s position on *agency* in globalization is also significant. Is an explicit indication made about who or what are the agents of globalization? While some studies are not clear in this regard, and describe globalization as a structural force without human impetus, most are more or less explicit in their attribution of globalization to concrete actors. Who acts, and for what purpose?

Finally, it is important to determine a study's position on the *impact* of globalization on the state. More specifically, what impact is globalization said to have on the economic policy-making autonomy ("economic sovereignty") of the state?

On this question a clear distinction must be made drawn between the normative and empirical branches of the literature. Much of the popular globalization literature, including much that is cited as "conventional wisdom" is normative rather than empirical. Normative reviews of globalization may be journalistic, policy-oriented, or scholarly pieces, but in each case, they explicitly argue the *value* of globalization (relative to policy, culture, prosperity, etc.).

Some of these, especially those from a management or business perspective, have argued that globalization is a positive force, that it increases freedom, and leads to greater global prosperity (Naisbit 1994; Ohmae 1990, 1995).[18] Others, both on the political left and right, view globalization as a negative force, arguing that it leads to further exploitation of less-developed countries, increased economic inequality, decreased democracy, and homogenization of distinct cultural identities (Buchanan 1998; Nader 1993). Such works have decried the increased power of large corporations and international institutions, which are criticized for being unaccountable to people or states.

I exclude these explicitly normative works from this examination of the globalization literature. While such pieces make important contributions to policy debates around the world, they do not approach the study of globalization from a rigorous methodological perspective which tests hypotheses according to standards of validity and reliability. I consider only the empirical branch of the literature in this study.

In the next section I apply the framework for the analysis of globalization presented above to the *internationalization* model and the *supranationalization* model. Identifying only two

[18] I differentiate here between management consultants and commentators on business, such as Ohmae, and empirical scholars of international business and economics, such as John Dunning or Stephen Hymer (1979). While the former are generally excluded from this study, the latter certainly are not.

categories may risk the overgeneralization of subtle distinctions captured in other studies. But given the nature of the globalization literature, greater parsimony at the expense of greater complexity is not such a bad trade. Furthermore, the framework introduced above ensures that the important distinctions in the literature are not lost.

Before turning to these two approaches to globalization, I must acknowledge that there are many other ways to categorize and classify the globalization literature. Many scholars distinguish between globalization "believers," who believe the phenomenon exists and that it presents new challenges to existing political and economic systems, and globalization "skeptics," who disagree on one or both counts (Garrett 1998; Rhodes 2001).

Others divide the literature between "advocates" or "proponents" of globalization on the one hand and "critics" or "opponents" on the other (Hirst and Thompson 1996; Weiss 1998). Sometimes these two sets of labels—believers and skeptics, advocates and critics—are used simultaneously or interchangeably. This implies that all those who believe that globalization exists also believe its impact to be positive, and vice versa, which is certainly not the case.[19] More generally, a term like "believers," even in a purely empirical sense, has a connotation of advocacy or support that confuses empirical and normative approaches.

Other studies divide the globalization literature between the "conventional wisdom" on globalization and the "challenges" to it. In this description of the literature, the "conventional wisdom" is understood to be the position that a global convergence in culture, economics, business and/or politics has been achieved, or is soon to be achieved. Challenges to this conventional wisdom argue that these assumptions are exaggerated or not empirically

[19] Hirst and Thompson (1996, 7) for example describe "the more enthusiastic advocates of globalization" when discussing supranational arguments. See also Rhodes (2001, 89-90) and Weiss (1998, 175). Such studies frequently fail to distinguish between empirical and normative studies, grouping together scholars presenting empirical findings that globalization is a real challenge to state sovereignty (such as Susan Strange or Phillip Cerny), with those making normative arguments that globalization *should* reduce state sovereignty, or that such a phenomenon is a positive development (such as Kenichi Ohmae).

founded.[20] In the scholarly globalization literature, however, few arguments on behalf of the supposed conventional wisdom of convergence are evident. One might ask, considering the large number of studies which have sought to falsify this "conventional wisdom" when the "challenger" position itself becomes the conventional wisdom? A strong case can be made that this time has long since arrived.

Other scholars identify a much wider range of perspectives in the globalization literature. Scholte (2000, 15-17) distinguishes five broad definitions of globalization. Kirkbride, Pinnington, and Ward (2001) identify four.

In most cases, these can be collapsed into two broad categories. One category includes those studies that contend that globalization is an often exaggerated cross-border phenomenon that challenges but does not fundamentally alter state sovereignty. The other category includes those studies that claim that globalization is a real and trans-border phenomenon that fundamentally weakens state sovereignty. I label the former category the *internationalization model*, and the latter category the *supranationalization model*.

2.4. The *Internationalization* Model of Globalization

The dominant perspective on economic globalization in international and comparative political economy is the *internationalization* model (IM) (Berger 2000, 2006; Berger and Dore 1996; Boyer and Drache 1996; Cameron and Kim 2005; Crepaz 2002; Crepaz and Birchfield 1998; Garrett 1995, 1998a, 1998b, 1998c; Garrett and Lange 1991; Hall and Soskice 2001; Hay 2005; Hirst and Thompson 1996, 1999a, 1999b, 2002; Levy and Zysman 1998; Pauly and Reich 1997; Sutcliffe and Glyn 1999, 2003; Swank 1988, 1998, 2000; Swank and Steinmo

[20] This dichotomy is most often employed by those who seek to challenge the "conventional wisdom" (Hay 2005). Many of the "conventional wisdom" arguments cited by these "challengers" are from less empirically-driven pieces or sources. Once again, a favorite example of the "conventional wisdom" is Kenichi Ohmae (1990, 1995).

2002; Wade 1996, 2000; Weiss 1998, 2003; Zysman 1996).[21] Although differences exist among authors who contribute to the IM perspective, several arguments are characteristic of all IM scholars. These are examined using the framework presented above, and summarized in table 2-2.

Table 2-2: The Internationalization Model of Globalization

Definition:	Globalization is defined as an increase in cross-border economic connections and increased international interdependence. Defined in national economic terms using measures such as volume of international trade or foreign investment as a percentage of GDP.
Origin:	Globalization has been exaggerated by the conventional wisdom: it is an old, cyclical phenomenon. Past instances of globalization were more pronounced than current globalization. Lack of evidence for convergence on common "global" model of political economy.
Agency:	Globalization as exogenous force or controlled by state through regulation or embeddedness of firms in national varieties of capitalism. Multinational firms are supported by and reliant upon states, thus they are not (or rarely are) "global" or "transnational" in nature, but firmly grounded in a national setting.
Impact:	Generally acknowledges pressures globalization places on the state, but argues that states are resilient, able to compensate, especially through social welfare, education, and regulatory capacities.

2.4.1. The IM Definition of Globalization

Scholars who contribute to the IM perspective *define* and measure globalization in *international* terms. In the previous chapter, I discussed the divide in the literature between those who argue that the nature of globalization is supranational and those who argue that it is

[21] As noted above, many scholars who contribute to this perspective often cast their work as a challenge to the conventional wisdom. Nevertheless, the methodological rigor, replication of results and volume of publications would seem to support its status as the dominant position in the scholarly literature.

international. The former perspective conceptualize globalization as the transcendence of spatial and political boundaries, arguing that economic activity is increasingly occurring in a superterritorial context. IM scholars reject this view, instead defining globalization in international terms. Globalization is viewed as a matter of linkages between otherwise discrete nation-states and national economies. In this sense, "'global' is simply another adjective to describe cross-border relations between countries, and 'globalization' designates a growth of international exchange and interdependence" (Scholte 2000, 15).

Several examples may illustrate this. Explicitly rejecting the supranational hypothesis, Hirst and Thompson define globalization as "growing international interconnectedness—increasing flows of trade, investment and communications between nations" (Hirst and Thompson 1996, 247). Evidence for these aspects of internationalization, they argue, is frequently mistaken or misused as evidence of a more supranational phenomenon.

Noting the distinction made by Hirst and Thompson, Weiss (1998, 175) advocates a "weak globalization (strong internationalization)" definition, focusing on the economic interconnectedness of national economies. Weiss finds that "globalization proponents have overstated the magnitude of change" in the nature of global economic activity. This leads to the conclusion that

> national economies are in some ways highly integrated with one another. However, with the partial exception of money markets, the result is not so much a globalized world (where national differences virtually disappear) as a more internationalized one (Weiss, 1998, 187).

Other scholars have not been so careful to delineate what is "global" or "supranational" from what is "international." Both Swank (2002) and Garrett (1998a, 1998b), for instance, have used the terms "globalization" and "internationalization" interchangeably.

Often no explicit definition of globalization is offered, and one can only be inferred from the measurement and operationalization of globalization that is employed. These measures tend to operationalize globalization in international terms. Garrett, for example, distinguishes three globalization "mechanisms" that impact domestic politics: "competitiveness pressures in international goods and services markets, the multinationalization of production regimes and the integration of financial markets" (Garrett 1998a).

The two measures of globalization most commonly used in IM studies are international trade and foreign direct investment.[22] The use of such measures is revealing. These data are aggregated at the national level, and measure connections between national economies.

2.4.2. The IM Origin of Globalization

IM scholars also examine the *origin* of globalization from the same international perspective. While most IM studies acknowledge that something they are willing to label "globalization" is occurring, they contend that the "conventional wisdom" about the phenomenon is flawed. The IM view of the origin of globalization is based upon two components: its cyclical nature and the importance of convergence.

IM scholars frequently argue that globalization is an old and cyclical phenomenon, and that past instances of globalization were actually more pronounced than the current one. Specifically, globalization was more prominent prior to World War I than it is today (Berger 2000; Hirst and Thompson 1996; Sutcliffe and Glyn 1999; Wade 1996, 2000). Hirst and Thompson note that levels of international trade, investment and migration were as high or higher prior to 1913 than they were in the 1990s. Sutcliffe and Glyn (1999, 113) find that contemporary "foreign investment is not significantly higher in relation to world output than it was in 1913." Thus exaggerated claims that globalization is a new and unprecedented phenomenon are brushed aside with international evidence.

[22] International trade is usually measured as the value of a country's imports and exports as a percentage of gross domestic product (GDP). Foreign direct investment (FDI) is usually measured as the value of a country's inward and outward investment, again as a percentage of GDP. Trade and FDI have in many ways become the "standard" measures of globalization, and not only among IM scholars. Also frequently used are measures of the openness of an economy to trade and investment.

In its modern context, IM scholars point to what they view as an exaggeration in the scope of globalization. Zysman (1996) finds that the phenomenon is not truly "global" at all, but "regional" at best. Hirst and Thompson (1996, 2) note that foreign investment is "highly concentrated among the advanced industrial economies and the Third World remains marginal in both investment and trade." Garrett (1998c, 770) broadens this somewhat, noting the same pattern applies for "the bulk of international economic activity."

IM scholars tend to equate supranational arguments about globalization with what Scholte calls "universalization," or the convergence of national identities, institutions and practices on a single global standard. IM scholars argue that for globalization to be unique, convergence on a global (neoliberal) model of political economy must occur. Lack of evidence for this is taken as further indication that globalization has been greatly exaggerated.[23] But, as IM studies note, states still exist, tax rates are not uniform across countries, patterns of industrial relations still differ (Hirst and Thompson 1996, 2; Zysman 1996). While some trends toward harmonization may be evident, notably in the removal of capital controls, the creation of the European Monetary Union, or perhaps welfare retrenchment among the developed democracies, these are often explained in idiosyncratic national terms, unrelated to globalization.

A second and more nuanced form of anti-convergence evidence comes from the *varieties of capitalism* research, which I include in the *internationalization* model. Research exploring different models of political and economic organization in capitalist countries has made important contribution to the political economy literature since the early 1990s, to the globalization debate generally, and to the *internationalization* model specifically (Berger and Dore 1996; Boyer and Drache 1996; Hall and Soskice 2001; Soskice 1999; Streek 1992).

[23] It is important at this point to note the important distinction between ideas of convergence as a consequence of globalization and ideas of convergence *as* globalization itself. This difference is sometimes overlooked, but it is of great importance. This is discussed below.

The *varieties of capitalism* hypothesis rests on the recognition of basic organizational differences between models of capitalism. Scholars studying varieties of capitalism “see more than one kind of industrial society and believe that the different institutional configurations, or production regimes, generate systematically different microbehaviors” (Berger 2000, 57). Different countries have different traditions of capitalism, industrial relations, and corporate governance, and these differences condition economic actors to adopt strategies compatible with the variety of capitalism in which they are embedded.

In the best known example of this literature, Hall and Soskice (2001) distinguish between two basic capitalist arrangements: coordinated market economies (CMEs) and liberal market economies (LMEs). CMEs include much of continental Europe, including the corporatist small European states. They are characterized by “considerable nonmarket coordination directly and indirectly between companies, with the state playing a framework-setting role; and in all these economies, in one form or another, labor remains ‘incorporated’” (Soskice 1999, 103). Thus there is considerable overlap between the concepts of the CME and democratic corporatism. LMEs, however, exhibit “little nonmarket coordination between companies; labor has been progressively excluded, and the state plays an arm’s length role” (Soskice 1999, 103).

While the importance of the varieties of capitalism literature as it relates to globalization is most prominent with regard to agency, and is discussed in that context below, the insights of this perspective also inform the IM view of convergence. The varieties of capitalism approach seeks to elaborate the differences between models of capitalist organization. In doing so, it explicitly provides a narrative for the persistent lack of convergence between national economies.

National economic actors may be exposed to economic shocks associated with globalization, but the varieties of capitalism literature argues that this will not produce a convergence of responses to such shocks. CMEs do not become LMEs. Instead, countries adapt to these shocks in ways that are constrained by past trajectories. Because differences in the institutional foundations on which capitalism is built in different countries impact the direction and type of response, we can expect no convergence in the face of globalization.

2.4.3. The IM: Agency and Globalization

The IM position on globalization's *agency* tends to emphasize structural changes or state policies while deemphasizing the importance of non-state actors, especially business enterprises. IM studies do not always explicitly attribute globalization to a particular source. Indeed, some prefer to view globalization as an external force rather than the result of a strategy pursued by concrete actors. Garrett (1995, 663) argues that "internationalization can be considered an exogenous development to which domestic actors must respond rather than the result of conscious policy choice."[24]

Others point to the state itself as the architect of globalization. Returning to Hirst and Thompson's discussion of internationalization prior to World War I, the authors note that international trade and investment had grown to unprecedented levels prior to 1913. But after that time,

> trade was adversely affected by the growth of tariffs, quantitative restrictions, exchange controls and the war, and it expanded by less than one percent per annum on average between 1913 and 1950 (Hirst and Thompson 1996, 20-21).

Berger (2000, 44) likewise notes predictions prior to World War I that the world was too interdependent for warfare ever again to be possible, and how this viewpoint "was cut off in its infancy by the disastrous failure of such predictions…and by the fact that national economies closed up at the time of the war." The state, through its tightening or loosening of market controls, plays the central role in the expansion or contraction of levels of internationalization.

[24] Garrett attributes globalization to "changes in technology and reduced transpiration costs" which are not conscious decisions or strategies but a sort of historical progression of innovation without definite human agency.

IM studies generally attribute little agency to multinational corporations (MNCs). IM scholars find that MNCs, while playing a role in the expansion of international trade and investment, are securely *multinational* rather than *transnational* or *global*. The "stateless corporation," from the IM perspective, is a myth of globalization (Doremus 1998; Pauly and Reich 1997). Again referring to what is often labeled the "conventional wisdom," IM studies frequently cite the belief that the world economy "has as its principal economic actors and major agents of change truly transnational corporations, that owe allegiance to no nation state and locate wherever in the global market advantage dictates" (Hirst and Thompson 1996, 1). IM studies find that such claims have little basis: that truly transnational corporations are difficult to identify, that the investments of these firms are usually concentrated in their country of origin, and that they retain close ties to the nation and state from which they originated.

This last claim brings us back to the varieties of capitalism literature discussed above in the context of convergence. Regarding agency, Hall and Soskice claim that, particularly among CMEs, the international activities of multinational corporations occur not in defiance or challenge to the state, but as a result of state policies and protections. As Berger (2000, 44) explains:

> economic performance is a characteristic of firms understood not as autonomous actors but as social creations, highly dependent on societal resources that they do not themselves create.

Once again, the state is the primary agent. Firms should not be expected to become "stateless," nor should they be expected to actively tear down the social and economic institutions of capitalism in which they are embedded, and from which their comparative advantage flows.

In general then, IM positions on agency reinforce the model's understanding of globalization as an international process: contacts between economic actors across borders may be increasing, but the actors are still fundamentally *national* and the contacts are fundamentally *international.*

2.4.4. The IM: Impact of Globalization on the State

Each of the factors above contributes to the IM conclusion that globalization may pose new challenges for nation-states, but it does not fundamentally weaken them, nor reduce their economic sovereignty. This conclusion rests upon two main findings of IM scholars: first, that democratic states retain a compensatory or transformative capacity in economic policy, contrary to fears of a "race to the bottom" in social policy; second, that the very economic actors said to be the primary agents of globalization are themselves highly *national*, embedded in domestic economic processes and institutions which constrain their behavior and order their preferences.[25]

The strongest IM argument regarding the impact of globalization on the state is found in studies emphasizing the compensatory or transformative capacity of the state (Garrett 1995, 1998a, 1998b, 1998c). The power of these studies, for many, lies in their quantitative analysis of the impact of globalization on state sovereignty—and particularly social welfare capacity—and the systematic findings they produce.

While quantitative methodology is not inherently superior to qualitative methodology, qualitative work is often faulted for its "pervasive failure to provide reasonable estimates of the uncertainty of the investigator's inferences." (King, Keohane, and Verba 1994, 3-7, 32). This is often the case in the globalization literature. IM scholars often criticize qualitative findings that globalization has weakened the state for over generalizing based upon anecdotal evidence. These criticisms hold that, rather than examining the full range of evidence, globalization

[25] Another finding used to support the IM conclusion on the impact of globalization refers back to states as agents of globalization: because states are central to the maintenance of globalization, and therefore retain control over its future expansion or decline, states themselves can reverse the phenomenon if it comes to threaten state sovereignty. This viewpoint is particularly to be found in the work of Hirst and Thompson, and presented above in brief. Such a perspective is also consistent with the "varieties of capitalism" literature discussed above.

“believers” pick out only those data which supports their conclusions, leaving the reader unaware of the “reasonable estimates of uncertainty” that these scholars exclude.

IM scholars who use quantitative tools to examine the impact of globalization claim to avoid this problem. They do this not only by testing systematic rather than anecdotal evidence, but also by using statistical instruments that quantify the inferential strength of their findings. In the face of what they consider to be vague claims that globalization weakens the state, IM scholars point to their more robust evidence to the contrary. Furthermore, they note that they are able to report exactly *how much* impact globalization has, in either a negative or (more often) positive direction.

Quantitative IM studies flow directly from Katzenstein’s and Cameron’s earlier findings that states are not weakened by exposure to world markets. As discussed earlier in this chapter, these authors found that states have the capacity, particularly through social welfare spending and other fiscal policy tools, to compensate for the negative externalities of exposure to and participation in the global economy. Successors in the IM tradition have confirmed (and quantified) that as globalization increases, so too do important elements of state sovereignty.

Geoffrey Garrett (1995, 1998a, 1998b, 1998c), in a number of influential articles, has made a particularly important contribution in this regard. Garrett finds that governments that are predisposed to pursue interventionist economic policies—namely, left governments backed by strong labor interests—still have the ability to do so, even when faced with increased globalization. These findings are supported by regression analysis examining fifteen OECD countries from the 1960s into the 1990s.[26]

As discussed earlier, Garrett’s operationalization of globalization emphasizes national or international-level data. For the studies described above, Garrett measures globalization in

[26] Specifically, Garrett (1995) examines the period from 1967 to 1990. Among the OECD countries examined are all of the small European states except Switzerland. In later work (1998a, 1998b) the time period is extended to 1994, and Switzerland is included, along with a number of additional OECD countries.

terms of (1) international trade as a percentage of GDP; and (2) government restrictions on capital mobility. The interactive effects of these measures with indices of the political power of left parties and labor is included to capture the ability of interventionist governments to mediate the effects of globalization.

Garrett is consistent in his measurement of interventionist policies, as well: these are captured in terms of (1) levels of government spending; (2) government deficits; (3) capital taxation; (4) interest rates. If left-labor governments retain their national autonomy, Garrett hypothesizes, globalization, mediated by left-labor power, will not impose a neoliberal convergence in policy (characterized by a reduction in spending, elimination of deficits, and easing of capital taxation). Additionally, such governments will not engage in a policy "race to the bottom" in which they undercut each other in taxation and regulation in a desperate attempt to attract footloose global capital.[27] Garrett (1995, 682) finds the compensatory and discretionary powers of the state to be intact:

> Rather than being constrained by increasing trade and capital mobility, the relationship between left-labor power and fiscal expansions has strengthened with greater internationalization.

Regarding social welfare capacity more specifically, Garrett (1998b) finds that countries that have chosen to react to market integration by expanding their public economies have not suffered significant macroeconomic costs.

The general argument made by Garrett is replicated and confirmed by Duane Swank. In his own extensive research, Swank (1998, 690) has found that globalization does not force states to reduce corporate tax burdens; indeed, "direct effects of globalization of capital

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[27] Both with regard to neoliberal convergence and a "race to the bottom," Garrett distinguishes between left governments that want to exercise the state's sovereign capacity to utilize economic policy tools to intervene in the economy, and non-left governments which would not necessarily want to do so: reductions of capital taxation or government spending, for instance, are not indicative of reduced sovereignty, but of policy preferences. While the constraints of economic openness and exposure lessen such differences in the small European states, it would be interesting to examine Garrett's results for these countries alone.

markets are associated with slightly higher business taxes."[28] In his wide-ranging quantitative study of global capital and policy change in advanced democracies, Swank again finds that globalization does not weaken state sovereignty. Specifically, Swank (2002, 275) concludes that "international capital mobility is not systematically and directly related to social welfare policy change." Similar findings are reported with regard to convergence arguments:

> International capital mobility does not place systematic pressure on larger welfare states to "run to the bottom" or "run to a middle ground" of more market-conforming social policy. Contra this common proposition, the quantitative analysis generated modest evidence that large welfare states may diverge more from residual, market-oriented welfare states at higher levels of capital mobility (Swank 2002, 275).

Crepaz (2002) presents an even more interesting and powerful measure of state sovereignty. Rather than examine levels of social welfare spending, Crepaz examines globalization's impact on the effectiveness of poverty reduction. Levels of social welfare spending are not necessarily indicative of the actual ability of states to reduce poverty. While globalization might be positively correlated with increased social welfare spending, as IM scholars find, increased spending may not actually be having the desired effect. Crepaz therefore examines the effect of globalization (as well as other explanatory variables) on post-transfer poverty reduction. He finds that as globalization increases, the state's capacity to reduce poverty remains strong.

Weiss' (1998) takes a somewhat different direction. Rather than quantifying a particular aspect of state sovereignty such as social welfare capacity, the "transformative capacity" of the state is examined:

> Transformative capacity in this sense refers to the ability of a state to adapt to external shocks and pressures by generating ever-new means of governing the process of industrial change (4).

[28] In subsequent work, Swank and Steinmo (2002, 642) find that "capital mobility and trade are associated with cuts in statutory corporate tax rates but not with reductions in effective average tax rates on capital income."

This returns to an important idea introduced by Katzenstein: economic sovereignty is not a matter of resistance to change. It is instead the management of change. What should be relatively constant, however, is the general apparatus that allows the state to adapt, and continue to produce desired social outcomes.

Besides these compensatory or transformative arguments, a number of authors emphasize the domestic embeddedness of multinational corporations to argue that globalization does not weaken the economic sovereignty of states. This reasoning is to be found particularly in the varieties of capitalism literature discussed earlier in this chapter. Hall and Soskice (2001) argue that in coordinated market economies, firms are largely dependent on domestic institutions which have facilitated their success, and will modify their behavior to accommodate these institutions.[29] The familiar ties of coordination outweigh the risks or rewards of globalization for multinational firms:

> The presence of institutions that entrench the power of actors, whether employers or trade unions, give them strong incentives to cooperate with each other, and the availability of deliberative institutions facilitates coordination (Hall and Soskice 2001, 65).

Multinationals embedded in CMEs should not therefore be expected to undermine such institutions in favor of the *laissez-faire* approach of liberal market economies. Indeed, Hall and Soskice (2001, 65) claim that in the face of economic shocks, such firms will "attempt to sustain or restore the forms of coordination on which their comparative advantages have been built." Globalization—to the extent that it is driven by multinational or global firms—should stall among the CMEs. In these countries even large firms are deeply embedded in national systems of coordination, and therefore highly dependent upon state sovereignty.

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[29] The authors tend to discount the differences between larger or multinational firms on the one hand and smaller firms on the other. While noting that larger firms may have an exit option unavailable to smaller firms, and that this can have a negative impact on bargaining between smaller firms and labor, they nonetheless conclude that "effective coordination can be restored in most cases" (Hall and Soskice 2001, 65).

2.4.5. Evaluating the Internationalization Model

IM scholars have made important contributions to the international and comparative political economy literature. Most important among these is their attempt to subject globalization to rigorous (often quantitative) methodological examination. Quantitative studies by Garrett, Swank, and Crepaz have taken important steps toward updating the earlier work of Katzenstein and Cameron. These IM studies have found that as economic openness and international interconnectedness have increased, states have been able to compensate using fiscal policy tools, particularly social welfare spending. This would appear to confirm Katzenstein's thesis on domestic compensation in the small European states.

Despite this, there are a number of shortcomings in the *internationalization* model that make it unsuitable to be the "last word" on globalization. These shortcomings are examined below, again organized around the "four question" framework.

The most significant and fundamental shortcoming in the *internationalization* model is found in its definition and measurement of globalization. SM scholars argue that globalization is characterized by the ability of economic actors to transcend the existing political and regulatory boundaries of the state. IM scholars, while noting that these claims exist and often citing them as conventional wisdom, rarely test them in a systematic way. Instead, IM scholars emphasize the lack of hard evidence for such supranational claims as proof of the exaggeration of globalization in the literature.

Additionally, a subtle logical shift is often used to respond to supranational arguments. To evaluate supranational claims, IM studies measure globalization (read "supranationalization") in *international* terms. Claims about the ability of states to *transcend* national borders are assessed in *cross-border* terms. Particularly among quantitative studies, these cross-border findings are then applied back to the supranational hypotheses. This assumes, either implicitly or explicitly, that internationalization and supranationalization are the same thing. In a sense, this is like testing the performance of the latest race car by test-driving a broken-down jalopy.

Such a test, of course, would not be valid. In the same way, a test that generalizes from one globalization hypothesis to a competing hypothesis built on different assumptions is also invalid. A valid test of the "conventional wisdom" that IM scholars seek to falsify requires measures of supranationalization. IM scholars cannot discount a *supranational* globalization without comparing it side-by-side with their own *international* model.

I do not make this argument to claim that IM scholars are intellectually dishonest, or that they are deliberately playing an academic "shell game." Indeed SM scholars sometimes use international measures to capture their own supranational phenomenon. This is done because useful, systematic supranational measures do not exist. As Scholte (2000, 19-20) explains, the

> exact measurement of supraterritorial relations remains difficult, inasmuch as most social data (trade and investment flows, political participation, recreational activities, etc.) are collected in relation to national and other territorial units. We lack sufficient *global* statistics.

What is needed is a simultaneous test of both the *cross-border* and the *trans-border* hypotheses using measures of both internationalization and supranationalization. IM studies do not provide such a test. This is an important shortcoming in the *internationalization* model. Indeed, it calls into question the validity of IM measurements of globalization. Measurements may be considered valid when "the measurements [accurately] reflect what the investigator is trying to measure" (King, Keohane, and Verba 1994, 151). IM studies may not entirely capture the phenomenon of economic globalization using cross-border measures alone. The seriousness of such measurement error, however, can only be known by testing *both* concepts of globalization. The remaining problems with the internationalization model flow from this basic definitional problem.

A second shortcoming with the internationalization model concerns its treatment of the *origin* of globalization. As discussed above, IM scholars frequently use the terms "globalization" and “internationalization” interchangeably. This assumption underlies Hirst and Thompson’s claim that the current era of globalization is neither new nor more intense than past eras. Their findings are based upon measures of globalization expressed in *international* terms, such as international trade and foreign direct investment. Essentially, Hirst and Thompson find that cross-border economic activities have existed for a long time. This is not controversial: the long and cyclical nature of internationalization is a matter of historical record. Ties *between* countries have existed throughout history, and such ties have waxed or waned at different periods. The question is not whether internationalization exists (it does and has for a long time), but whether internationalization *is* globalization. If so, IM scholars are correct: globalization is nothing new, neither chronologically nor experientially. But this conclusion cannot be accepted without further consideration of supranationalization. As Scholte (2000, 94) argues:

> no vocabulary of ‘globalization’ was needed on previous occasions of internationalization, and the terminology of ‘international relations’ arguably remains quite sufficient to examine contemporary cross-border transactions and interlinkages. We should reserve the new word to designate something different.

Conflating globalization and internationalization weakens both methodological rigor and generalizability. Some IM scholars seem to acknowledge this by using the term “internationalization” exclusively.

An attempt to construct such data would therefore make an important contribution to the literature.

Another problem with the IM position on the origin of globalization involves claims about convergence. IM studies look for evidence that countries have converged in their fiscal, regulatory or industrial policies, and find that significant differences between countries still exist. This is taken as evidence of the exaggeration of globalization by less empirically-oriented scholars.

What is often overlooked is the theoretical assumptions that underlie this conclusion. Specifically, this perspective is based upon the implicit assumption that globalization itself is an "agentless" structure. In this vein it has been described as an "exogenous development" rather than a "conscious policy choice" (Garrett 1995, 663). If globalization is a structural force, it should impact countries uniformly. The fact that globalization has not led to convergence is taken as evidence that differences exist between national institutional systems. As light is refracted by a prism, so globalization is refracted by national institutions.

Undoubtedly, differences between national institutions *do* matter. But we must also question the assumption that while countries differ, globalization is uniform. If it is not—and therefore does not impact countries uniformly—then this too explains the lack of convergence. This in turn undermines the prediction that globalization necessarily leads to convergence.

A meteorological analogy illustrates the point: two people are exposed to rain. One gets only slightly wet while the other is drenched. What explains this difference in outcomes? One obvious answer might be that the first person had an umbrella while the second did not. In other words, a uniform structural input (the rain) lead to different outcomes due to institutional variation (presence or absence of umbrella). But there is at least one other possibility: perhaps the *amount* of rain to which our two subjects were exposed was variable. Thus even if *neither* had an umbrella, one might be drier than the other.

By the same token, if globalization is viewed not as a structure, but as the result of human *agency*, then the expectation that globalization should have a uniform impact must be abandoned. But if globalization is not an agentless structure as some IM studies seem to indicate, where does agency lie?

IM scholars frequently attribute the *agency* of globalization to the state itself, while downplaying the importance of multinational corporations. This presents two problems. Attributing agency to the state overlooks the possibility of unintended consequences of state action. Overlooking the potential agency of corporations dismisses a potentially significant area of globalization research.

States may indeed deserve much of the credit (or blame) for "creating" globalization, or at least for the underlying adjustment to the regulation of world markets. The idea that international agreements such as the Global Agreement on Tariffs and Trade (GATT) or the North American Free Trade Agreement (NAFTA) create or expand globalization is not without merit. The question for globalization researchers, however, is whether "creation" implies "control." Even if we accept the argument that states created or expanded globalization through international agreements such as GATT, it does not necessarily hold that globalization, once "unleashed," can again be constrained.

Globalization may turn out to be the proverbial genie in the bottle that, once let out, cannot be put back. At this point, of course, the empirical evidence probably cannot solve this question. We have seen no large scale retreat from internationalization, and the measurement of supranationalization, as discussed above, has proven problematic. Evidence for (or against) the state's ability to control or reduce globalization is therefore inconclusive. What *can* be said, however, is that simply asserting that states can control the phenomenon, as several IM scholars do, is unsatisfactory.

A second problem with the IM position on agency is the tendency to discount the role of multinational corporations. IM scholars rightly note that anecdotal evidence about such firms is an insufficient basis for the hypotheses of globalization "believers" (Sutcliffe and Glyn 2003; Pauly and Reich 1997). But aggregate—or in cases anecdotal—evidence discounting such hypotheses are equally insufficient. So too is the operationalization of MNC activities strictly in terms of trade or direct investment. Such measures may miss important aspects of supranational activity such as intrafirm trade, transfer pricing, and global production chains. What would seem to be needed is a more direct examination of the impact of MNCs on their "home" countries and states.

The varieties of capitalism literature argues that firms are embedded in domestic institutions, and thus (in the case of CMEs, at least) unlikely to be agents of globalization. This claim is also problematic. The literature often fails to adequately distinguish between globally-oriented firms and smaller, more domestically-oriented firms.[30] This is a potentially important distinction.

Katzenstein explains the cooperation of business in corporatist bargaining systems in terms of self-interest. Firms were ‘in the same boat’ as labor, and thus had incentive to cooperate as the best option available to allow them to compete in world markets (mainly through trade, rather than investment). If over time a significant number of these firms have become more global, with widely distributed assets allowing for more global operations, then such firms may have both an interest and a capacity to “disembed” from the corporatist system.[31] Simply put, it is not entirely clear whether such firms are *still* in the same boat. The IM literature does not directly answer this question; research is needed that does.

Finally, IM conclusions as to the *impact* of globalization on the economic sovereignty of the state must be questioned in light of the discussion presented above. Quantitative IM studies that find that globalization does not weaken state economic sovereignty measure globalization in international terms. It is assumed that the results of these studies also provide a valid test of supranational hypotheses about globalization. I contend that in order to evaluate the relative strength of international and supranational concepts of globalization, each must be treated as a separate variable, with potentially independent effects on sovereignty. The only conclusion that can be reached based on IM studies is that internationalization does not appear

[30] In the small European states, even smaller firms may be internationally-oriented (i.e., export-oriented). This does not necessarily mean that they are global firms (i.e., engaged in global production).
[31] Particularly interesting in this regard is the wave of mergers of CME firms with LME firms in recent years. Several of these firms (including Astra-Zeneca and Pharmacia) are included in this study.

to weaken the state's economic policy-making autonomy. But such claims about internationalization should not be generalized to supranationalization.

The *internationalization* model makes a significant contribution to the globalization literature. Most notably, IM studies attempt to subject questions about globalization to rigorous scientific examination based upon systematic empirical evidence. But the *internationalization* model cannot be the "last word" on globalization. This is because it defines and measures globalization in international terms. In doing so, it fails to evaluate *supranational* claims about globalization. No examination of the phenomenon can be complete if it does not account for the possibility that globalization involves the ability of economic actors not to *cross* borders more frequently or rapidly, but to actually "transcend" them. This is the central claim of the second perspective on globalization introduced at the beginning of the chapter: the *supranationalization* model (SM).

2.5. The *Supranationalization* Model of Globalization

The second perspective on economic globalization I examine in this chapter is the *supranationalization* model (SM) (Cerny 1994, 1995, 1996a, 1996b, 1997, 1998, 1999a, 1999b; Held 1999; Held and McGrew 1999, 2003; Huber and Stephens 1998; Moses 1994; Ross 2000; Scholte 1996, 1997, 2000, 2005; Strange 1986, 1988, 1992, 1995, 1996, 1998). Although there is overlap between what IM scholars would call the "conventional wisdom" of globalization and the *supranationalization* model, it is inaccurate to call the SM literature the conventional wisdom itself. Particularly in a scholarly sense, SM studies have been greatly outnumbered by their IM counterparts. In this section I examine the basic points of the SM perspective. As with my discussion of the IM perspective, the globalization framework introduced above is used, and summarized for the *supranationalization* model below in table 2-3.

2.5.1. The SM Definition of Globalization

As with the IM literature, the supranationalization model is built upon a distinct definition of globalization. This definition shares little in common with that of the internationalization model, resulting in a fundamentally different view of globalization itself. While SM scholars each adopt their own definitions, a common element is found in each: the view of globalization

Table 2-3: The Supranationalization Model of Globalization

Definition:	Globalization is defined as the transcendence of political and economic borders and jurisdictions. The mobility and exit option available to capital is emphasized.
Origin:	Internationalization is the historical antecedent of globalization, but globalization's most important features are unique to the late 20th and early 21st centuries.
Agency:	Globalization is driven by state influences, technological change, transnational corporations and the global finance.
Impact:	Increased mobility/exit option allows capital to pressure the state for concessions (lower taxes, fewer regulations, etc.), and generally weakens state sovereignty. Increased potential for a "race to the bottom," particularly in social welfare policy.

not as an *international* force, but as a *supranational* one. For SM scholars, globalization is not the crossing of borders, but the capacity to transcend borders. This is of course an odd-sounding proposition in a world used to the nation-state as the organizing unit of world politics and economics. Several examples help to illustrate the concept.

David Held and Anthony McGrew offer an illustrative example of a supranational definition. For these scholars, globalization is

> a process (or set of processes) that embodies a transformation in the spatial organization of social relations and transactions, generating transcontinental or interregional flows and networks of activity, interaction and power (Held and McGrew 1999, 7).

This transformation includes “a stretching of social, political, and economic activities,” an intensification of “flows of trade, investment, finance,” a “speeding up of global interactions and processes,” and a blurring of “boundaries between domestic matters and global affairs” (Held and McGrew, 1999, 2).

The crux of these transformations is what Held and McGrew refer to as the “deterritorialization” of politics and economics. Increasingly, the *location* of actors, and their political-geographic context, is of diminishing importance to the actors themselves, as well as to social scientists seeking to understand the contemporary world. From a social science perspective, a new dimension has emerged: just as one could not completely comprehend a cube by examining it in only two dimensions, one cannot understand modern political economy by examining it only in its domestic and international dimensions. A third supranational dimension, transcending state borders, must be examined as well.

Philip Cerny offers a different definition, but one built on the same fundamental understanding of globalization as a transnational phenomenon. Cerny (1995, 596) defines globalization as

> a set of economic and political structures and processes derived from the changing character of the goods and assets that comprise the base of the international political economy—in particular, the increasing structural differentiation of those goods and assets.

Globalization involves a divergence of the production, exchange and use of goods and assets from the scale of the nation-state to the global scale (Cerny 1995, 597). Significant elements of the national economy are “escaping” the nation—not into other nation-states, but into systems of production and economic strategies that are global in scope, and which are not primarily oriented to or constrained by national borders. Specifically, Cerny (1995, 609-610) points to the setting of tax and interest rates in globalized marketplaces, the increasing ease with which legal rules can be evaded, and the ability of market actors to use transnational policy networking.

Susan Strange (1996, xiii) resists the term "globalization," calling it the worst of "a string of vague and woolly words, freely bandied about in the literature…whose precise meaning is seldom if ever clearly defined." Strange complains that the term itself can "refer to anything from the Internet to a hamburger." Despite its definitional problems, Strange (1997, 365) argues that globalization changes things on several levels:

> - Instead of goods and services being predominantly produced by and for people living in the territory of a state, they are now increasingly produced by people in several states, for a world market instead of a local market;
>
> - [G]lobalization involves changes in the financial structure—the system by which credit is created to finance production and trade in goods and services. Where once the creation and use of credit mostly took place within the societies of territorial states, it now takes place across territorial frontiers, in global markets electronically linked into a single system.

Again, these concepts embody a transformation of political and economic geography. The centrality and power of the state has diminished as actors increasingly exist and act on a global scale.

The most extensive examination of globalization in supranational terms is found in the work of Jan Aart Scholte. Scholte shares the SM emphasis on globalization's power to reorganize geographic relationships, describing globalization as a spread of "supraterritoriality." Geography continues, but "place" is no longer territorially fixed in the case of global transactions:

> Phenomena like Coca-Cola and faxes 'touch down' at territorial locations, but they are also global in the sense that they can extend anywhere in the world at the same time and can unite locations anywhere in effectively no time. The geography of, for instance, Visa credit cards and world service broadcasts has little to do with territorial distances, and these *transborder* flows—that is, relations that transcend territorial frontiers—largely escape controls at state boundaries (Scholte 2000, 48).

While providing extensive descriptions of globalization, SM scholars are less far-reaching with their measurements of the phenomenon. Frequently their attempts to do so do not extend very far beyond the admission that the measurement of globalization is quite difficult (Strange 1997, 365). Those that do often return to systematic measurements that are quite familiar, such as levels of international trade or foreign direct investment. Others emphasize more anecdotal measurements, such as the number of multinational corporations in existence or the creation of the European Monetary Union.

An interesting dichotomy exists between the two types of measures. The more systematic measures discussed above are of course more "tangible;" more conducive to both longitudinal observation and reliable quantification. They are also—as I discussed earlier in the chapter and will revisit, both below and in the next chapter—*international* measures, designed to capture cross-border phenomena. Conversely, the more anecdotal measures come much closer to the *trans*-border concepts SM scholars seek. Unfortunately, the availability and reliability of such measures are very uncertain.

2.5.2. The SM Origin of Globalization

It should not be surprising that SM scholars have strongly contested IM arguments that globalization is a myth or exaggeration. Researchers in the IM tradition, defining globalization as *internationalization*, do not see what the globalization "excitement" is all about, and see little evidence of globalization itself. SM scholars, defining globalization as *supranationalization*, do not see how anyone can miss it. Indeed, SM scholars have answered their IM critics by questioning both their methods and their biases.[32]

[32] Scholte, for example, emphasize that globalization is a process rather than an end-state. Taking a "snapshot" of globalization therefore misses the change occurring over time. Scholte (1997, 93) notes that "we live in a globaliz*ing* rather than a completely globaliz*ed* condition." See also Cerny (1999, 93). Strange argues that IM scholars (especially IR neorealists) are wedded to the centrality of the state in political science. As such, they cannot or will not consider the emergence of alternative or rival actors on the world stage. Indeed, Strange implies that these authors are professionally threatened by globalization: "Like a stag at bay, the professor of international relations is apt to turn and hurl defiance at those who would bring him down…I have little sympathy with those who deny the reality of globalization and cling to an obsolescing paradigm." (Strange 1997, 366)

Substantively, SM scholars have argued that “although it is hard to measure the process of globalization, it is no myth” (Strange 1997, 365). While several aspects of globalization are traced to historical antecedents, SM scholars emphasize that the most important and dramatic features of globalization are fairly new, having arisen only in the past several decades, and are both qualitatively and quantitatively distinct from past *international* connections (Held 1999; Scholte 2000, 62-88).

Examples of globalization, conceived in this way, are numerous, but several of the most frequently noted illustrate the point. The globalization of *communications*, for example, is frequently cited by SM scholars as a new and distinct feature of globalization. In this regard, electronic communications systems, from satellite-enabled telephones and television to the internet, allow instant communication and coordination without regard to distance. This is qualitatively different from the past, as it allows people to transcend rather than merely cross borders (an intercontinental telephone conversation, for example, can occur as easily and swiftly as an intercity call). It is also quantitatively different, in terms of the dramatic increase in the volume and rapidity of such communications (Scholte 2000, 86).

The transformation of the nature of *money and finance* from mainly territorial to mainly supranational is also frequently cited. Economic transactions and financial reserves no longer need be denominated in one’s own national currency. Instead, almost any currency may be used and may also be instantly changed. SM scholars note the rise of a supranational currency, the euro, which is beyond the control of any single national monetary authority. The size and speed of world financial flows is also frequently cited. Held and McGrew (1999, 23), for example, note:

> Daily turnover on the foreign exchange markets exceeds $1.5 trillion, and billions of dollars of financial assets are traded globally, particularly through derivative products…Transactions are almost instantaneous with twenty-four hour global financial markets. Where once international financial markets operated to finance trade and long-term investment, much of the activity is now speculative.

On a smaller scale, the same sorts of transformations have occurred in personal finance. Thus "bank passes allow the holder to extract money anywhere at anytime from ATMs" (Scholte 2000, 79). Such transactions also allow funds denominated in one currency by a bank to be instantly extracted in another currency. Once again, these differences are considered qualitatively different in scope and quantitatively different in volume.

The globalization of *firms and production* is a third favorite of SM scholars who wish to illustrate what's "new" about globalization. Frequently cited is the dramatic increase in the sheer number of transnational corporations (Held and McGrew 1999; Ross 2000; Scholte 2000, 2005; Strange 1996).[33] SM scholars cite the creation of global production chains, in which a product may consist of components assembled from a wide variety of locations spread throughout the world, and directed centrally by one firm. Also frequently noted are recent increases in transnational mergers and acquisitions, creating firms without a single clear nationality: the company ABB, for instance, is the product of a merger between Sweden's ASEA and Switzerland's BBC Brown Boveri.

Once again, emphasis is placed upon the qualitative, *supranational* character of these transformations, as well as the quantitative increases in volume and speed. Based on such examples, SM scholars conclude that globalization is both real and new.

2.5.3. The SM: Agency and Globalization

The supranational literature offers an account of the *agency* of globalization that differs significantly from the internationalization model. SM scholars point to four agents of

[33] Held and McGrew, for example, note that by "1997 there were 53,000 multinational corporations worldwide with 450,000 foreign subsidiaries selling $9.5 trillion of goods and services across the globe." The authors cite estimates that these firms account for "at least 20 percent of world production and 70 percent of world trade."

globalization of varying importance. These are the state itself, technological innovation, transnational corporations, and global investors. I examine each of these below.

Like IM studies, SM scholars point to the state as an important agent of globalization. States have promoted and enabled private firms to compete in international and global markets. They have provided the framework for economic liberalization—through agreements such as GATT, NAFTA, or the European Union's Common Market—that has allowed economic globalization to expand. Frequently, states have been responsible for promoting important technical standards that facilitate the creation and maintenance of global economic interactions.[34]

Unlike IM accounts of the role of the state in globalization, the SM literature contends that creation does not necessarily imply control. While states may have played a role in creating and promoting globalization, "this does not mean that, once the genie is out of the bottle, globalization is reversible;" indeed, in promoting globalization "states may be irretrievably undermining their own autonomy and policy capacity" (Cerny 1999, 5).

A second agent of globalization is technology. Most basically, technology enables and allows transborder operations to be practical. Global businesses, for example, must be able to coordinate production, sales and marketing activities around the world. Such coordination relies on communications and transportation technology (Scholte 2000, 99-100).[35]

Technological innovation not only facilitates globalization, but creates supraterritoriality itself: consider the well-known example of a programmer in India writing computer code for a company in the United States, and interacting with his employer and co-workers via the internet. Where is the activity is taking place? It occurs instantaneously, but not in a (single), real place.

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[34] These include the establishment of international standards of weights and measures, time-keeping, aviation, postal service and the like, particularly via international organizations created (often by states) for these purposes. For an examination of such efforts at standardization and regulation, see Scholte (2000, 101-105).

[35] Scholte notes that such technological innovations not only facilitate global economies of scale for corporations, but are themselves sources of profit for such firms. Thus telephone systems or the internet may make global coordination possible, but they also are lucrative business opportunities.

Susan Strange (1995, 58-59) offers another, more nuanced account of technology as a driving force of globalization. Advances in science and technology, she argues, increase capital costs to businesses, particularly in the form of research and development. The need for more capital investment, in turn, drives firms to seek larger markets in order to increase profits. Thus global sales become increasingly important to firms. Simultaneously, the need for increased profits to finance the costs of technological innovation (which are themselves required to maximize profits) encourages firms to seek more efficient systems of production, eventually leading not simply to global sales, but to global production.

Companies are a third agent of globalization recognized by the SM perspective. While IM research minimizes the significance of "transnational corporations," SM studies stress the importance of these companies as a driving force of globalization.

Differences in terminology between IM and SM research are more than just semantic. IM scholars label such firms "multinational corporations" to indicate that while they may operate in multiple countries around the world, they are politically, institutionally and economically grounded in a home country. Thus, for example, IM scholars would view General Motors as an *American* company with operations in many other countries.

SM scholars view these firms very differently. For SM scholars these firms are not "multinational" but "transnational," reflecting the SM understanding of such companies as unbounded by borders or national loyalties. Transnational corporations operate on a global scale. This is reflected in production, markets, and business strategy: these firms produce globally, sell globally, and conceptualize their interests in global terms. Transnational corporations do not simply participate in multiple *national* economies, but create a *supranational* economic space within which to operate.

Most importantly for SM scholars, transnational corporations help to expand global—as opposed to national—markets. They promote innovations like supraterritorial accounting, allowing balance sheets to be manipulated such that borders need not limit the financial interests of a firm. Transnational corporations establish, maintain and expand global production chains, facilitate capital mobility, and drive much of world trade and investment.[36]

The spread of global markets and production is not only facilitated by transnational corporations, but also by the fourth agent of globalization cited in the SM literature: global investors. Strange's explanation of the role of technological innovation in globalization assumes firms must expand capital investment in order to keep pace with competitors in world markets. While this may be done through reinvestment of corporate profits, expansion of the number and range of stockholders is also pursued. Firms from small countries (like the small European states, for instance) cannot compete in world markets relying solely upon investors from their "home" country. They must seek investors worldwide. SM scholars contend that such investors, again facilitated by technological innovations, exist in the contemporary world economy in unprecedented numbers:

> electronic communications have enabled investors and dealers instantly to transmit and execute orders to buy and sell securities—in principle anywhere in the world. Moreover, since 1985 a number of stock exchanges have established transborder electronic links between them (Scholte 2005, 81).

2.5.4. The SM: Impact of Globalization on the State

Given the differences between the IM and SM views of globalization presented thus far, it is not surprising that SM conclusions about the *impact* of globalization on the state differ fundamentally from their IM counterparts. SM research concludes that globalization has weakened the state by reducing its sovereignty and its primacy in world politics. Strange (1995, 57) offers a representative example:

> I am not arguing that states themselves are obsolete. Collectively they are still the most influential and therefore critical sources of authority in the world system. But they are increasingly becoming hollow, or defective, institutions. To outward appearances unchanged, the inner core of their authority in society and over

[36] See UNCTAD's *Trade and Development Report* and *World Investment Report* (various years).

> economic transactions within their defined territorial borders is seriously impaired. They are like old trees, hollow in the middle, showing signs of weakness and vulnerability to storm, drought, or disease, yet continuing to grow leaves, new shoots, and branches.

SM scholars write of the erosion or retreat of the state. Globalization leads to the defective state, the residual state or the competition state, or the post-sovereign state. Each of these descriptions seeks to capture the basic SM contention that as globalization increases, the sovereignty of the state decreases. What is the mechanism by which this weakening of the state occurs?

SM scholars point to two processes. First, the mobility of capital relative to the territorially fixed regulatory authority of the state allows capital to “exit” when the state’s exercise of that authority becomes overly burdensome (as defined by capital itself). Second, the rise of transnational corporations has ended the centrality of states in world politics, making them now only one type of actor among several others in world politics.

For SM scholars, the most fundamental mechanism by which globalization weakens state sovereignty is the mobility of global capital. Both fixed physical assets (controlled by transnational corporations) and capital investments (made by global investors) are potentially mobile, and likely to become actively mobile if the state does not satisfy the requirements or preferences of capital. Here SM scholars borrow Hirschman’s (1970) concept of an “exit option” to explain the threat of capital withdrawal that transnational corporations and investors hold over the state. This is assumed to encourage state policies to appease global capital.

SM research argues that transnational corporations have attained sufficient size and power in their operations to be able to redeploy their assets relatively quickly and easily. A firm may relocate a factory from one country to another, or choose any number of sites around the world to locate—or relocate—new production lines.

While national borders may not be an impediment to the mobility of transnational corporations, conditions *within* borders may be central to the decisions of firms to exercise their exit option. SM scholars acknowledge that states retain the formal authority to exercise sovereignty in the form of regulatory or industrial policy and tax and social welfare regimes.

Transnational corporations, however, are no longer obliged to submit to such controls. If taxation, regulation or welfare requirements are not to the firm's liking, the firm can exit, relocating the necessary segments of their operations to countries with less burdensome conditions. Even without taking such drastic steps, firms can use transfer pricing and other accounting techniques to withhold tax revenue from offending states. Thus "profits that have in practice been achieved, for example, in Italy can be made to appear on the balance sheet of a Luxembourg subsidiary with offshore taxation status." (Scholte 2005, 97).

Faced with such corporate capacities, states often have little choice but to acquiesce to the demands of global firms. Thus "even where contemporary states are legally entitled to do so, they have been quite unable singularly and fully to control the global spaces which affect their jurisdictions" (Scholte 2005, 136). Simply put, firms are mobile while states are not, and thus states must cater to firms or risk losing important contributors to their national economy.

The exit option available to global investors is even more immediate and sensitive. If it is relatively easy for firms to redeploy their direct investments (such as factories and equipment) from one country to another, the ease with which global investors may redeploy their portfolio investment is considerably greater. Where a firm may threaten to exit in response to increased taxation, for instance, global investors, with only a few electronic keystrokes, can instantaneously exit at the mere *rumor* of a tax increase.

Governments must therefore consider the impact of any economic policy, from taxation to social security investments, on capital account balances and exchange rates. These constraints, SM scholars argue, greatly limit state sovereignty: "Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of states" (Strange 1996, 4). Scholars including Philip Cerny (1995) and Robert Reich (1991) view what Cerny labels the "competition state" as the result. States essentially become chambers of commerce, doing their best to lure “footloose” capital to their country.

Such conditions have led several SM researchers—particularly those scholars of international relations—to a second conclusion about the impact of globalization on the state: namely, that transnational corporations, investors, and other actors now rival states themselves in power and importance. Where states were once the only entities capable of acting on the world stage, today they must share the stage with autonomous global economic actors with their own interests and their own “sovereignty,” enabling them to pursue these interests:

> Impersonal forces of world markets, integrated over the post-war period more by private enterprises in finance, industry and trade than by the cooperative decisions of governments, are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong (Strange 1996, 4).

Similarly, Cerny (1995, 620) contends that while world politics is still structurally anarchic in the IR tradition, the “structural composition of that anarchy” has shifted from one consisting of sovereign states to one consisting of states, firms, and both supranational and subnational institutions, among others.

2.5.5. Evaluating the Supranationalization Model

Like the *internationalization* model, the supranationalization model makes several important contributions to the globalization literature. Foremost among these is the SM focus upon globalization as a phenomenon distinct from internationalization. If globalization does indeed have the dramatic impact on politics and society that some predict, it is important to study the phenomenon. But many scholars dismiss globalization by “conceptualizing it away.” This is the weakness of the IM: it defines, measures and evaluates globalization in purely international terms. This leaves no room to examine if anything new is going on.

The SM perspective avoids this problem. By defining globalization in supranational terms, and distinguishing supranational *globalization* and *internationalization* as distinct phenomena, it opens the study of globalization to the possibility that something new and different is occurring, rather than cut off such examination by definition.

As I emphasize above, this does *not* imply that SM arguments are correct and IM arguments are incorrect. It may well be that, as IM scholars contend, internationalization is really all there is; that globalization is a matter of an increase in the intensity of an old phenomenon rather than a new one altogether. The point here is that the questions about globalization presented in this chapter require empirical testing to answer. SM scholars, unlike their IM counterparts, offer the prospect for simultaneous testing.

While this is an important contribution, the supranationalization model is also unsuitable to be the "last word" on globalization. The weaknesses of the SM perspective are in many ways the mirror images of those found in the IM literature. IM studies suffer from inadequate definition, though they operationalize their definition well, and subject their hypothesis to otherwise robust testing. Conversely, SM studies offer a relatively robust definition of globalization, but suffer from lack of systematic measurement and inadequate testing.

SM studies face their most serious and fundamental problem not in the *definition* of globalization, but in its operationalization. SM scholarship offers solid definitions of globalization. Of particular note here is the work of Jan Aart Scholte (2000, 2005), whose comprehensive studies provide the most solid and useful elaboration of globalization as a supranational phenomenon. Unfortunately, Scholte's research offers only uneven or anecdotal measurements for the phenomenon. Unlike IM studies, which point to well-established measures such as international trade and foreign direct investment to operationalize globalization (that is, *internationalization*), the SM literature can provide no systematic measures of globalization (that is, *supranationalization*).

This shortcoming is the result of the difficulty inherent in the measurement of supraterritoriality, and because data is collected primarily in national or international terms. Strange (1996, 3) brushes the problem aside this way:

> the perceptions of ordinary citizens are more to be trusted than the pretensions of national leaders and of the bureaucracies who serve them; that the commonsense of common people is a better guide to understanding than most of the academic theories being taught in universities.

While it is easy to sympathize with such academic populism, social science is still *science*, and requires carefully operationalized variables. What is needed is a new measure that more closely operationalizes and tests the sorts of common perceptions Strange cites without sacrificing the precision that social science requires.

This measurement problem also affects SM arguments about the *origin* of globalization. SM scholars point to changes in recent decades in communications, finance and production to support their argument that globalization is both a new and unique phenomenon. Measurements to support these claims, however, remain relatively thin and largely anecdotal. More importantly, these measures do not allow us to examine the existence or intensity of globalization in particular places at particular times. This is one of the greatest challenges when studying supranationalization: it is necessary not just to measure “statelessness” (a dilemma in itself) but the intensity or effect of such “statelessness” on *states*.

SM arguments about the *agency* of globalization offer an incomplete account of the role of corporations, again due to basic problems of measurement. SM scholars, as I note above, frequently cite the number of transnational corporations and/or their aggregate turnover or share of world trade to emphasize the growing power and influence of such firms. The data itself rests on fairly reliable measurements taken by the United Nations Conference on Trade and Development (UNCTAD).

While such measures may be reliable, they are not necessarily valid. SM scholars often overlook the reality that all transnational corporations are not equal, either in size or mobility. A “large” firm and a “global” firm are not necessarily the same thing. A firm may be large without being global, and a firm may be considered transnational without being particularly large.

The definition of a transnational corporation used by UNCTAD allows any firm with 10% equity in at least one foreign subsidiary to be considered a transnational corporation. As Sutcliffe and Glyn note, “a company with only one marketing subsidiary of which it owns only 10 percent of the equity is regarded as a multinational” (Sutcliffe and Glyn 1999, 122). Such a firm is clearly different than, for example, General Motors or Royal Dutch/Shell. But like GM or Shell, it would be considered a transnational corporations under the UNCTAD definition. SM scholars frequently cite the growing number of transnational corporations to indicate their growing power and influence. Such a conclusion may not be warranted if a significant amount of growth in the number of firms is accounted for by relatively small (and mostly domestic) companies.

If significant variation in size exists among transnational corporations, and the resources of these firms vary accordingly, it is reasonable to assume that the mobility of such corporations is highly variable as well. Some (truly) global corporations may have the capacity to redeploy their physical assets relatively easily. Nominally global firms that are much smaller may not have such an option available to them. SM studies fail to account for such differences among transnational corporations. I examine the problem of measuring and assessing mobility in more detail below, and in the following chapter. With regard to agency, however, a more sensitive measure of global corporations is clearly needed than is provided by SM research.

The most glaring weakness in the supranationalization model regards its treatment of the *impact* of globalization on the state. Here again, the weakness is attributable to a lack of systematic evidence regarding globalization.

SM scholars emphasize the role of capital mobility in weakening state sovereignty. Simply put, the exit option of supranational capital requires states to cater to capital. This is a provocative, highly significant argument worthy of careful and detailed consideration. Proper consideration, however, is made more difficult by two problems. These are the lack of a precise measurement of the mobility of such capital, and what I call the “touch-down” problem.

The first problem involves the measurement of capital mobility itself. SM scholars imply that the larger the size of a transnational corporation, the greater the firm's capacity to relocate its assets. Greater mobility in turn allows firms to exact concessions from states, thus weakening the economic sovereign the state. Case studies of specific state-firm interactions are occasionally offered to support this hypothesis. These are important, but generalization from individual cases to broad patterns of activity are problematic. Unfortunately, the SM literature can offer no broad evidence that mobility actually weakens sovereignty. To do so would require more systematic measurement of both mobility *and* sovereignty.

Additionally, SM accounts of capital mobility may overly simplify the interests of capital by assuming that low taxation and low wages are the highest priority for all firms. Some firms, particularly in those sectors which require a highly skilled workforce, may be willing to accept higher wages in return for higher skills. SM studies have not yet offered convincing response to this critique.

Another underspecified matter is the "relativity" of the exit option available to capital, which I alluded to in the discussion of agency above. A company that has not yet achieved a sufficiently global of scale operations—i.e., whose assets are relatively concentrated in one or few countries—may find exit too costly or impractical. Conversely, a country faced with a threat of exit from a firm whose impact on the national economy is relatively small may decide that the impact of exit is insufficient to justify any modification of the policies that instigated the threat (Strange 1998, 368). A systematic model that captures the range of potential power relationships between business and the state, at the level of both the individual firm and the national economy, is needed, but as yet is unavailable.

This leads to the second problem: the "touch-down" problem, which I discussed in the previous chapter. Recall Scholte's (2000, 48) description of globalization phenomena which "'touch down' at territorial locations, but they are also global in the sense that they can extend anywhere in the world at the same time." The implication is that supranational actors, processes and activities intersect and interact with national states and local economies, and thereby tie the "national" to the "supranational." I believe such interactions are central to an understanding of the impact of globalization on the state. The question becomes one of measuring the interaction of the supranational and the national. This is a significant challenge, since simply measuring supranational phenomena alone is so difficult.

Put another way, the objective here is to measure the impact of globalization when it "touches down" at a particular (national) place and time. Globalization can be likened to the touch-down of a tornado or the land-fall of a hurricane—meteorological phenomena that affect the territories of states, but are themselves "stateless". The best known measurements for such storms focus not simply on the size and strength of the storm itself, but upon their effect on territory. When we are told the strength of a hurricane when it makes landfall, we are interested not primarily in the storm, but in its impact on the communities in its path.

The same can be said of the supranational model of globalization. What is necessary is not simply a measure of the "stateless" phenomenon of globalization, but one that captures its "touch down;" the impact of globalization on a specific local economy at a specific time. Such interactions are difficult to measure, but they are absolutely necessary to evaluate SM claims about the impact of globalization on the state.

2.6. Conclusions

This chapter began with the examination of Katzenstein's study of the small European states, and discussed the rationale for revisiting Katzenstein's findings in light of several decades of scholarship on economic globalization. Two theoretical perspectives on globalization were then examined in detail. Applying the assumptions of the internationalization model to Katzenstein leads one to predict that globalization—that is, *internationalization*—has done little in recent decades to weaken the economic sovereignty of the small European states. These states are specifically adapted to thrive despite the vulnerabilities associated with their exposure to internationalization. Claims that globalization is a new and supranational phenomenon are, from the IM perspective, simply an exaggeration.

Applying the assumptions of the supranationalization model leads to very different predictions. The SM perspective predicts that globalization—that is, *supranationalization*—is a new and different phenomenon to which even the small European states are vulnerable. This is because the corporatist systems of these states has relied upon territorial jurisdictions which capital has today transcended.

In sum, the IM perspective accepts the continued validity of Katzenstein's findings, while the SM perspective does not. But neither model is entirely convincing. The IM approach fails to account for the potentially independent effect of supranationalization. The SM perspective acknowledges the two as separate phenomena, but fails to systematically measure its own "horse" in the race: supranationalization.

What is needed is a simultaneous test of the effect of both internationalization and supranationalization on national economic sovereignty. Such a test must include a clear and systematic measure of supranationalization to match those of internationalization which already exist. This measurement must address the challenges discussed in this chapter, including the recognition that corporate size, "globality" and potential for capital mobility vary greatly. It must also clearly measure economic sovereignty in a manner consistent with Katzenstein's understanding. Finally, a solution to the "touch down" problem must be achieved: it must be possible not simply to measure globalization as a "stateless" or trans-border phenomenon, but to measure its intersection with territorial economies at the state level.

The next two chapters take up these challenges. Chapter three presents a theory of globalization that builds upon both the theoretical insights of the supranationalization model and the quantitative design of the internationalization model. Chapter four then presents a research design intended to test the theoretical predictions of chapter three.

CHAPTER 3

THEORETICAL FRAMEWORK

In the previous chapter I examined the two dominant perspectives in the economic globalization literature: the *internationalization* model (IM) and the *supranationalization* model (SM). While both make important contributions to the understanding of globalization, neither is sufficient to serve as the “last word” on the phenomenon or its impact on national economic sovereignty. A new approach is needed which incorporates the methodological strengths of the *internationalization* model and the conceptual insights of the *supranationalization* model. This chapter offers such an approach.

The chapter is divided into six sections. The first section summarizes the literature using the four question framework adopted in chapter two. Section two offers a new definition of economic globalization. This definition borrows from the SM description of the phenomenon by recognizing globalization as the *transcendence* of national borders. While I try to observe the cautions offered by IM scholars about being “carried away” by this too frequently imprecise concept, I argue that the IM definition—globalization as internationalization—is best treated as a separate thesis describing a related but distinct phenomenon.

Section three examines the origin of globalization. While IM scholars view globalization as a cyclical, state-driven (and controlled) phenomenon, and SM scholars often present it as a complete departure from past economic systems, I argue that globalization is best understood as exhibiting both continuity and change. As suggested by the former, globalization has historical antecedents which shape and inform current patterns of globalization. But globalization as defined here also represents a break with historical patterns, particularly in the organization, independence, and capacities of new economic actors on the world stage.

Section four examines the issue of agency and globalization. Along with definition, the question of agency is at the heart of the globalization debate: if states are the primary agents of globalization, as many IM scholars argue, then by definition globalization cannot threaten state sovereignty. If globalization is an "agentless" structural phenomenon, as both IM and SM studies sometimes imply, then the lack of evidence for a global political-economic convergence may indicate the limited importance of globalization. However, if large corporations which control the world economy drive globalization, as many SM scholars claim, the state may be done for.

Rather than accept these perspectives, I offer an alternative: the agents of globalization are what I call *global economic actors* (GEAs) which, in pursuit of their economic ends, are capable of employing global means with minimal (or at least significantly reduced) geopolitical constraint. While this idea is clearly different from the more statist IM perspective, it also differs significantly from SM studies. SM scholars tend to overlook the crucial difference between *large* economic actors (particularly corporations) on the one hand and both *international* and *global* ones on the other. They also tend to assume that capital mobility is uniform among all such actors. Section three explains how my approach differs from the SM, and also examines how and why GEAs pursue their goals globally.

Section five presents a theoretical model of the impact of globalization on the state, and in particular on economic sovereignty. Contrary to traditional views of production which assume global operations to be a fairly rare by-product of other profit-seeking considerations, I argue that global economic actors globalize to achieve advantages which derive from global status.

This point deserves particular emphasis. Borrowing from pioneering research in applied economics and international business, I explore why GEAs "go global." Here the work of Grazia Ietto-Gillies on the intrinsic *advantages of global operations* is instructive. Ietto-Gillies argues that the geographic dispersion of the manufacturing and other productive capacities of firms increases their bargaining power relative to labor, suppliers and—especially—states. It is this “leverage,” derived from tools available to these actors such as transfer pricing via intrafirm trade and capital mobility, which has the potential to reduce the economic sovereignty of states.

Unlike many SM studies, however, this does not lead me to the conclusion that the state is doomed, or trapped in an inescapable “race to the bottom.” But neither do I dismiss this argument using familiar IM arguments. I argue that the leverage of GEAs relative to states is variable. Indeed, in some cases states may have the leverage, and with it the ability to extract concessions from GEAs. Rather than predicting the definite end of the state, this leads me to predict the possible end of the *hegemony* of the state as the only actor on the world stage. This conclusion has been reached before in the globalization literature (Cerny 1995, 1996; Strange 1995, 1996, 1997). Nevertheless, I believe the method by which I arrive upon it makes an important contribution to the literature. To fully elaborate this model, I examine both the components of leverage mentioned above and the varying approaches to the concept of sovereignty itself.

Section six then sums up the theoretical model constructed in this chapter and looks ahead to the more empirical application of this theory to the real world experiences of the small European states. Table 3-1 presents a summary of the main points of the chapter using the four-part framework I presented in chapter two. After a brief review of my main findings from chapter two, I turn to the first of those four parts: the definition of globalization.

3.1. Existing Models of Globalization: A Review

The previous chapter examined the shortcomings of both the IM and SM perspectives on globalization. A brief review of these problems is in order before proceeding to an examination of the corrections proposed in the balance of this chapter.

I begin with the *internationalization* model. The most important problem with the IM is that it dismisses the possibility of a supranational aspect of globalization out of hand. IM scholars define globalization in strictly international terms. Arguments that globalization involves the transcendence—and not simply the crossing—of borders are discounted because of a lack of systematic evidence. While this may seem to be a reasonable conclusion, a more thorough one would be to attempt to test the international and supranational hypotheses side by side. IM studies do not do this. Instead, the distinction is glossed over when IM scholars use the terms “globalization” and “internationalization” interchangeably. This prematurely forecloses any possibility that globalization may be a more complex phenomenon.

Table 3-1: Theoretical Model

Definition:	Globalization is defined an increase in the number and significance of economic actors that define interests and employ strategies that are subject to increasingly limited geopolitical constraints.
Origin:	In the past half-century, cross-border economic activities have increasingly been transformed into supranational ones. This is the result of the capitalist profit motive, combined with the actualizing impact of technological innovation.
Agency:	Globalization is the result of actions taken by global economic actors (GEA), which operate globally with managerial control over their subsidiary units to make a profit. GEA “go global” to create advantages of global operations relative to labor, suppliers and the state.
Impact:	Globalization can lead to firms exercising leverage over labor, suppliers and the state. Leverage over state when firm is highly global, and country is reliant on firm’s contribution to the economy.

IM scholars are also too quick to dismiss non-state actors as agents of globalization. While correctly noting that anecdotal evidence provided by SM studies is inadequate to establish the importance of such actors, IM scholars go too far in the other direction, dismissing without in-depth analysis the possibility that such global actors may be significant. For example, Hirst and Thompson’s (1996) argument that there are probably only a few truly global corporations should not be an invitation to ignore these enterprises, but to further examine them. This is not done.

In light of these problems the IM conclusion that globalization does not weaken economic sovereignty must be questioned. The *internationalization* model argues that increases in cross-border economic activity between essentially national economic actors does not weaken national sovereignty. But what of interactions between national economies and truly global economic actors? Do such actors really exist? If so, what has been their impact on sovereignty, and how can this impact be measured? The IM cannot tell us, to its detriment.

The *supranationalization* model *does* answer these questions. From the SM perspective, global economic actors are real, significant, and have a negative impact on state sovereignty. But where IM studies construct rigorous test which simply leave out a potentially important variable (supranationalization), SM studies include the variable, but not the rigorous tests. SM scholarship asks if something new is going on and finds that it is: globalization is a relatively new, supranational phenomenon in which global economic actors transcend borders and operate statelessly on a global scale.

But SM studies have not found a way to measure or test this concept of globalization in a satisfactory way. While the IM can point to international trade and foreign direct investment as concrete measures of globalization, the SM can offer no such measures to operationalize its supranational concept. Indeed, they sometimes offer the very same measurements to support their very different conclusions. Without useful supranational measurements, SM arguments regarding the existence of globalization remain weak.

From the SM perspective, the driving force behind globalization are multinational (or "transnational" or "global") corporations. But the SM view of such firms is the mirror image of the IM: where IM studies are too dismissive, SM studies are often insufficiently critical. Distinctions between firms that are global and those that are simply large are rarely made. All such firms are assumed to be highly global and by extension highly mobile, able to enter and exit local economies with little or no significant cost. States must respect this mobility, and make concessions in order to attract and retain investment. How valid is this assumption? How many large firms are global? How many can credibly threaten to relocate their productive capacity from one country to another, and can the credibility of such a threat be measured and evaluated? The SM cannot answer these questions, thus reliable measures of capital mobility are not provided.

This in turn undermines the SM conclusion that globalization weakens national economic sovereignty. Too often such conclusions rest upon anecdotal evidence, or are simply taken as articles of faith. Without a measure of the effect of global capital on national economies, such conclusions cannot be accepted with very much confidence. In this chapter I attempt to construct an alternative to the supranationalization model which builds on its insights but can be empirically measured and evaluated. To do this, we must first define globalization. That is the purpose of the next section.

3.2. Defining Globalization

I now return to a question which occupies a substantial portion of chapter two: how is economic globalization to be defined? As the previous chapter discusses in detail, IM definitions of globalization, while fairly precise, tend to be redundant. By defining globalization as *internationalization*, questions about globalization are simply answered as a matter of course. It is by definition an old, well-understood phenomenon that poses little challenge to state sovereignty.

SM definitions of globalization emphasize the *transnational* rather than *international* nature of the phenomenon. Such definitions are much more theoretically useful, as they allow researchers to explore *change* in political economy. Whether or not globalization actually poses a significant challenge to state sovereignty, SM definitions at least allow us to pose the question without limiting the answer by definition. What is lacking is methodological precision. The idea that global actors are capable of transcending—rather than simply crossing—borders is not one that is easy to operationalize in practical, definite terms. The challenge, then, is to refine the SM definition of globalization so that it can be measured systematically rather than anecdotally. This would then allow us to test and evaluate competing models of globalization.

I take up this challenge by examining the most useful definitional research in the supranational tradition. This work has been done by J.A. Scholte (2000, 2005), whose work has examined basic conceptual issues of globalization in detail.[37] Scholte defines globalization from an explicitly supranational perspective. Globalization "refers to a shift in the nature of social space" (Scholte 2005, 59). "[P]lace is not territorially fixed, territorial distance is covered in no time, and territorial boundaries present no particular impediment" (Scholte 2005, 62).

Globalization is a matter of "supraterritoriality" or "connections that substantially transcend territorial geography" (Scholte 2005, 61).[38] Such connections are characterized by *simultaneity* and *instantaneity*. Simultaneity refers to connections that "extend anywhere across the planet at the same time," such as telecommunications broadcasts or certain globally marketed consumer products. Instantaneity refers to connections that "move anywhere on the planet in no time," such as the circulation of currency like the dollar and the euro, or the flow of investment instruments between accounts or companies. These sorts of supraterritorial connections, Scholte emphasizes, "are not adequately mapped on a territorial grid" (Scholte

[37] It is telling of the globalization literature that Scholte's *Critical Introduction*, intended as an introductory text for undergraduate and graduate classes, is also the most comprehensive study of competing concepts of globalization. Scholte's work, however, seeks to understand globalization comprehensively, not only in its economic form, but also as it pertains to culture, technology, and society in general. As I focus on economic globalization specifically, the application of Scholte's work to this aspect of the phenomenon will be the focus of this section.

[38] The distinction between "supranational" and "supraterritorial" is essentially one of scope and focus. From Scholte's broad point of view it is not only national boundaries that are being transcended, but territorial constraints of all types. Thus Scholte uses the term "supraterritorial." I have adopted the term "supranational" in this study because my focus is specifically limited to the transcendence of national boundaries: regulatory competencies, physical borders and the like. Transcendence of the physical and political reach of the state may be thought of as a category of supraterritoriality more broadly.

2005, 61). They cannot be fully expressed or understood by referencing only territorial *place*, or in terms of relations between territorial places, such as is done in international relations.[39]

Scholte reasons that these supranational connections make it necessary for social scientists to move beyond a strict methodological territorialism if they are to fully explain contemporary social outcomes. If appropriate independent variables are supranational in nature, then our methods must be able to incorporate them. Addressing political science in particular, Scholte (2005, 66) argues:

> Students of politics have conventionally regarded governance as a territorial question; that is, as a matter of local and country governments, with the latter sometimes meeting in "international" (again, code for inter-territorial) organizations…The emergence of the state-system, the growth of mercantile and industrial capitalism, and the rise of national identities all understandably encouraged researchers of earlier times to adopt methodological territorialist perspectives. Yet today large-scale globalization should stimulate a reconstruction of methodology on alternative, nonterritorialist premises.

This presents a particular challenge for students of comparative politics. While premised on a methodological rather than a geographic core (i.e., not which politics to study but how to study politics), comparativists have frequently utilized their methodological core to study countries. How are we to continue to compare (territorial) politics if supraterritorial factors are becoming more important? If we are increasingly finding supraterritorial causes (answers) for territorial outcomes (puzzles), how are we to integrate these differing levels of analysis? More specifically, how do we study the impact of *globalization* (if this is understood to be a supraterritorial phenomenon) on state *sovereignty*, which is the very essence of territoriality? This is the central element of the "touch-down" problem presented in the previous chapters.

[39] For example: "jet aeroplanes transport passengers and cargo across any distance on the planet within twenty-four hours. Telecommunications networks effect instantaneous links between points all over the earth, so that a call centre or data processing bureau for customers in North America may be located twelve time zones away in India. The global mass media spread messages simultaneously to transworld audiences…Ecologically, developments such as climate change, stratospheric ozone depletion, and loss of biological diversity unfold simultaneously on a global scale" (Scholte 2005, 62).

I address only one piece of this question in the present study. The whole answer is simply beyond the scope of the research presented here. As I explained in chapter one, I am concerned with economic globalization specifically, and its impact on the small European states in particular. For the purposes of this section, this means that I must define *economic globalization*. For the chapter as a whole, it means that I must propose a solution to the touch-down problem, and specifically one that is applicable to the sovereignty of the small European states.

How then do we refine the concept of supraterritoriality in order to study its economic component? If globalization in general is a shift in the nature of social space from one of territorial constraint to one of transworld simultaneity and instantaneity, economic globalization should be defined as such a shift in the nature of *economic* activity.

This can be seen in the deployment of production resources by companies. Today firms seem less concerned with physical distances or territorial borders than with other factors such as labor costs, available skills and regulatory restrictions. Importantly, their options appear to be less constrained by territorial factors such as “home” country, location of corporate headquarters, or even national loyalty.[40]

Even if such factors of production are deployed on a global scale, furthermore, coordination and direction can still be accomplished without the constraints of physical location. Orders and directives can be issued from thousands of miles away as easily as from next door, and personnel—particularly management—can be located and relocated anywhere in the world in a matter of hours.

Currency and securities transactions are conducted with little reference to or impediment from territory. Stock exchanges in cities around the world are able to operate 24 hours a day, funds can be instantly moved anywhere in the world, and some stock markets,

[40] For useful and relatively early findings in this regard, see Reich (1991).

such as NASDAQ or EASDAQ, do not exist *anywhere* in the real world, but operate in the purely supraterritorial realm of telecommunications.

It is these supraterritorial or—from a comparative politics perspective concerned with governance and sovereignty—*supranational* phenomena that must be captured in a definition of economic globalization. But it is important to clarify that "global" in this sense refers not to literal *location*, but to *potential*. While this may seem to be of only semantic interest, it is actually a matter of great practical importance. IM scholars have argued that SM notions of globalization are a myth or an exaggeration because they describe phenomena that are not literally, geographically *global*. Hirst and Thompson (1996) note the concentration of most of the world's foreign direct investment in OECD countries, arguing that a more widely distributed pattern of investment involving more of the developing world would be necessary to indicate true globalization.[41] Business and economics scholars such as Alan Rugman (2005) have discounted globalization, arguing that the world's largest corporations lack extensive sales in the developing world, and are better understood to be "regional" rather than "global."

This criticism misses two important points, however. First, it often creates artificial geographic distinctions itself. The OECD member-countries of the "developed world" are not themselves to be found in one region, spread as they are from Europe to North America to East Asia. Thus even here we must go beyond regional geography to understand what is going on.

Rugman's study in particular illustrates the problems with the regionalist critique. Studies such as Rugman's also rely on interpretation of data that is not always self-evident. Rugman (2005, 2) argues that "global markets are not becoming homogenized, nor is there a trend toward globalization." This contention is based on the sales data of the world's largest

[41] In recent decades, direct investment in developed democracies has outweighed investment in developing countries approximately two to one (UNCTAD, 2004). While scholars such as Hirst and Thompson may view this as "regionalization," something else may be going on. A concentration of investment by global enterprises in OECD countries may have a strategic purpose, in addition to a need for skilled workers and stable conditions. Rather than pitting developed against developing countries for investment, firms may pit developed countries against one another. I examine this possibility below.

corporations, which Rugman finds to be mostly distributed close to “home.” Thus the sales of North American firms are concentrated mainly in North America, the sales of European firms are concentrated mainly in Europe, and so on.

A closer analysis of Rugman’s data, however, shows that, among those firms classified as most “regional” (i.e., least global), about one-third of total sales comes from outside the “home region.” Is this level of extra-regional (or global) sales insignificant? To Rugman, *only* one-third of total sales outside of the “home region” is evidence of an exaggerated globalization. But if this is the “glass half-empty” perspective, it can easily be read as “half-full.” Already, one-third of all sales of these firms have expanded not simply beyond a home *country* or even *region*, but to other regions of the world. Surely, this is evidence *for* a *global* presence. The exaggerated globalization Rugman criticizes is not to be found in IM or SM research, but in the most extravagant claims that globalization is a *fait accompli*, made by Kenichi Ohmae and others.

Rugman’s analysis rests on sales data to measure globalization. This is problematic. Sales is more properly a measure of internationalization—the crossing of sovereign borders. If one takes internationalization and globalization to be synonymous, this is of course not a problem. But sales data does not measure the supranational concept of globalization. A simple example illustrates the problem.

Assume Firm “A” from the United States sells 40% of its products in Europe. Firm “B” is also American, and European sales account for 45% of its total. By Rugman’s definition, firm B is slightly less “regional” (presumably slightly more “global”) than firm A. But if the products sold by firm A in Europe originate in geographically dispersed production centers in North America, Europe and Asia, while those of firm B originate exclusively from centers in the United States, it seems reasonable to label firm A a significantly more global enterprise. Sales data, however, provides only the end-point of the transaction, not the point of production. It is production data which is most useful in assessing globalization, and this data is to be found in the distribution of a firm's labor force and physical assets, not is sales. This point incorporates the insights of Ietto-Gillies, and is explored in more detail in sections four and five below, and in chapter four.

The difficulty inherent in categorizing economic activity by geographic location only serves to reinforce a second point: that "global" is better understood in terms of the potential for action on a planetary scale rather than a literally universal presence. For an economic activity to be global, it need not include the participation of people literally *everywhere* in the world. It simply must have the potential to extend anywhere.

Envision a person physically located in New York who transfers funds from an account technically (or more precisely "electronically") located in the Bahamas to another (electronically) located in Tokyo in order to purchase stock in a company's new venture in Germany, which funds will eventually be deposited in an account (electronically) located in London.

Even this chain of transactions references only five specific locations on only three continents. In that sense, it is not fully *global*. But it occurs with both simultaneity and instantaneity, limited by neither geography nor time, and demonstrates a *potential* for global scope. If, as Scholte (2005, 59) argues, a "global social relation is one that *can* link people situated at any inhabitable point on earth,"[42] then the transaction suggested above certainly qualifies as a global economic relation. So long as such an activity *can* link people (or firms or institutions) anywhere, it *need* not in every case: it is nonetheless global.

That said, global *does*, in fact, mean several things. First, economic globalization implies a lack of territorial constraint in the action undertaken. Economic actors are capable of operating in multiple locations around the world, of doing so simultaneously, and of coordinating actions in multiple locations instantaneously.

Second, it implies a global scale of interests: globalization is the rise of economic concerns, identities and interests which are not confined to a particular place. For example, a

[42] Italics added.

company seeking to earn a profit may place no particular priority on operating within its traditional "home" country or on serving domestic customers, no matter the nationality of its directors or investors. Likewise, an investor may place no additional value on investing within his home country, but may choose the most profitable investment regardless of the location or (nominal) nationality of the venture. A consumer may seek the best deal on a product anywhere in the world, without assigning additional weight to patronage of domestic producers. Investments are made in, and goods are produced at real, physical locations, but national identity may not be weighted highly when conceptualizing interests.

Third, globalization implies a global strategy in pursuit of global interests. A firm that seeks to earn a profit anywhere may plan to produce and market its goods globally, with resources deployed accordingly in many places around the world.[43] An investor (be it a bank, a corporation or an individual) may buy and sell securities on multiple exchanges around the world. A purchaser (be it an individual consumer or a firm in need of a supplier) may use the internet to buy a product from anywhere, with the transaction itself taking place in a location even more difficult to determine.[44]

The remainder of the chapter and the study adopts a modified version of the SM definition of economic globalization which integrates the concepts discussed above in a manner that will allow for useful and systematic operationalization of the phenomenon. Economic globalization is understood to be:

> an increase in the number and significance of economic actors that define interests and employ strategies that are subject to increasingly limited geopolitical constraints.

[43] Furthermore, this deployment may be vertical rather than horizontal in nature. Rather than establishing separate production facilities, each manufacturing the same product to supply multiple local markets (horizontal), a firm may dedicate multiple, geographically diversified manufacturing facilities to different stages of the production process, and any single product may have value added at multiple locations (vertical). Each local component may then be viewed as an integral piece of the company rather than simply the company's "foreign" operations.

[44] This could be at the location of the computer of the purchaser, the location of the computer of the vendor, or the warehouse of the vendor, or the location of the computer servers involved in handling the routing of the messages.

Several terms included in this definition clearly require further explication. I begin with the central element of the definition: an economic actor. This refers to any individual, enterprise or other institution engaged in profit-seeking market activities. The definition, however, focuses upon a subset of the practically infinite number of such actors; namely, *global* economic actors, whose *interests*—their goals and preferences—and *strategies*—the manner in which interests are pursued—are subject to limited "geopolitical constraints."

I define a geopolitical constraint as a limitation or adjustment on interests and strategies imposed by spatial distances or sovereign political authorities. Spatial distances can include prohibitive transportation costs or coordination obstacles caused by the difficulty involved in directing activities which require synchronization across great distances. Sovereign political authorities—particularly states—can impose a number of limitations as well. These can include taxation, economic regulation, social welfare requirements, and corporatist patterns of collective bargaining. Global economic actors are able to overcome these constraints. This does not mean that GEAs do not face the challenge of coordinating widely dispersed activities, or that they are never taxed or regulated. Instead, it means that such challenges are not sufficient to fundamentally alter such actors' interests and strategies.

The process of globalization involves an increase in both the number and significance of global economic actors. While "number" in this sense is self-explanatory, "significance" requires some discussion. I refer here to the economic size, value, and power of these actors: their impact on world markets, their relevant market shares, and their ability to execute the kind of global strategies discussed above. The tools which afford GEAs this ability are discussed in greater detail later in the chapter.

The definition of globalization offered here presents two important advantages. First, it provides a supranational definition that is amenable to systematic measurements. Studies have too often adopted definitions of globalization that are "agentless," treating the phenomenon as a purely structural trend. As I argue later in the chapter, this often lead to difficulties in operationalization due to the difficulty of measuring what often becomes a rather vague concept. The definition adopted here avoids this problem by emphasizing the agents which drive the phenomenon.

Second, the definition offers a potential solution to the “touch-down” problem: how do we measure the impact of globalization on states if our independent variable (globalization) is supranational while our dependent variable is national (state economic sovereignty)? How do we “pin down” a supranational phenomenon when all of our measurement tools (trade, investment, demographics, and so on) are national or international in scope? Once again, greater specification of agency provides the basis for a solution.

While the global economic actors central to globalization are not assumed to be “national” in terms of their interests and strategies, they do, of course, continue to operate *within* territorial jurisdictions. By examining the specific activities of global economic actors—the agents of globalization—in particular national economies, I believe I am able to isolate and study the point where globalization “touches down” and the “supranational” meets and impacts the “national.”

3.3. Origin of Globalization

Having offered a definition of globalization, I now turn to the origin of the phenomenon. As I discussed in the previous chapter, the IM and SM viewpoints diverge considerably on this point. IM studies present globalization as a cyclical phenomenon with ancient origins. Globalization means cross-border economic activity (internationalization), which has a long history, dating as far back as the ancient Assyrians and Phoenicians. SM studies present globalization as a unique and contemporary phenomenon: globalization is the transcendence of economic borders (supranationalization), which they date only to the mid 20th century.

Is globalization old and cyclical or new and unprecedented? The answer clearly depends on how one defines globalization. In this study, I hypothesize that SM scholars are fundamentally correct in their assertion that supranationalization is something new.[45] However, IM scholars are equally correct: internationalization is a very old phenomenon.

I contend that a synthesis of these positions is necessary if one is to have a complete picture of globalization's origin. While SM scholars acknowledge that globalization may have "historical antecedents" few elaborate upon the link. But it must be explicitly recognized that it is internationalization which is the historical antecedent of supranationalization. In the past half-century, cross-border economic activities have increasingly been transformed into (or superseded by) supranational ones. While both international and supranational methods and practices of profit-seeking continue to exist simultaneously, supranationalization has become the "leading edge" of activities in the world economy today. Supranationalization is now at the "core" of the world economy while internationalization is becoming increasingly peripheral.[46]

The transformation from international to supranational means of profit-seeking is the result of the capitalist profit motive itself, in combination with the actualizing impact of technological innovation. The impulse to profit globally (i.e., supranationally) has always existed, but the constraints of time and distance allowed this impulse to be expressed only imperfectly in cross-border profit-seeking ventures (i.e., internationalization). Technological innovations in communications and transportation have, in the past half-century, made truly global profit-seeking activities feasible for the first time, leading those capital interest which are in a position to utilize these innovations to transform their international endeavors into supranational ones.

This is an historical process which has been ongoing for centuries, if not millennia. The invention of the ocean-going sailing ship, or the trading caravan, for example, allowed for the first steps toward internationalization. The invention of trans-continental telegraphy and

[45] The weakness of the SM literature is its inability to systematically measure supranationalization, due to the slippery nature of the concept, and to "methodological territorialism." I address them in the sections to come.
[46] I borrow here from the theoretical vocabulary of Immanuel Wallerstein.

telephony in the 19th century allowed multinational operations to be much more efficient than previously, although not so well-coordinated as global enterprises are today. Modern air travel, satellite communications and data networking have allowed another step forward. But these recent innovations have not simply made it possible to operate multinationally: they have begun to make it possible to operate without regard to geopolitical constraints. Future innovations are likely to further facilitate this. As Strange and Cerny have pointed out, globalization is a process rather than an end-state.

In the previous section, I defined globalization as *an increase in the number and significance of economic actors engaged in activities not subject to geopolitical constraint*. In the next section, I will explore these actors and their activities in greater depth. For now, however, a few brief examples may serve to illustrate the transformation of internationalization into supranationalization: the changing natures of the multinational/global enterprise, and of international/supranational trade.

For centuries, capital interests have been motivated by the impulse to go abroad in search of profit. They have created multinational enterprises to pursue this goal. One such enterprise was the Hudson Bay Company, chartered by King Charles II of Britain in 1670. From its outposts in what is today Canada, the company's managers sent one transatlantic message annually to the company's political and financial backers in London. Its directors may very well have wanted to consult daily, weekly, or monthly with the local managers of the firm across the ocean in Canada. Of course, such communications were impossible at the time. Expanding operations beyond Canada itself, another desirable goal, was also simply not feasible. For such entities, international activities had to suffice for supranational ambitions. [47]

[47] Interestingly, the Hudson Bay Company still exists as a Canadian department store retailer. Communications today, however, are maintained through twenty-four hour customer telephone hotlines and email, and the company's 600 retail stores are managed from headquarters in Scarborough, Ontario (Scholte 2005, 90).

In recent decades, truly global operations have become a reality. Technological innovations in communications and transportation have allowed contemporary capitalists the ability to direct multiple, geographically dispersed units. Philips and Nestle, for example, are not simply multinational firms, seeking profit in one or a small number of countries beyond their "home" market. They operate globally, with strategically integrated, centrally organized divisions around the world. This is made possible by technological innovations in communications and transportation.

Modern global enterprises dispatch thousands of messages around the world on a daily basis via email. Satellite technology allows real-time audio and visual communication. Advances in transportation technology such as the shipping container, rapid ocean-going vessels, and air travel have shortened shipping times dramatically. Indeed, the rise of "just in time" manufacturing practices would not have been possible without such advances.[48] A firm's managers may easily visit subsidiaries thousands of miles away, arriving in person in a matter of hours, or electronically in a matter of seconds.[49]

Global firms operate in multiple and dispersed geographic locations in a coordinated and simultaneous fashion, again facilitated by technological innovation. This makes them capable of achieving levels of operational and managerial integration which international firms cannot. Here Ietto-Gillies (2005, 8) makes the important distinction between equity control and managerial control over such enterprises, noting that, prior to World War I, there were indeed

> a number of enterprises whose assets were owned wholly or in large part by a person or groups or companies in foreign countries (usually in Britain or Holland or the USA). However, though these

[48] While instantaneous transport of most commercial goods is, of course, not possible, it actually is possible for some tradable goods, such as currency or media products.

[49] Hirst and Thompson (1996) argue that the level of labor migration was greater in the 1870-1914 period than today. But this fact is less impressive when one also includes other forms of international travel. If one includes tourism and business travel in addition to labor migration, one finds that global movement of people is much greater today (Scholte 2005, 118-119). We must also consider that some aspects of labor no longer require migration to undertake. Telecommunications allows workers to participate in productive activity without being on site. Conversely, the movement of managerial and technical staff around the world is often temporary, rather than permanent, as it would have been in the past.

> owners from foreign countries had controlling stakes in the business, they were not in a position to exercise managerial control because of the large distance between the home and host countries under conditions of poor communications systems…[such] free-standing enterprises highlight the fact that though they were owned wholly or partially by foreign nations, they were managed and developed as independent concerns.

Today's enterprises maintain not only equity control, but also managerial control: they are able to direct geographically and functionally diverse units of the organization from a central location, wherever it might be in the world. So while the forerunners of today's global firms have indeed existed for many centuries, it has only been in recent decades that they have been able to pursue truly global profit-seeking activities, and to direct such activities as a fully integrated operation.

Global firms also plan differently than do multinationals. Their strategies are adapted to competition against global rivals, rather than domestic competitors. Their interests lie in maximizing global market share, rather than simply dominating the market in one or another country. Their activities or interests in any particular country are defined by and subordinate to global strategic interests. As a result, global firms have less pronounced national identities.

Another example can be found in the form and function of international trade. International trade is measured as a transaction between "domestic" and "foreign" trade partners. Such measurements have become increasingly problematic as the purpose of trade has changed dramatically in recent decades. Past instances of international trade were almost exclusively undertaken to export or import merchandise, and occurred at "arm's length." Today trade that appears to be a transaction between nationally distinct trade partners frequently masks what is actually an intra-firm transaction between coordinated units of the same global economic actor.

Imagine, for example, that an automobile firm manufactures a particular part at a factory in Ireland, and the part is then shipped to one of the firm's assembly plants in the United States to be installed. Such a transaction would usually be categorized as international trade between

Ireland (the exporter) and the United States (the importer). But this overlooks the fact that, from the firm's perspective, it is simply a transfer from one unit of the enterprise to another unit. Such transactions are called intra-firm trade. By 2002, an estimated one-third of world trade consisted of intra-firm trade (UNCTAD 2002, 153). Other estimates of its share of overall world trade range from 25% to 50% (Scholte 2005, 118-119).

Intra-firm trade is not simply a curious form of international trade, leading to the same effective outcomes. Returning to the example above, if the plant in Ireland is exporting and the plant in the United States is importing, the impact of this transaction would seem to be the same whether or not the Irish and American facilities are owned by the same firm. Why should ownership matter, if for instance the export helps to maintain jobs in Ireland, and counts positively in the Irish balance of trade?

The answer lies first in the potential mobility of the assets involved. If the Irish plant were a stand-alone operation, neither a multinational itself nor affiliated with a global firm, it would be unlikely to consider relocating its facilities outside of Ireland. Its small size and limited base of operations would make the costs of such a move prohibitive.

If, however, the Irish plant is simply one relatively minor unit in a global firm, with global operations, the firm may relocate the plant at fairly low cost, or—even more simply—reassign its responsibilities in the firm's overall production chain to another facility. In such circumstances, the global firm has much greater freedom to redeploy its assets. Thus the greater the share of intra-firm trade in a country's overall level of trade, the greater the potential fragility of the country's trade itself, as decisions about trade are not necessarily the result of local factors, but of global concerns and interests.

Intra-firm trade is also important because it facilitates another instrument of global profit-seeking: transfer pricing. Transfer pricing is a practice by which firms set prices for goods transferred between units in intra-firm trade. This allows a firm to allocate profits between its own divisions, so that they flow to those units with the lowest rates of taxation, minimal auditing, or advantageous regulatory conditions. The firm can increase profitability simply through accounting. Thus the purpose of much of modern trade may have more to do with accounting than traditional consumer sales (Harris 1993; Hines and Rice 1994; Kopits 1976; Lecraw 1985; Moore and Caves 1994; Muller and Morgenstern 1974; Stewart 1989; UNCTAD 1985).

Globalization is the latest incarnation of an old impulse: to accumulate profit without the constraint of geography and politics. For most of world economic history, this impulse took the form of internationalization: geography and politics *did* constrain capital interests. Operations were often confined to one or few foreign countries, and were limited by both time and distance. As I will discuss later in the chapter, the state often played a central role as constraint or facilitator.

In recent decades, this has changed. Those capital interests which have most fully realized the impulse to profit have done so by supranationalization. Geography and politics have become less constraining, due both to technological advances and reduced political pressure. The operations of firms have expanded to many countries simultaneously, and may be centrally managed with little constraint by time or distance. The state's role has receded and it has become more the agent of supranational firms rather than their principal.

3.4. Agency and Globalization

Earlier in this chapter I defined economic globalization as "an increase in the number and significance of economic actors that define interests and employ strategies that are subject to increasingly limited geopolitical constraints." This section asks a question that is sometimes overlooked in the globalization literature: who acts? Who or what are the agents of globalization?

As the definition implies, I contend that "economic actors" drive globalization. In this section I discuss who these actors are and what they do. Before turning to this, however, I briefly review the IM and SM perspectives regarding the agency of globalization.

As we saw in the previous chapter, both IM and SM scholars focus on the central importance of firms as the driving force of globalization. IM scholars generally discount firms as agents of globalization, arguing that they are simply the tools of the state, which is the real driver of the phenomenon.

SM scholars argue that firms do indeed drive globalization. But where the IM literature gives such firms too little credit, the SM gives it too much. SM researchers argue that global enterprises drive globalization, but fail to recognize distinctions between such firms regarding their size, scope and mobility. Essentially, IM scholars argue that (practically) no firms are global, while SM scholars argue that all (large) firms are global. Additionally, scholars in both the IM and SM literatures attribute at least some of the agency of globalization to technological innovation, or view globalization as an essentially "agentless" structural phenomenon.

I contend that globalization is not an agentless force causing change in the world economy, nor is it driven by other structural forces such as innovation. Instead, I argue that globalization is the *result* of actions taken by what I label *global economic actors* (GEA).

These GEA can be divided into two types: global enterprises (GE) and global investors (GI). Global enterprises include organizations that establish operations globally (in the form of physical assets) to make a profit. Global investors include individuals, banks and other firms that seek profit by financing capitalist ventures.[50] For reasons I explain in the first chapter, this study emphasizes the nature and effects of global enterprises rather than global investors.[51]

Ultimately, these actors are driven by the capitalist profit motive. To many scholars, this would imply that a structural force (i.e., capitalism) drives globalization. For others, the profit motive of capitalism may be understood as the result of interactions within a large-scale

[50] It is important to note that the two categories are not mutually exclusive, as global enterprises may make substantial portfolio investments in other firms or ventures. I distinguish between the two based on the primary activities of the organization. Here the distinction between a manufacturing firm that invests (on one hand) and a bank (on the other) becomes a bit clearer, if not completely distinct.

[51] I do not imply that the globalization of finance is less important than the globalization of production. Examining both is simply too broad a subject to tackle in a single study.

institutional framework (capitalism itself). I will not examine this debate here, as such an examination would digress too far from the underlying question of agency. For our purposes, it is sufficient to acknowledge that the actors which drive globalization are themselves driven by the capitalist profit motive, and act globally thanks to technological innovations, particularly in telecommunications and transportation.

This does not mean, however, that technological innovation drives globalization, in the sense that it is innovation which sparks the impulse of economic actors to globalize in the first place. The invention of the telegraph, the telephone, or the communications satellite did not plant in the minds of capitalists the initial idea to expand their profit-making operations abroad. Rather, these innovations made possible global operations that hitherto had only been unattainable dreams of capitalists. The directors of the Dutch East India Company, for example, would surely have embraced the capacity to centralize managerial decision making in the 17th and 18th centuries, just as modern global enterprises such as Nestle are able to do today. Thus the difference between the two companies is not that the latter wanted to be more global than the former, but that it had the practical capacity to achieve a global scope of operations.

IM scholars, at least, would still question whether GEA act independently, or are creatures of the state. If the state created many of the conditions necessary for firms to take steps toward global operations; if states continue to charter, tax and regulate these actors, are GEA not simply agents of the state, rather than independent agents driving globalization?

Two factors lead me to answer this question negatively. First, the premise of the question rests upon the assumption that any firm that is large, or operates in multiple countries, is a global economic actor. This is not necessarily so. Second, the question assumes a certain symmetry of power that may not exist: while states may have had the capacity to create the conditions necessary for the rise of GEA, it does not necessarily follow that states have an equal capacity to reverse this, and thus control these actors. I discuss both of these issues in greater detail below.

If the GEA are the agents of globalization, two questions still remain. First, what makes these economic actors "global?" Second, why do economic actors "go global" in the first place? In the remainder of this section, I address these questions for both types of GEA: global enterprises and global investors, placing the bulk of my emphasis on global enterprises.

3.4.1. Global Enterprises: What Makes GEs "Global?"

What makes a global enterprise "global?" Deciding on the terminology to describe these actors is a challenge, considering the range of labels used to describe them. They have been called international, multinational, transnational or global corporations. Scholars who eschew the term "corporation" have found many substitutes: businesses, companies, firms or enterprises. Combine these various terms and we have 20 possible labels already. I will use the term "global enterprise" when referring to the GEAs which are the subject of this section, and the term "firm" when referring to such an organization generically.

The differences over terminology reflect differences in the criteria used to distinguish a "global" firm from a "transnational" or "multinational" one. Some (particularly IM) scholars contend that most firms can still be accurately defined in national terms: its country of origin is often used as an indicator of its nationality. Scholars who emphasize firm origins include those in the "varieties of capitalism" school, who define nationality by the culture of capitalism within which a firm is "embedded." Other scholars use the location of a firm's headquarters or the nationality of the firm's directors or shareholders to define its nationality. Such approaches are frequently used by scholars who deny that firms have become "global," but remain constrained by geopolitical factors, including (most importantly) the state.

These attempts to define a firm's nationality are driven by the desire to demonstrate that such firms simply are *not* global in nature. Many scholars argue that if the interests of such firms are not increasingly free from geopolitical constraints (in this case, those imposed by the state), the firms themselves must be understood to be *national* or *international* rather than *global*.

The approaches described above suffer from a significant logical flaw: they assume that the criteria used to determine national identity imply a shared national *interest*. While countries and their "home" international or multinational firms may have shared common interests in the past, this commonality may not exist with today's global enterprises. As Robert Reich (1991, 131) argues, the "national champions" of the past, firms whose interests coincided with those of their home country, "are becoming global [enterprises] with no particular connection to any single nation…[t]he nationality of a firm's dominant shareholders and of its top executives has less and less to do with where the firm invests and with whom it contracts around the world."

Simply because a firm is located in the United States, for instance, or because its directors are Americans, it does not follow that the firm's interests coincide with those of the United States government, or the American people. Coca-Cola may have been founded in Georgia, and may continue to locate its headquarters in Atlanta, but this does not mean that the firm will locate a new plant in Georgia rather than Beijing because it is good for Georgia, or for the United States.

Here again we have returned to what Scholte calls the "methodological territorialism" of social science. National and international data are readily available for those who want to measure "nationality" or links between discrete nationalities. How then do we measure "globality?" Rather than examining a firm's country of origin, or the location of its executives, we must measure globality by the scope of the firm's interests, which in turn can be observed indirectly through its operations. If global interests lead a firm to pursue global operations beyond a narrow national interests, then a global scope of activities reveals the "globality" of a firm itself.

I contend that global production, measured in terms of the geographic dispersion of the physical assets of global enterprises, best captures the essential difference between firms which are national, those which are international, and those which are global. Many scholars use global operations as the basis for the classification of firms. Bartlett and Ghoshal (1989) propose a typology of firms based on strategic postures that is widely used in the business and management literature. *Global* firms, they contend, are those which are the most centralized in their decision-making. These firms treat world markets as an integrated whole, and standardize production accordingly. *Multidomestic* firms are decentralized, and allow each national subsidiary of the firm to adapt production and marketing to the tastes of local customers and the requirements of local government. *Transnational* firms, finally, are a hybrid, centralized in some respects and decentralized in others. For example marketing decisions may be decentralized while research and development may be centralized.

Keith Head (2007) proposes a similar three-part typology, distinguishing *uninational* enterprises, which operate in one country, are domestically owned, and limit their international activities to importing and exporting; *multinational networks*, which are a collection of franchises, contractors or licensees linked by long-term relationships but without significant cross-holdings of equity; and *multinational* enterprises, which are permanent establishments in multiple countries, resulting from direct investment abroad by a parent firm with a voice in management at the subsidiary level.

I distinguish three types of firms (table 3-2), based upon the size and scope of their operations. Global enterprises are distinguished from international or national enterprises by these two characteristics. First, they operate globally, especially with regard to production of saleable goods. Beyond simply producing different products for and in different markets (i.e., “horizontal production”), these firms produce different stages of a range of products at different sites around the world (i.e., “vertical production”). Components are often shipped between production sites of the same firm (i.e., “intrafirm trade”), which may add value to them, sell them as finished products, or distribute them to other facilities within the firm or in markets around the world. Thus global enterprises involve the creation and operation of complex and geographically expansive production and distribution chains.

Second, global firms exhibit managerial rather than equity control over their subsidiary units around the world.[52] Equity control refers to an investment stake, which does not convey control over day-to-day operations or strategic decisions. These are made locally by on-site managers of the subsidiary. Such arrangements are common in international enterprises, and among the historical forerunners of both international and global firms.[53] Firms with only equity control over subsidiary units are essentially what Bartlett and Ghoshal describe as decentralized *multidomestic* firms, and Head describes *multinational networks*. Instead of equity control, global enterprises exercise managerial control over their subsidiaries. This means that they *do* have operational and strategic decision-making authority over widely dispersed units—particularly production units—around the world. Decisions are made centrally for the entire firm (i.e., for all units of the enterprise). Furthermore, because they operate globally, produce globally and compete with other firms worldwide, global enterprises are by definition large.

Table 3-2: Typology of Capitalist Enterprises

Type	**Scope of Operations**	**Size**
Global	Global operations with managerial control	Large by definition
International	Based in "home" country with operations in others; mainly equity control; emphasis on export	Large or small
National	Operates within domestic frontiers	Large or small

[52] This distinction is made most clearly and effectively by Grazia Ietto-Gillies (2002, 2005), whose work heavily informs this section.
[53] The Hudson Bay Company or British East India Company, for example.

When IM scholars write about the myth of global corporations, or the exaggeration of the operational scope of firms, they are essentially describing international (rather than global) enterprises. An international enterprise, while operating in multiple countries, has a clear and distinct home base, and may be either large or small in overall size. Larger international enterprises are likely to consist of multiple production subsidiaries abroad which manufacture goods for local markets. In such cases the subsidiaries are likely to be viewed by the parent company as substitutes for exports from the home country or locations from which to re-import to the home base, taking advantage of cheaper production costs abroad (Vernon 1979). These subsidiaries are subject to mainly equity control, with local managers tailoring production and marketing to local tastes. Smaller international enterprises may conduct international activities mainly from their home country via exports to foreign markets, and their subsidiary units abroad, while under more direct managerial control, may consist of little more than a few of sales representatives (Sutcliffe and Glyn 1999, 122). An international enterprise can therefore be fairly small in size, unlike a global enterprise.

A third type of firm must also be included here: these are national enterprises which, regardless of their size, operate only within domestic frontiers. While they may contract with trade partners abroad on a limited basis to import particular goods, their only manufacturing operations, or primary contractors, are domestic. Furthermore, these firms view their strategic interests in domestic terms. A national enterprise may compete with international or even global enterprises for market share in their home country, but their interests do not extend beyond this home market. A national enterprise may compete exclusively in the American fast food market against a global enterprise, for example, even though, from the perspective of the global enterprise, this market is only one among many in which it has a strategic interest.

For our purposes, concerned with economic globalization, two points are of note. First a wide variety of interactions may occur between global, international and national enterprises, depending upon where and when their interests intersect. Second, and perhaps more importantly, size alone—in terms of market capitalization, asset value or number of employees—does not in itself convey “global” status. As I describe above, a firm may be quite large without having any global presence at all. It may be large and have operations in multiple countries, yet still not be truly “global.” Only large firms with global production capabilities and managerial control over their subsidiary units are “global,” and are agents of globalization.[54]

3.4.2. Global Enterprises: Why “Go Global?”

I turn now to the second question regarding global enterprises: why “go global” in the first place. If, as I suggest above, global enterprises seek profit maximization, there would seem to be easier ways to go about it. To “go global,” after all, involves establishing production operations around the world and contending with all the risks and difficulties associated with such a venture. Why should a firm bother to do this? Even if one assumes that such investment is a substitute for trade (i.e., local production and distribution rather than exporting to foreign markets), decreases in transportation costs and tariff barriers make the costs of establishing production facilities abroad fairly high relative to the cost of export.[55]

To answer this question, I borrow from theorists in the field of applied economics, and in particular by the pioneering work of Grazia Ietto-Gillies (1992, 2002, 2005). Ietto-Gillies argues that firms do not “go global” simply because they have gained a competitive advantage, or as a substitute for trade. Globalized production itself *creates* advantages for the firm which outweigh the costs and difficulties of such operations.

[54] Truly global enterprises are different from both the IM and SM stereotypes. They are not purely regionalist, state-driven, or (historically) institutionally embedded entities, as IM scholars argue. Neither are they the all-power global economic hegemons dominating cowering states, as SM scholars contend. Instead they should be viewed straightforwardly as actors in the global arena, along side states. This view is of course informed by the work of Strange and Cerny.

[55] Dunning (1977, 1980, 1997, 2000) argues that firms may nevertheless go abroad to exploit local comparative advantages. But this perspective has been criticized as lacking core theoretical merit (see Ietto-Gillies 2005, 117-120).

Before examining this perspective in greater detail, I consider a number of other theoretical answers to this question, proposed by both IM and SM scholars (often with a surprising degree of overlap). These include varieties of capitalism and the "statist" thesis (both associated with IM literature), and what I call the "hegemonic firm" thesis, often used by SM scholars.

The "varieties of capitalism" perspective argues that while firms may "go global," they remain embedded in their own national form of capitalism, which heavily influences their concept of their own strategic interests and how they operate in world markets (Albert 1993; Hall and Soskice 2001). Because the operational character of a firm is in large part path dependent, embedded as it is in differing institutional structures of capitalism, no convergence toward a common (Anglo-American or LME) form of capitalism has occurred, or is likely to occur.[56]

For our purposes, the most obvious limitation of this literature is its emphasis on the "stability and continuity at the expense of analysis of the mechanisms of institutional transformation" (Ferner 2006, 2). The "varieties of capitalism" literature simply cannot adequately explain why firms *do* "go global" in the first place. In doing so, it runs the risk that "studies of MNCs across national business systems become exercises in comparative statics." (Ferner 2006, 2; Streeck and Thelen 2005). Furthermore, as I discussed in the previous chapter, the utility of convergence arguments often rest upon one's level of analysis. Indeed, "going global" itself—no matter a firm's corporate culture—may be understood as a form of convergence itself, and one the varieties of capitalism literature cannot easily explain.

A second answer to the question of why firms "go global" can be found in what I call the "statist" thesis, which argues that firms that appear to be global remain the "national

[56] These institutional structures include "systems of labor market regulation, of education and training, and of corporate governance [which] depend on the presence of regulatory regimes that are the preserve of the nation-state." (Hall and Soskice 2001, 4) A firm's success is based upon "the quality of the relationships the firm is able to establish, both internally, with its own employees, and externally, with a range of other actors that include suppliers, clients, collaborators, stakeholders, trade unions, business associations, and governments." (Hall and Soskice 2001, 6) The firm's ability to succeed in its relations with these actors is a result of embedded practices and relationships.

champions" that they once were.[57] Statist scholars generally argue that the "global corporation, adrift from its national political moorings and roaming an increasingly borderless world market, is a myth" (Doremus et. al. 1998, 3). But this approach generally goes beyond the "varieties of capitalism" perspective, arguing that firms are not simply embedded in their national systems of capitalism, but dependent upon them.

From this perspective, states created globalization in the first place, through political arrangements such as the GATT and intergovernmental institutions such as the IMF. Firms' global operations are heavily dependent upon the subsidy, advocacy and access to world markets supplied by states. Because states had the power to *start* the modern era of globalization, they have the corresponding power to stop it as well. Many scholars have pointed to the financial and economic crises beginning in 2008 as evidence of this. From this perspective, financial bailouts of firms illustrates the continuing, overarching power of states over supposedly "global" (but actually "national" or "international") enterprises.

The problem here is that it is not always quite so easy to distinguish the principal from the agent. Even regarding the bailouts of 2008 and 2009, is the firm dependent upon the state, or do firms have so much power that they can extract bailouts from states, even in the face of widespread popular opposition? At present, such a question is not easily answered.

Even if the principal-agent relationship between state and firm has not been reversed, it may not endure, as "statist" theorists claim. As Ruggie (2003, 106) has argued:

> Globalization was a one-way bet for the business community: governments were needed to create the space within which business could expand and integrate, but they were not otherwise welcome.

[57] The term is borrowed from Reich (1991), although the author's own perspective is that national champions no longer exist, and have been replaced by statist global firms.

Globalization may well be a “Pandora’s box.” States may have helped to open it, but that does not mean that they can put everything back in the (national) box. The power to deregulate is not always the power to re-regulate. Power, once transferred, cannot always be reclaimed.

The two perspectives discussed above are grounded in IM assumptions about globalization. What I call the “hegemonic firm” thesis comes from the SM literature. This perspective argues that firms “go global” in pursuit of profit, which can be attained by controlling ever larger market share on a global level. In the process of global expansion firms have become so profitable, and therefore so powerful, that they have come to dominate the world economy. Furthermore they have weakened the state in the process, to the point where these firms have come to control capitalism itself, and perhaps to fundamentally weaken democracy in the process. Powerful, profitable firms have replaced states as the true hegemons in world affairs.

Several problems with this approach are evident. First, the hegemonic firm thesis clearly exaggerates the death of the state, and democratic regulation of capitalism.[58] Secondly, this perspective conflates “large” firms with “global” ones. As I pointed out above, the two descriptions are not synonymous. While global firms are by definition large, all large firms are not necessarily global, but may be either national or international.

Most importantly, the hegemonic firm thesis assumes that firms are so thoroughly globalized, and have become so powerful, that they are perfectly mobile. The cost of exit—or relocation of physical assets from one country to another, particularly to take advantage of local comparative or factor advantages—is assumed to be so low that virtually any large firm can credibly threaten states with exit in order to extract concessions. These concessions may take the form of tax incentives, exemption from labor or environmental regulations, or a host of other

[58] While the exaggeration may seem fairly obvious, the literature has managed to spawn countless articles and books which reply to this “conventional wisdom” of corporate globalization run amok. Indeed, today more research seems to be devoted to countering the hegemonic firm thesis than to this thesis itself.

financial or regulatory allowances. The result is a so-called “race to the bottom” in which states vie with one another to attract and retain direct investment by competitively dismantling social insurance, progressive taxation, regulatory protections, and the provisions of the modern welfare state.

As I discuss in the next section, capital mobility may indeed be key to understanding globalization. But it does not necessarily follow that all large firms, or even all global firms, are equally mobile in all cases. It is necessary to distinguish degrees of “globality” (i.e., some global enterprises may be “more global” than others), and degrees of mobility (i.e., a threat to relocate made by some global enterprises may be taken more seriously by the state than a threat to relocate made by others). Essentially, it is necessary to explore more thoroughly the power relationships which exist between global enterprises and states. In this regard, the hegemonic firm thesis clearly paints with too broad a brush. It overestimates the size, power and mobility of firms, as well as the helplessness of the state.

Having examined each of the answers above and found each lacking, I return to the underlying question: why do firms “go global?” The first step toward answering the question requires a shift in assumptions about firms’ expansions abroad. Much of the literature has been concerned with explaining why a firm would pursue global operations, a strategy often viewed as quite risky. Why would a firm choose to establish a presence in a foreign country with which it was unfamiliar? IM perspectives such as the varieties of capitalism and statist thesis discussed earlier tend to discount the importance of the globalization of firms. SM studies, particularly those characteristic of the hegemonic firm thesis, tend to greatly exaggerate the globalization of firms. Neoclassical economics views the investment of production resources abroad as a substitute to international trade for the purpose of avoiding import tariffs.

In recent years, a different approach has been offered by theorists in the field of applied economics, and in particular by the pioneering work of Grazia Ietto-Gillies (1992, 2002, 2005). Ietto-Gillies notes that “the increase in international production has been so large in the last few decades that we should perhaps stop asking 'Why international production?' and ask 'why not'" (Ietto-Gillies 2005, 173)? Firms do not "go global" simply because they have gained a competitive advantage, or as a substitute for trade. Instead, she argues, firms "go global" because doing so *creates* advantages for the firm which are inherent to global operations itself.

In many ways, Ietto-Gillies' approach serves as a bridge between the globalization research done in political science on the one hand, and in economics and business on the other. A comparison of the approaches taken by these two branches of social science reveals an interesting irony. While comparative and international political economy has been fairly reluctant to recognize firms as actors on the world stage, along side the traditional nation-state, economics and business scholars have been reluctant to recognize states as interested actors in the world economy along side firms. Ietto-Gillies' begins to reconcile the two perspectives. She argues that, in pursuit of profit, firms develop strategies relative not only to other firms, but to other "players in the economic system with which they have various degrees of bargaining power" (Ietto-Gillies 2005, 163). These strategies utilize globalization of the firm's operations as a means of fragmenting the power of these other players.

Firms' globalize their production operations because doing so has inherent advantages for the firm that go beyond the comparative advantage derived from producing in a particular country, or the competitive advantage to be gained relative to a particular rival firm. Global firms operate across many regulatory regimes. While this can generate some costs, it also generates significant opportunities. Specifically: "firms can develop strategies to take advantage of differences in regulatory regimes across frontiers, particularly relative to actors who cannot—or not yet—plan and organize across frontiers" (Ietto-Gillies 2005, 167). These other actors include organized labor, the state, and firms' own suppliers and subcontractors. A firm's success relative to rival firms is in part a function of its labor costs, regulatory costs, and/or supplier costs. Ietto-Gillies argues that each of these sets of costs can be minimized by "going global."[59] I discuss these advantages, and their impact, in section 3.5 below.

3.4.3. Global Investors

Although this study emphasizes the role of global enterprises, a few words about global investors are warranted. What makes a global investor "global" and why do they "go global?" in the first place?

Unlike global enterprises (GE), "global" status for a global investor (GI) is not related to the size of its operations, but the scope of its investment. A GI may be a complex financial institution with branches around the world or a single person with an internet connection. What makes the GI "global" is the supranationality of its investments. Global investors may invest in securities, currencies or stock, but they do so with simultaneity and instantaneity: their investment portfolios extend to multiple ventures throughout the world at the same time; their decisions to invest further, divest, or redeploy their investment capital somewhere else occur in virtually no time (thanks to telecommunications and the digitalization of money). The point here is that while size promotes mobility for GEs, all GIs are perfectly mobile regardless of size.

Global investors "go global" for rather straightforward reasons: first, as with GEs, "going global" spreads risk. Diversification is a basic tenant of financial investment strategy. GIs are able to diversify globally, thus greatly minimizing the significance of losses in particular portfolio items. But if investing globally spreads risk, it also widens opportunity. Global investors need

[59] Additionally, Ietto-Gillies (2005, 172) points to global operations as a form of risk spreading, which also creates an advantage for the firm: "A strategy of dispersion of production and multiple sourcing can also be a diversification strategy which brings—among other possible advantages—the spreading of the risks of disruptions to production due, for example, to political upheavals or industrial disputes in any one country. However disruptions to production can also come about through other problems such as national disasters. It is true that most risks linked to the later are not nation-specific but are more likely to be specific to the physical and geographical environment. However, the ability of countries to cope with them and to minimize risks and costs for business is, to a large extent, national-specific and, thus, specific to the social, economic and political environment rather than to the physical environment. Thus a strategy of fragmentation by nation-states may become also a strategy of geographical diversification in order to spread risks."

not be limited in their investments to prospects in only a single or a few countries. "Going global" allows them a nearly unlimited range of opportunities to achieve returns on investments.

3.5. The Impact of Globalization on the State

I come now to the central focus of this research: the impact of globalization on the state. This section first briefly reviews the IM and SM arguments. Next, I return to the work of Grazia Ietto-Gillies which I introduced earlier. Ietto-Gillies argues that firms globalize their production operations because doing so gives them inherent advantages over labor, suppliers, and the state. In this section, I explore these advantages in detail, particularly those relative to the state, and examine their impact on the state's economic sovereignty.

I then discuss the range of firms which are likely to enjoy the advantages of global operations. IM scholars tend to discount the existence of global enterprises while SM scholars tend to assume that all firms that operate in multiple countries are global. I argue that not all large firms are global, nor have all international firms *become* global. Depending upon the concentration of global or international firms in a country, and the geographic distribution of the assets of these firms, a country may be more or less impacted by globalization, and its economic sovereignty may be more or less impacted. Global enterprises use their advantages to leverage states, exacting concessions which amount to a surrender of economic sovereignty. But the reverse may also be true: states may have leverage over firms, and diminish their autonomy. The power relationship may also be one of mutual leverage, or of mutual independence.

I believe these power relationships are both knowable and measurable, and that they can be aggregated to measure the impact of globalization on the state. Doing so offers a solution to the "touch-down" problem to which I have referred throughout this study, and provides a mechanism to predict the status of a state's economic sovereignty. IM scholars contend that states continue to exercise significant—even determinant—power over firms. SM scholars believe the reverse is true. I argue that the power relationships between the state and firms are more complex, sometimes reciprocal, and mutable.

As one might expect, the internationalization and supranationalization models diverge sharply on the matter of the impact of globalization on the state. IM scholars argue that globalization may pose new challenges for nation-states, but it does not fundamentally weaken them, nor reduce their economic sovereignty. This conclusion rests upon two main findings of IM scholars: first, that democratic states retain a compensatory or transformative capacity in economic policy, contrary to fears of a “race to the bottom;” second, that the very economic actors said to be the primary agents of globalization are themselves highly *national*, embedded in domestic economic processes and institutions which constrain their behavior and order their preferences.

SM conclusions about the impact of globalization on the state differ fundamentally from their IM counterparts. SM research concludes that globalization has weakened the state by reducing its sovereignty and its primacy in world politics. This is a result of the greater mobility of capital. SM scholars argue that capital flows out of countries when the state’s exercise of that authority becomes overly burdensome (as defined by capital itself), and into countries with reduced taxation and/or regulation. The mobility of capital is a function of the size and power of transnational corporations.

Faced with the power and mobility of these firms, immobile states must acquiesce to their demands or risk losing important contributors to the national economy. SM scholars warn of a “race to the bottom” in which states competitively deregulate and reduce taxes to attract capital. They argue that transnational corporations have ended the centrality of states in world politics, and have taken a place along side them as independent actors on the world stage.

I contend that both the IM and SM approaches are improperly focused in their understanding of the impact of globalization. IM studies underestimate the ability of firms to affect the economic policymaking autonomy—or *economic sovereignty*—of the state. SM studies overestimate firms' ability to do this. As an alternative, I posit that both firms and states can achieve bargaining power over one another, by which each has the potential to extract concessions from the other which they otherwise would not make. I call this power "leverage." Below, I argue that leverage is a function of (1) the firm's contribution to the domestic economy (its "footprint"); and (2) the firm's dispersion of production assets outside its country of origin (its "globality").[60]

Before examining leverage in more detail, I return to the basis for it: Ietto-Gillies' argument that firms globalize their production operations because doing so gives the firm advantages over labor, suppliers, and the state. I explore these advantages in detail, particularly those relative to the state.

3.5.1. Advantages of Global Operations: Labor

Operating globally gives a firm an advantage over organized labor. Generally, labor will be more successful in attempts to organize, to resist management demands, and to exact concessions from management when workers are employed by the same company, and work in the same country. Proximity and shared conditions, contracts and culture give labor a greater sense of solidarity and a foundation for strong, concerted action. If we assume that this represents an impediment to profit maximization, then firms have an interest in undermining labor solidarity. "Going global" facilitates what Ietto-Gillies (2005, 169) calls *fragmentation*: the geographical dispersion of production to locations not connected by common labor regimes.

Dispersion of production has the effect of fragmenting labor. When a firm's workforce is divided not only by country, culture and language, but also by different institutional patterns (i.e., unions, systems of industrial relations, social security laws), the firm does not face the concerted power of a single unified labor organization, and thus has greater bargaining power in

[60] Here "origin" matters not as a determinant of interests, but as a point of reference.

labor relations. Unlike the hegemonic thesis introduced earlier, the fragmentation advantage does not rest on the assumption that the firm will necessarily relocate to developing countries in pursuit of weaker regulations or cheaper labor. Ietto-Gillies (2005, 170) argues that

> even if the differentials in labor organization regimes across nations are not high, the *dispersion* of employment across countries—though within the same company—fragments the employed labor force and thus makes its organization more difficult and its bargaining position weaker, compared with a situation in which the growth of production within the same company were to occur in a single country.

Fragmentation of labor through the dispersion of production operations becomes a strategic objective in itself. This objection cannot be achieved through internationalization (international trade). Here again it is worthwhile to quote Ietto-Gillies at some length:

> Sourcing markets via exports means concentrating production in one or few countries and thus within one or few 'labour regulatory regimes.' The dispersion of production into many countries has the advantage of fragmenting the labour force employed by the same company into different regulatory regimes. This makes it more difficult for labour to organise and bargain for better conditions.

3.5.2. Advantages of Global Operations: Suppliers

The same approach can be applied to a firm's strategic partnerships with other firms, especially its suppliers and subcontractors. The broader a firm's range of production options, the greater its bargaining power relative to its suppliers.[61] "The existence of multiple sourcing channels (whether actual or potential) in the various countries also gives the firm a powerful bargaining position towards suppliers" (Ietto-Gillies 2005, 172). A firm with operations around the world can compel its suppliers and subcontractors to compete with one another to contract with the firm at the lowest price, and to offer the most incentives to the firm's business. Because the firm has multiple sourcing channels, it has leverage over its suppliers. These

[61] These can include suppliers of manufacturing components, equipment, labor (outsourcing), design features, etc.

suppliers realize that the firm has a wide range of contracting options due to its global operations. They are thus more likely to make concessions to the global firm because they know that other suppliers will do so if they do not. Once again, the firm’s bargaining power derives from its global operations.

3.5.3. Advantages of Global Operations: The State

The fragmentation strategy can be applied to the state and its regulatory regimes as well. Firms do not simply invest in production operations in particular countries as a substitute for exporting to their markets. Rather, firms pursue the “strategy of spreading production across many different host countries” (Ietto-Gillies 2005, 172) (1) to take advantage of different countries’ comparative advantages by making these advantages part of a single production chain; (2) to exploit differences in taxation and regulatory regimes across states by engaging in currency or tax arbitrage; and (3) to exact economic concessions from the state in return for the initiation or maintenance of inward investment.

Global enterprises are able to use their status to exploit differences in comparative advantages for the benefit of the firm, either by locating different production lines in different countries, or by locating different stages of production of the same product in different countries. A simplified example can illustrate this point.

Imagine a product manufactured by a firm includes two components (A and B). Due to different regulatory conditions and relative factor endowments in labor (skills) or natural resources, production of component A is most cost effective in one country X, while production of component B is most cost effective in a country Y. Furthermore, the actual assembly of components A and B into the finished product is most cost effective in a third country Z. From this point, the product may be shipped to markets anywhere in the world. This production chain including facilities in countries X, Y, and Z incurs transportation costs (for the shipping of components A and B from countries X and Y respectively to country Z), as well as the cost of maintaining each of the three facilities. However the cost savings of this dispersed production chain, given the optimization of advantages at each stage, may still exceed the additional costs, thus maximizing the firm's profits. Profit maximization is a direct result of global operations.

As Ietto-Gillies (2005, 172) notes, "nation-states as regulatory regimes are loci of specific currency and taxation regimes. Operating across several such regimes puts the company in a position to reap advantages." Firms may maximize returns from exchange rate fluctuations through currency arbitrage. Additionally, differences in tax policy allow firms to minimize worldwide tax liability using the accounting technique of *transfer pricing*, while still taking advantage of the benefits of high-tax countries (good infrastructure, highly skilled workforce, etc.).

Transfer pricing is defined as "prices for exchange of goods and services within the firm but across national frontiers" (Ietto-Gillies 2005, 172). By manipulating the prices different units of a firm in different countries charge one another for the transfer of goods within the firm's internal production chain (via intrafirm trade), profits can be made to register on the account balance of the firm's subsidiaries in low-tax countries rather than higher-tax countries. This maximizes the profits of the firm. A simple example of the technique is illustrated in Figure 3-1.

Finally, a global enterprise can use its dispersion of production operations to exact economic concessions from the state for the initiation or maintenance of inward investment (Oman 2000; Phelps and Raines 2002). The credibility of a firm's promise to invest, or its threat to disinvest or relocate, is a function of its overall dispersion of production. A company with production facilities in many countries has a very credible threat to invest or disinvest, and the bargaining power the firm gains as a result may be used to extract financial incentives from the state. Unlike the SM perspective, which focuses primarily on the ability of firms to relocate—especially from developed countries to developing ones—I argue that the most important tool at the disposal of the firm is not relocation (which I contend is costly and difficult), but "reallocation" of its physical assets. Another example illustrates this point.

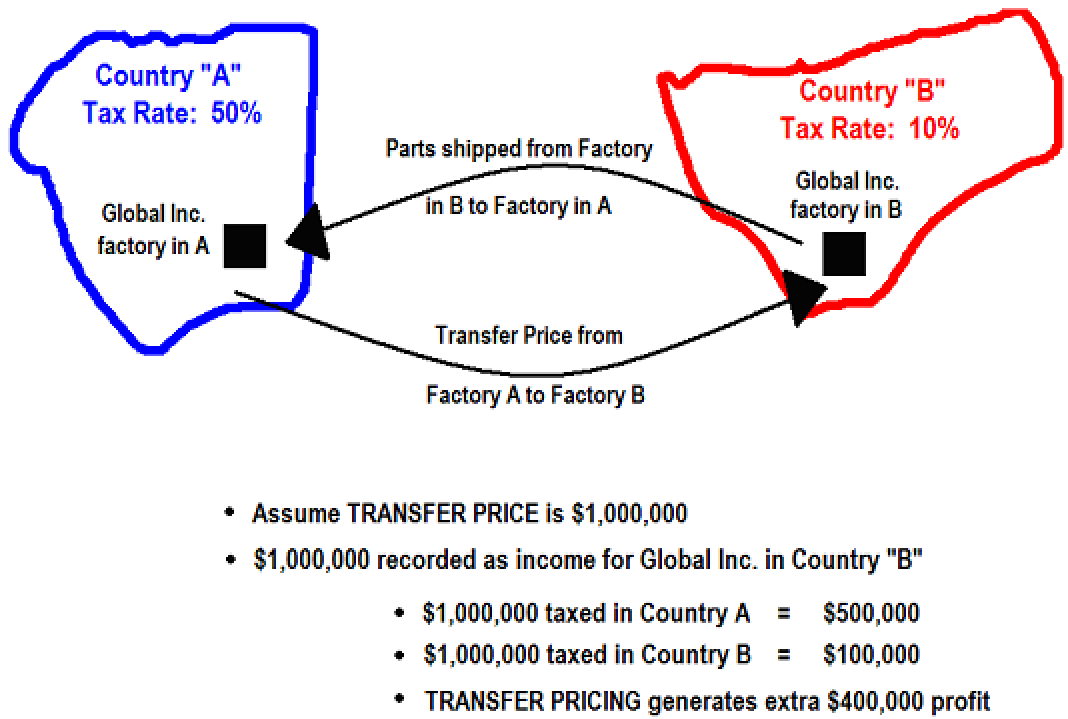

Figure 3-1: An Illustration of Transfer Pricing

Assume, for example, a firm manufactures a particular product in both country A and country B. The product is marketed worldwide, so production in A and B is not simply a matter of localizing production for sale in the same market. Currently, 60% of product stock is manufactured in country A, while 40% is manufactured in country B. Each country has an array of factors endowments (including but not limited to market size for local sales) which makes the cost of production in the two countries equally attractive. Assume one of the attractive features of country B is a particularly profitable tax concession. The firm decides to pursue the same tax concessions in country A which it already enjoys in country B. It pressures country A for this concession, including a threat to alter the parameters of its production operations in country A.[62] This threat, however, need not include the ultimate threat to leave country A altogether. Rather, the firm can simply threaten to "reallocate" its distribution of production: for instance, by reducing manufacturing in country A to 20% of total production while increasing the level in country B to 80%.

By reallocating production between the two facilities, and increasing and decreasing the respective labor forces, the firm can reap the advantages of relocation without incurring the costs (for example, having to shutter or sell its physical assets in country A, as well as losing access to those factor endowments which made country A a profitable place in which to produce to begin with). Furthermore, if the government of country A acquiesces to the firm's demands, production can be restored to its original levels much more quickly, and again without having to actually shift physical assets.

For simplicity, this example reduces the interaction to one firm and two countries. If a firm which already has production facilities around the world engages in this kind of strategy, and if the target country hosts many more such firms, the implications for economic sovereignty become quite dramatic. Global enterprises may be in a position to extract significant concessions from states under such conditions. The aggregate impact of multiple firms extracting concessions may result in the cumulative weakening of the state's economic sovereignty. While the state's legal capacity to regulate may be unaffected, the state's actual autonomy to make choices which negatively impact the firm may be dramatically reduced.

[62] I deliberately avoid specifying the means by which the pressure is applied, or the threat is made. The specific means may be expected to differ from country to country, based on institutional differences. An obvious line of inquiry would be to examine firm-state interactions to explore how firms pressure states and why they succeed or fail. My intention is to pursue such a study in the future. It is not included here for several reasons. First, such a study would require resources (particularly related to travel) which are unavailable at the current time. Second, such a study would only be feasible if the theoretical model proposed in the current research is found to have merit. I propose to test the merits of the model quantitatively before proceeding to a more in-depth exploration of specific firm-state interactions.

This model is not limited to a firm's threat to relocate (or reallocate) production from a developed to a developing country. Until 1938, about two-thirds of the stock of foreign direct investment worldwide flowed out from developed countries and into developing countries. By 2003, nearly 70% of world FDI continued to flow out of developed countries, but was now flowing *into* developed countries as well. This represents a complete reversal from investment patterns in the pre-World War I period (Dunning 1983; UNCTAD 2004).[63] The strategy presented here explains why a firm may locate a large portion of its operations in developed countries, and why it may choose to relocate (or reallocate) production from one developed country to another. Quoting Ietto-Gillies (2005, 174):

> There are many reasons why TNCs may want to locate in developed countries such as high-income markets, good infrastructure, and a skilled and educated workforce. The problem may be the high degree of organization of the workforce; however, by spreading over many developed countries TNCs will face a weaker labor force than by concentrating all their production in one or few developed countries. Moreover, in countries where many TNCs operate this process may lead to an overall weaker labor force because labor employed by any one company is weakened by the ownership fragmentation across the many countries in which the TNCs operate.

Thus, even while locating much of their operations in developed, highly regulated capitalist countries, a global firm can still maximize profit and leverage states. This is the purpose of globalization from the firm's perspective. This also weakens a key argument made by many IM scholars: that global enterprises are in reality limited to only regional operations, thus globalization is an exaggeration, as is its potential impact on the state. Firms may maintain mostly regional operations not because they lack the capacity to disperse production worldwide, but because they are able to achieve their goals without doing so. As I argued earlier in the

[63] The implication seems to be that much of the FDI done from 1870 to 1914—to which IM scholars such as Hirst and Thompson and Sutcliffe and Glynn point as evidence that globalization has waxed and waned—can better be understood not as FDI per se, but as imperial investment from conquering nations to their overseas colonies.

chapter, globalization is not necessarily a matter of operating everywhere on the globe, but the potential to do so. Global enterprises have this potential.

IM scholars argue that firms will often choose to locate production operations in high skill (and thus high-wage), politically and economically stable developed countries rather than low skill (low-wage) developing countries that may be more unstable. From the IM perspective, this implies that firms do not exercise leverage over developed welfare states because their options for relocation are not as broad as SM scholars might claim.

This argument only tells half the story, however. While it may be true that many firms choose not to relocate production from developed to developing countries for the reasons discussed above, it does not follow that they cannot exact concessions from developed countries by threatening to relocate or reallocate production to *other* developed countries.

Figure 3-2 illustrates differences in technological skill levels and wages between the labor force of several developed and developing countries. A firm which relocated or reallocated production from Sweden to Vietnam, for example, would clearly reap a significant benefits from the reduced cost of labor. But because of the significant reduction in technological skill level in Vietnam relative to Sweden, such a move would likely be unfeasible for the firm.[64] Furthermore, relocation to one of the other developed countries (Austria, Belgium or the Netherlands, for example) would make little sense: the differences in both wages and skills between Sweden and these countries are simply not large enough to justify a move.

But figure 3-2 does not tell the whole story. Figure 3-3 presents the same data for a wider range of countries. While a relocation or reallocation from Sweden to Vietnam, or Sweden to Austria, might not make sense for the firm, relocation or reallocation from Sweden to Ireland, or Finland, or Taiwan certainly might. These options would allow a firm—completely within the range of developed countries—to use threats of relocation or reallocation of

[64] One might expect a concurrent reduction in both physical and technological infrastructure as well.

production to pressure states for concessions, where a movement from one to another would have a substantial benefit to the firm.

The point here is that these opportunities do not exist for the firm if its operations are limited to one—or a small number—of host countries, but only when the firm operates worldwide. As IM scholars note, differences *do* remain between states, particularly in economic

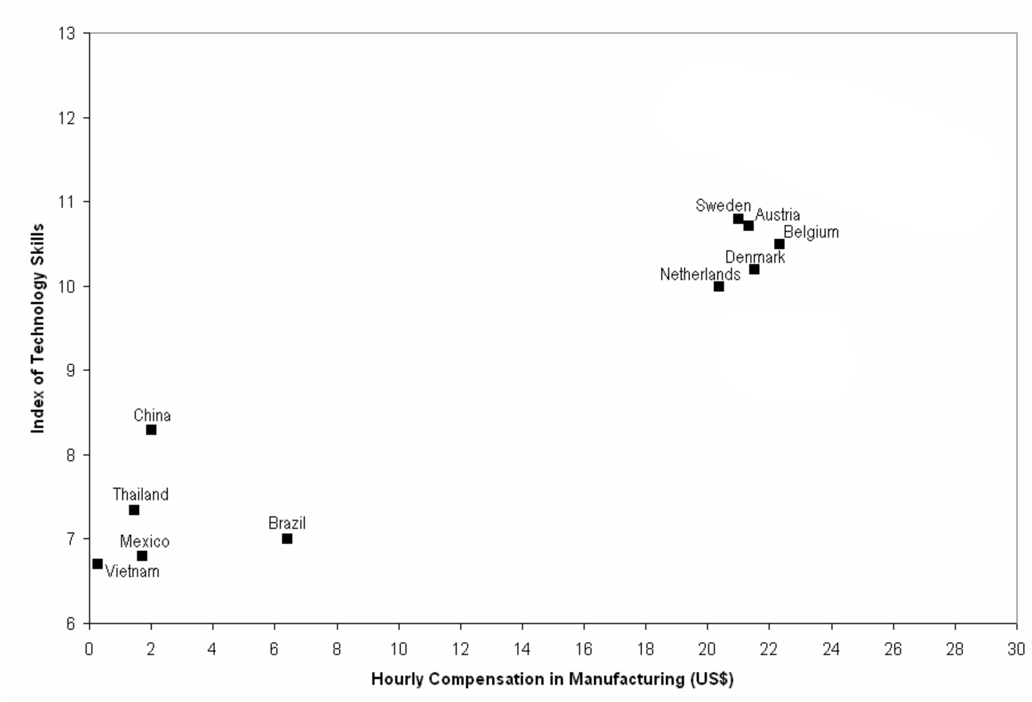

Figure 3-2: Wages and Skills in Ten Countries
source*: Global Competitiveness Report 2004* (World Economic Forum)

policy. But these differences represent opportunities for firms rather than simply inconveniences. Dispersion of production operations by firms fragments the effectiveness of both labor and state regulatory regimes, creating advantages for firms.

Ietto-Gillies' thesis, that global operations fragments the power of labor, suppliers and the state—actors with which firms must interact and bargain in pursuit of market share and profit—explains why firms "go global." It explains why firms embedded in national varieties of capitalism, or which have in the past been agents of state power, might leave behind the advantages derived from their embeddedness: because greater advantages may be gained from pursuing global operations. The fragmentation thesis also dispels the idea that globalization must mean convergence of states' regulatory practices. Preservation of differences between countries in this regard may actually be in the interest of global firms; as we have seen, it allows firms to engage in a form of regulatory arbitrage, to the advantage of the firms themselves.[65]

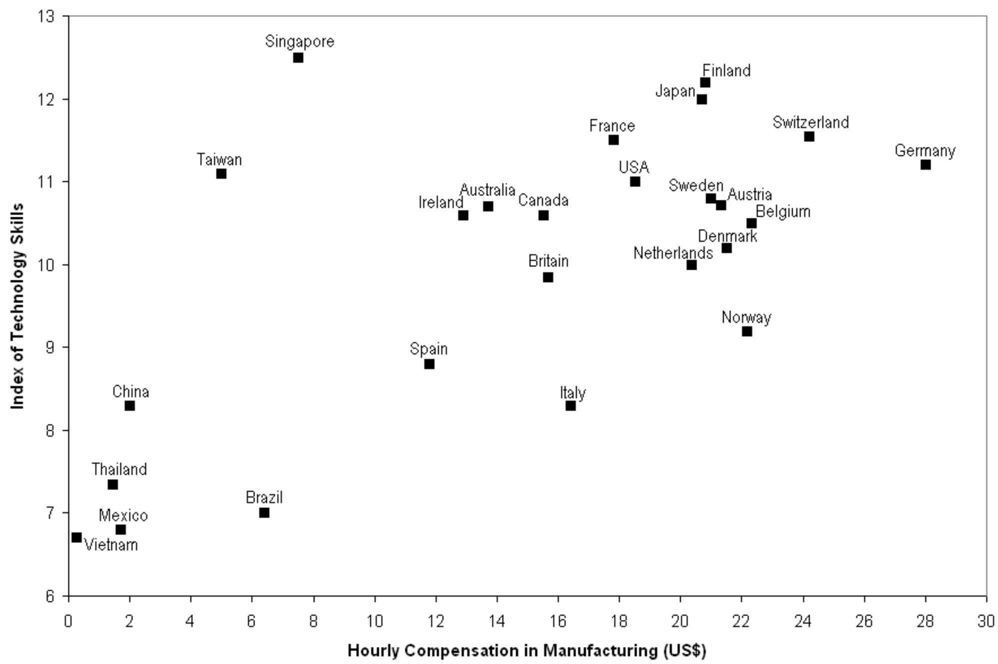

Figure 3-3: Wages and Skills in Developed and Developing Countries
source: *Global Competitiveness Report 2004* (World Economic Forum)

3.5.4. Measuring and Aggregating Leverage

The question at this point is: which firms enjoy the advantages of global operations and the resulting leverage over states that these advantages create? The simplest answer, of course, would be *global enterprises*: those firms which are most global have the most leverage. But this is an incomplete answer. Does this not put us back where we started—with the SM

[65] It does not necessarily follow that firms are willing to *pay* for the regulatory infrastructure and social insurance systems of modern welfare states.

“race to the bottom?” I think not. This is because, unlike the SM perspective, this model does not assume that all large firms are global, nor that all countries are equally exposed to globalization.

Let us begin by considering those firms which Robert Reich (1991, 45) labeled “national champions.” These are a country’s “core corporations:” those firms that contribute most to the domestic economy and have become synonymous with the country in which they originated. Examples include General Motors in the United States, Volvo in Sweden, Nestlé in Switzerland. Reich’s argument, shared by the perspective I propose here, is that such national champions have “outgrown” their home countries and their interests no longer coincide with those of their home state.

Where once they were clearly *international* firms, many (though not all) national champions have become *global* enterprises. As I wrote in the previous section, the central measure of a firm’s “globality” is the dispersion of its production operations. A firm whose physical assets are dispersed in a large number of countries is therefore *global*, while a firm whose assets are concentrated in only one or a small number of countries, from which the firm reaches world markets via trade (mostly exports from its home country) is *international*.

For the purposes of measuring the leverage of firms over states, this is only half of the picture. This is because the importance of a firm’s operations in a given country may be valued differently by the *state* than by the *firm* itself. Table 3-3 illustrates this using actual data from Finland. In 1999, Nokia and UPM-Kymmene were two of Finland’s core corporations (whether they remain “national champions” is of course part of the question here). In that year, the value of Nokia’s physical assets in Finland (that is, its physical property, equipment, product, etc.) amounted to 4.4% of Finland’s GDP. The value of UPM-Kymmene’s physical assets in Finland amounted to 6.5% of GDP. This data tells us that UPM-Kymmene left a larger “footprint” on the domestic economy of Finland than Nokia did.

But we must also look at the state-firm relationship from the *firm's* point of view. UPM-Kymmene did indeed make a larger contribution to the Finnish economy. However, UPM-Kymmene was also less geographically dispersed in its operations profile. As table 3-3 shows, 71.5% of UPM-Kymmene's assets were located in Finland in 1999. The assets of Nokia were much more dispersed: only 42.2% of the firms operations were located in Finland. The remaining 57.8% were spread in other countries around the world.[66] So while Nokia was responsible for a smaller share of GDP, it was already much more global, and could make a more credible threat to relocate or reallocate its production beyond Finland. UPM-Kymmene, though leaving a larger "footprint" on the Finnish economy, had a less credible threat to relocate or reallocate its production operations. Its assets were much more heavily concentrated in Finland, giving the company a narrower range of choices for reallocating production.

Table 3-3: Comparing Two Corporations in Finland (1999)

	Value of Physical Assets Located in Finland	Domestic Assets as a % of Firm's Total Assets	Domestic Assets as a % of Finland's GDP
UPM-Kymmene	$8,311,969,986	71.5%	6.5%
Nokia	$5,594,109,306	42.2%	4.4%
Value of Total Assets of UPM-Kymmene (Globally)			$11,633,268,000
Value of Total Assets of Nokia (Globally)			$13,242,000,000
GDP of Finland			$127,618,000,000

source: Business Week Global 1000 and author's calculations

Although dealing with "domestic" global enterprises, this example also serves to explain why foreign direct investment is better suited to measure internationalization than globalization.

[66] Specifically, this included the USA (17%), Germany (10%), China (8%), Britain (8%), and elsewhere in the world (15%). See Nokia's 1999 Form 20-F filing with the U.S. Securities and Exchange Commission.

Like my own measure of a firm's domestic assets as a percentage of GDP, FDI reveals little about the operations profile of those firms which are investing. The measure fails to tell us if those firms are international enterprises, with limited operations abroad characterized mainly by equity control, or global enterprises, with operations throughout the world. Thus FDI can tell us how reliant on inward and outward foreign investment a country is, but it cannot tell us how mobile are the firms which are investing.

In 1995 for example, total FDI represented about 69% of the GDP of the Netherlands. We might therefore expect the investing firms which made up this share of the Dutch economy to have significant leverage over the Dutch state. But our data is incomplete. We do not know anything about the firms which engaged in direct investment. How many were there? Are they international firms, gaining their first tenuous toe-hold in a foreign market, or global firms with operations worldwide? If the investment has been made by a dozen or so global firms, these enterprises may exercise significant leverage over the state. On the other hand, if the investment is the result of thousands of fairly small firms, each with modest investments—both in the Netherlands and around the world—their leverage may be much reduced. The point is that FDI as a measurement does not give us this vital information.

Returning to our Finland example: how are we to evaluate which of the two firms is more likely to be able to leverage the state? UPM-Kymmene made a larger contribution to the national economy, which presumably would cause the Finnish state to take seriously its concerns and interests. On the other hand, Nokia is more mobile (it can make a more credible threat to relocate/reallocate its investment), suggesting that the state must be concerned with potentially losing Nokia's contribution to the economy in terms of taxes and employment.

I argue that leverage can be understood as the interaction of the two factors I have described: the "globality" of the firm and its "footprint" on the domestic economy. This can be captured quantitatively by multiplying a firm's footprint by its globality; that is, its contribution to the domestic economy in percentage terms by its ratio of net global ("non-domestic" minus “domestic”) assets to its total assets. Table 3-4 calculates this measure for our two Finnish companies. For UPM-Kymmene, a “globality” of -.43 multiplied by a “footprint” of .065 yields a leverage score of -2.80. For Nokia, a “globality” of .156 multiplied by a “footprint” of .044 yields a score of 0.69. In this case Nokia can be expected to have had greater leverage than UPM-Kymmene.

Table 3-4: Comparing Two Corporations in Finland (1999)

	Globality*	Footprint**	Leverage***
UPM-Kymmene	.285 - .715 = -.430	.065	-.430 x .065 = -2.80
Nokia	.578 - .422 = .156	.044	.156 x .044 = 0.69

* (non-domestic assets) - (domestic assets) / (total assets)
** (domestic assets) / (gdp)
*** (globality) x (footprint)

I further address the methodology of this statistic in chapter four. In theoretical terms, however, the implication is that the globalization to which Nokia exposed Finland in 1999 was greater than that to which UPM-Kymmene exposed the country. I believe this statistic provides a solution to the “touch-down” problem to which I have referred to throughout this study. The problem, again, is how to measure the impact of globalization on states if our independent variable (globalization) is supranational while our dependent variable is national (state economic sovereignty)? How do we “pin down” a supranational phenomenon when all of our measurement tools (trade, investment, demographics, and so on) are national or international in scope?

The concept of leverage presented here measures the interaction of globalization and the domestic economy. I argue that the leverage of individual firms can be aggregated, to tell us the cumulative "touch down" of globalization in a country: the degree to which (highly mobile) agents of globalization dominate a particular domestic economy. While each of these agents is independent of the others, and collective action on their part is not assured, the sum of their individual actions, I contend, has a cumulative effect.[67]

But as I have said, the power relationship of leverage does not simply flow in one direction. As the Finnish data suggests, some firms may *remain* national champions. If they remain "captive" in a country, without the mobility provided by dispersed production, the state may have leverage over the firm. Again depending upon the interaction of a firm's "globality" and "footprint," an array of different power relationships between the firm and the state may exist. The model as a whole is summarized in table 3-5. Below I present four scenarios in which countries may find themselves as a result of the companies that dominate their economies. These include high or low globalization and high or low internationalization.

High Globalization

In countries which are highly globalized, the country's "national champions" have transformed from *international* to *global* enterprises. No longer simply large domestic firms that export products worldwide, they have dispersed their production operations globally. Their operations in their "home" country now represent only a small part of their global operations. These domestic operations, while only a relatively small part of the company continue to represent a large share of the national economy.

Under such conditions, the country's "domestic" global enterprises are independent of their "home" country, but the "home" country remains dependent upon these firms for its

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[67] Given the importance of peak associations for business in the small European states, such collective action may be more likely in these countries than elsewhere in the world.

Table 3-5: Leverage

			Globality: Geographic distribution of production operations	
			Concentrated	Dispersed
Footprint	Size of contribution to domestic economy	Large	High Internationalization: Mutual dependence of state and firm	High Globalization: Firms exercise leverage over the state
		Small	Low Internationalization: State exercises leverage over firms	Low Globalization: Mutual independence of state and firm

contribution to the domestic economy. As a result, these global enterprises can be expected to exercise leverage over the state. They may demand tax or regulatory concessions, be less likely to participate in corporatist institutions, and may seek to weaken these institutions. Economic sovereignty should therefore be weakened in these countries. The same result can be expected in those countries whose economies are similarly dominated by "non-domestic" global enterprises (i.e., GEs which were once some *other* country's national champions).

Low Globalization

Rather than being highly globalized, a country may exhibit what I label low globalization. As in countries marked by high globalization, these countries' "national champions" have transformed from *multinational* to *global* enterprises. and their operations in their "home" country now represent only a small part of their global operations. Unlike the condition of high globalization described above, these firms' contributions to the domestic economies are relatively small: they have not simply increased global operations relative to domestic ones, they have reduced their level of domestic operations in absolute terms. These firms have "outgrown" their original home country and have for the most part "divorced" themselves from it as a result. As a result, their domestic operations represent only a small share of the national economy.

Under such conditions, the country's "domestic" global enterprises are independent of their "home" country, but the "home" country is also independent of these enterprises. Here, neither global enterprises nor the state can be expected to exercise leverage over the other. Firms have a credible threat of mobility, but their domestic investment is not large enough for the resulting loss to the domestic economy to pressure the state. Conversely, the firms' are not "captive" to the country, and thus the state cannot pressure the firms. Economic sovereignty should be resilient, as firms and the state are essentially mutually independent. Once again, the same result can occur even if the global enterprises involved are not “domestic” in origin (i.e., “foreign” global enterprises which may have been some *other* country’s national champions).

High Internationalization

In countries which are highly internationalized, the country’s “national champions” maintain this status. They continue to produce domestically and trade internationally. Their operations in their "home" country represent a large part of their total operations, and these operations represent a large part of the "home" country's domestic economy. Furthermore, “foreign” global enterprises do not play a large role in the economy.

Under such conditions, the enterprises and the domestic economy are mutually dependent: firms remain dependent on their "home" country, and the "home" economy remains dependent upon these firms. Essentially, these are the conditions which Katzenstein described. Although such countries may exhibit little “touch-down” of globalization they may tend toward increasingly high globalization in the future if firms expand production abroad. Economic sovereignty should therefore remain strong, and—because the state, business (and presumably labor as well) are mutually dependent—institutional arrangements such as corporatism may be likely in these countries.

Low Internationalization

In countries which are characterized by low internationalization, the country’s “national champions” continue to produce domestically and trade internationally. While their operations in their “home” country represent a large part of their total operations, these operations make only a relatively small contribution to the domestic economy. Global enterprises (whatever their original nationality) have little presence in these countries, so presumably the economy is dominated primarily by *national* firms, producing domestically for domestic consumption.[68]

Under such conditions, the enterprises remain dependent upon the domestic economy, but the domestic economy does not rely heavily upon the contribution of these firms. Here states may be expected to exercise leverage over the firms, which are essentially "captive." Economic sovereignty should remain strong.

3.6. Conclusion

In this chapter I have constructed a model of globalization built upon the foundations of the supranationalization model, but correcting what I have argued are important flaws in this perspective. These include an inability to systematically measure supranationalization, an overestimation of the mobility of what are often called transnational corporations, and a resulting overemphasis on a policy "race to the bottom" and the demise of the state.

I concur with the SM view that supranational globalization is a phenomenon distinct from internationalization, and that what I have labeled global enterprises have a form of mobility. But I have attempted in these pages to clarify the difficult concept of supranationalization, and to specify how the global operations of firms actually allow global enterprises to relocate or reallocate their production operations around the world. In doing this I make a distinction which is not always clear in the SM literature between national, international and global firms. The result, I believe, is an account of the state-firm relationship which explains how global enterprises are able to extract concessions from states, thus weakening economic sovereignty. But my model also allows for *states* to exercise leverage over *firms*, or for the relationship to be one of mutual dependence or independence.

[68] While this is a theoretical option according to the model, it clearly does not describe very many countries in the contemporary world, excluding highly autarkic countries like North Korea. Perhaps the developed country which most closely fits this description is the United States or Japan.

In this chapter I define globalization as an increase in the number and significance of economic actors that define interests and employ strategies that are subject to increasingly limited geopolitical constraints. I contend that internationalization is the antecedent to supranational globalization, and that while the two phenomena continue to co-exist, globalization has become the "leading edge" of activities in the world economy today.

I argue that global economic actors, including both global investors and global enterprises are agents of globalization. For reasons I have discussed both here and in chapter one, this study is primarily concerned with the role of global enterprises. These firms establish production operations globally (in the form of physical assets), ultimately to make a profit, and because doing so allows them to enjoy advantages of global operations relative to organized labor, suppliers and subcontractors, and the state.

These advantages give global enterprises potential bargaining power to extract concessions—what I label "leverage"—from states. It is this leverage, and the state's limited options in response to it, that I contend leads to the loss of economic sovereignty by the state. Leverage, however, is a two-way street: depending upon the "globality" and economic "footprint" of firms in the domestic economy, firms may have leverage over states, states may have leverage over firms, or for the relationship can be one of mutual dependence or independence.

This chapter sets out a new model of supranational globalization. From a theoretical point of view, my objective in this study has been to construct a model of supranationalization that can be tested side-by-side with the dominant internationalization model to evaluate the relative merits of these very different views of globalization. Thus far my discussion of globalization, leverage and economic sovereignty has been theoretical. But the research question driving this study concerns the impact of globalization on the economic sovereignty of the small European states specifically. Peter Katzenstein described these countries as "small states in world markets" (Katzenstein 1985) and found that democratic corporatism, a comprehensive social welfare state, and popular participation led to impressively high standards of living, "low voltage" politics and an ability to adapt to exogenous economic challenges. After a quarter century of (potential) globalization, are these findings still valid?

Having constructed a new theoretical model of supranationalization in this chapter, and having described the internationalization model in the last chapter, we can now consider exactly how to test the relative merits of each. The remainder of this study is devoted to the actual application of my theoretical model to the real-world experiences of these countries since the 1980s. This is the objective of chapters four and five, to which I now turn.

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

The previous chapter proposed a theoretical approach to globalization which built upon the supranationalization model, but corrected what I argued were significant flaws in the model. My purpose was to construct an alternative to the internationalization model which could then be tested in order to evaluate the relative merits of each. The purpose of chapter four is to design such a test which will allow me to answer the research question I proposed in chapter one; namely: *How have globalization (that is,* supranationalization*) and internationalization impacted the economic sovereignty of the small European states since Katzenstein's findings in the early 1980s?*

As we have seen, the economic globalization debate is characterized by an exceptional lack of consensus, even upon the most basic and fundamental aspects of the phenomenon. Most importantly, scholars disagree about how to define globalization. Many other differences stem from this basic underlying disagreement, including questions about the origin of globalization, its agency, and its impact upon the state. Most importantly for this study, scholars disagree about globalization's effect upon the economic policy-making autonomy of the state—what I call the state's "economic sovereignty."

Scholars who adhere to what I call the internationalization model (IM) measure globalization in terms of international—or cross-border—economic activity, and often find that the state is resilient to the challenges posed by globalization. Other scholars represent what I call the supranationalization model (SM). These scholars, who contend that the state has been weakened by globalization, have been largely unable to offer a systematic supranational measure of supranationalization.

This study attempts to fill a gap in the literature regarding the continued validity of Katzenstein's work on the small European states from the early 1980s. The rise of globalization—or, at least, the globalization literature—has made it is unclear whether Katzenstein's findings remain valid. In light of the globalization debate, this study revisits Katzenstein's model and findings to account for the effect of the (potentially) new phenomenon of globalization.

This chapter is divided into seven sections. The first section sets out the cases selected for this study. The limitations inherent in the sample are explored, and the reasoning for the case selection is discussed.

Section two presents a review of the dependent variable for this study: economic sovereignty. I understand the concept in functional terms as the achievement of established economic goals. Economic sovereignty is operationalized using a range of variables to measure three relevant aspects of the concept as it pertains to the small European states: the continued efficacy of democratic corporatism, the social solidarity provided by universalist social welfare systems, and the continued legitimacy of the system as a whole as expressed by popular political participation.

Section three begins with a review of the competing models which address the research question presented above, and then introduces the hypotheses which are used to test the research question. These include three preliminary hypotheses which address the underlying assumptions of the competing models, and three core hypotheses which directly address the research question.

In section four, I operationalize the main independent variable used in this study: an index of global leverage. This measure is based on the theoretical insights developed in chapter three. The index is essentially a new way to measure globalization requiring many data sources and statistical calculations. When creating a new measure, the onus is on the researcher to clearly explain the methodology by which the measure was created. Taking this responsibility seriously, I provide a detailed procedure for the collection of data and the calculation of the index statistic.

In section five, I operationalize the remaining independent variables which I use to test the preliminary and core hypotheses. These include a second measure of globalization, two measurements of internationalization, and of a measure which operationalizes a third model based primarily on the work of Gøsta Esping-Andersen. Several control variables are also discussed.

Section six describes the methodology I use to test the hypotheses presented in this chapter. The results are presented in chapter five. I describe a range of relatively simple quantitative tools which are used to test the preliminary hypotheses. These include bivariate regression and descriptive statistics. To test the core hypotheses I propose to use pooled time-series regression analysis. I explain why OLS regression is used in this study. The advantages and disadvantages of this approach are discussed, and ultimately, the rationale for using this methodology is presented. Section seven then summarizes the chapter.

4.1. Case Selection

This study examines the impact of globalization on eight small European states at the end of the 20^{th} century. Specifically, the study examines Austria, Belgium, Denmark, Finland, the Netherlands, Norway, Sweden and Switzerland between the years 1991 and 2002. The unit of analysis is country-year.

It must be acknowledged that case selection in this study is clearly limited with regard to both the range of countries included and period of time observed. Limitations on the number of observations included in a scientific study invariably reduce the reliability of the study's results. The presence of such limitations in this study is for the most part unavoidable given the nature of the puzzle and research question. Despite this, there are advantages to studying this small range of countries within this narrow time frame which may compensate for the disadvantages, particularly when the study is viewed as the first step in a more long-term research project.

4.1.1. Countries Included

When attempting to address fundamental issues of globalization and sovereignty, it may seem unusual to examine eight small European democracies rather than a broader range of cases. After all, the small European states are neither *global*, as they represent only a fraction of both the world's population and economy, nor *representative* of the size or wealth of developed democracies in general.[69]

Selecting these states, however, is important for several reasons. Most obviously, the case selection is appropriate to the puzzle and research question of this study, which specifically address the small European states. More broadly, Katzenstein's analysis of the economic success of the small European states through the early 1980s, and the reasons for that success, provide a baseline against which to compare the impact of globalization. Knowing what came *before* globalization gives us a clearer picture of what has come *after*—that is, of its actual effect.

4.1.2. Time Period

Beyond the range of countries included, the study is also limited in the period of time observed. Specifically, the study is limited to observations between 1991 and 2002. Admittedly the narrow time period may limit my ability to draw valid or generalizable conclusions.

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[69] The aggregate population of the eight small European states rose from 60.9 million in 1985 to 65.3 million in 2000. Over the same period, aggregate gross domestic product increased from $798 billion in 1985 to $1.821 trillion in 2000. The average populations of the small European states rose from 7.6 million in 1985 to 8.1 million in 2000. Their average gross domestic product increased from $83.1 billion in 1985 to $227.7 billion in 2000. The average populations of the large developed democracies (United States, Japan, Germany, Britain, France, Italy) over the same period rose from 98.1 million in 1985 to 111.1 million in 2000. Their average gross domestic product increased from $1.3 trillion in 1985 to $3.4 trillion in 2000 (Eurostat).

Nevertheless, there are important reasons accepting these limitations. First, Katzenstein's study, published in 1985, documents the ability of the small European states to achieve economic success in the era of internationalization from the end of World War II to the early 1980s. It is unclear whether these states responded with equal success to globalization in the decades since that time. The puzzle I am investigating therefore dictates the time period I examine.

A second reason for the limitations placed upon the time period addressed by this study involves data availability. While scholars agree that the availability of data should not dictate case selection, such practical considerations are acknowledged to be an unavoidable factor. Not allowing this limitation to become the primary factor in case selection is therefore of greatest importance.

This study proposes a new measurement of globalization which may prove useful in the study of this phenomenon. As I explain in section four below, the data necessary to construct this measure is derived from the annual reports to shareholders of major businesses from the small European states. While these reports are generally available for recent years on firms' websites, older reports are not. Most firms make only a limited number of past reports publicly available. Reports more than ten years old must usually be obtained from a different source.

Luckily, the U.S. Securities and Exchange Commission makes electronic versions of past reports available through its website. These reports are usually only available for years since 1991, however. The time, cost and difficulty of obtaining earlier data increases drastically for years prior to 1991. This would greatly limit the reliability of the data, because large amounts of missing observations are of particular concern for time-series data. Rather than abandoning the project, or delaying it for several decades to allow for the generation of a larger number of data points, I have decided to accept 1991 as a starting point for this study.

The time-period examined extends forward to 2002. Given this limited time period, autocorrelation becomes a significant challenge to this study. Autocorrelation is "a correlation of the values of a variable with values of the same variable lagged one or more time periods back" (Aczel 1993, 534). It renders significance tests and confidence intervals invalid, thus posing a significant problem for the accurate interpretation of multivariate regression results (Lewis-Beck 1980, 28). Autocorrelation most frequently results from the use of time series data in which the effect of independent variables for one year "spillover" to affect dependent variables for subsequent years. It can be prevented by allowing a sufficient time interval between observations to negate its impact.

Given the limitations of countries and time periods included, the maximum number of observations obtainable is 96 (eight countries multiplied by twelve years from 1991 to 2002, assuming annual observations). While annual observations would guarantee severe autocorrelation in the model, even less frequent observations are problematic. Observations for this study are taken every fourth year beginning with 1991, with the final observation taken after only three years. Four observations are taken (1991, 1995, 1999, 2002) for each of the eight countries, for a total of 32 total cases.[70] Allowing four year intervals between observations, while not greatly diminishing the likelihood of autocorrelation, offers the best possible solution given the data limitations (see section 4.6.2 below). As a result, the Durbin-Watson test will be reported to measure the effect of autocorrelation. The limited number of cases in the study also raise concerns regarding the degrees of freedom available.

Despite these limitations, there are advantages to the cases selected for this study. The small European states represent an interesting critical case for the study of globalization. King, Keohane, and Verba (1994, 209) in their widely resourced work on social science methodology, refer to the extra inferential utility of certain types of case studies:

[70] At the time of the writing of this study, one or two additional periodic observations might be possible. However the time involved in the compiliation of the original data, and the limited time allowed for the completion of this study made additional data gathering impractical, though this is certainly indicated for future research and expansion of this model.

> If the investigator chooses a case study that seems on *a priori* grounds unlikely to accord with theoretical predictions—a "least-likely" observation—but the theory turns out to be correct regardless, the theory will have passed a difficult test, and we will have reason to support it with greater confidence.

In chapter three, I contend that global enterprises that leave a significant "footprint" on a domestic economy, and additionally have achieved global production capacity, exercise leverage over states. This weakens states' economic sovereignty. This perspective is the foundation for several of the hypotheses I propose below in section three. To test these hypotheses, the small European states offer an excellent laboratory.

Katzenstein's work on the small European states describes business in these countries as firmly embedded in domestic economic institutions. Although the largest firms in these countries have had significant impacts on their domestic economies, and have relied on exports for their economic success, these firms concentrated both assets and decision-making authority in their home countries. Additionally, Katzenstein (1985, 32, 88-89) documents business' adherence to an ideology of social partnership, in which all domestic actors are viewed as "in the same boat." These firms have been "national champions" (in Reich's sense of the term) rather than global firms. Katzenstein documents a pronounced culture of economic solidarity in the small European states.

For firms to shift their interests and strategies from a basis on international trade and social partnership to one of global operations and fragmentation of social partners would seem unlikely. Little in the experience of these national champions suggests that they would so dramatically disregard their nationality. The small European states therefore represent a "least likely" observation which would seem unlikely to accord with the predictions of my modified supranationalization model. If the supranationalization model is supported by the study of the small European states, therefore, it will have passed a quite difficult and meaningful test.

4.2. The Dependent Variable

The dependent variable for this study is economic sovereignty, defined here narrowly as the ability of a state to achieve established economic goals. In the case of the small European states, this means the ability to adapt to changing economic conditions in the furtherance of goals. This study operationalizes economic sovereignty using a number of variables which measure the three components of sovereignty in the small European states described in chapters one and two: democratic corporatism, social welfare, and political participation.

Katzenstein (1985) sought to understand the economic success of the small European states, and found that democratic corporatism was responsible. Katzenstein (1985, 29) defined economic success, his dependent variable, as

> the extent to which social coalitions, political institutions, and public policies facilitate or impede shifts in the factors of production that increase economic efficiency with due regard to the requirements of political legitimacy.

This study seeks to update Katzenstein's work by examining the impact of globalization on the small European states. To do this, it is necessary to quantify Katzenstein's rather difficult concept of economic success. Katzenstein notes that "common sense approves our measuring success or failure in adjusting to economic change by economic or political yardsticks." However, he chooses not to employ such measures directly because they "generate problems for analysis (Katzenstein 1985, 29)."

Katzenstein's definition of economic success focuses upon process—the ability of the small European states to adapt. Ultimately, however, the expression of the concept is measured in terms of outputs rather than inputs. How does Katzenstein know that social conditions, political institutions, and public policies have facilitated shifts? The proof for Katzenstein is in the quantifiable achievements of the small European states: a high standard of living, wages comparable to those of larger developed democracies, low levels of poverty and inequality. Indeed, a motivating puzzle for Katzenstein's study is the quantifiable economic success of these states compared to the United States:

> By 1982, five European states had surpassed the United States in per capital gross domestic product (GDP), among them Switzerland, Sweden, Norway, and Denmark. The average Norwegian or Danish family today enjoys a standard of living higher than its American counterpart.

This study measures economic sovereignty in the small European states in terms of their ability to maintain the long-held and well-established goals of their economic policies. These outputs are the objective of the adaptive capacity of the small European states' economic systems which Katzenstein described. Because there is considerable evidence of public support in the small European states for the continued popularity and maintenance of these outputs, any adaptation that maintains these outputs may be considered an expression of economic sovereignty (Swank 1998). Failure to maintain these goals, conversely, may be considered evidence of diminished economic sovereignty.

For Katzenstein, democratic corporatism, in the context of popular political participation, is the primary explanatory variable which has led to the achievement of economic success. Institutionally, corporatism has mediated the structural economic vulnerability of the small European states by coordinating economic actors to achieve economic goals. But central to the supranationalization model described in previous chapters is the contention that globalization may break down the bonds of corporatism by undermining the commitment of "domestic" global corporations to the system. This in turn weakens economic sovereignty.

For this reason, democratic corporatism must be treated here as a dependent variable. While each of the hypotheses tested by this study accepts democratic corporatism as a primary contributor to past economic success, its continued efficacy is now questioned. Measures of the continued strength of democratic corporatism, the achievement of social welfare goals, and popular political participation will each be used to measure the economic sovereignty of the small European states.

This study employs a broad range of indicators of the dependent variable. These indicators measure the degree to which outputs indicative of economic sovereignty in the small European states have been maintained since 1991. Multiple indicators are used because the concept of economic sovereignty, as adapted from the work of Katzenstein, is too complex and wide-ranging to be captured by a single measure. As noted above, this is the very reason why Katzenstein choose a more qualitative approach to his own research. A useful measure of economic sovereignty therefore requires multiple indicators to capture the concept's multiple dimensions.

Following Katzenstein, the indicators are grouped into three categories that reflect the three elements of economic sovereignty in the small European states. They include: six measures of *democratic corporatism*; nine measures of *social welfare*; and one measure of *popular political participation*. All measures are lagged one year. An overview of these indicators is presented in Table 4-1. Each is discussed in further detail below.

4.2.1. Measures of Corporatism

Six measures of democratic corporatism are employed in this study. They include (1) net union density, (2) labor disruption, (3) wage volatility, (4) coverage of collective bargaining, (5) centralization of collective bargaining and (6) organizational authority of peak associations.[71]

Union density refers to the degree to which a country's labor force is organized by labor unions. As one of the social partners in the tripartite system of industrial relations, organized labor has been an essential element of democratic corporatism in the small European states. A

[71] It was my intention to include here a measure of the solidarity of peak associations of business to test whether supranational globalization weakens the cohesion of such organizations, as the interests of global enterprises would be more likely to differ wth those of international or national members of the association. I was unable to locate reliable interval level time-series data to measure the concept. To the best of my knowledge, none exists. I therefore infer peak association solidarity from my measures of collective and centralized bargaining. This inference extends to unions as well.

Table 4-1. Dependent Variables

Democratic Corporatism

Name	Description	Source
Net Union Density	Net union density indexed to country's average for 1980-84	ICTWSS Database
Labor Disruption	Working days lost to strikes, lockouts or other labor disputes per 1,000 workers	ILO Yearbook of Labour Statistics
Wage Volatility	Value of the annual percentage change of real hourly earnings for average production worker	OECD Health Dataset
Collective Bargaining (Coverage)	Employees covered by wage bargaining as share of all earners with the right to bargain, indexed to country's average for 1960-69	ICTWSS Database
Collective Bargaining (Centralization)	Centralization of wage bargaining by peak associations, indexed to country's average for 1960-69	ICTWSS Database
Organizational Authority	Authority of organized labor over subordinate units at national and sectoral levels, indexed to country's average for 1960-69	ICTWSS Database

Social Welfare

Name	Description	Source
Contributory Welfare	Percentage of welfare receipts contributed by protected persons	Eurostat, Social Protection in Europe
Welfare Generosity	Index of overall social welfare generosity, indexed to country's average for 1980-1984	Comparative Welfare Entitlements Dataset
Poverty Reduction	Percentage reduction in poverty rate before and after social expenditures	Living Conditions & Social Protection

Table 4-1. Dependent Variables (continued)

Social Welfare (continued)

Name	Description	Source
Inequality Reduction	Percentage reduction in GINI income inequality score before and after social expenditures	Living Conditions & Social Protection
Inequality90/10	Ratio of earnings received by workers at the 90th and 10th percentiles, indexed to country's average for 1980-1984.	OECD Trends in Earnings Dispersion
Inequality90/50	Ratio of earnings received by workers at the 90th and 50th percentiles, indexed to country's average for 1980-1984.	OECD Trends in Earnings Dispersion
Low Income Share	Share of earnings of lower three deciles as a percentage of total earnings across deciles.	OECD Trends in Earnings Dispersion
Mid Income Share	Share of earnings of middle four deciles as a percentage of total earnings across deciles.	OECD Trends in Earnings Dispersion
High Income Share	Share of earnings of upper three deciles as a percentage of total earnings across deciles.	OECD Trends in Earnings Dispersion

Popular Political Participation

Name	Description	Source
Voter Turnout	Voter turnout as percentage of voting age population	IDEA Voter Turnout Database

measure of the degree to which unions represent workers in society is thus an important indicator of corporatism itself, and of the relative strength of labor.

Measurement of union density, however, has proven rather difficult for scholars.[72] Reporting standards and methods often vary across countries, and unions themselves may have incentives not to disclose their actual number of members. The generally accepted definition for labor density has been “union members as a proportion of the eligible workforce” (ILO 1997). The term “members,” however, has several different meanings. It may refer to *net* membership (reflecting only those members currently employed), *active* membership (reflecting both employed and unemployed members), or *gross* membership (reflecting active as well as retired members) (ILO 1997).[73]

This study operationalizes union density as net union members as a percentage of the total civilian labor force, indexed to the average unionization level between 1980 and 1984.[74] This facilitates direct comparison between countries in the sample by measuring the degree and direction of change in unionization rather than raw density itself. Data for the indicator is taken from the Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS) by Visser (2009).

Labor disruption refers to the interruption of normal work by industrial disputes such as strikes and lockouts.[75] Corporatism in the small European states is built upon the premise that

[72] For a comprehensive examination of these problems, see the European Industrial Relations Observatory (2004) *Trade Union Membership 1993-2003*. Available online at www.eiro.eurofound.eu.int/2004/03/update/tn0403105u.html. The report notes: “Despite the interest in them, membership figures for social partner organizations ...are arguably one of the most difficult and contentious areas of industrial relations data.” (1) With regard to trade unions specifically, the report observes that “[g]iven the importance of the size of their membership in many aspects of their dealings with employers and public bodies, and in their treatment in comparison with other unions, trade unions are in some cases quite sensitive about their membership figures.” (1)
[73] The term “members” however can be open to interpretation, and can be operationalized as all gross members (including those retired and unemployed), active members (excluding those retired but including unemployed), or net members (excluding both those retired and unemployed).
[74] These years are chosen because, for many small European states, they represent a high point in unionization levels. Indexing to these years gives us the best possible view of the impact of globalization (as well as other indicators) since that time.
[75] The Fifteenth International Conference of Labour Statisticians (1993) adopted the following standard definitions for these terms. A “strike” is defined as “a temporary work stoppage effected by one or more groups of workers with a view to enforcing or resisting demands or expressing grievances, or supporting other workers in their demands or

the small size and vulnerability of these economies necessitate a cooperative relationship between labor and capital, because these countries simply cannot afford the economic disturbance of widespread conflict in industrial relations. The 1930s and 1940s were the turning point in the building of such a consensus:

> In those two decades, business and unions, as well as conservative and progressive political parties, became convinced that they should impose strict limits on domestic quarrels, which they viewed as a luxury in a hostile and dangerous world. Since the mid-1950s, the requirements of international competition have helped to maintain that conviction (Katzenstein 1985, 30).

From its very beginnings, then, peaceful industrial relations have been a hallmark of democratic corporatism. Measuring incidences of labor disruption thus provides another important indicator of the continued viability of corporatism in the small European states.

This study measures labor peace as the annual number of working days lost to strikes and lockouts per 1,000 employed workers. The data is derived from the International Labor Organization's annual *Yearbook of Labor Statistics*.

A measure is included to capture another central characteristic of democratic corporatism in the small European states: a relatively comprehensive "incomes policy." The small European states adopted free trade policies because their size and vulnerability made protectionism impractical. To compliment free trade, these states have adopted "incomes policies" designed to restrain the growth of wages.

The indicator *wage volatility* is included here to capture this concept. It bares an inverse relationship to "wage restraint," which refers to agreements between employers and labor to restrain pay increases under collective bargaining agreements. Wage restraints are intended to

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grievances." A "lockout" is defined as "a total or partial temporary closure of one or more places of employment, or the hindering of the normal work activities of employees, by one or more employers with a view to enforcing or resisting demands or expressing grievances, or supporting other employers in their demands or grievances. A "labor dispute," besides a "strike" or "lockout" is defined as "a state of disagreement over a particular issue or group of issues over which there is conflict between workers and employers, or about which grievance is expressed by workers or employers, or about which workers or employers support other workers or employers in their demands or grievances." (International Labour Organization *Yearbook of Labour Statistics* 2002, 1511) be mutually beneficial. Employers benefit from the maintenance of stable labor costs. Employees help to ensure their jobs by making their companies more efficient and internationally competitive. Both benefit from the lower rates of inflation facilitated by wage restraints. Additionally, wage restraints in corporatist countries usually include the implicit or explicitly promise that generous social welfare benefits will compensate for the wage concessions made by labor. Stable wages are also indicative of corporatist tripartite negotiations. Large annual fluctuations are taken to be an indicator of the diminished effectiveness of tripartite bargaining, and thus of democratic corporatism.

Wage volatility is measured here as the absolute value of the annual percentage change of real hourly earnings for average production workers in each country. While business and unions may prefer wage decreases or increases, from a comprehensive perspective it is fluctuations that are considered undesirable in the bargaining process. For this reason, the absolute value of annual change is reported here. Because this indicator measures real wages, adjustments for inflation are built-in, thus controlling for the effects of inflationary pressures. The data is compiled from the OECD Health Dataset Online.[76]

Coverage of *collective bargaining* refers to the degree to which workers are covered by collective bargaining agreements. This indicator measures the share of all employees covered by wage bargaining agreements as a proportion of all wage and salary earners in employment with the right to bargain. As such, it is central to the concept of globalization. Collective bargaining indicates the comprehensiveness of tripartite bargaining at the national level. It also serves as an indirect measure of the strength and coverage of peak associations of both business and labor, since these characteristics are needed to facilitate collective bargaining. The indicator is indexed to each country's average score for the period from 1960 to 1969.[77] It

[76] Despite its name, the dataset is also the OECD's primary data source for basic demographic and labor force data.
[77] The purpose is to provide a baseline for comparison between countries by measuring relative degrees of change. The 1960s were chosen as representative of the era of democratic corporatism in the small European states.

therefore measures the change in a country's pattern of collective bargaining rather than the raw score itself. The data is obtained from the ICTWSS Database by Visser (2009).

Centralization of collective bargaining is a related indicator which measures the centralization and coordination of bargaining by labor unions. This is an interactive variable which takes into account both the concentration of membership in labor organizations and the formal authority of the organization over its affiliates or members at lower levels. The variable is the sum of this interaction at both the national/confederation and sectoral/union levels. This measure is also indexed for each country relative to its average score for the period from 1960 to 1969. The data is obtained from the ICTWSS Database by Visser (2009).

A measure of the *organizational authority* of unions is also included as an indicator of corporatism. This variable measures the degree of control exercised by labor organizations over bargaining efforts, the appointment of labor leaders or representatives, wage setting autonomy, and strike coordination. This control is measured at two levels: confederal (that is, control exercised at the national level over constituent unions at the sectoral level) and sectoral (that is, control exercised at the union level over constituent branches and their members). This measure is also indexed for each country relative to its average score for the period from 1960 to 1969. The data is obtained from the ICTWSS Database by Visser (2009).

I should note at this point that the measures of collective bargaining, centralization and organizational authority are obviously interrelated. Each measures a slightly different aspect of the corporatist system of peak associations and hierarchical bargaining. While inclusion of these three variables would be somewhat redundant if they were independent variables, as dependent variables they give us a more nuanced picture of corporatism and the potential changes to that system which have occurred in recent years.

4.2.2. Measures of Social Welfare

In addition to the tripartite bargaining system of corporatism, generous social welfare benefits have been central to the expression of economic sovereignty in the small European states. While corporatist bargaining and consultation have diminished conflicts, increased economic efficiency and allowed states to be more competitive in international markets, social welfare benefits have compensated for the inevitable economic displacements which often result. The predominantly universalist nature of social welfare programs in these countries also reinforced social solidarity. This is critical to the maintenance of the ideology of social partnership. Actors in society will be less likely to consider themselves all "in the same boat" if they lack social capital and a sense of broader community. The solidaristic nature of universal welfare provides these.

Nine measures of social welfare are employed here. They include (1) contributory welfare, (2) welfare generosity, (3) poverty reduction, (4) inequality reduction, (5-6) two measures of income inequality, and (7-9). measures of low, middle and high income shares. With the exception of the first and second indicators, all of these variables measure not social welfare *inputs*, but *outputs*: the success of the welfare system in achieving its goals.

As I discuss above, central to the concept of social welfare is the promotion of social solidarity. For democratic corporatism to function, actors in society must have a sense of collective interest and social partnership. Universal social welfare programs have served to encourage this. An examination of social welfare expenditures in the small European states reveals that the overwhelming majority of welfare expenditures remain universalistic, with means tested expenditures accounting for a tiny share of the total in all eight countries (Eurostat 2002). Nevertheless, the funding of these universal programs is of interest. The first measure above, *contributory welfare*, measures the percentage of social welfare receipts contributed by "protected persons," or the beneficiaries themselves. Receipts from employers, labor funds, and general government revenue (i.e., taxes, including those collected from protected persons) are not included. The measure therefore captures the percentage of welfare costs shifted onto those who most depend on their benefits. Data for the measure is taken from the Statistical Office of the European Communities' (Eurostat) publication *European social statistics: Social protection expenditures and receipts.*

The second measure is a comprehensive summary statistic describing the benefits themselves. *Welfare generosity* is obtained from the Comparative Welfare Entitlements Dataset by Scruggs (2005). This measure is an index derived from country-level data evaluating the generosity of welfare replacement and compensation rates, both in cash and in-kind benefits, for unemployment, sickness, pensions and family programs across several income classifications. The measurement therefore describes both the level of insurance provided relative to work benefits and the universalism of the system as a whole. The measure included here is indexed to the average country score for the years 1980-1984 to describe the relative increase or decrease in welfare generosity over time.

The remaining measures of social welfare examine the outputs of the welfare system rather than its inputs. Before continuing to the description of these variables, a brief discussion of the utility of measuring outputs versus inputs is in order.

When evaluating economic sovereignty using social welfare as an indicator, the underlying assumption is that economic sovereignty may be revealed not through statutory or formal-institutional means, but through the functionality of these institutions. Sovereignty is expressed by the ability of institutions to continue to achieve long-term goals. I argue that an output approach is superior to an input approach when measuring sovereignty, and that while generally difficult, it is particularly appropriate for the small European states. I detail both arguments in turn.

Measuring sovereignty in terms of the outputs of institutions improves upon measures which rely on inputs. This is particularly the case when examining social welfare. Consider a comparative evaluation of the economic policy autonomy of the United States and Sweden on the basis of welfare inputs—that is, the amount of resources devoted to welfare programs. We would find that the Swedish state spends a much larger share of GDP on social welfare than does the American state. Based on this, we would conclude that Sweden retains greater economic sovereignty than the United States. Such a conclusion, of course, would be unjustified. It is based on the faulty assumptions that inputs reveal capacity. The data reveals not Sweden's greater level of sovereignty, but its greater priority on welfare. The fact that the United States spends less on welfare reveals not a weaker capacity to do so, but a weaker priority placed on achieving economic equality.

I propose that economic policy autonomy is best understood using outputs rather than inputs; that is, the achievement of established goals rather than the formal capacity to make an attempt. Returning to the example above, if we assume that Sweden prioritizes the functional outputs of social welfare programs (reduced poverty and inequality, for example), then sovereignty is revealed not by the amount spent (inputs) but by the results achieved (outputs). Institutions which fail to achieve results despite having the resources to do so, I argue, reveal diminished sovereignty.

Conceptualizing sovereignty in functional terms is not without dangers. One must be able to determine the functions a priori in order to evaluate whether institutions continue to fulfill them. Making this determination can often be subjective, and involves potential problems for generalizability. Returning to the example above, if Sweden continues to substantially reduce poverty and inequality through welfare programs, we can conclude that in this respect, Sweden has maintained economic sovereignty. How do we make a comparison with the United States? Reducing poverty and inequality are not very high priority of the American state. If poverty and inequality are relatively high in the United States, we cannot therefore conclude that the American state has reduced sovereignty. Comparison of relative levels of economic sovereignty therefore becomes a problem when priorities differ substantially, as in the case of the United States and Sweden.

Luckily, this is not a problem in the sample examined in this study. This is because there is considerable evidence of public support in the small European states for the continued popularity and maintenance of social welfare outputs such as poverty and inequality reduction. Any adaptation that maintains these outputs may be considered an expression of economic sovereignty (Swank 1998). Failure to maintain these goals, conversely, may be considered evidence of a diminution of economic sovereignty. Seven measures of the achievement of social welfare goals are included here.

The first of these is *poverty reduction*. Studies examining the functioning of social welfare states have frequently focused upon the final poverty rate of societies to measure the affluence of society (or lack thereof). Others, such as Crepaz (2002), correctly note that with regard to the strength and resilience of the welfare state, a more telling statistic is the capacity of the *state* to reduce poverty. Crepaz uses a measure of the degree to which state welfare programs have reduced poverty by subtracting the share of the population at risk of poverty *after* taxes and social transfers from the share of persons at risk of poverty *before* social transfers. A country with a pre-transfer rate of 20% and a post-transfer rate of 10% would therefore show a 50% reduction of poverty.

Poverty reduction is measured here as the percentage reduction in poverty after social transfers. The data comes from the Statistical Office of the European Communities' *Eurostat* website, which in turn is derived from the EU's *Living Conditions and Social Protection Statistics* publication.[78]

The same underlying logic is used to measure *inequality reduction*. Here the data analyzed before and after government transfers is income inequality, as expressed using the well-known GINI statistic. Again the measure describes the degree to which states are able to use the social welfare system to achieve a socially desirable goal. Data for the variable comes

[78] The database is available at: *http://europa.eu.int/estatref/info/sdds/en/ strind/socohe_di_base.htm*

from the *Eurostat* website, derived from the EU's *Living Conditions and Social Protection Statistics* publication.

The remaining welfare variables also measure income inequality in a variety of forms. From the perspective of the small European states, increases in income inequality are of particular concern. Social cohesion is of central importance given the vulnerabilities of the small European states in the world economy. Increases in income inequality, beyond their contradiction of egalitarian goals held in these societies, threaten to weaken social cohesion.

Two traditional measures of income inequality are included here: *inequality90/10 and inequality90/50*. The former measures the ratio of earnings received by workers at the 90th percentile to the earnings of workers at the 10th percentile, after taxes and transfers. The latter presents the same ratio between workers at the 90th and 50th percentiles. Both measures are indexed to average country scores for the years 1980 through 1984 for historical comparison. In both cases data is derived from the OECD's online database *Trends in Earnings Dispersion*.[79]

The final three variables use data from the same source to examine inequality in a broader class-based form. *Low income* share measures change in the income of the lower three deciles as a percentage of total income across all deciles. The same statistic for the middle four deciles is described by *middle income share*, while the top three deciles are described by *high income share*. These measures indicate whether any trend which may be discovered in the narrowly-tailored *inequality90/10* and *inequality90/50* variables is reflected in income patterns among broader socio-economic classifications.

[79] This can be accessed at the *sourceoecd.org* website.

4.2.3. Measures of Popular Political Participation

Popular political participation is the third category of indicators of economic sovereignty. While corporatism provides a framework for economic cooperation to promote international competitiveness, and social welfare compensates for economic displacements, popular political participation legitimates the system by giving the general population a voice in its governance.[80] Indeed, popular political participation is the "democratic" aspect of democratic corporatism. Voter turnout is included in this study as a measure of popular political participation.

Participation rates for elections in the small European states have traditionally been quite high:

> Just as the main economic interest groups fully organize their respective social sectors, so political parties mobilize a very large proportion of their electorates (Katzenstein 1985, 90).

To capture this aspect of popular political participation, voter turnout is included as an indicator in this study. Voter turnout is measured in this study as the total number of votes cast in national parliamentary elections divided by national voting age population. For each country, four waves of observations will be taken on voter turnout. The first will include elections between 1992-1995; the second between 1996-1999; the third between 2000-2002; and the fourth between 2003-2005.[81] Data on voter turnout is available and compiled from data published by the Institute for Democracy and Electoral Assistance.

4.3. Competing Models and Hypotheses

Thus far in this study I have presented two competing models which answer the research question in very different ways. The supranationalization model, with the modifications introduced in the previous chapter, argues that globalization has weakened the economic

[80] Indeed, one ne of the enduring critiques of corporatism is that it is insufficiently democratic.
[81] For countries that held multiple elections within a single observational wave, an average of voter turnout rates is taken.

sovereignty of the small European states. While these states successfully managed their exposure to the international economy, the rise of a global economy, in which supranational economic actors may transcend political and jurisdictional borders, has proven to be a more difficult challenge.

The internationalization model views the situation quite differently. Arguing that globalization (as described above) is a myth, an exaggeration, or simply another name for internationalization, this perspective argues that Katzenstein's findings remain valid today. Because the "global" economy is not structurally different from the "international" economy, the small European states have followed the time-tested policies that have proven successful in the past. These policies continue to work because business continues to support them. In particular, IM scholars argue that those firms described in the SM literature as "global" are in fact multinational, with home bases—and interests—in their countries of origin.

While this study has primarily focused on the academic debate between the SM and IM perspectives on globalization, we must not forget that other explanations outside of the globalization literature have been proposed to answer research questions like the one posited in this study. Not wanting to overlook such explanations, I include a third relevant model here from outside the immediate globalization literature. This model is based on the research of Gøsta Esping-Andersen and, as applied to the present question, argues that any weakening of the economic sovereignty of the small European states is due primarily to the endogenous challenges of demographic changes within societies, rather than the exogenous challenge of globalization.

4.3.1. Hypotheses

From the three models presented above, I derive six hypotheses (table 4-2). These will be tested in the next chapter in order to evaluate the relative merits of the models, and ultimately to answer the research question. The hypotheses are divided into two types:

Table 4-2. Summary of Hypotheses

Preliminary Hypotheses	
H_1	The largest firms from the small European states have globalized their production operations during the observed time period.
H_2	The largest firms from the small European states have been exposed to increased levels of globalization as a whole, but variation exists from country to country.
H_3	Globalization is related to internationalization, but is a distinct phenomena.
Core Hypotheses	
H_4	As a country's exposure to globalization increases, its economic sovereignty is diminished, as evidenced by weakened corporatist institutions, reduced capacity to deliver social welfare, and a lower level of popular political participation.
H_5	As a country's exposure to internationalization increases, its economic sovereignty is strengthened, as evidenced by resilient corporatist institutions, continued capacity to deliver social welfare, and a higher level of popular political participation.
H_6	As a country experiences greater demographic change in its employment, the performance of its institutions, including those of corporatism and social welfare, decline, and the level of popular political participation is reduced.

"preliminary" and "core" hypotheses. I first present three preliminary hypotheses. These are designed to help me evaluate the fundamental issues of globalization and internationalization presented in chapters two and three. The core hypotheses which follow are based in part on the assumption that globalization is a real phenomenon. It is therefore quite important to clearly specify and test the preliminary hypotheses, because rejection of these would render investigation of the core hypotheses pointless. As a result, I test these hypotheses first in chapter five before deciding whether to proceeding further.

The three core hypotheses propose answers to the research question I presented at the beginning of this study, and are also derived from the insights of the three models described above. The dependent variables referred to in each hypothesis are defined and measured as described in section 4.2 above. Operationalization of the independent variables referred to in the hypotheses is described in section 4.4. Each hypothesis will be tested according to the procedure described in section 4.5.

4.3.2. Preliminary Hypotheses

The research question presented by this study asks: *How have globalization (that is,* supranationalization*) and internationalization impacted the economic sovereignty of the small European states since Katzenstein's findings in the early 1980s?*

The question implies that globalization and internationalization are both real phenomena, and that they are distinct from one another. Particularly with regard to supranational globalization, these assumptions have been a matter of much debate. Before I can propose hypotheses which directly address the research question, I must first address these initial issues. For this reason I begin with three preliminary hypotheses regarding the nature of globalization and its relationship with internationalization, as they pertain specifically to the small European states.

Several clarifications are necessary at this point. Operationally, "globalization" is understood as defined in chapter two. In the hypotheses above (table 4-2), the definition implies that the productive assets of the firm are located in multiple countries, with less than half of the total physical assets of the firm located in the original country of origin. "Large" firms are understood to include the one thousand largest firms worldwide for a given year. Each of these definitional matters is examined in greater detail in section 4.4 below. The data used to test these hypotheses is complied according to procedures also established in section 4.4. The actual tests are discussed in the next chapter, but the tools used to conduct the tests and standards for their interpretation are set forth in section 4.6.1.

If these tests lead me to reject the preliminary hypotheses, no further investigation is necessary. The preliminary hypotheses are based on the assumptions of the supranationalization model. If these hypotheses cannot be substantially confirmed, the supranationalization model itself may be rejected without further study.

4.3.3. Core Hypotheses

At the beginning of this section, I referenced the basic SM argument that while the small European states successfully managed their exposure to the international economy, the rise of a global economy, in which global economic actors may transcend political and jurisdictional borders, has proven to be a more difficult challenge.

This argument is based upon the assumption that these global economic actors, particularly global corporations, are no longer embedded in the traditional economic structures of the small European states. These firms have transitioned from *international* businesses—which produce primarily domestically but trade internationally—to *global* enterprises, with production operations around the world. They have done so because global operations create inherent advantages which enhance the firm's bargaining power relative to labor, the firm's own suppliers and, most critically, the state.

In the small European states, these global enterprises are no longer "in the same boat" with the other social partners (labor and the state), and therefore have reduced incentive to participate in the institutions and processes of democratic corporatism. Indeed, they may actively work to limit or undermine the effectiveness of corporatism when it serves their interests to do so. Despite their global interests and strategies, these firms continue to have a large domestic "footprint," that is, to have a large impact on domestic economy—even though this footprint may represent only a modest share of the firm's overall operations. Essentially, these firms are less dependent upon their original home economies than the home economies are on the firms. As a result, these global enterprises have *leverage*, or enhanced bargaining power relative to the state and labor, through which they may extract economic concessions.

At the aggregate level, the presence of many global enterprises in an economy leads to a greater likelihood that the state will more often be pressured to acquiesce to firms' demands, or face the consequence of these firms' redeployment of their productive resources or capacities.[82] Thus as a domestic economy's exposure to globalization increases, the state's economic policymaking autonomy—its economic sovereignty—decreases. Put another way, the more globalization "touches down" in a particular country (in the form of global enterprises and investors) the more difficult it is for the state to maintain its economic sovereignty.

The internationalization model views the situation quite differently. Arguing that globalization (as described above) is a myth, an exaggeration, or simply another name for internationalization, this perspective argues that Katzenstein's findings remain valid today. Because the "global" economy is not structurally different from the "international" economy, the small European states have followed the time-tested policies that have proven successful in the past. The supposedly global corporations described above are not in fact *global*, but *multinational*. They remain embedded in—and dependent upon—their countries of origin.

This implies that these firms *remain* "in the same boat" as the other social partners. Internationalization is a common challenge to which the small European states, business and labor are accustomed. It is not supranational globalization which has increased in recent decades, but simply internationalization, which has waxed and waned over time. Increased volume of internationalization may indeed represent an economic challenge to the small European states, which must rely on trade partners beyond their control to maintain their wealth. But this challenge is not simply a challenge faced by one or another of the social partners, but by all of them.

[82] As I explained in the previous chapter, "redeployment" need not require a firm to physically relocate. It can—if it has sufficiently dispersed production operations—simply increase production at another site and reduce production in the "offending" country, region or location.

Katzenstein's findings suggest that a common challenge produces a recognition of the need for a common solution. In such circumstances, the dominant *international* firms in the small European states can be expected to react by working closely with labor and the state. More internationalization—that is, greater volumes of cross-border economic contacts—means more and closer cooperation. This reinforces rather than undermines the state's policymaking autonomy. Thus as internationalization increases, so too does economic sovereignty. Globalization as a distinct phenomenon is understood to have no effect (if it is perceived to be a myth), or an identical effect (if it is perceived to be synonymous with internationalization).

The demographic change model introduced above offers a third argument that is very different from the other two. According to this perspective, it is neither globalization nor internationalization that represents the primary threat to economic sovereignty, but structural changes in demographic patterns of employment. The economic institutions of work and welfare used in many European democracies were designed for the realities of the 1950s and 1960s. Since that time society has changed dramatically: the number of women in the workforce has risen substantially, as has the significance of the service-sector employment relative to manufacturing. The elderly population has expanded, particularly relative to the labor force. Meanwhile economic institutions have not kept up with changes in society.

As existing economic institutions—particularly those of welfare—enter their sixth and seventh decades, they are inadequate to the realities of the modern family and the modern workplace. These inadequacies are responsible for what has been called the "crisis" or "retrenchment" of the welfare state. States have not lost sovereignty: they have simply not made the changes necessary to fix the disconnect between the services provided by the state and the real-world needs of the people.

The models above offer three dramatically different interpretations of the economic sovereignty of the small European states. The differences between these models are reflected in the following hypotheses:

Hypothesis 4: As a country's exposure to globalization increases, its economic sovereignty is diminished, as evidenced by weakened corporatist institutions, reduced capacity to deliver social welfare, and a lower level of popular political participation.

Hypothesis 5: As a country's exposure to internationalization increases, its economic sovereignty is strengthened, as evidenced by resilient corporatist institutions, continued capacity to deliver social welfare, and a higher level of popular political participation.

Hypothesis 6: As a country experiences greater demographic change in its employment, the performance of its institutions, including those of corporatism and social welfare, decline, and the level of popular political participation is reduced.

The relative merits of the competing models can be evaluated based upon the results of the tests of these hypotheses. This is summarized in table 4-3. Broadly speaking, simultaneous confirmation of both hypothesis 4 and 5 would tend to support the SM argument. This would mean that globalization has an independent and opposite impact on sovereignty compared to internationalization.

Table 4-3. Evaluating Competing Models

Model	**Core Hypotheses**		
	H_4	H_5	H_6
Supranationalization	confirmed	confirmed	NA*
Internationalization	rejected	confirmed	NA
Demographic Change	rejected	rejected	confirmed

** confirmation or rejection of the hypothesis does not reflect upon the model in question*

Rejection of hypothesis 4 but confirmation of hypothesis 5—that is, a finding that globalization has the same effect as internationalization—would tend to support the IM argument that globalization is no more than internationalization by another name. Confirmation of hypothesis 4, with inconclusive findings on hypothesis 4—that is, no significant results for that hypothesis—would tend to support the slightly different IM argument that globalization is simply a myth.

Confirmation of hypothesis 6, regardless of the outcome of the other two, would support the demographic change model. Although confirmation of the demographic change argument does not necessarily require the rejection of the other two models to be supported, it would be more strongly supported if hypothesis 6 were confirmed while both hypotheses 4 and 5 were rejected.[83]

Measures of globalization, internationalization and demographic change will be required to test the hypotheses introduced above. Additionally, several control variables will be included to account for additional explanatory factors not included in these models. Globalization is measured with two variables: an index of global leverage and statistic measuring exposure to global finance. Internationalization is measured using two variables as well: foreign direct investment and international trade. Demographic change is measured using a standardized additive index composed of measures of workforce feminization, service sector employment, and aging population. Each of these measures is described in detail in the following section. I begin by discussing the primary measure of globalization: the global leverage index.

4.4. Global Leverage Index: Definition and Measurement

The main independent variable for this study is globalization, operationalized here using an index of global enterprise leverage. The global enterprise leverage index examines the capacity of "domestic" global enterprises to exercise leverage over state economic policy,

[83] The demographic change model as presented in this study argues that endogeneous demographic change is an often overlooked factor in the weakening of economic sovereignty. This may occur in addition to changes caused by globalization and/or internationalization, rather than instead of these.

through the credible threat of economic exit, in a particular country for a particular year. Global enterprise leverage is a function of two components: (1) *footprint*: the firm's domestic economic impact; and (2) *globality*: the degree of dispersion of the firm's production operations.   The index itself is interactive: a firm's footprint is multiplied by its globality to yield its leverage score. Thus firms with the highest combination of footprint and globality will have the most leverage, while firms with the lowest combination of the two components will have the least leverage. Higher leverage scores indicate greater globalization, and higher degrees of leverage. Each firm's individual score is aggregated with other "domestic" GEs for each country-year to create a composite leverage score for each country at each time period.

Footprint is derived by dividing the total value of a firm's physical assets within its country of origin by the country's current gross domestic product. The former statistic gives us a measure of the firm's contribution to the domestic economy. GDP gives us a measure of the country's economy itself.   A footprint score ranges from 0 to 1, scores closer to one representing a larger footprints. A footprint of .05, for example, indicates that the firm's domestic operations are equivalent to 5% of GDP.

Globality is derived by subtracting the value of the firm's physical assets inside its country of origin from the value of its assets outside the country. The resulting sum is then divided by the value of the firm's of total physical assets. A globality score ranges from -1 to +1. A firm meets the minimum threshold as a global enterprise if its globality score is a positive number; that is, if a majority of the firm's physical assets are located outside its original "home" country. A negative number indicates a firm is primarily international—that a majority of its physical assets are located inside its "home" country.

Three matters must be addressed before proceeding further: (1) the use of physical assets to measure production operations; (2) the validity of the globality statistic as an indicator of the dispersion of these assets; (3) the globality threshold described above

Physical assets are used to measure a company's production operations. Several other statistical measures of firm size are available, including sales, market capitalization, and personnel (number of employees). Of these options, physical assets is by far the best proxy by which to measure production operations. Sales data reveals the number of units of a firm's products that have been sold, but not where they were produced. Sales data which lists the geographic location of the sale (i.e., the location of the purchaser) gives us an endpoint for the sale, but not a point of origin. Market capitalization fluctuates too widely to be useful, and also tells us nothing about the geographic location of the firm's productive capacity. Personnel is a more useful proxy for a firm's productive capacity, as sales or marketing-oriented facilities often employ fewer workers than production divisions. Indeed, UNCTAD have found the assets and personnel levels of subsidiaries to be highly correlated.

Physical assets, however, is the best option for measuring the location and size of a firm's production operations. This is because physical assets includes plant, property and machinery—assets not easily relocated by most firms. Total physical assets measures the value of "real" property on the ground. Such properties are also the central components of production. Furthermore, less tangible assets such as finance capital are not included in this measure.

The validity of the globality statistic as an indicator of the dispersion of corporate assets also deserves attention. Globality measures the relative geographic dispersion of a firm's corporate assets outside its home country. But to what degree does this measure the breadth of that dispersion? How are we to know that all of the firm's assets abroad are broadly dispersed to multiple countries, rather than concentrated in only one or two other countries?

Unfortunately, I have had to rely on the second best method of guaranteeing this rather than the best method. The best way to guarantee that the globality statistic captures a wide geographic dispersion of assets would be to include in the statistic's calculation a concentration indicator measuring of the total number of countries in which a firm operates. Such an indicator is not included because the availability of detailed geographic segmentation data is highly variable between companies. Only some companies give a detailed breakdown of this data, while others aggregate geographic segmentation at the regional or continental level. Including such a component in my measure of globality would therefore be possible only for some firms, creating obvious problems for the comparison and aggregation of the data.

I have therefore had to rely on the second-best option available, which is the assumption that greater globality (as measured here) indicates greater levels of dispersion. While this may seem unsatisfying, and is clearly not optimal, the assumption itself is not without logical foundation. The firms included in the sample are those present on the annual *Business Week* Global 1000 list of the world's largest companies (see section 4.4.1 below). It is highly unlikely that any firm from the small European states could be included on this list without either being export-oriented or dispersing production globally (that is, without pursuing a strategy of either internationalization or globalization, respectively). Furthermore, it is unlikely that such a firm could reach a size necessary for inclusion on the list having pursued a strategy of globalization by producing in only one or a few countries beyond its home country.[84]

A third matter requiring clarification is the globality threshold described above; that is, how have I determined that a positive globality score (i.e., more than half of the firm's assets outside the home country) qualifies a firm to be considered "global?" Furthermore, why should we be confident that these "global" assets are not simply concentrated in one or a small number of other countries?

[84] It could be objected that this *would* in fact be possible if the one other country in question were the United States. However given the size of the American economy and variability of the American regulatory system from state to state (the differences between so-called "right to work" states and states with greater labor protections, for example), the United States is in many ways a model of the world economy in miniature. A small European state firm whose "only" production facilities outside its home country are located in the United States should not therefore be considered the same as such a firm whose only production facilities abroad were located in one of the other small European states, or even in one larger European economy.

A positive globality score represents the net percentage of a firm's assets that are located outside its home country; that is, its domestic assets subtracted from its assets located abroad, divided by its total assets. For example, a firm with 60% of its assets located outside its home country and 40% of its assets located in its home country would yield a globality score of .20 (that is, .60 minus .40). Conversely, a firm with 40% of its assets located outside its home country and 60% of its assets located in its home country would yield a globality score of -.20. The sign of the score therefore indicates whether a firm is "global" (positive) or "international" (negative) as I have defined those terms here. The only measure similar to this one with which I am aware is UNCTAD's annually published transnationality index of the world's 100 most transnational firms. In 2002, the twenty-five "most transnational" firms on the UNCTAD list had an average non-domestic asset average of 43% (that is, about 57% of firm assets were located in the firms' home country).[85] This would translate to a globality score of -.14, and would not be considered "global" as I have defined it here. The globality measure I have constructed therefore represents a rather conservative estimation of what constitutes a "global" enterprise. Having detailed the calculation of the global leverage index, I now proceed to the method by which the data for the construction of the index is selected and collected.

4.4.1. Data Selection

The global corporate leverage index for each "country-year"[86] consists of aggregate data from those nominally domestic firms that have achieved the status of major global enterprises. Clearly, the method used to determine whether or not a firm has achieved this status is of central importance to the measurement of the index, and to this research project as a whole. A

[85] While the UNCTAD transnationality index described here is similar to the leverage index created for this study, two significant differences exist. First, the transnationality index includes no concept similar to "footprint." Second, it uses sales and personnel data in addition to asset data. Annual lists are found in the *World Investment Report* publication.
[86] An individual case at a specific time period. With eight cases at four time periods, a total of 32 country-years.

valid and reliable method of selection is therefore of great importance to this study. In the section above, I detailed a methodology by which to distinguish "global" from "international" firms (the *globality* score). What I next require is a sample of "potential" global enterprises from which I can select firms which meet the "globality" test.

Luckily, such a sample exists and is readily available. Each year since 1989, *Business Week* magazine has produced a *Global 1000* list of the worlds largest public firms, ranked by assets, market value, sales and market capitalization. Each year's list is cross-referenced by firms' country of origin, creating sub-lists for each country that is home to firms on the global list.

While other publications issue similar lists, the *Business Week* report has been chosen for three reasons. First, the *Global 1000* report has been annually published longer than any of the rival studies. This allows for greater consistency and comparability in data selection. Second, the data provided by the *Global 1000* report includes firms' industrial codes, based on the International Standard Industrial Classification System (ISIC) and North American Industry Classification System (NAICS).[87] This allows the study to exclude financial firms from the index. I do this to draw as clear a line as possible between global enterprises and global investors. The distinction is discussed in detail in the previous chapter. Third, the data provided by *Business Week* is cross-referenced and ranked by country. This provides the study with a clear and concise method to determine which firms should be included in the global corporate leverage index for each country-year.

For each country-year, all non-financial firms are included that are listed on the *Global 1000* domestic lists of the eight small European states for 1992, 1996, 2000 and 2003.[88] This represents the initial sample of firms from which the index of global leverage will be constructed

[87] A detailed examination of ISIC can be found through the United Nations Statistical Office's website at *unstats.un.org/unsd/statcom/doc02/isic.pdf*; and of NAICS from the United States Census Bureau website at *http://www.census.gov/epcd/naics02.*
[88] Because the *Global 1000* list for each year is based on data from the previous year, the appropriate *Global 1000* list for each of the time periods included in this study is from the following year. Thus the data for 1991, 1995, 1999, and 2002 are found in the reports for 1992, 1996, 2000 and 2003 respectively.

for each country-year. A total of 87 different firms are included. Because most firms that make the Global 1000 tend to stay on the list year after year, the total number of "firm-year" cases in the sample is 264. The entire sample is presented in table 4-6 at the end of the chapter.

For purposes of consistency, any firm that is included on the *Global 1000* list for a small European state in a particular year, and falls off subsequent lists, will continue to be included in subsequent samples of "potential" global enterprises provided that the firm remains in operation. This is done to ensure that firms that remain global, but have been outpaced by other firms elsewhere in the world in terms of size, are not excluded, thus underestimating the actual impact of globalization.

Firms with multiple countries of origin will be included on the list of "potential" global enterprises for each home country among the small European states. For example, the firm ABB is considered to be of both Swedish and Swiss origin, following the merger in 1989 of Sweden's ASEA and Switzerland's Brown-Boveri. ABB thus has a significant impact in both economies, and will therefore be included on both countries' index measurements. Similarly, firms such as Unilever and Royal Dutch-Shell have multiple countries of origin, with one among the small European states and one outside (in both cases, the Netherlands and United Kingdom respectively). Stora Enso is considered jointly Swedish and Finnish. Such firms will also be included in the measures of the small European state.[89]

Finally, firms that merge or de-merge during the time period under examination will continue to be included provided that their domestic operations are not liquidated. One example of this is the Swedish firm Procordia, included on the 1991 and 1995 lists. By 1999, it had reorganized as Pharmacia, and by 2002 was part of the American firm Upjohn.

[89] Firms such as ABB, Unilever and Royal Dutch-Shell, as well as those outside the small European states like Daimler-Chrysler, are particularly good examples of the argument made by advocates of a supranational globalization: that nationality has become increasingly more complex, difficult to define, and—potentially—less important to global corporations.

Thus far I have described the method by which I collect a sample of potentially global enterprises originating in the small European states, and the mathematical calculation I perform to separate “global” from “international” firms. But there is a step between these two: collecting the asset data for each firm on the sample list and GDP data for each of the small European states. GDP data is of course readily available from sources such as the OECD (I use GDP data from the *OECD.Stat* online database). Collecting the relevant asset data for the 264 cases in the sample is more challenging. *Business Week* provides only the firm’s overall asset value. What I require in addition is (1) total physical assets for the firm; (2) geographically segmented physical asset data which details the value of assets in the country of origin, compared to asset levels elsewhere in the world. All data is denominated in current United States dollars for the sake of comparability.

4.4.2. Data Collection

Data on the value and distribution of each firm’s assets are obtained directly from company publications. Each of the firms included in the index publishes an annual report to shareholders (ARS) containing most of the data necessary to measure the firm’s globality and footprint. Additional sources for the data include several types of financial filings which most of the firms included file annually with the United States Securities and Exchange Commission.[90] These filings include forms 20-F, 10-K and 6-F.[91]

Each of these sources of corporate data, and particularly firms’ ARS and 20-F reports, are available from multiple sources. The Securities and Exchange Commission itself has

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[90] Because most global firms do business in the US, they are required to complete these forms which include data not only on US operations, but firm operations world-wide.
[91] Form 20-F is required to be filed annually by foreign private issuers conducting business in the United States, pursuant to SEC rules, section 13 and 15(d). Form 10-K is required to be filed annually by domestic firms, pursuant to SEC rules, section 13 and 15(d). Although form 10-K is filed by domestic firms, in cases of mergers between foreign and domestic firms, it may have relevance to this study. Further information for about these forms may be obtained from the Securities and Exchange Commission. The SEC website offers a guide at the following internet address: *http://www.sec.gov/info/edgar/forms/edgform.pdf*.

created the Electronic Data-Gathering, Analysis, and Retrieval (EDGAR) database, which allows scholars and investors to search corporate filings with the SEC since 1991. Additionally, the Company Annual Reports On-Line (CAROL) database provides access to many European companies' annual reports and other financial information free of charge.[92] Corporate reports may also be obtained via Thomson Research, which provides access to the reports of publicly-held American and international firms going back to 1993.[93] Finally, most firms' ARS and 20-F reports are available free of charge from each firm's website, usually in portable document format and found under the heading of "Investor Relations" or "Publications."

A standardized system for collection of the appropriate data from the corporate publications discussed above is also important for this study. This is especially true because, while the basic components of each are similar, corporate reports vary widely in the amount, detail, and arrangement of the information they present.

Beyond the most basic financial information found in every ARS and 20-F report, such as total yearly sales and market capitalization, corporations vary widely in the kind of information they are willing to share with the public. Unfortunately for this study, this is particularly true in regard to the geographic distribution of the firms' assets. The data in the corporate reports used to construct the global corporate leverage index is proprietary in nature, and firms often have an interest in not disclosing it to researchers or to the public at large.

Often, firms are unwilling to reveal the precise distribution of their resources because they do not want competitors for market share to obtain this information. When geographic information is disclosed, it is often aggregated at a regional rather than national level. Swatch, the Swiss-based firm known for its watches and athletic apparel, and included in the index for

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[92] See the database website at *http://www.carol.co.uk/*.
[93] This service is often provided through the on-line library resources of research universities, including the University of Georgia where this study was conducted. Similar sources include Hoover's Online, Factiva, and Mergent. The University of Georgia provides access to these data sources at: *http://www.libs.uga.edu/ researchcentral/subjectguides/company.html*. Thomson may be accessed directly at: *www.research.thomsonib.com.*

Switzerland, provides an example of such data limitations, explicitly stating the following in its 1999 ARS:

> In view of the fact that our main competitors do not publish any information regarding the geographic breakdown of their sales, in this report we have limited our statistics to the breakdown of unit sales…as well as overall sales, by continent.[94]

The report goes on to detail, for example, that 57% of its 1999 sales were in Europe, 28% in Asia, and 14% in the Americas, respectively.[95] Information on sales in specific countries, as well as asset distribution, is not provided.[96]

Once the various corporate reports and financial filings have been collected, they must be examined for the appropriate data. A procedure by which data is extracted from the reports is described here. My objective is to promote reliability by providing a plan by which the data and results can be replicated. This aspect of the research is in some ways akin to the content analysis approach employed by many qualitative studies. Unlike content analysis, the corporate data used to construct this variable is already presented in interval-ratio form. Like content analysis, however, this part of the research shares the concerns for reliability inherent in the examination of data that is presented in a manner that is not uniformly arranged across data sources. Providing a clear process for compiling this data therefore promotes replicability and reliability.

This study requires corporate data on total firm assets worldwide, and assets located in the home-country economy. Total assets are sometimes reported in broad terms in the introduction to ARS and 20F reports, usually in the form of generalized statements or rounded figures. More precise information is usually provided by the firm's consolidated balance sheet, which is commonly included in the ARS and 20F. The consolidated balance sheet provides

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[94] Swatch, Annual Report to Shareholders. 1999. p. 10. Similar statements are made in the companies reports for 2002 and 1995.
[95] Ibid.
[96] Subsequent searching of the firm's other financial filings eventually allowed me to determine the value of Swatch's domestic assets for the year in question, although the process required more than a year of research.

basic financial information on corporate assets, sales and cash flow, and profits and losses. Many reports, however, publish a consolidated balance sheet for both the primary unit of the firm (the “parent company”), and the entire corporation, including subsidiaries (the “group”). It is the later—the group consolidated balance sheet—that gives the information required for this measurement.

Information on the geographic distribution of domestic assets—in the home country and other countries—is much more variable in its presentation and availability. This information is usually located in one of three sections in most firms’ reports.

First and most commonly, the breakdown is presented in the notes to the group consolidated balance sheet, usually placed at the end of the balance sheet, in a separate section later in the report, or in an appendix. Items on the balance sheet will be footnoted, with the corresponding notes providing further information about the item. In this case, notes attached to “asset” items on the consolidated balance sheet frequently lead to detailed information about the geographic distribution of these assets.

Second, asset data is sometimes found in a separate section discussing world-wide operations. Such sections have various titles but they can usually be distinguished by their reference to geography.[97] These sections, when available, provide tables, charts and text describing the geographic distribution of asset data.

Finally, national asset data for the home country in particular is sometimes presented in ratio form in the introductory “Description of Business” section to firms’ 20F reports, filed in the United States with the Securities and Exchange Commission. Because these reports detail the operations of foreign firms in the United States, they frequently begin by describing the origins of the firm in its home country, and detailing the operations still maintained there. A firm may report, for example, that it was founded in Sweden, its corporate headquarters remain in

[97] Examples include *Analysis by Geographic Area*; *Geographic Breakdown of Assets*; *A Local Multinational*.

Stockholm, but that 90% of its operations are located outside Sweden. Occasionally this broad description will include a statement of the percentage of assets, in addition to sales or labor, located outside its home country. These ratios are sometimes less precise than the data provided in the previously described sources, but still of sufficient quality to be used.

4.4.3. Data Calculation

Once the relevant asset and GDP data for each of the firms at each time period has been collected, the globality score for each firm in the sample of "potential" global enterprises may be calculated. Data for firms with negative globality scores will be retained, as this data is needed to test the preliminary hypotheses presented earlier in the chapter. These firms are excluded from the index of global leverage, however. Since the objective is to measure the exposure of each "country-year" to globalization, data for international (or at least "non-global") firms is not appropriate to the measure.

It may be objected that, if such international firms can be expected to be subject to leverage by the state (see table 3-5 in the previous chapter, reproduced as figure 4-1 below), their exclusion is likely to overstate the influence of globalization in the multivariate regressions presented in chapter five. This overlooks the fact that internationalization *is* included in these regressions using not my calculation, but the measures most often used in IM research: FDI and international trade.

There is one additional set of firms that must be excluded from the global leverage index. In addition to global and international firms, a firm may be "state-owned or linked;" that is, the firm is owned, directed or substantially influenced by the state. Such firms are unlikely to act contrary to the interests of the state, and thus do not represent valid cases for inclusion in the leverage index.

Several of the largest and most profitable firms from the small European states are in fact state-owned or linked. Often these firms are in the energy sector, telecommunications, water or other utilities. State-owned or linked firms in the sample include Statoil of Norway, one of Europe's largest energy companies; Telekom Austria, the Austrian telecommunications firm; and KPN, formerly the Dutch postal service, which has branched out into worldwide delivery and logistics services.

A firm will be considered to be state-owned or linked if it meets any of these criteria: first, the firm is not publicly traded but is a state or quasi-state entity; second, the firm is publicly traded, but the state[98] is the majority stockholder, or holds a so-called "special share" giving it an effective veto over the firm's actions or decisions; third, the state is the firm's single largest stockholder. Firms which meet these criteria will be excluded even if they have a positive globality score.

Scores for the remaining firms for each "country-year" are then calculated, and the individual leverage scores for the same country in the same year are aggregated. The resulting statistic represents the index of global leverage for each country-year.

In chapter three, I proposed a model of global leverage which distinguished four categories: high and low footprint, and high and low globality. Thus far I have specified the meaning of globality. I conclude this section by discussing what constitutes a high or low footprint score. As with globality, the novelty of this index makes the determination of a threshold for a high footprint score difficult. Essentially, we are asking at what equivalent level of GDP does the value of the firm's domestic assets represent a significant share of the national economy. Clearly there is no readily obtainable, objective answer to this question, but a threshold that is relatively conservative would be most appropriate, as we wish to err on the side of caution when calculating global leverage.

I return to the UNCTAD transnationality index for 2002. Calculating the equivalent of "footprint" using the data in this publication (in conjunction with OECD data on GDP) yields an

[98] "State" in this sense is understood broadly to include sub-national governments.

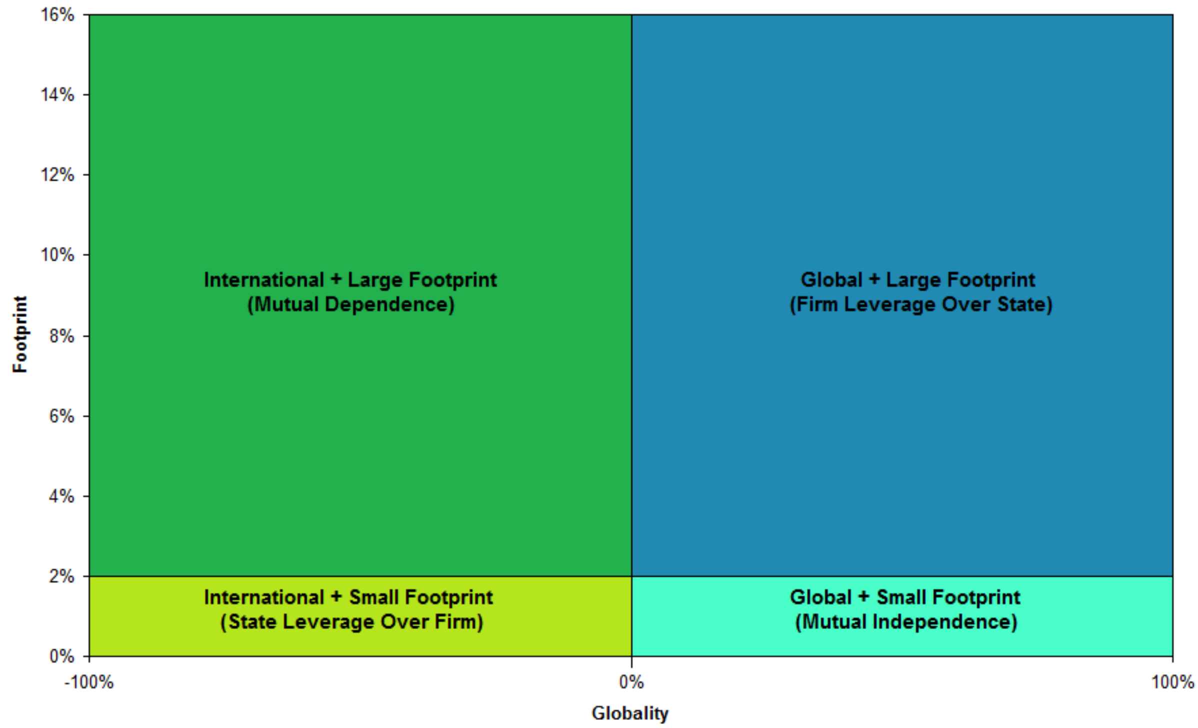

Figure 4-1: Firm Level Theoretical Model of Leverage

average "footprint" for the firms at the top of the index of .0179 (that is, about 1.8% of GDP). Rounding up to be conservative, I will therefore set .02 as the threshold for an individual firm to have a high footprint score. Assuming an average of approximately five global enterprises per country-year (see chapter five), we can set a value for an aggregate high footprint at .10.

4.4.4. Limitations of the Global Leverage Index

While the index I have described here captures the globality and footprint of "domestic" global enterprises in the small European states, it does not capture the impact of "foreign" global enterprises in the small European states. For example, while the measure presented here tell us about impact of the progressive globalization of Volvo on Sweden, it cannot tell us about the impact of General Motors or Siemens. While these countries have operations in Sweden, and could conceivably exercise even greater leverage than "home" global enterprises, they are not included in the leverage index presented in this study. This is because this data is not available, even from the sources described in this section.

The reason for this has to do with *size*; namely, the size of the small European states. These are small economies, of course, relative to larger local economies like the United States, Germany, Britain or Japan. Firms from outside the small European states tend not to provide segmented geographic assets data that includes figures for these countries specifically. These global enterprises may report asset data for the United States, China or France. But when reporting data for Sweden, Austria or Belgium, the category is likely to be headed "The Rest of Europe." Indeed, even many of the global enterprises from the small European states have begun doing this. Often they report geographic data by continent rather than specific country.

Thus the only firms which are likely to report asset data for the small European states are firms *from* these states themselves. My examination of the annual reports to shareholders indicates that, at least anecdotally, these firms seemed more reluctant to provide this data by 2002 than they were in 1991.

The exclusion of "foreign" GEs from the sample means that we have only one part of the globalization picture for these countries. Yet this may prove sufficient. Recent scholarship on the impact of foreign multinationals on industrial relations in Europe suggests that while these firms may favor economic liberalization in their host countries, and wish to weaken institutions such as corporatism, "the prominent role is more often played by home-based rather than foreign-owned MNCs" (EIRO 2009, 28). Measuring the activities of these "home-based" global enterprises may therefore give us a useful proxy for the impact of all GEs in these countries. I now turn to the remaining independent and control variables.

4.5. Remaining Independent and Control Variables

Measurement and compilation of the remaining independent variables is considerably less difficult than that of the main independent variables. One additional measure of globalization is included. Two measures of the *internationalization* model are included. The *demographic change* model is operationalized using a standardized additive index consisting of three measures: population aging, feminization of the workforce, and service sector employment. Additionally several other control variables are also detailed. A complete list of independent and control variables is presented in table 4-4.

As I discussed in chapter three, the primary focus of this study is the impact of global enterprises on economic sovereignty. This is only part of the globalization picture, however. Chapter three argues that global investors (GI) also play a significant role in weakening economic sovereignty. I therefore include a measure of this aspect of globalization here. Global finance is operationalized as the total value of shares traded annually on a country's primary stock market exchange as percentage of GDP. The objective here is to measure the volatility of the market as global investors, unlike global enterprises, are essentially perfectly mobile, and may choose to withdraw from a particular economy at any time. States should therefore become highly attentive to market reactions to state policies, modifying policies to avoid "upsetting" the market.

I include two measures of internationalization in this study. Here I follow many previous studies by operationalizing internationalization in terms of foreign direct investment and international trade .

Foreign direct investment is defined here as the value of all direct investment into and out of an economy as a percentage of gross domestic product. The data is available from the UNCTAD *FDIStat* online database.

International trade is defined here as the value of all imports to and exports from an economy as a percentage of gross domestic product. As such, the statistic measures the interdependence of discrete national economies, but not the transcendence thereof. Data on international trade is available from a wide variety of respected inter-governmental sources. This study adopts the OECD's measure, available online at *OECDStat.org.*

I also include a variable to test the demographic change hypothesis. Guidance in the operationalization of this concept comes directly from Esping-Andersen's (1999, 5) own work:

> the 'real' crisis of contemporary welfare regimes lies in the disjunction between the existing institutional construction and exogenous change. Contemporary welfare states and labor market regulations have their origins in, and mirror, a society that no longer obtains: an economy dominated by industrial production with strong demand for low-skilled workers; a relatively homogeneous and undifferentiated, predominantly male, labor force (the standard production worker); stable families with high fertility, and a female population primarily devoted to housewifery (Esping-Andersen 1999, 5).

While it may co-vary with such demographic changes, the causal relationship between globalization and economic sovereignty is assumed to be spurious.

This study borrows the demographic causal factors identified by Esping-Andersen: (1) *service secto*r: the decline of traditional industrial production relative to the service sector of the economy; (2) *labor feminization*: the decline of the traditional male dominated labor force and corresponding increase in females in paid positions beyond those of unpaid family workers; (3) *aging:* the increasing percentage of elderly and retired persons in the population and the corresponding decline of high fertility rates. Each of these is operationalized below. Data for each measure is derived from the OECD's online OECD.Stat database.

Of central importance to the demographic change hypothesis is the relative rise of the service sector compared to the manufacturing sector in contemporary economies. This "relative rise," however, can be measured a number of different ways, including as a percentage of civilian employees engaged in the service sector, and as the value of the service sector relative to gross domestic product. This study uses the former definition. Advocates of the demographic change model emphasize how changes in society have affected economic sovereignty. Measuring the service sector in terms of its contribution to employment captures a central aspect of Esping-Andersen's "society that no longer obtains."

The demographic change model also argues that the increased importance of women in the workforce, beyond their traditional homemaker roles, has proven difficult for labor markets and social welfare systems designed for single-earner households. Again, this concept can be operationalized a number of ways, including women in salary or wage positions outside the home as a percentage of civilian employees, and the number of unpaid family workers as a percentage of the national labor force.

This study adopts the former measurement because of its greater specificity. The category of "unpaid family workers," as measured by the Luxembourg Welfare Study, the World Bank's World Development Indicators, and various publications by the OECD, does not necessarily differentiate between males and females in such positions. While in a more general context this may seem to enhance its value—as the assumption of single-earner families is not always gender specific—it is the "feminization" of the workforce that is of particular interest and importance in the model.

Perhaps most important to the demographic change model is the "aging" of the population in contemporary industrial democracies. Although operationalized a number of different ways, the basic concept is the same: people are living longer and having fewer children. The result is (1) an "overload" of pension-benefit systems, which now are serving many more retirees than they were designed to; and (2) an insufficient number of workers to pay into—and thus support—these retirees. To capture this, this study measures again as the ratio of people over the age of 65 to civilian employment. This measure thus captures the increase in the size of the retired population, the decrease in the size of the labor force, and the resulting decrease in the working population supporting the retired one.[99]

[99] It should be noted, of course, that 65 years is a common but not universal retirement age. It has, however, become a standardized operationalization for "elderly" populations among international statistical sources, including the OECD and World Bank, and will be adopted here for that purpose.

Table 4-4. Independent Variables

Globalization		
Name	Description	Source
Leverage	See section 4.4 above	Business Week, firm reports and own calculations
Investment	Total shares traded on the primary stock market exchange as percentage of GDP	Financial Structure Dataset

Internationalization		
Name	Description	Source
Foreign Direct Investment	Flow of inward and outward direct investment for each year as a percentage of GDP	UNCTAD FDIStat Online Database
International Trade	Flow of imports and exports for each year as a percentage of GDP	OECD.Stat

Endogenous Demographic Change		
Name	Description	Source
Demographic Index	Standardized additive index of women, service-sector workers and persons aged 65+ as percentages of civilian labor force	Own calculations based on data from OECD.Stat

Control Variables		
Name	Description	Source
OECD Growth	Annual unweighted average GDP growth rate for OECD member countries	OECD *Historical Statistics*
EU Membership	Dichotomous variable; 1=member of EU on Jan. 1 of each year; 0=not a member	Accession dates from *Europe in Figures*
Left Government	Left parties in percentage of total cabinet posts, weighted by days.	Comparative Political Dataset 1960-2003
Foreign Population	Percentage of country's residents born outside country	*Europe in Figures*

Because the study covers a limited number of cases over a limited time period, degrees of freedom are of particular significance. As the main focus of this study is the relative merits of the SM and IM perspectives, the individual effects of the measures of demographic change discussed above are not centrally important to this study. What is important is the overall merits of the demographic change argument relative to the other two models. As a result, I create a standardized, additive index of the three measures of demographic change discussed above.

Several additional variables are included as controls to account for the impact of factors not otherwise captured by the independent variables. These include (1) annual OECD economic growth, (2) European Union membership, (3) “left” government; and (4) non-native population. A summary measure of annual OECD economic growth controls for the impact of global economic expansions or recessions. I use the annual unweighted average GDP growth rate for OECD member countries. Data is taken from the OECD’s *Historical Statistics*.

Both EU membership and the presence of “left” governments may also have a systematic effect on the tests of the hypotheses. EU membership is a dummy variable, in which “1” signifies membership while “0” signifies non-membership. “Left” government is operationalized as a country’s percentage of total cabinet posts controlled by social democratic or other left parties, weighted by days. This data is obtained from the 2003 update to the Comparative Political Dataset (Armingeon et. al., 2003).

A final variable controlling for the impact of non-native populations in the small European states is also included in the study. In recent years, research into the impact of social capital on various aspects of state performance have gained increasing attention. The familiarity and trust promoted by social capital may be of particular consequence in the small European states, where cooperation and compromise are of such importance. A decrease in social capital in the small European states could therefore have a significant impact on economic sovereignty. Both recent events and scholarship have suggested that the increasing size of non-native populations in European countries may be straining traditional patterns of social capital in these societies. To capture this, a measure of the size of non-native populations as a percentage of the total population is included in the study. Data is derived from the Statistical Office of the European Communities' (Eurostat) publication *Europe in Figures*.

4.6. Methodology

This study employs quantitative tools to test the hypotheses presented above. Bivariate regression and descriptive statistics are used to test hypotheses 1 through 3. Pooled time-series multivariate regression analysis is used to test models 3 through 5. Below I describe each of these tools, and set out the predicted results I expect for each of the hypotheses introduced earlier in the chapter. I begin with a brief discussion of the relative merits of qualitative and quantitative research.

While the use of qualitative or quantitative designs may be equally valid in the study of social phenomena, the objectives of this study particularly lend themselves to quantitative examination. This may at first seem to be an odd assertion, given some of the limitations in case selection discussed previously. In particular, given the limited number of observations available for this study, an exclusively qualitative approach may appear to be more appropriate. Furthermore, this study involves concepts which have in the past proven exceptionally difficult for researchers to quantify, including globalization, sovereignty, and corporatism.

Despite these potential problems, there are important theoretical reasons why a quantitative approach is appropriate for this study. The study seeks to quantify the difficult supranationalization model of globalization in an attempt to allow for a dialogue between SM and IM scholars which has heretofore been limited by differences in methodology. A study that evaluates the range of globalization hypotheses using a common methodological framework would therefore make a significant contribution to the literature. It would allow diverse and contradictory conclusions, supported by diverse methodological models, to be directly compared. Appraisal of the relative merits of each would then be grounded in studies employing a common research design.

It has become generally accepted that "the logic of good quantitative and good qualitative research designs do not fundamentally differ" (King, Keohane, and Verba 1994, ix). The differences between them are "only stylistic and are methodologically and substantively unimportant" (King, Keohane, and Verba 1994, 4). Each approach, when done properly, exhibits four essential characteristics of scientific research. First, scientific research makes "descriptive or explanatory inferences on the basis of empirical information about the world." Second, the methods employed to achieve these inferences must be "explicit, codified, and public" so that the academic community can evaluate both the inferences themselves and the procedures by which they were generated. Third, it must be acknowledged that the conclusions reached are uncertain. No research design in social science is perfect, thus no conclusions reached in such research can claim to have arrived at absolute certainty or truth. Finally, what makes social science *science* is

> primarily the methods and rules, not the subject matter, since we can use these methods to study virtually anything (King, Keohane, and Verba 1994, 7-9).

Assuming one adheres to these requirements however, the decision to employ a qualitative or quantitative research design is dictated by the subject of the research and by the resources appropriate to its study:

> Many subjects of interest to social scientists cannot be meaningfully formulated in ways that permit statistical testing of hypotheses with quantitative data (King, Keohane, and Verba 1994, 6).

For the authors, the debate between those who hold that "if at all possible one should generally use the statistical...method instead of the weaker comparative method" (Lijphart 1971, 685) and those who argue that an overemphasis on statistical research has led to an "inauthenticity malaise of the political methodology field" (Alker 1996, 796) is a false one. For any given research project, the issue is not which approach is inherently superior, but which is most appropriate to the subject and data at hand.

As we have seen, the qualitative versus quantitative divide has greatly affected the globalization debate. For those who view globalization as supranational phenomenon, its study may well seem to preclude quantitative formulation or statistical testing. How does one systematically quantify something that has been defined as obliquely as "a process or set of processes which embodies a transformation in the spatial organization of social relations and transactions?" (Held et. al. 1999, 16) This is particularly difficult given that most of the political economy data usually considered relevant is presented in *inter*national form. Thus many of the most significant contributions to this literature have been qualitative.

IM scholars, on the other hand, have found the phenomenon quite amenable to quantification and statistical analysis. This is because they have frequently interpreted globalization not as a “supranational” phenomenon, but as an “international” one. If globalization is conceptualized not as the transcendence of borders, but as the crossing of them in increasingly greater volume, then data constructed from a state-level perspective becomes not only appropriate to the study of the phenomenon, but also easily obtainable. Where measures of foreign direct investment and international trade are inadequately “supranational” from an SM perspective, they are perfect for IM scholars seeking data on the volume of cross-border economic interactions.

This study seeks to test the relative merits of the SM and IM approaches to globalization. To do so is akin to adjudicating a dispute in which the parties speak different languages. One must first define a common mode of communication before evaluating arguments of the contestants. In the present case, the solution is to teach one of the parties to speak the language of the other (to extend the metaphor). I require a single common analytical framework to test competing theories that have most frequently been tested in isolation. This can best be achieved using the quantitative techniques discussed below.

4.6.1. Testing the Preliminary Hypotheses

Hypotheses 1 and 2 concern the "touch down" of global enterprises in the small European states. Hypothesis 1 proposes the following:

> *(H_1) The largest firms from the small European states have globalized their production operations during the observed time period.*

This assertion can tested by analyzing the index of global leverage I discuss earlier in the chapter. As I explain in section 4.4 above, I analyze asset data from each non-financial corporation on *Business Week* magazine's annual *Global 1000* list for each of the observation years observed. While all of the firms listed are large, and most are at least international, I fully anticipate that not all of them are global. Using the globality component measurement, I classify firms as global (firms with a positive globality score), international (firms with a negative globality score), or national (in this case, firms meeting the criteria for a state-owned or linked company). These scores will be calculated for all firms on the *Global 1000* lists covering the years 1991, 1995, 1999, and 2002. Using these firms as a sample, I will consider hypothesis 1 confirmed if:

(a) the total number of firms classified as "global" increases in each of the three observations following the first observation, while the total number of firms classified as "international" decreases;

(b) at least half of the firms that are *not* classified as "global" in 1991 have become global by 2002;

I use both the globality and footprint components of my index of global leverage to test hypothesis 2, which states:

> *(H_2) The small European states have been exposed to increased levels of globalization as a whole, but variation exists from country to country.*

Using the same sample of firms described above, I will consider hypothesis 2 confirmed if I find:

(a) the average of the global leverage scores for each country increases in each of the three observations following the first observation.

To test this hypothesis I compile a global leverage score for each company in the sample, aggregate the data to create an index of global leverage for each country-year, and the average scores for each time period. The procedure for this is discussed above in section 4.4.

Hypothesis 3 states:

> *(H_3) Globalization is related to internationalization, but it is a distinct phenomenon.*

In chapter three I argued that internationalization was an antecedent to globalization, that the phenomena exist simultaneously in the contemporary world economy, and that globalization represents the "leading edge" of modern capitalist organization. This perspective is reflected in hypothesis 3. I will consider hypothesis 3 confirmed if I find that:

(a) statistical comparison of the primary measure of globalization (the global leverage index) and the primary measures of internationalization (FDI and international trade) shows that globalization is correlated with internationalization at a statistically significant level ($p<.05$), but

(b) the same statistical comparison shows that globalization is neither perfectly nor highly multicollinear with internationalization ($R^2 <.50$).

While multicollinearity may be revealed by simple bivariate correlations of .80 or greater, Lewis-Beck (1980, 60) describes this test as unsatisfactory. Instead, he suggests regressing each independent variable on the other independent variables. A coefficient of determination (the R^2) approaching 1.0 reveals high multicollinearity. Following this prescription, I perform two bivariate regressions. The first regresses FDI on the global leverage index; the second regresses international trade on leverage.[100] If the hypothesis is confirmed, the test should reveal a significant correlation, but a relatively small R^2. While there is no standard value which represents a threshold for high multicollinearity, I choose a relatively low value of .50 to ensure a rigorous standard is set.

4.6.2. Testing the Core Hypotheses

Hypotheses 4 through 6 get to the heart of the research question presented at the beginning of this study. My answer to the research question itself therefore rests upon the

[100] I use SPSS 18.0 statistical software package to conduct the statistical tests described in chapters four and five.

confirmation or rejection of these hypotheses. This makes their testing and evaluation central to the study. As I explain above, my objective is to test these hypotheses using a common quantitative framework. Specifically, that framework is OLS regression. In the remainder of this section, I examine the challenges involved in using regression for this study and describe my standards for interpretation of the test results.

Having chosen a quantitative approach using OLS regression analysis to evaluate the core hypotheses, I must acknowledge that the use of this technique for this study does present several concerns. These include potential problems degrees of freedom, multicollinearity and the use of OLS rather than panel data analysis (another issue, autocorrelation, is discussed above in section 4.1.2).

Degrees of freedom refers to "the number of points along a regression line that may be entered without being determined by prior entries." (Manheim and Rich 442). For regression, degrees of freedom are expressed as the number of cases included minus the number of variables minus one. Studies such as this one, in which the number of cases is limited, may face a degrees of freedom problem, which means that the reduced number of cases makes it more difficult to determine which explanatory variable accounts for variation in the dependent variable. While I am unable at present to increase my number of cases (the most common solution to the problem), I can limit my number of explanatory variables. Sections 4.4 and 4.5 describe 11 independent and control variables included in this study. For each of my regressions, I can therefore expect to have no more than 22 degrees of freedom ($n = 32$, $k = 9$). Although more cases is almost always desirable in multivariate regression, this number should be sufficient to produce useful results. To further maximize my degrees of freedom, I will examine the predictive utility of my control variables. If these have no significant impact on my model, they can be dropped, increasing degrees of freedom.

A more serious issue involves high multicollinearity: the extreme intercorrelation of independent variables in a regression equation (Lewis-Beck 1980, 58). When variables are near perfect linear functions of one another, estimation problems occur: in particular, a high R^2 may be obtained without statistically significant coefficients for the independent variables (Lewis-Beck 1980, 60). As with degrees of freedom, one common method for addressing high multicollinearity is to increase the sample size. For reasons I have discussed, this is not an option in this study at present. My best remaining option to deal with possible multicollinearity is simply to closely examine tolerance and variance inflation statistics to monitor my results for the problem. High multicollinearity may be indicated if it is found between the measures of globalization and internationalization. This might tend to indicate that the IM argument that the two are the same thing (rather than simply being related) is supported by the evidence. I address this issue in the following pages.

Given the nature of the data examined in this study, a panel data analysis would appear to be called for in order to provide a more accurate estimation of the standard errors than is provided by OLS regression (see Beck and Katz 1995). Unfortunately, the use of panel data analysis in this model would involve a significant decrease in degrees of freedom. This presents a particular problem give the small number of observations possible for the current data set. Given the likelihood that the use of panel data analysis would demonstrate that greater variability exists in the model than OLS indicates, the conclusions reached should be accepted only cautiously. My intention is to revise the model in the future by adopting a panel data approach and, to facilitate this, by increasing the number of cases in the study.

Section 4.3.3 and table 4-3 present the broad requirements for the SM, IM and demographic change models to be confirmed or rejected via the core hypotheses. I conclude this section by discussing the criteria by which these hypotheses are interpreted. These are detailed in table 4-5.

Hypothesis 4 concerns the effects of globalization on economic sovereignty. It proposes that globalization weakens corporatism, reduces the functional delivery of social welfare, and lowers popular political participation. As table 4-5 suggests, if this hypothesis is supported, we can expect regression coefficients that indicate a weakening of corporatism: as globalization increases, union density should decline, labor disruptions and wage volatility should increase, and the prevalence of collective bargaining (as indicated by the final three corporatism indicators) should decline. Globalization should also weaken social welfare, both in terms of inputs (increased contributory funding), and outputs (reduced generosity, higher poverty, greater income inequality). Finally, globalization should reduce popular political participation, as indicated by lower voter turnout.

Hypothesis 5 concerns the effects of internationalization on economic sovereignty. It predicts that internationalization has the opposite effect of that of globalization in hypothesis 4: as internationalization increases, corporatism, social welfare, popular political participation are each strengthened. If this hypothesis is supported, we can expect regression coefficients that indicate a robust system of corporatism: increased internationalization should yield higher union density, reduced labor disruptions and wage volatility, and stronger collective bargaining. Internationalization should strengthen social welfare inputs (reduced contributory funding), and outputs (increased generosity, lower poverty, lower income inequality). Finally, globalization should increase popular political participation, as indicated by higher voter turnout.

Hypothesis 6 suggests that demographic changes in employment patterns weaken the performance of the state's economic institutions, though not its underlying sovereignty. We can therefore expect that as demographic change increases, corporatism, social welfare, popular political participation are each weakened. If this hypothesis is supported, we can expect regression coefficients that indicate weakened corporatism: reduced union density, increased labor disruptions and wage volatility, and weaker collective bargaining. We should see weaker social inputs (increased contributory funding), and outputs (reduced generosity, increased and income inequality). Finally, we should see reduced popular political participation, as indicated by lower voter turnout.

4.7. Conclusion

The purpose of this chapter was to propose hypotheses which would allow me to test possible answers to the research question. This in turn required the specification of both dependent and independent variables to test these hypotheses. Finally, the methods by which the tests were to be conducted had to be set out.

I have now done each of these. Six hypotheses were proposed, operationalized by 16 dependent variables (measuring three elements of economic sovereignty: corporatism, social welfare and popular political participation), and nine independent variables (measuring globalization, internationalization, demographic change and several controls). Several methodological tools were laid out to test these hypotheses. The most important of these is multivariate regression. With these tasks accomplished, I now proceed to the tests themselves, the analysis of the results, and the conclusions which may be reached as a result.

Table 4-5. Expected Coefficients for Regressions

	H_4 Globalization Hypothesis	H_5 Internationalization Hypothesis	H_6 Demographic Change Hypothesis
Democratic Corporatism			
Net Union Density	negative	positive	negative
Labor Disruption	positive	negative	positive
Wage Volatility	positive	negative	positive
Collective Bargaining	negative	positive	negative
Centralized Bargaining	negative	positive	negative
Organizat'l. Authority	negative	positive	negative
Social Welfare			
Contributory Welfare	positive	negative	positive
Welfare Generosity	negative	positive	negative
Poverty Reduction	negative	positive	negative
Inequality Reduction	negative	positive	negative
Inequality 90/10	positive	negative	positive
Inequality 90/50	positive	negative	positive
Low Income Share	negative	positive	negative
Mid Income Share	negative	positive	negative
High Income Share	positive	negative	positive
Political Participation			
Voter Turnout	negative	positive	negative

Table 4-6. Firms Included in the Sample
(○ indicates missing data)

Austria	1991	1995	1999	2002
OMV		●	●	
Telekom Austria				●
Verbund			●	●
Total Firms	0	1	2	2

Belgium	1991	1995	1999	2002
Delhaize-Le Lion	●	●	●	●
Electrabel	●	●	●	●
Interbrew				●
Powerfin		●		
Societe Generale de Belgique	●	●	●	
Solvay	●	●	●	●
TotalFinaElf	●	●	●	●
Tractebel	●	●	●	●
UCB Groupe			●	●
Total Firms	6	7	7	7

Denmark	1991	1995	1999	2002
Carlsberg	●	●	●	●
H. Lundbeck				●
Moller-Maersk				●
Novo-Nordisk	●	●	●	●
Sophus Berendsen		●	●	●
TeleDanmark		●	●	●
Total Firms	2	4	4	6

Finland	1991	1995	1999	2002
Fortum			●	●
Nokia		●	●	●
Repola	●	●		
Stora Enso			●	●
Teliasonera			●	●
UPM-Kymmene		●	●	●
Total Firms	1	3	5	5

Netherlands	1991	1995	1999	2002
Ahold	●	●	●	●
Akzo Nobel	●	●	●	●
ASML Holding			●	●

Netherlands (cont.)	1991	1995	1999	2002
DSM	●	●	●	●
Equant			●	●
Gucci Group		●	●	●
Heineken	●	●	●	●
Heineken Holding		●	●	●
KLM		●	●	●
KPN		●	●	●
Numico			●	●
Philips	●	●	●	●
Polygram	●	●	●	
Randstad Holding			●	●
Reed Elsevier	●	●	●	●
Royal Dutch/Shell	●	●	●	●
TPG			●	●
United Global Comm.			●	●
Unilever	●	●	●	●
VNU			●	●
Wolters Kluwer	●	●	●	●
Total Firms	10	15	22	21

Norway	1991	1995	1999	2002
Hafslund	●	●	●	●
Norsk Hydro	●	●	●	●
Orkla				●
Statoil				●
Telenor				●
Total Firms	2	2	2	5

Sweden	1991	1995	1999	2002
ABB	●	●	●	●
AGA	●	●	●	●
Alfa-Laval	●			
Assa Abloy			●	●
AssiDoman		●	●	
Astra Zeneca	●	●	●	●
Atlas Copco		●	●	●
Electrolux	●	●	●	●
L.M. Ericsson	●	●	●	●
Europolitan			●	●
Hennes & Mauritz			●	●
Gambro	●	●	●	●
Pharmacia	●	●	●	●
Sandvik	●	●	●	●
Scania	●	●	●	●
SCA	●	●	●	●
Securitas AB			●	●

Sweden (cont.)	1991	1995	1999	2002
Skanska	●	●	●	●
SKF	●	●	●	●
Stora Enso	●	●	●	●
Sydkraft		●	●	●
Tele2			●	●
Teliasonera				●
Volvo	●	●	●	●
Total Firms	15	17	22	22

Switzerland	1991	1995	1999	2002
ABB	●	●	●	●
Adecco			●	●
Alusuisse-Lonza		●	●	●
Ciba	●	●	●	●
Clariant			○	○
Electrowatt		●		
Holcim		●	●	●
Lonza				●
Nestle	●	●	●	●
Novartis	●	●	●	●
Richemont			○	●
Roche	●	●	●	●
Serono			●	●
SGS STE		●	●	●
Swatch Group	●	●	●	●
Swisscom			●	●
Syngenta				●
Synthes-Stratec			●	●
Total Firms	6	10	14	17

CHAPTER 5

DATA ANALYSIS

This chapter presents the results of the empirical tests constructed in chapter four. Based on these results I evaluate the six research hypotheses, and draw conclusions about the relative merits of the competing models discussed in chapters two and three.

As with most results in social science research, the findings I present in this chapter cannot be reduced to a simple statement of “who’s right” and “who’s wrong.” While none of the three models can be confirmed in its entirety, the results provide some of the first systematic, quantitative support for the existence and impact of supranational globalization. The data shows a distinct trend toward globalization among the largest firms of the small European states. Surprisingly, however, the data indicate that these firms may have gone further than predicted toward “disembedding” themselves from the small European states’ variety of capitalism.

While the impact of all three models on democratic corporatism is inconclusive, globalization has a clearly negative impact on the maintenance of redistributive social welfare in the small European states. Surprisingly, the inclusion of the main independent variable, global leverage, appears to somewhat weaken the positive relationship between internationalization and social welfare. Nevertheless, several of the regression models show globalization and internationalization to have independent and opposite effects, including in the overall generosity of the social welfare system and in popular political participation.

This chapter is organized as follows: section one presents the test results for the preliminary hypotheses. The data suggests that globalization *is* happening in the small European states, but there is reason to believe that it may be unfolding in ways that neither the SM nor the IM have predicted. I return to this matter in the conclusion to the chapter.

Section two evaluates the core hypotheses with regard to democratic corporatism. The results are complex and unexpected. Yet they suggest interesting new avenues for inquiry. Most importantly, the results offer both a lesson in the difficulty of quantifying corporatism, and perhaps a few clues for doing so.

Section three evaluates the core hypotheses with regard to social welfare. Here the results are both more clear and more dramatic. There appears to be clear evidence that globalization has a significant negative impact on social welfare outputs. Internationalization, as operationalized by foreign direct investment and international trade, has a surprisingly weak impact on social welfare. Significantly, these two indicators also display little evidence of high multicollinearity with my main indicator of globalization. Similar results are presented in section four, which evaluates the hypotheses with regard to popular political participation.

Section five returns to the overarching evaluative criteria I presented in chapter four.[101] Based on the findings of this chapter, I conclude that the supranationalization model is partly supported by the evidence. The internationalization model is not well supported by the evidence. Given its past support in the literature, and the unproven nature of my main independent variable, further study is required before the internationalization model can be discounted, however. Yet the results reported here are promising enough to warrant further study.

5.1. Preliminary Hypotheses

In the previous chapter I introduced three preliminary hypotheses. As I explain in chapter four, the purpose of these hypotheses is to focus the research on first principles regarding globalization. Within the context of the small European states, these hypotheses posit that firms *are* in fact globalizing (H_1); that the small European states have been exposed

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[101] See section 4.6.2 and tables 4-3 and 4-5.

to increased but uneven levels of globalization (H_2); and that globalization, while related to internationalization, is a distinct phenomenon (H_3). The evidence I present below supports each of the three preliminary hypotheses

5.1.1. Findings for Hypothesis 1

(H_1) The largest firms from the small European states have globalized their production operations during the observed time period.

In chapter four, I established the following criteria to test this hypothesis:

(a) the total number of firms classified as “global” increases in each of the three observations following the first observation, while the total number of firms classified as “international” decreases;

(b) at least half of the firms that are *not* classified as “global” in 1991 have become global by 2002;[102]

Figure 5-1 presents the findings from my examination of the *Business Week Global 1000* list of the world’s thousand largest companies. Tables 5-1 presents the data by country, company and year. Table 5-2 summarizes the data by country and firm type.

The data clearly indicates a rise in both the number of firms from the small European states on the *Global 1000* list, and the share of these firms which have achieved the status of global enterprises. In 1991, 60% of the 42 *Global 1000* firms from the small European states were global enterprises. This percentage increased in each of the next three time periods, even as the whole number of firms doubled to 86 by 2002.

The opposite trend is found among international firms.[103] Between 1991 and 2002, the percentage of firms classified as “international” declined from 36% to 12%. This represents not

[102] Thirty-eight firms were present on the list for all four observations. This sample is used to evaluate criterion 1(b).

[103] As I explained in chapter four, I distinguish “global” and “international” in terms of the dispersion of a firm’s physical assets. Firms which have located more than 50% of their physical assets outside their original “home” country are classified as “global.” Those with less than 50% of their physical assets outside their “home” country are classified as international.

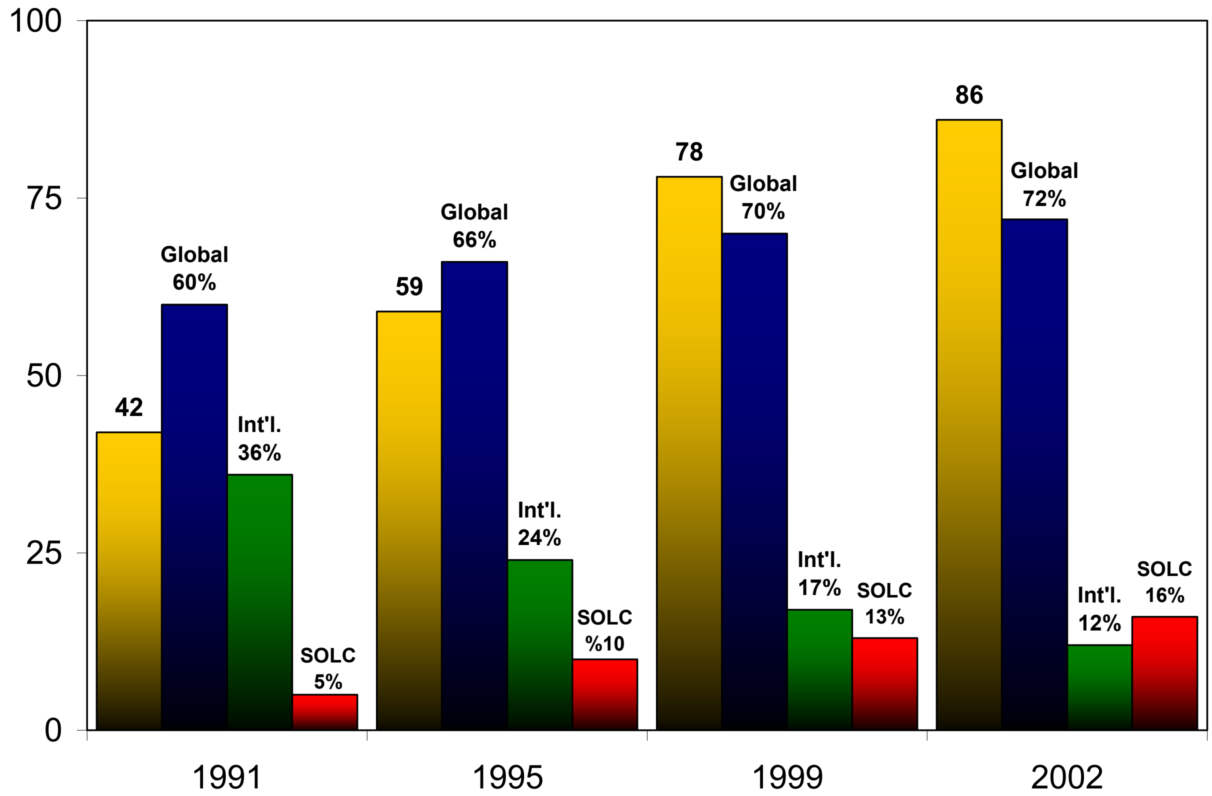

Figure 5-1: Firm Type in the Small European States 1991-2002
note: SOLC refers to "state-owned or linked companies"

only a percentage decline, but also an absolute decline from fifteen international firms to ten.

Because firms are only removed from the overall sample due to the discontinuation of company operations (almost exclusively through merger or acquisition by another firm), the declining number of *international* firms is explained by the rising number of *global* ones. Figure 5-2 illustrates this for fourteen firms that were international at the first observation in 1991.[104]

Interestingly, the number of state-owned or linked companies (SOLC)[105] increased between 1991 and 2002. At first glance, this might seem to suggest that perhaps the trend

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[104] These firms include Delhaize-Le Lion and Tractabel (Belgium), Carlsberg and Novo-Nordisk (Denmark), Repola (Finland), DSM, Reed/Reed-Elsevier (Netherlands), Hafslund (Norway), L.M. Ericsson, Incentive/Gambro, Pharmacia, Scania, Skanska, Volvo (Sweden).
[105] Defined in chapter four as a firm that is owned by the state, in which the state is the majority shareholder or has a "special share," or in which the state is the largest single shareholder.

Table 5-1 Firms Included in the Sample by Classification
(G = global; I = international; S = state owned or linked)

Austria	1991	1995	1999	2002
OMV		S	S	
Telekom Austria				S
Verbund			S	S
Total Firms	0	1	2	2

Belgium	1991	1995	1999	2002
Delhaize-Le Lion	I	I	G	G
Electrabel	S	S	S	S
Interbrew				G
Powerfin		I		
Societe Generale de Belgique	G	G	G	
Solvay	G	G	G	G
TotalFinaElf	G	G	G	G
Tractebel	I	I	I	G
UCB Groupe			G	G
Total Firms	6	7	7	7

Denmark	1991	1995	1999	2002
Carlsberg	I	G	G	G
H. Lundbeck				I
Moller-Maersk				G
Novo-Nordisk	I	I	I	I
Sophus Berendsen		G	G	G
TeleDanmark		S	I	G
Total Firms	2	4	4	6

Finland	1991	1995	1999	2002
Fortum			I	I
Nokia		I	G	G
Repola	I	I		
Stora Enso			G	G
Teliasonera			S	S/G
UPM-Kymmene		I	I	I
Total Firms	1	3	5	5

Netherlands	1991	1995	1999	2002
Ahold	G	G	G	G
Akzo Nobel	G	G	G	G
ASML Holding			I	I

Netherlands (cont.)	1991	1995	1999	2002
DSM	I	I	I	I
Equant			G	G
Gucci Group		G	G	G
Heineken	G	G	G	G
Heineken Holding		G	G	G
KLM		I	I	I
KPN		S	S	S
Numico			G	G
Philips	G	G	G	G
Polygram	G	G	G	
Randstad Holding			G	G
Reed Elsevier	I	G	G	G
Royal Dutch/Shell	G	G	G	G
TPG			S	S/G
United Global Comm.			I	G
Unilever	G	G	G	G
VNU			G	G
Wolters Kluwer	G	G	G	G
Total Firms	10	15	22	21

Norway	1991	1995	1999	2002
Hafslund	I	G	S	S
Norsk Hydro	S	S	S	S
Orkla				G
Statoil				S
Telenor				S/G
Total Firms	2	2	2	5

Sweden	1991	1995	1999	2002
ABB	G	G	G	G
AGA	G	G	G	G
Alfa-Laval	G			
Assa Abloy			G	G
AssiDoman		I	I	
Astra Zeneca	G	G	G	G
Atlas Copco		G	G	G
Electrolux	G	G	G	G
L.M. Ericsson	I	G	G	G
Europolitan			G	G
Hennes & Mauritz			G	G
Gambro	I	G	G	G
Pharmacia	I	G	G	G
Sandvik	G	G	G	G
Scania	I	I	G	G
SCA	G	G	G	G
Securitas AB			G	G

Sweden (cont.)	1991	1995	1999	2002
Skanska	I	I	G	G
SKF	G	G	G	G
Stora Enso	G	G	G	G
Sydkraft		S	S	S
Tele2			I	G
Teliasonera				S/G
Volvo	I	I	I	G
Total Firms	15	17	22	22

Switzerland	1991	1995	1999	2002
ABB	G	G	G	G
Adecco			G	G
Alusuisse-Lonza		G	G	G
Ciba	G	G	G	G
Clariant			I	I
Electrowatt		I		
Holcim		G	G	G
Lonza				G
Nestle	G	G	G	G
Novartis	G	G	G	G
Richemont				G
Roche	G	G	G	G
Serono			I	G
SGS STE	-	G	G	G
Swatch Group	G	G	G	G
Swisscom			S	S
Syngenta				G
Synthes-Stratec			I	G
Total Firms	6	10	14	17

Table 5-2. Firm Classification by Country and Year

Austria	1991	1995	1999	2002
Firms	0	1	2	3
Global Enterprises				
International Enterprises				
State Owned or Linked		100%	100%	100%

Belgium	1991	1995	1999	2002
Firms	6	7	7	7
Global Enterprises	50%	43%	71%	86%
International Enterprises	33%	43%	14%	
State Owned or Linked	17%	14%	14%	14%

Denmark	1991	1995	1999	2002
Firms	2	4	4	6
Global Enterprises	100%	50%	50%	66%
International Enterprises		25%	50%	33%
State Owned or Linked		25%		

Finland	1991	1995	1999	2002
Firms	1	3	5	5
Global Enterprises			40%	40%
International Enterprises			40%	40%
State Owned or Linked	100%	100%	20%	20%

Netherlands	1991	1995	1999	2002
Firms	10	15	22	21
Global Enterprises	80%	80%	73%	76%
International Enterprises	20%	13%	18%	14%
State Owned or Linked		7%	9%	10%

Norway	1991	1995	1999	2002
Firms	2	2	2	5
Global Enterprises		50%		20%
International Enterprises	50%			
State Owned or Linked	50%	50%	100%	80%

Sweden	1991	1995	1999	2002
Firms	15	17	22	22
Global Enterprises	60%	71%	82%	96%
International Enterprises	40%	23%	14%	
State Owned or Linked		6%	4%	4%

Switzerland	1991	1995	1999	2002
Firms	6	10	14	17
Global Enterprises	100%	90%	72%	88%
International Enterprises		10%	21%	6%
State Owned or Linked			7%	6%

Small European States	1991	1995	1999	2002
Firms	42	59	78	86
Global Enterprises	62%	66%	68%	74%
International Enterprises	33%	24%	19%	9%
State Owned or Linked	5%	10%	13%	16%

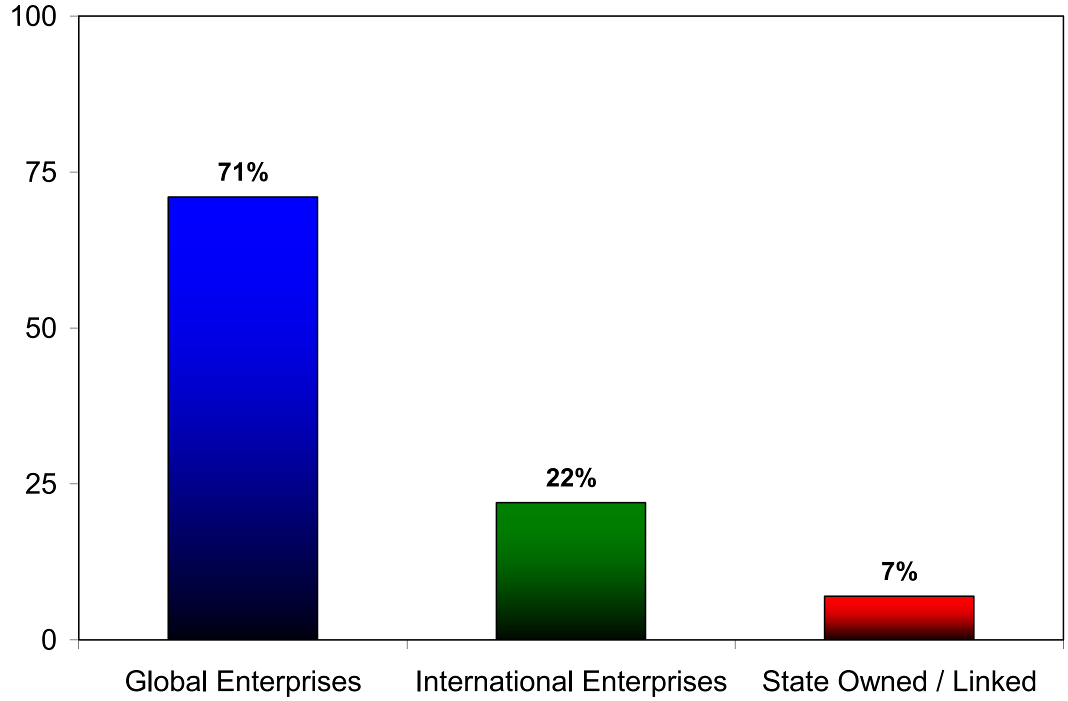

Figure 5-2. 1991 International Enterprises: Status in 2002

toward privatization among OECD countries was reversed in the small European states. In fact, closer examination of these companies indicates the opposite. Somewhat counterintuitively, the increased presence of SOLCs in the sample indicates an increased level of privatization of what were frequently state owned, operated or directed firms.

Table 5-3 lists the SOLCs in the sample. In most cases, the firms were in the midst of privatization. Tele-Danmark/TDC is perhaps the most striking example. The company was founded by the Danish government in 1990 “to serve as a holding company for the four Danish regional telecommunications enterprises and the international service provider” (Tele-Danmark 20-F report 1995, 1). After an initial public offering in 1994, “the Danish State held 51% of the shares, while the remaining share capital was held by approximately 60,000 private and institutional investors from all over the world” (Tele-Danmark Annual Report 1995, 7).

Table 5-3: State-Owned and Linked Companies

Firm	Year	Home	Industry	Ownership	Globality	Footprint
Electrabel	1991	Belgium	Electricity	Municipalities	-1.00	0.06
Electrabel	1995	Belgium	Electricity	Municipalities	-1.00	0.06
Electrabel	1999	Belgium	Electricity	Municipalities	-1.00	0.06
Electrabel	2002	Belgium	Electricity	Municipalities	-0.14	0.05
Hafslund	1999	Norway	Electricity	City of Oslo	-0.26	0.00
Koninklijke KPN	1995	Netherlands	Postal, Logistics	State: 45%	-0.78	0.04
Koninklijke KPN	1999	Netherlands	Postal, Logistics	State: 45%	-0.78	0.04
Koninklijke KPN	2002	Netherlands	Postal, Logistics	State: 45%	-0.42	0.05
Norsk Hydro	1991	Norway	Oil/Energy	State: 45%	-0.28	0.06
Norsk Hydro	1995	Norway	Oil/Energy	State: 45%	-0.29	0.06
Norsk Hydro	1999	Norway	Oil/Energy	State: 45%	-0.49	0.09
Norsk Hydro	2002	Norway	Oil/Energy	State: 45%	0.08	0.09
OMV	1995	Austria	Energy	State: 49%	-0.61	0.02
OMV	1999	Austria	Energy	State: 35%	-0.14	0.02
OMV	2002	Austria	Energy	State: 32%	-0.04	0.01
Sonera	1999	Finland	Telecomm.	State: 58%	-0.96	0.03
Statoil	2002	Norway	Oil/Energy	State: 60%	-0.55	0.15
Swisscom	1999	Switzerland	Telecomm.	Swiss Government	-0.61	0.04
Swisscom	2002	Switzerland	Telecomm.	Swiss Government	-0.70	0.07
Sydkraft	1995	Sweden	Energy	State: 45%	-1.00	0.02
Sydkraft	1999	Sweden	Energy	State: 45%	-1.00	0.02
Sydkraft	2002	Sweden	Energy	State: 45%	-0.89	0.03
TeleDanmark	1995	Denmark	Telecomm.	State: 51%	-0.36	0.02
Telekom Austria	2002	Austria	Telecomm.	State owned 47%	-0.54	0.03
Telenor	2002	Norway	Telecomm.	State owned 78%	0.26	0.03
Teliasonera	2002	Finland	Telecomm.	State: 65%*	0.71	0.03
Teliasonera	2002	Sweden	Telecomm.	State: 65%*	0.53	0.03
TPG	1999	Netherlands	Telecomm.	State: 35%**	-0.06	0.01
TPG	2002	Netherlands	Telecomm.	State: 35%**	0.53	0.00
Verbund	1999	Austria	Electricity	State: 51%	-0.89	0.03
Verbund	2002	Austria	Electricity	State: 51%	-0.89	0.03

* Swedish state owns 45%, Finnish state owns 20%

** Dutch government holds special share as well

By 1995, $2.0 billion of the company's $6.4 billion in physical assets was located outside of Denmark. The firm's globality score was -.360 and its footprint was .024, for a leverage score of -.867.

By 2002, the privatization of the company was complete: the Danish government had divested itself of ownership, and the company was renamed TDC. By that year the company had doubled its assets to $12.8 billion, and while a relatively stable $4.5 billion remained in

Denmark, \$8.3 billion was spread around the world (primarily in Europe and North America). The firm's globality score was .291, footprint increased to .029, and leverage score was .837.

In 12 years, from 1990 to 2002, the company was transformed from a government holding company to a global enterprise. It made the *Global 1000* list for the first time in 1995 *because* of its privatization: that is, it began seeking profits beyond the borders of Denmark because its purpose was no longer to provide a service to the people of Denmark, but to provide profits to its shareholders. This can be found among most of the SOLCs on the list. Their inclusion comes while they are being privatized, and turning their attention from domestic responsibilities to global profits. Indeed, even among the firms that remain SOLCs, three (Teliasonera, TPG and Telenor, each in 2002) are statistically "global."[106]

5.1.2. Findings for Hypothesis 2

> *(H_2) The small European states have been exposed to increased levels of globalization as a whole, but variation exists from country to country.*

I will consider hypothesis 2 confirmed if I find:

> (a) the average of the global leverage scores for each country increases in each of the three observations following the first observation.

Table 5-4 presents the average scores for each country, which satisfy the test above. The average global leverage score increased from 1.67 in 1991 to 3.78 in 2002, although individual countries exhibit fluctuations, and there is wide variety between countries levels of globalization.

Figures 5-3 through 5-11 present the evolution of each country's global leverage score over time. The data indicates that globalization is increasing at the aggregate level, when the scores of individual global enterprises are summed at the national level for each country-year. While the general trend tends to be one of greater globalization, variation exists between

[106] These have nevertheless been excluded from the sample used to construct the index of global leverage because they continue to meet the SOLC disqualification criteria established in chapter five.

Table 5-4: Global Leverage Scores

	Global Leverage Score			
Country	1991	1995	1999	2002
Austria	0.00	0.00	0.00	0.00
Belgium	1.40	0.79	4.12	4.06
Denmark	0.00	0.28	0.31	2.70
Finland	0.00	0.00	1.91	3.25
Netherlands	5.32	4.95	5.40	6.25
Norway	0.00	0.21	0.00	0.57
Sweden	3.21	3.92	5.22	7.50
Switzerland	3.39	3.91	5.51	5.90
Average	1.67	1.76	2.81	3.78

countries regarding the degree, speed and sometimes even the direction of globalization. Based on this data, hypothesis 2 is confirmed.

This is a particularly useful finding. SM scholars tend to expect globalization to be felt and responded to uniformly. IM scholars argue that globalization is a myth because of the lack of evidence for a uniform force causing political and economic convergence. My findings validate one of the IM criticisms of the original SM model (which I also made in chapter two). But they also contradict the IM argument that globalization is a myth because it is not uniform. I find globalization to be both real and heterogeneous.

5.1.3. Findings for Hypothesis 3

(H_3) Globalization is related to internationalization, but it is a distinct phenomenon.

I will consider hypothesis 3 confirmed if I find that:

(a) statistical comparison of the primary measure of globalization (the global leverage index) and the primary measures of internationalization (FDI and international trade) shows that globalization is correlated with internationalization at a statistically significant level ($p<.05$), but

(b) the same statistical comparison shows that globalization is neither perfectly nor highly multicollinear with internationalization ($R^2 <.50$).

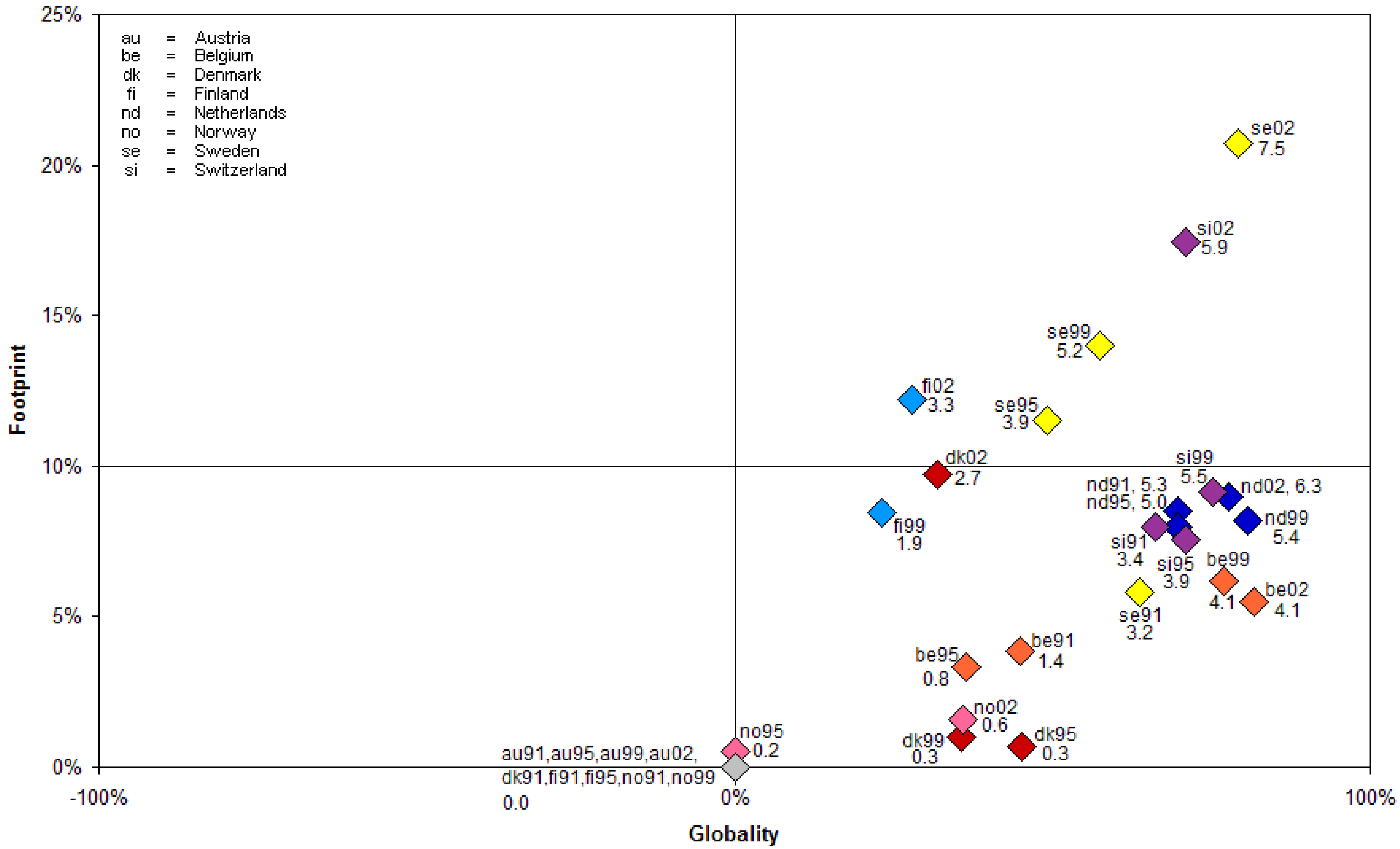

Figure 5-3: Final Aggregate Globalization Scores for Each Country-Year

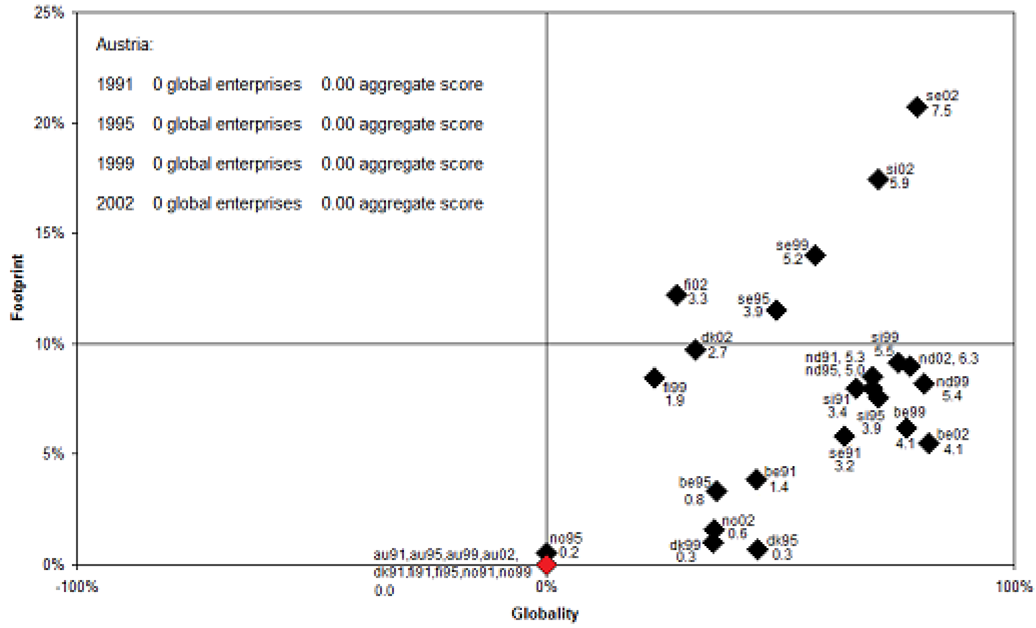

Figure 5-4: Aggregate Global Leverage Scores for Austria

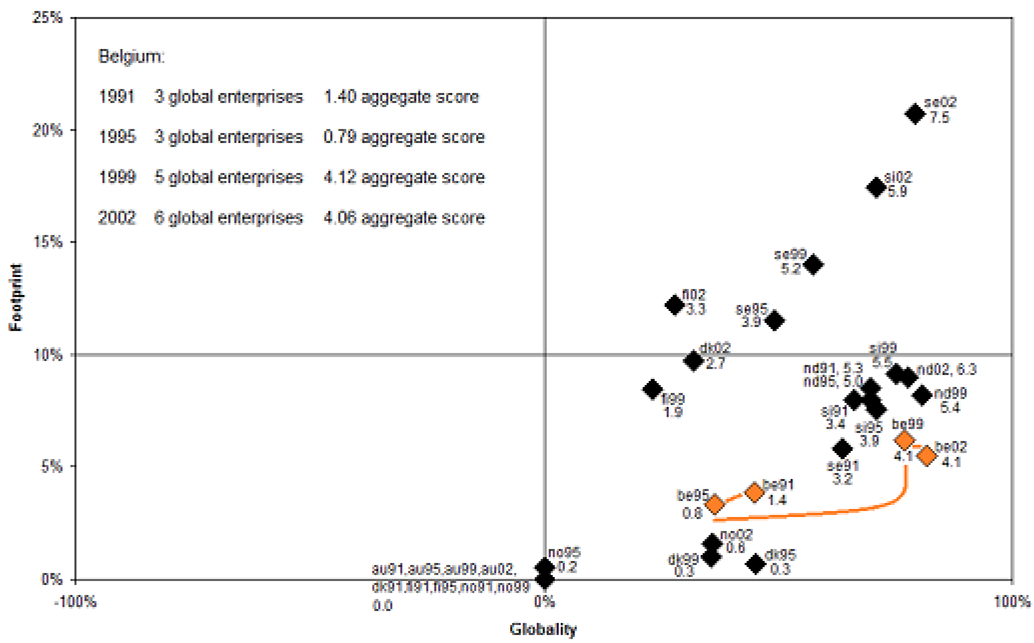

Figure 5-5: Aggregate Global Leverage Scores for Belgium

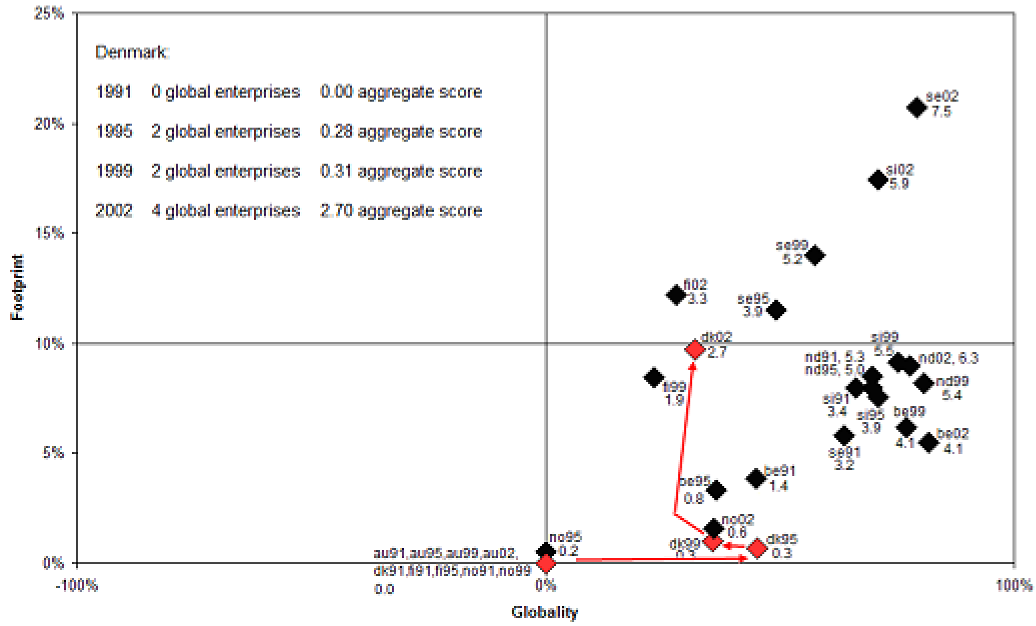

Figure 5-6: Aggregate Global Leverage Scores for Denmark

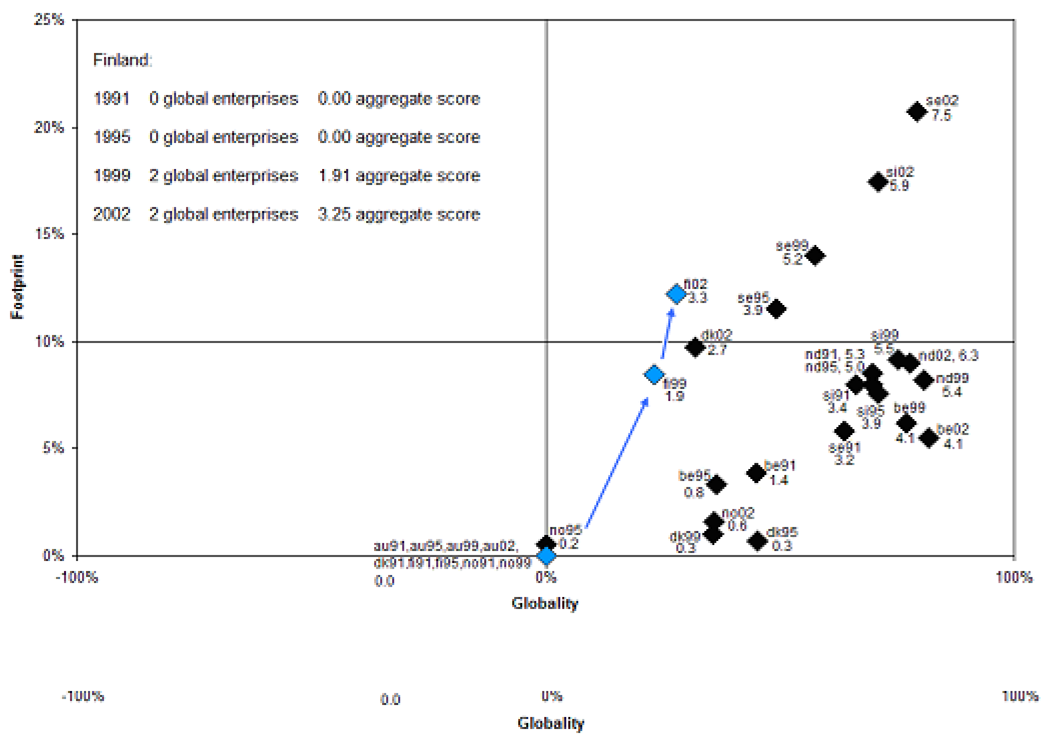

Figure 5-7: Aggregate Global Leverage Scores for Finland

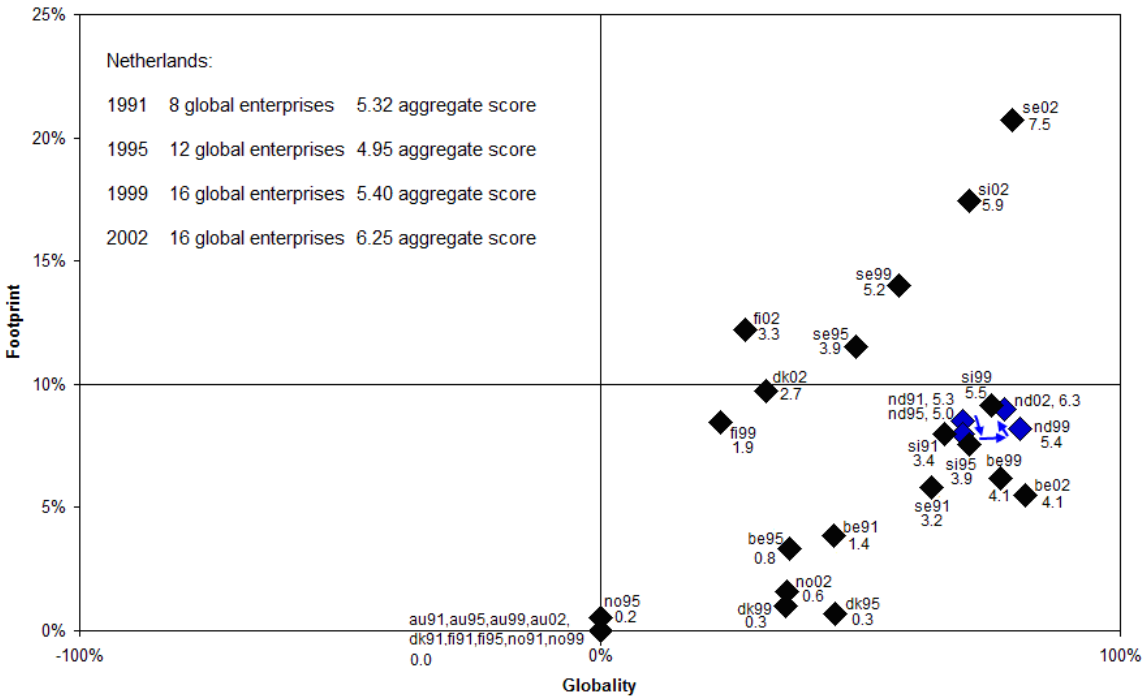

Figure 5-8: Aggregate Global Leverage Scores for the Netherlands

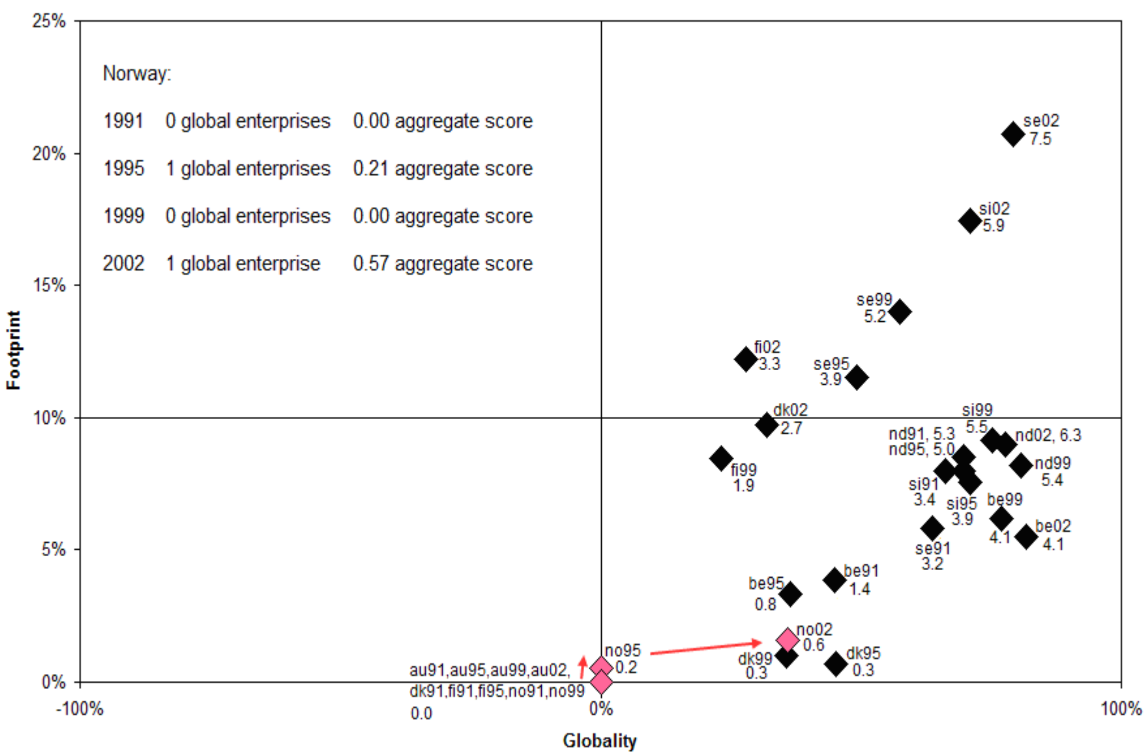

Figure 5-9: Aggregate Global Leverage Scores for Norway

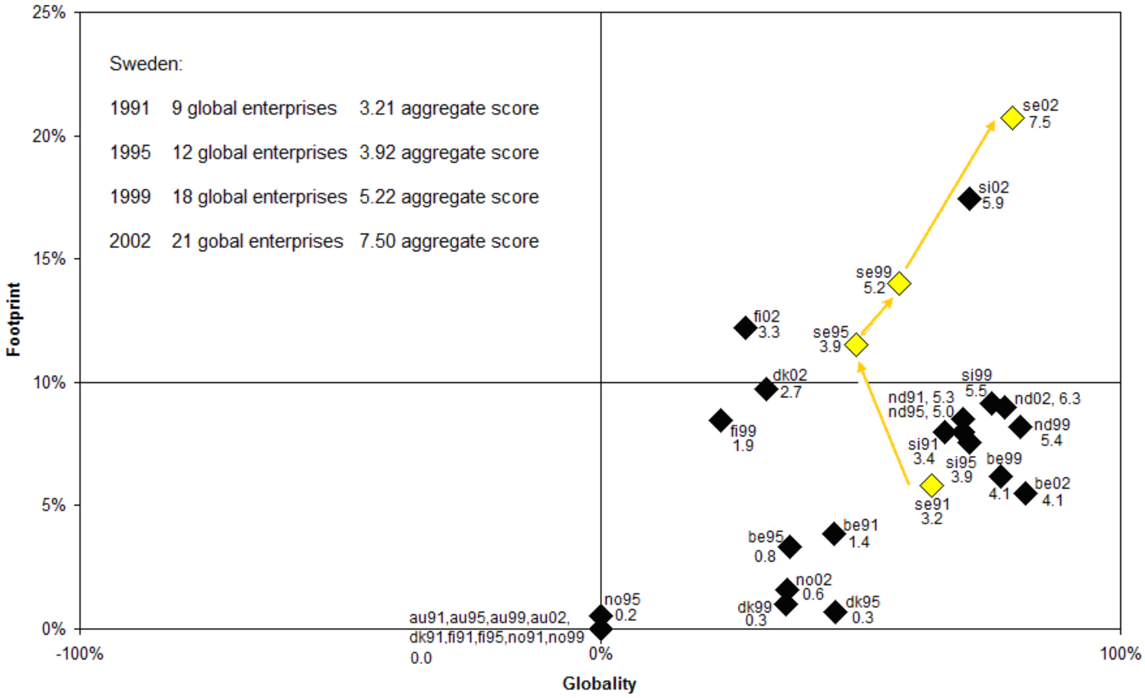

Figure 5-10: Aggregate Global Leverage Scores for Sweden

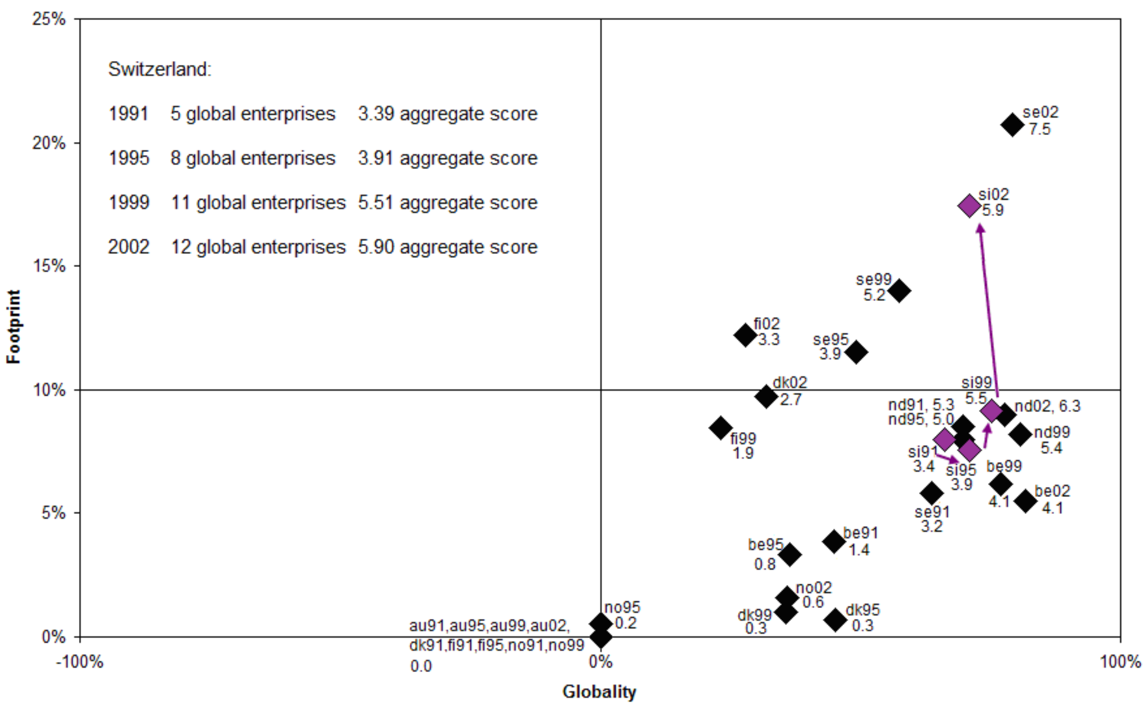

Figure 5-11: Aggregate Global Leverage Scores for Switzerland

This hypothesis is tested simply examining the results of a bivariate regression between global leverage and each of the two measures of internationalization. The results are presented in table 5-5. As the *p* score indicates, the probability that a relationship exists between global leverage and the measures of internationalization is very high. This is not surprising, given my contention that internationalization is an antecedent from which globalization developed. The fact that the two phenomena are related is therefore to be expected. Despite this, the level of multicollinearity between the internationalization measures and global leverage is low, with neither approaching the R^2 <.50 threshold I set as a test. It seems clear, then, that hypothesis 3 can be confirmed.

Table 5-5: Multicollinearity Tests

	Global Leverage Index	
Variables	*p*	R^2
FDI	0.01	0.25
Int'l. Trade	0.03	0.11

5.2. Democratic Corporatism

I now turn to the core hypotheses, which I test using pooled time-series regression analysis. Recall hypothesis 4 predicts that globalization diminishes economic sovereignty (i.e., weakens corporatism, social welfare outputs, and popular political participation). Hypothesis 5 predicts that internationalization strengthens economic sovereignty (strengthens corporatism, welfare outputs, and participation). Hypothesis 6 predicts that demographic changes in employment (feminization, growing service employment and aging societies) weaken the performance of institutions (corporatism, welfare and participation). In the pages below I present the results for each of the three aspects of economic sovereignty in sequence, beginning with corporatism and then turning to welfare and participation. For each of these I discuss the performance of the three hypotheses, the results which are worthy of special attention, and the methodological issues involved with affect the accuracy of the results. I turn first to the results for democratic corporatism.

Table 5-6 presents the results of the regression analysis for corporatism. The table reports the regression coefficient, the β weight and the standard error. Significance test results at $p<.10$ or better are also reported. None of the three hypotheses are supported by the results of the corporatism regression models. Hypothesis 4 predicts that globalization has a negative impact on democratic corporatism. The main indicator of globalization, global leverage, supports this prediction for only three of the six measures of corporatism. It achieves statistical significance only twice, for wage volatility ($p <.05$) and collective bargaining ($p<.01$); but for collective bargaining the direction of the coefficient is contrary to the prediction. Global finance, the secondary measure of globalization, is intended to capture the globalization of finance rather than production. This variable also fairs rather poorly, supporting the predicted outcome for four of the six measures of corporatism, but failing to achieve statistical significance for any of them.

Hypothesis 5 predicts that internationalization has a positive impact on democratic corporatism. This hypothesis fairs only slightly better. FDI shows the predicted result for each of the six measures of corporatism but fails to achieve statistical significance each time. International trade supports the hypothesis for only two of the six measures, and only the result for wage volatility ($p <.05$) is statistically significant.

Hypothesis 6 predicts that demographic changes in the structure of employment weaken democratic corporatism. This hypothesis is also poorly supported by the results. The demographic index achieves a statistically significant predicted result only for wage volatility ($p<.10$). The results for collective bargaining are highly significant ($p<.01$) and fairly robust (as indicated by the coefficient and the β weight), but are in the opposite direction of that which is predicted by the hypothesis.

With one exception, the control variables described in chapter four are not reported here. The regression models for corporatism were calculated with and without these variables. When included, the controls had no effect on statistical significance or the direction of any of the coefficients. Their only noticeable impact was to increase the condition index statistic, indicating high multicollinearity, and to further limit degrees of freedom. The variables also had high variance inflation scores and low tolerance scores. As a result I excluded them from the model.[107]

The one control variable I do report is non-native population, which achieved statistical significance (p<.01) for four of the six measures of corporatism. As table 5-5 indicates, an increase in non-native population has a negative impact on net union density and collective bargaining. The results may lend support to the argument that immigration may have a negative impact on social cohesion in homogeneous societies, although recent scholarship has persuasively argued against this (Crepaz 2008). In the current context, this thesis does not explain why increases in non-native population would strengthen the centralization of wage bargaining and the organizational authority of labor.

As a whole, the results for corporatism are clearly disappointing. None of the models can be supported. At best, the results are inconclusive. Yet closer analysis may give insight as to why the results appear as they do. I undertake this analysis below. I first discuss potential methodological problems with this regression model. Next I examine three of the independent variables in more detail. One measure—collective bargaining—may be misspecified. Another—organizational authority—may be useful in a slightly modified form. Finally I reconsider the source from which most of the corporatism the data is taken.

When results are inconclusive, as these corporatism results are, methodological problems may indicated. The data reported at the bottom of table 5-6 report results for several of the “usual suspects.” For each regression model I report the Durbin-Watson statistic testing

[107] The test results are not presented here but they are available for inspection upon request.

Table 5-6: Regression Results (Corporatism)

	Net Union Density	Labor Disruption	Wage Volatility	Collective Bargaining	Centralized Bargaining	Organizational Authority
Global Leverage	-.009	-1.625	2.069	1.772	-.430	.004
	-.135	-.329	.567	.341	-.101	.068
	[.012]	[1.187]	[862]**	[.599]***	[.762]	[.011]
Global Finance	.000	-.448	.023	-.001	-.005	.000
	.140	-.183	.165	-.006	-.030	-.071
	[.000]	[.580]	[.029]	[.020]	[.026]	[.000]
FDI	.001	-1.52	-.436	.062	.040	.000
	.067	-.141	-.376	.038	.030	.017
	[.004]	[2.801]	[.293]	[.204]	[.259]	[.004]
International Trade	-.000	.474	-.033	-.059	.101	-.001
	-.001	.149	-.096	-.121	.252	-.080
	[.001]	[1.094]	[.069]**	[.048]	[.061]	[.013]
Demographic Index	.029	12.868	1.793	3.544	.596	-.006
	.292	.374	.344	.479	.098	-.080
	[.015]	[11.220]	[1.078]*	[.749]***	[.953]	[.013]
Foreign Population	-.019	1.766	-.440	-1.586	1.529	.017
	-.596	.111	-.256	-.650	.764	.643
	[.005]***	[3.798]	[.338]	[.235]***	[.000]***	[.004]***
Adjusted R^2	.503	.234	.482	.788	.490	.498
Durbin-Watson	1.015	1.786	2.120	1.308	1.251	1.311
D-W dL - dU	0.85-1.69	0.81-1.70	0.85-1.69	0.85-1.69	0.85-1.69	0.85-1.69
n / df	32 / 25	30 / 23	32 / 25	32 / 25	32 / 25	32 / 25

Significance: * $p < .10$, ** $p < .05$, *** $p < .01$. For each variable, the three rows report the coefficient, the β weight, and the standard error.

for autocorrelation, along with the corresponding lower and upper bounds. A score below the lower parameter *dL* indicates unacceptable positive first-series autocorrelation. A score above the upper parameter *dU* indicates no autocorrelation.[108] The values between represent a "gray area" in which autocorrelation may or may not be a problem. The results report show that while no regression model falls below the minimum, only two meet the maximum. Thus autocorrelation may be an issue in this study. As I discuss in chapter four, however, the nature of the study may be such that autocorrelation is unavoidable. This may be further exacerbated by the nature of the corporatism data, which I discuss below.

High multicollinearity may also be a problem, although this would appear less likely. Variance inflation factors were obtained for each regression, and did not indicate high multicollinearity. The coefficient of determination is somewhat high for net union density given the lack of statistical significance, but this does not appear to indicate a pattern.

In the small sample used in this study, a small *n* could lead to a degrees of freedom problem. While more degrees of freedom would be welcome, the number of variables is sufficiently small and the number of cases is sufficiently large (relative to variables at least) to somewhat mitigate this potential problem.

I turn now to the results for several variables which may be informative. I begin with collective bargaining. Recall that this variable, taken from the ICTWSS Database, measures employees covered by wage bargaining as a percentage of all earners with the right to bargain.[109] Hypothesis 4 predicts a decline, as globalization should weaken the ethos of social partnership, leading business and labor to pursue their goals by means other than bargaining. Hypothesis 5 predicts that greater internationalization should reinforce the need for cooperation

[108] Durbin-Watson confidence intervals for a range of sample sizes and regressors can be found in Savin and White (1977), pp. 1989-1996.
[109] For comparability, I index the data to the country's average score for the years 1960-1969.

between business and labor, further reminding both sides of the importance of bargaining and (near) universal coverage.

While the measures of global finance and FDI bear out their respective arguments (albeit absent statistical significance), global leverage and international trade each have coefficients in the opposite direction from what is predicted by the hypotheses, and global leverage achieves high statistical significance. What explains this? The result may be indicative of a problem with autocorrelation, as I discuss above. Testing these models using an autoregressive technique such as ARIMA may be useful. However there is the possibility that the problem here is specification error: either I am not measuring what I intend to, or the variable itself (as constructed) does not measure what it intends to. The precise definition of the variable from the ICTWSS codebook reads: “employees covered by wage bargaining agreements...adjusted for the possibility that some sectors or occupations are excluded from the right to bargain” (Visser 15). In theory, this could explain the reversal of the coefficient directions. If globalization does have a negative impact on collective bargaining, the effect might be to reduce the eligibility of certain sectors and occupations for coverage. Along with reducing the pool of sectors covered, this might actually increase the reported coverage measure. Internationalization might have the opposite effect. Clearly further study is indicated.

The explanation proposed above might seem somewhat fanciful, if not for the results for organizational authority. This variable measures the authority of unions over subordinate levels of their organization at both the peak and sectoral level. It includes the authority of peak associations over member unions, and the authority of sectoral-level unions over local branches and members. In the original regression model, none of the main independent variables achieve statistical significance for this variable, and the direction of coefficients do not prove very useful for interpretation.

After obtaining the inconclusive results found in table 5-6, I investigated the measure further, and found that I was able to disaggregate its two components: confederal authority (i.e., power at the national/peak association level over member unions) and sectoral/union authority (i.e., power at the sectoral level over local branches). I then substituted each of these variables for the original dependent variable and re-ran the regressions. The results are presented in table 5-8, and are quite interesting.

Global leverage and international trade now have statistically significant, opposite impacts on authority, and opposite impacts for each of the two measures. Global leverage weakens confederal authority ($p<.10$), but strengthens sectoral authority ($p<.01$). International trade strengthens confederal authority but weakens sectoral authority (both $p<.01$). In the context of the hypotheses, and the theoretical models upon which they are built, these results make sense. I have argued that globalization yields inherent advantages due to its capacity to fragment the bargaining power of business and labor. The results of these regressions seem to indicate that globalization may drive authority from the confederal (national) level *down* to the sectoral level. This seems to be an example of fragmentation. Trade seems to have the opposite impact: driving authority from the sectoral level *up* to the confederal level.

This result leads me to the supposition that several of the variables in the corporatism regression models, while valid, may not be sensitive enough to capture fairly subtle changes in the nature of corporatism. If this is the case, I must conclude that corporatism is *not* changing quickly or dramatically enough to capture in the manner which I have attempted here. But I must also acknowledge that change may be occurring on a level which, while smaller and less noticeable, may ultimately have an enormous impact. In the parlance of the historical institutionalist literature, perhaps we should look for incremental changes rather than critical junctures (Streeck and Thelen 2005). I discuss this in detail in chapter six.

5.3. Social Welfare

Tables 5-7 and 5-8 presents the results of the regression analysis for social welfare. Unlike the results of the previous regression model, the social welfare result allows for much less ambiguous interpretation. The predictions of hypotheses 4 through 6 regarding social welfare mirror those regarding corporatism. The data lends substantial support to hypothesis 4, and thus to the supranationalization model. Results for hypothesis 5 are mixed. Results for hypothesis 6 indicate that this hypothesis should be rejected, but this conclusion should be reached only cautiously.

Hypothesis 4 predicts that globalization has a negative impact on social welfare. The results for the main indicator of globalization, global leverage, support this prediction (and with a strong degree of statistical significance). As globalization increases, the generosity of welfare systems declines, and contributory welfare becomes more common. Globalization also has a negative impact on income inequality. The final two variables in table 5-6, inequality (P90/P50) and (P90/P10) are frequently measures of income inequality which measure the ratio of earnings at the 90^{th} and 50^{th} and 90^{th} and 10^{th} percentiles on the income scale. For comparability, these statistics are indexed to the inequality rates at these percentiles for the period 1980-1984. Larger values mean greater inequality relative to this period. The data shows that as globalization increases, income inequality increases, in accordance with hypothesis 4.

Even more interestingly, government's capacity to reverse this trend also appears to be negatively impacted by globalization. This study employs the *inequality reduction* variable to measure the state's ability to reduce the level of income inequality. The variable measures a country's GINI coefficient (a frequently-used measure of income inequality) before and after taxes and social transfers to do this. The regression results show that as globalization increases, *inequality reduction* decreases; that is, globalization weakens the state's capacity to reduce inequality. Because minimizing income inequality is of central importance to the culture of partnership and social cohesion upon which the democratic corporatist system is built, this is a potentially important finding.

Table 5-7: Regression Results (Social Welfare)

	Social Welfare Generosity	Contributory Welfare	Poverty Reduction	Inequality Reduction	Inequality (P90/P50)	Inequality (P90/P10)
Global Leverage	-2.735	.143	1.301	-.030	.797	1.491
	-.538	.412	.230	-.301	.404	.337
	[.604]***	[.073]**	[1.305]	[.013]**	[.454]*	[.982]*
Global Finance	-.033	.001	-.061	.000	.008	.007
	-.170	.100	-.262	-.117	.113	.043
	[.020]*	[.002]	[.453]	[.000]	[.015]	[.032]
FDI	.201	-.014	-.467	.003	.156	.424
	.125	-.129	-.262	.095	.223	.269
	[.205]	[.571]	[.453]	[.004]	[.169]	[.032]
International Trade	.104	-.009	-.035	.002	.004	.053
	.217	-.269	-.066	.257	.018	.111
	[.049]**	[.006]	[.109]	[.001]	[.040]	[.086]
Demographic Index	.094	.062	.491	.002	-.877	-2.55
	.013	.125	.056	.016	-.296	-.384
	[.755]	[.091]	[1.744]	[.017]	[.605]	[1.308]*
Foreign Population	-1.253	.070	-1.471	-.039	-.304	-.865
	-.524	.427	-.472	-.738	-.345	-.438
	[.237]***	[.029]**	[.607]**	[.006]***	[.180]*	[.390]**
Adjusted R^2	.776	.302	.380	.483	.432	.474
Durbin-Watson	1.129	1.378	2.148	1.085	1.656	1.263
D-W dL - dU	0.85-1.69	0.85-1.69	0.76-1.72	0.65-1.79	0.73-1.74	0.73-1.74
n / df	32 / 25	32 / 25	28 / 21	24 / 17	27 / 20	27 / 20

Significance: * $p < .10$, ** $p < .05$, *** $p < .01$. For each variable, the three rows report the coefficient, the β weight, and the standard error.

Because this is a significant finding, it is important to corroborate it with multiple measures if possible. I therefore include an additional test of income inequality in the form of three final measures (see table 5-8). The *low, mid* and *high income share* variables examine income inequality in a slightly different form by aggregating income by deciles.[110] If the *low* measure is increasing, that means lower-income workers are earning more of the overall national income, and (one would expect) reducing inequality. The opposite is true for those captured in the *high* statistic: if this measure increases, it indicates that upper-income workers are earning more of the national income, and that inequality is increasing. One would expect a rise in *mid income share* to lessen inequality, since this is the largest income group, and represents the middle of the income distribution. The data indicate that globalization raises *high income share*, but lowers *low and mid income share*. Each of these results is statistically significant at $p<.05$.

Global leverage fails to achieve the same result for *poverty reduction*, the measure which serves as a theoretical inspiration for the *inequality reduction* variable. For this variable the direction of the coefficient is the opposite of predicted, although the result is not statistically significant. Global finance, my second indicator of globalization, exhibits the predicted direction for each variable, although statistical significance is only achieved (at $p<.10$) for *welfare generosity*. On balance, the findings support hypothesis 4 with regard to the impact of globalization on social welfare outputs.

Hypothesis 5 predicts that internationalization has a positive impact on social welfare. The results here are mixed. FDI shows the predicted result for six of the nine measures, but none achieve statistical significance. International trade supports the hypothesis for six of the

[110] Low income share measures the percentage of national income earned by all workers in first through third deciles of income distribution. High income share measures workers in deciles eight through ten. Mid income share measures workers in deciles four through seven.

nine measures as well, and achieves statistical significance for only *welfare generosity* and *mid* and *high* (but not *low*) income.

Hypothesis 6 predicts that demographic changes in the structure of employment weakens social welfare. The results clearly reject this hypothesis. Each of the indicators presents in a direction opposite of that which is predicted. This result strongly contradicts a well-known theoretical model, and thus should not be accepted at face value. In such a situation, a researcher must acknowledge the possibility that it is a flaw in one's own model that could explain the result.

One obvious candidate for such a flaw might be the decision to index several indicators of demographic change in order to test the hypothesis. Realizing this, I entered the component variables—feminization of the workforce, increased service sector employment, and aging population—into the model individually. The results failed to change the direction or significance of any of the other variables, but did have one pronounced impact: higher levels of multicollinearity.[111] I cautiously reject this hypothesis, subject to retesting with more cases, which would allow more degrees of freedom, and possibly address the multicollinearity issue described above.

As with the tests of corporatism, the control variables described in chapter four have been dropped from the model. They again had no effect on statistical significance or the direction of any of the coefficients, except to increase multicollinearity. The impact of non-native population is included, however, and again shows interesting results. These results indicate that increased non-native population weakens welfare generosity, increases contributory welfare, and weakens the state's capacity to reduce poverty and income inequality.

Furthermore, each of these results is statistically significant. Yet the statistic also has the effect of *reducing* the other measures income inequality, and in all but one instance with

[111] The test results are not presented here, but they are available for inspection upon request.

statistical significance. The significance and—to a lesser degree—direction of these findings make them difficult to dismiss as artifact. As I suggested previously, this is an area deserving further attention, particularly from globalization scholars, since matters of immigration can be thought of as the "human" "counterpart to "economic" globalization.

Variance inflation factors, tolerance and condition index statistics were all within satisfactory levels, indicating reduced chance that high multicollinearity is a problem. Degrees of freedom remain limited, of course, but still within acceptable parameters. Autocorrelation is again a worry. Although none of the Durbin-Watson scores are below the minimum threshold, only half are above it.

The results for social welfare clearly support hypothesis 4, are inconclusive regarding hypothesis 5, and reject hypothesis 6. While I have addressed hypothesis 6 above, a discussion of the merits of these tests for hypotheses 4 and 5 is in order. The tests indicate that globalization has a negative effect on social welfare. Simultaneously, they suggest that the effect of internationalization on social welfare (i.e., to strengthen it by promoting a culture of social cohesion) may be weakened in the face of globalization. While a single study is clearly insufficient to overturn the conventional wisdom on globalization and welfare (that is, the IM perspective), it does indicate that the modified SM perspective advanced in this project is worthy of further study, which may lead to further validation.

5.4. Popular Political Participation

Table 5-8 also presents the results for voter turnout, the single indicator of popular political participation.[112] Here hypotheses 4 and 5 are equally supported. Global leverage has a statistically significant ($p<.05$) negative impact on voter turnout, while international trade has a

[112] Several other indictors were not feasible for various reasons. The most promising of these was an indicator of electoral support for corporatism, and for anti-establishment/protest parties, using the Budge/Waldendorp data set. Unfortunately the data was insufficient to provide a sufficient number of observations for inclusion in this project.

Table 5-8: Regression Results (Social Welfare, Participation, Organizational Authority Recast)

	Low Income Share	Mid Income Share	High Income Share	Voter Turnout	Confederation Authority	Sector/Union Authority
Global Leverage	-.266	-.267	.533	-2.381	-.030	.027
	-.447	-.485	.493	-.361	-.199	.341
	[.113]**	[.127]**	[.233]**	[1.197]**	[.024]*	[.008]***
Global Finance	-.004	-.002	.006	.009	-.001	.000
	-.197	-.096	.158	.028	-.091	.016
	[.004]	[.004]	[.008]	[.044]	[.001]	[.000]
FDI	-.014	-.022	.036	.543	.002	-.001
	-.068	-.114	.095	.134	[.038]	-.053
	[.041]	[.045]	[.084]	[.787]	[.008]	[.003]
International Trade	.005	.033	-.038	.228	.007	-.007
	.084	.588	-.346	.403	.506	-.972
	[.010]	[.011]***	[.020]*	[.083]**	[.002]***	[.001]***
Demographic Index	.589	.323	-.911	.556	-.008	-.007
	.658	.389	-.561	.061	-.038	-.059
	[.153]***	[.171]*	[.315]**	[1.308]	[.030]	[.009]
Foreign Population	.112	.087	-.199	-1.853	.048	-.003
	.423	.355	-.414	-.641	.685	-.082
	[.046]**	[.052]	[.096]**	[.376]***	[.009]***	[.003]
Adjusted R^2	.549	.338	.417	.696	.583	.852
Durbin-Watson	2.035	2.464	2.317	1.257	1.541	1.335
D-W dL - dU	0.62-1.82	0.62-1.82	0.62-1.82	0.68-1.77	0.85-1.69	0.856-1.690
n / df	23 / 16	23 / 16	23 / 16	26 / 19	32 / 25	32 / 25

Significance: * $p < .10$, ** $p < .05$, *** $p < .01$. For each variable, the three rows report the coefficient, the β weight, and the standard error.

statistically significant ($p<.05$) negative impact on voter turnout, while international trade has a significant ($p<.05$) positive impact. FDI also has a positive effect, although not statistically significant. Once again hypothesis 6 is rejected, as the demographic index fails to achieve significance or to exhibit the outcome predicted. Non-native population has a highly significant ($p<.01$) negative impact on turnout, again suggesting that the issue of social capital and social cohesion should be more fully incorporated into the research agenda begun here.

5.5. Summary of Findings

My findings are summarized below in table 5-9. Clearly the results are mixed. In this final section of the chapter, I briefly address the results for each of the six hypotheses, and the three theoretical models they represent. The meaning of these findings for the "big picture," that is, the research question, are discussed in the concluding chapter.

I begin with the preliminary hypotheses. These hypotheses are supported by the data. This is a significant result, independent of all other findings. I have found evidence that firms from the small European states are becoming more global by increasingly dispersing their assets. Still, differences exist from country to country and—importantly—from company to company. This suggests that globalization is not simply a uniform force which homogenizes the world. The evidence lends support to the contention I have made in this study that globalization is a strategy of capitalism rather than an exogenous structure beyond human control.

Perhaps most importantly, both the bivariate regressions and the multicollinearity tests from the multivariate regressions indicate that, while globalization and internationalization are related, they are not the same phenomenon. This position has been advocated by many SM scholars, but little quantitative evidence has been provided to support it. Although a great deal of work is clearly still needed, this study takes a first step toward providing such evidence.

The tests of the core hypotheses are more ambiguous. Two findings are of primary importance here. First, none of the models persuasively addresses the status of democratic corporatism in the small European states. Without this, none of the models can be confirmed or rejected with a high level of confidence. I discuss some of the reasons for these results in section 5.2, and in more detail in the concluding chapter to this study.

Second, the data shows a more promising result regarding social welfare. The globalization hypothesis is supported here, while results for the internationalization hypothesis are inconclusive. The endogenous hypothesis is not supported by the findings. Both the globalization the internationalization hypotheses are by the test of popular political participation.

I turn now to the final chapter of this study. In chapter six I return to the original research question and the competing models to apply the findings of this chapter. As I have written several times, I intend this study to be the first step in an extended research agenda. If this is the first step, then what is the second, and where do I go from here? I address this crucial question in chapter six as well.

Table 5-9: Summary of Findings

	Hypothesis	Preliminary	Democratic Corporatism	Social Welfare	Pop. Political Participation
1	Firms have globalized	Supported			
2	Globalization has increased but variety exists between countries	Supported			
3	Globalization is distinct from internationalization	Supported			
4	Globalization weakens sovereignty (SM)		Inconclusive	Supported	Supported
5	Internationalization strengthens sovereignty (IM)		Inconclusive	Inconclusive	Supported
6	Demographic change weakens institutions and outcomes		Inconclusive	Not Supported	Not Supported

CHAPTER 6

CONCLUSIONS

In the previous chapter I presented the statistical results of the empirical tests constructed in chapter four. I am now prepared to evaluate these results from a comprehensive perspective. In this chapter I revisit my research question, answering it based on the evidence presented in chapter five, and consider the way forward for my research. While this study has not achieved all that it set out to achieve, I believe it has pointed me in the right direction.

This chapter is divided into four sections. In section one, I review the progress of the previous chapters of this study. In section two, I summarize my findings, and offer an answer to the research question I presented in chapter one.

While I believe I have taken a significant first step toward providing a satisfying and generalizable answer to the research question, it is only a first step. This is in part because of the complex nature of the question; but it is also a result of several methodological limitations of this study. I acknowledge and discuss these in section three.

Despite these limitations, I believe my work does represent a contribution to comparative politics generally and the globalization literature in particular. Section four discusses the significance of the study. Most importantly, my research offers the first quantifiable evidence that a distinction may be drawn between globalization and internationalization as separate phenomena with separate effects in political economy. Additionally, I believe I have taken an important step toward synthesizing several disparate literatures. These include the IM and SM perspectives on globalization and the political science and applied economics literatures on globalization.

It is not enough to admit the limitations of the research or attempt to convince the reader of its merits. It is also incumbent upon me to suggest ways to overcome the limitations, and a way forward with the research which builds on its initial contributions. As I have stated from the beginning of this volume, this dissertation represents only the initial stage of an extended research project. In section five, I discuss the future of the research agenda that I have begun here. I offer several avenues of research which I intend to pursue in the future, and discuss the most appropriate methodological approaches for this future work.

6.1. Summary of Previous Chapters

This study began with a puzzle regarding globalization, democratic corporatism, and the small European states. Peter Katzenstein and others demonstrated in the late 1970s and early 1980s that the small European states—Austria, Belgium, Denmark, Finland, the Netherlands, Norway, Sweden and Switzerland—had succeeded economically despite their small size and vulnerability to exogenous economic shocks. Katzenstein attributed their success to a system of organized capitalism called democratic corporatism. This system emphasized cooperative relations and mutual concessions between the state, business and labor, compensatory social welfare programs, and high levels of popular political participation.

Over the past few decades, scholars of political economy have devoted much of their literature to *economic globalization* and its impact on the state. Some scholars argue that globalization is destroying (or has already destroyed) state sovereignty. Others claim the phenomenon is more myth than reality. Furthermore, some scholars define globalization *supranationally* as the reduced importance of borders and distances, while others define it *internationally* as the continued centrality of the same.

I suggested that in light of the globalization debate, it was time to revisit Katzenstein's model to determine what effect globalization has had on the small European states. I therefore posed this research question: *How have globalization (that is,* supranationalization*) and* *internationalization impacted the economic sovereignty of the small European states since Katzenstein's findings in the early 1980s?*

My working hypothesis, presented in brief in chapter one, was that globalization weakened economic sovereignty, which I defined as the state's economic policymaking autonomy.

In chapter two of this study, I reviewed the basic divide in the globalization literature between the supranationalization model (SM) and the internationalization model (IM). I argued that neither was suitable to be the "last word" on globalization, nor to answer the research question regarding the impact of the phenomena on the small European states. The challenge, I concluded, was to combine the methodological clarity of the IM with the theoretical insights of the SM.

I took up this challenge in chapter three. Building primarily on the SM perspective of globalization, I defined the phenomenon as an increase in the number and significance of economic actors that define interests and employ strategies that are subject to increasingly limited geopolitical constraints. I argued that globalization was a separate phenomenon from internationalization, and had a separate impact; namely, the weakening of state economic sovereignty. I presented a modification of the supranationalization model which posited that firms globalize because doing so gives firms advantages relative to the state, labor and other firms. By dispersing their productive assets around the world, firms fragment the power of these other actors, and accumulate bargaining power relative to them. I called this bargaining power "leverage."

In chapter four, I converted these theoretical insights into a plan to measure globalization, and devised hypotheses and tests to evaluate supranationalization concurrently with internationalization. These tests were conducted, and the findings were reported in chapter five. I found evidence that globalization is indeed a real phenomenon, distinct from internationalization. While its impact on economic sovereignty was complex, there does appear to be evidence that globalization has weakened two of the legs of the corporatist tripod: social welfare and political participation.

If these results were unambiguous, this would be the end of the story. But of course they are not, and this is the beginning rather than the end.

6.2. The Research Question: Summary of Findings

In the first chapter, I presented the following research question: *How have globalization (that is,* supranationalization*) and internationalization impacted the economic sovereignty of the small European states since Katzenstein's findings in the early 1980s?*

The first part of the answer to this question is that globalization has transformed some of the most prominent of the small European states' business "social partners" from *international* to *global* enterprises. Prior to the increased globalization (that is, supranationalization) of the past several decades, many of these firms were international enterprises. They based most of their production capacity in their original home country, but engaged in market transactions with partners and customers around the world. *International* in this context refers primarily to the scope of their transactions rather than the location of their productive assets: the company, its products and suppliers, and the customers for these products could be identified by discrete national identities.

The evidence presented in chapter five suggests that, for many of these firms, this is no longer the case. By 2002, nearly three quarters of the 86 firms in the sample had become *global* enterprises. These firms are increasingly removed from their original home countries, especially with regard to their productive capacity.

Figure 6-1 offers an example from Stora Enso, a Finnish-Swedish paper products / lumber firm. Stora Enso was formed as a result of a merger in 1998 between Stora of Sweden and Enso of Finland. Thus determining a discrete nationality is already a challenge. This challenge is compounded by the wide geographical dispersion of the firm's productive assets.

Despite being in a natural resource-based industry (where location of production facilities is limited by the location and availability of timber), Stora Enso has spread production across three continents, and has concentrated its facilities mainly in relatively developed countries.
As I have argued in this study, globalization does not necessitate a "race to the bottom," in which developed countries deregulate and abandon their welfare states to compete with less developed, low wage countries. But within the (mostly) developed world, sufficient comparability in skills and sufficient variation in wages exist to allow firms to take advantage of the situation. They do this by dispersing their production capacity among these countries, and maintaining the ability to centrally allocate or redeploy production *within* the company, but *across* multiple geopolitical frontiers. The resulting leverage gained by firms may be less dramatic than the "race to the bottom" but it still has the potential to cause disruptive competition between capitalist welfare-state economies

While the evidence indicates a fairly clear trend toward greater levels of globalization, the actual effect of this change is not entirely clear. Based on Katzenstein's work, I established three criteria necessary to demonstrate the economic sovereignty of the small European states: the maintenance of corporatist institutions, the continuation of compensatory universalistic social welfare programs, and high levels of popular political participation. Based on the assumption that the state has an interest in maintaining these arrangements, I argued that the diminution of any of these was evidence that the state's autonomy to make economic policy decisions had been reduced. So, have internationalization and/or supranational globalization weakened economic sovereignty?

For reasons I discussed in chapter five, my assessment of globalization's impact on corporatist industrial relations is inconclusive. But this study has demonstrated that globalization has a significant, negative impact on social welfare outputs and popular political participation. It also finds that the conventional wisdom about internationalization—that it has the effect of strengthening rather than weakening sovereignty—cannot be supported by the evidence presented in this study.

Figure 6-1: Production Distribution of a Global Corporation — Stora Enso (2002)
source: Stora Enso. Annual Report to Shareholders*. 2002. pp. 2-3.*

I explained in chapter one how the impact of globalization on the small European states represented a “least likely” observation which would seem unlikely to accord with the prediction that globalization weakens state sovereignty.[113] The finding that globalization has negatively impacted social welfare outcomes in these countries, given their past histories, lends extra weight to the results. My argument seems to have passed a difficult test, at least partially.

This certainly does not mean that we should dismiss the internationalization hypothesis based on the results of this study. The results obtained in chapter five partially support the argument that globalization and internationalization are separate phenomena, and may be expected to have opposite effects on sovereignty. Nevertheless, the results of a single study, which I myself have described as the initial stage in a much longer and more involved research agenda, cannot trump the weight of a great deal of research which has supported the internationalization hypothesis.[114] At this point, the most responsible conclusion that can be reached is that the results of this study indicate that further research to corroborate and expand upon my findings is warranted.

An important aspect of this ongoing research agenda must be to discover the extent to which the findings of this study represent a significant step toward differentiating the effects of globalization and internationalization; or to which they are the result of flaws in my research model. I now turn to these issues.

6.3. Limitations and Shortcomings

This study has not been without its share of limitations and shortcomings. Among the most important of these are the scope of the research itself, the “small n” problem of limited

[113] Recall what King, Keohane and Verba (1994, 209) say about such cases: “If the investigator chooses a case study that seems on a priori grounds unlikely to accord with theoretical predictions—a “least-likely” observation—but the theory turns out to be correct regardless, the theory will have passed a difficult test, and we will have reason to support it with greater confidence.”
[114] Of course, I have argued that these findings are biased by definitional problems (see chapter two).

observations, and the exclusion of “foreign” global firms from the dataset. I revisit each of these matters below.

Much of the SM literature, and much of the IM critique of it, is implicitly based on the assumption that globalization is about large scale, dramatic change. SM scholars expect globalization to fundamentally alter capitalism, or the state. Many IM scholars argue that if neither of these things happen (immediately), globalization should be labeled a myth.[115] These are two sides of a “forest and trees” problem: while the two schools argue over the forest, both tend to overlook the trees.

In this study, I attempted to step back from this problematic approach. I argued that globalization did not have to bring about the demise of the state, but could result in its weakening. I suggested that rather than making the traditional nation-state obsolete, global firms might be in the process of becoming actors along side the state on the world stage. I argued that globalization might cause change in the nature of social welfare outputs, rather than the complete collapse of the welfare state itself. And I rejected the idea that globalization requires a convergence upon a single model of capitalism or economic policy.

Upon review, however, I find that I did not go far enough. This became apparent after examining the findings in chapter five. Several instances of “overreaching” are evident. First, my dependent variable was not tailored narrowly enough to effectively capture subtle rather than grand changes. Although I did find change, both in the development of globalization itself and in social welfare, these findings only reinforce the point: they are themselves examples of more incremental changes in political economy, and the policy autonomy of the state.

My measurement and testing of corporatism was also too broadly constructed. Here I consciously attempted to focus my analysis by looking at component indicators of the

[115] Some, like Weiss (1998, 2003) argue that states can adapt to globalization without a net loss of sovereignty. Below I argue that while change may indeed be subtle, it may still result in a loss of policy autonomy on the part of the state.

phenomenon rather than overall indices of corporatism. While comprehensive measures of corporatism are useful as independent variables, they are not sufficiently sensitive to use as dependent variables.[116] Even the ICTWSS dataset, which reports more subtle measures of corporatism than many others, was still too broad. Particularly given my narrow range of cases and observations, my results were (not surprisingly) inconclusive.

Yet the measure of organizational authority in the corporatist regression model may point the way to a more useful approach. Although not perfect, breaking the variable down to its component parts allowed for insights which were hidden in the data. This is a useful lesson. The use of multivariate regression itself was justified by the need for a baseline SM study to compare with quantitative IM research. My social welfare results are particularly useful in this regard. But this does not mean that regression is the only—or even the best—tool to use going forward. An approach which takes smaller steps toward the goal of understanding the impact of globalization on the state and state sovereignty, and which incorporates both quantitative and qualitative research methodologies, is indicated by these results. I address this in section 6.5 below.[117]

Several additional limitations are evident. Most importantly, the limited number of observations available for this study weakens the predictive accuracy of the results, and precludes the use of panel data analysis. As I discussed in chapter four, the “small n” is unavoidable, given the trade-offs between the number of observations, the potential for autocorrelation and the limitations on the data available. Going forward, the best solution to this problem is obviously to add additional cases. Doing so will also allow me to use a panel data approach to the regression analysis. At present, an additional one or two observations is

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[116] The most commonly used measures of corporatism at the national level (Lijphart, Siaroff, Golden and Wallerstein) usually change very little over time.

[117] I approached the construction of my main independent variable, globalization leverage, from a highly nomothetic perspective. This was done deliberately, in part to meet IM scholarship on its “own terms” (that is, using the type of quantitative approach found in the work of scholars such as Dwayne Swank and Geoffrey Garrett).

possible for each of the eight cases, thus increasing the total number of potential observations to at least 40. Fifty or more will probably be necessary for a panel data analysis.

The fact that data regarding “foreign” global enterprises is not included in the globalization leverage index is also an important shortcoming. Although the behavior of “domestic” global enterprises is the primary focus of this study, the addition of firm-level data from enterprises not “native” to the small European states would have given a clearer picture of the impact of globalization on these countries’ and their economies. As I explained in chapter four, however, it simply was not possible to obtain this data for inclusion in this study.

This was mainly because the largest global enterprises generally consider the small European states to be too small to report segmented geographical asset data. Firms such as General Motors or Siemens or Mitsubishi may report assets in the United States or China, or perhaps in Germany or France or Japan. But assets located in any of the small European states are likely to be aggregated as the “Rest of Europe.”[118] Going forward it might be possible to collect this data by attempting to obtain it not from the firms in question, but from the governments themselves. This would still be subject to data availability problems, methodological comparability issues across statistical collection agencies, and project funding concerns, of course. Nevertheless, this approach might be feasible if applied in a less comprehensive manner: a comparison of the operations and leverage of foreign and/or domestic global enterprises in Norway versus Sweden, for example, or Belgium versus the Netherlands.[119]

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[118] While such a supranational orientation may be rather satisfying from a theoretical perspective, it is a source of some aggravation from a methodological point of view.

[119] I also focus in this study on globalization of industry rather than globalization of finance, although finance may actually reflect more accurately the theoretical model developed in this study. While this approach was taken with good reason, the examination of financial globalization deserves more in-depth analysis. This again is fertile ground for future research.

6.4. So What: The Significance of This Study

Although the research I have presented does have the shortcomings and limitations discussed in the previous section, I believe that my work does make an important contribution in the area of comparative politics, and specifically in the globalization literature. Three contributions made by this study merit discussion. These are the definitional and operational distinctions drawn between supranationalization and internationalization; the manner in which I address what I called the “touch-down problem;” and the synthesis of several disparate literatures and perspectives in this research. In this section I discuss each of these in turn.

As I discussed above, this study provides important initial evidence that supranational globalization on the one hand and internationalization on the other are distinct phenomena. Much of the confusion and contention in the globalization literature stems from the lack of clear definition of the phenomenon. Two scholars may engage in a heated debate over the impact of globalization on the state without realizing that each is defining globalization differently from the other. By drawing this distinction, and by further refining and clarifying the differences in future research, it is my objective to encourage scholars toward greater definitional precision when addressing economic globalization. I believe I have taken a step in that direction with this study.

Secondly, this research offers a solution to one of the fundamental impediments to supranational research in political economy: what I have labeled the “touch-down” problem.[120] My approach in this study has been to attempt to capture the intersection of supranational economic activity and territorial reality (that is, the “touch-down” of globalization) in the operations of the agents of globalization: global economic actors (specifically, global enterprises). These firms are able to act supranationally: that is, with both *instantaneity* and *simultaneity*. They maintain production operations in a wide range of national economies at the

[120] Namely, how do we measure the interaction of a supranational which transcends territory with the territorially fixed national states, economies and institutions, when most of the available data is constructed from a territorial, international perspective?

same time (simultaneity), and centrally coordinate the activities of their operational components with virtually no limitations imposed by time (instantaneity).

If such firms disperse their operations around the world, giving themselves multiple sourcing and production options (globality), yet maintaining significant contributions to particular domestic economies (footprint),[121] then the firm may exercise leverage over the state. The capacity to quantify this intersection between the supranational and the territorial represents an important contribution to the literature, and may make it possible to further study the impact of supranational phenomena on national and international institutions.

Finally and most importantly, this study makes progress toward the synthesis of disparate approaches and literatures in globalization research. As I stated in chapter one, the study of globalization can be found in nearly every discipline that is concerned with human behavior. Even when we limit ourselves to one aspect of globalization—as I have done here with economic globalization—the complexity of subject and diversity of opinion can seem overwhelming. My objective in this study has been to build bridges to span some of these differences. Without overstating the matter, I believe I have had some success in achieving this objective.

First, I have been able to partially overcome the impasse between the supranational model (SM) and internationalization model (IM).

Secondly, I have attempted to incorporate the insights of both the political science and applied economics / management literatures in this study. Most political science research on economic globalization (particularly within comparative politics) has viewed the phenomenon as a challenge to the state. Much of the economics and management literature presents the state as an impediment to the rational workings of capitalism (and, by extension, of globalization).

[121] That is, the value of these firms assets relative to GDP is fairly large, and the domestic economy depends on the firm for a large share of its growth, but these assets are not crucial in their present form to the successful operation of the firm.

While these approaches may seem irreconcilable, I believe they are not. We have seen political science and economics borrow heavily from one another: rational choice approaches come from economics, for example, while economists have lately looked to the social sciences to try to understand some of the less strictly rational behaviors of real people, in and out of the market. Perhaps, as economists argue, the objectives and strategies of firms are indeed rational. But we have seen that institutions, while potentially functional, are not always rational. The interaction of these perspectives when globalization "touches down" in a national economy is of great interest, and I have attempted to integrate these perspectives here.

6.5. The Next Step: The Future of This Research Agenda

As I have repeated several times, study represents the beginning of a long-term research agenda. I conclude with some thoughts about the next stage of the research.

As I imply above, the fact that an institution is not changing rapidly does not exclude the possibility that it is not changing in a slow but fundamental way. This is the central insight of *Beyond Continuity*, a volume edited by Wolfgang Streeck and Kathleen Thelen (2005). Streeck and Thelen argue that the historical institutionalist literature on punctuated equilibrium has led scholars to undervalue incremental change in search of dramatic events that change conditions rapidly. Some phenomena *have* followed this pattern of apparent stasis followed by a critical juncture—a tipping point—that leads to rapid and fundamental change. In the small European states, the pacts which were negotiated between business and labor in first decades of the 20th century tend to follow this pattern, as do the American Civil War and the Great Depression. In each case, critical junctures were followed by dramatic institutional changes (corporatist pacts, the abolition of slavery, the adoption of Keynesian economic policies).

On the other hand, Streeck and Thelen argue that incremental change, while slower and often times less noticeable, can have equally dramatic effects. Sometimes these changes lead to institutional *adaptation*, in which changes are accommodated and institutions continue in a modified but recognizable form. This is the perspective from which Linda Weiss (1998) argues that the "powerless state" is a "myth." Other times gradual change leads to institutional *transformation*. This often entails a more substantial change in the nature of the institution. Small or slow changes, in the aggregate, can have large impacts, even if the changes themselves do not take the form of a obvious critical juncture.

This, I believe, is where I must now turn my attention: from the large scale impacts of globalization that many scholars seem to be looking for to the more subtle—but potentially more substantive—transformations that may be occurring. This perspective fits well with what I have found so far about globalization: that it effects different countries in different ways, and that different companies use it differently. My globalization data could be applied in a number of ways to look for the subtle effects of the phenomenon. So the first direction in which I must turn is away from the search for rapid, dramatic impacts of globalization and toward a smaller but no less transformative ones.

A second direction for future research involves the most appropriate methodological approach to take. The mainly quantitative analysis of this study provides a good start, but if I am to study the subtle transformations of globalization, qualitative tools will also be needed. Luckily, continuation of this research agenda does not require me to chose one or the other. As a number of scholars—most notably Robert Putnam (1993) in his methodologically pioneering *Making Democracy Work*—have demonstrated, a marriage of quantitative and qualitative methods often yields the most interesting and enlightening scholarship. My objective in future research is to marry the quantitative data I have collected for this project—most notably the globalization leverage data at both the firm and aggregate national levels—with more in-depth analysis of firms, institutions and states.

A few examples may illustrate what I have in mind. Grazia Ietto-Gillies work in applied economics provided a rich theoretical framework for understanding the behavior of global enterprises. But her research includes little empirical evidence of firms behaving as her work predicts (Ietto-Gillies 2005, 175-179). Building upon Ietto-Gillies informative work, I argued in chapter three that the globalization of production allows global enterprises to fragment the power of the state and labor, deriving for the firm inherent advantages of global operations. Indeed this perspective forms the rationale for the globalization hypothesis I tested in chapter five.

Rather than examining this potentially fruitful avenue of research from a broad, cross-sectional perspective as I have done here, a study of specific firm-state or firm-labor interactions could make an interesting contribution. My findings with regard to the organizational authority of labor would make a fine starting point. Recall that I found that globalization decreases the power of peak associations' authority over constituent unions, but increases the power of sectoral unions' over local branches. Although this may be a statistical artifact, it may also be evidence of the sort of fragmentation strategy I discuss above.

The globalization data I have already accumulated could serve as a basis for a variety of most similar systems studies: for example, several of the firms in this study can be claimed by more than one country. Both Sweden and Switzerland are considered the "home" country of ABB. Teliasonera and Stora Enso are both Swedish and Finnish. Have these companies behaved differently in each country? Do differences in leverage scores lead to different outcomes in the same areas of policy for the same firms? In the case of ABB, the company has consistently had a higher leverage score in Sweden than in Switzerland? Has this translated in to more bargaining power in Sweden?

The globalization leverage data may also be useful in further exploring the merits of the main hypothesis of this study relative to the "varieties of capitalism" approach. Hall and Soskice (2001) suggest that firms from coordinated market economies (CMEs) such as the small European states are embedded in a form of capitalism characterized by "considerable nonmarket coordination directly and indirectly between companies, with the state playing a framework-setting role; and in all these economies, in one form or another, labor remains 'incorporated'" (Soskice 1999, 103).

I have argued in this study that these firms are not so embedded that they are unwilling to disperse production globally, including in countries with economic arrangements very different from those of CMEs. My evidence seems to support this argument. But another step is needed. When these firms *do* relocate, do they bring their "native" variety of capitalism with them? This may be studied by examining the behavior of CME firms in their operations in the United States, usually acknowledged to be the least coordinated of the major capitalist democracies (or, using Hall's and Soskice's terminology, the *best* example of a liberal market economy).

For example, do these firms bring with them their traditions of cooperative labor relations? If the varieties of capitalism approach is correct, we should see firms reproducing cooperative labor relations in their American operations. Conversely, if my supranational hypothesis is correct, the more globalized firms (as measured by the globalization index I have developed in this study) should use their operations in the United States as a means of "escaping" such coordinated practices. Do differences exist between firms from different countries, or from the same country but different industrial sectors? Do global and international enterprises behave differently? These questions could be addressed by combining more qualitative analytical techniques with the quantitative data I have already begun to compile in this study.

This study has demonstrated the difficulties inherent in the statistical operationalization of complex phenomena such as democratic corporatism. In this case, corporatism may be better captured using a more qualitative—yet no less methodologically rigorous—approach. This is another avenue for future research. Having quantified my independent variables,[122] I

[122] Subject to those revisions I have discussed herein.

could incorporate this data into a more qualitative analysis of the dependent variable of corporatism. This would allow me to utilize much richer and more subtle information on corporatism, such as the data published regularly by the European Industrial Relations Observatory (EIRO) on contemporary change in European patterns of industrial relations. If, for instance, my data shows a higher degree of exposure to globalization in Sweden than in Finland, I should see a weakening of particular aspects of corporatism in the former relative to the later in the EIRO data.

The same general idea could be applied to studies comparing the behavior or bargaining effectiveness of different firms within the same country, different states or labor organizations in their interactions with different firms (exhibiting different leverage scores and thus different degrees of globalization) in the same industrial sector.

The quantitative approach to globalization taken in this study has proven useful, if not quite so useful as I had hoped. But I do not judge the success of this project on the statistical results presented here. While I believe these results do make a contribution to the political economy literature, I believe their usefulness as the foundation for more in-depth case studies will, in the long run, be even more important.

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APPENDIX

SUMMARY CORPORATE DATA

Below is a summary of global enterprise data for each of the eight countries in the study.

Belgium	**note**	**1991**	**1995**	**1999**	**2002**
Delhaize-Le Lion		**-0.204**	**-0.033**	**0.223**	**0.339**
Globality		-0.311	-0.043	0.732	0.744
Footprint		0.007	0.008	0.003	0.005
Interbrew		**-**	**-**	**-**	**0.540**
Globality		-	-	-	0.615
Footprint		-	-	-	0.009
Petrofina/TotalElfFina	**1**	**0.710**	**0.335**	**1.774**	**1.318**
Globality		0.453	0.222	0.875	0.907
Footprint		0.016	0.015	0.020	0.015
Societe Generale de Belgique	**2**	**0.398**	**0.188**	**1.774**	**-**
Globality		0.210	0.125	0.543	-
Footprint		0.019	0.015	0.033	-
Suez-Tractabel	**3**	**-1.278**	**-4.073**	**-0.266**	**1.309**
Globality		-0.708	-0.619	-0.062	0.786
Footprint		0.018	0.066	0.043	0.017

Denmark	note	1991	1995	1999	2002
Davis (Sophus Berendsen)	**4**	**-**	**0.084**	**0.069**	**0.100**
Globality		-	0.720	0.712	0.623
Footprint		-	0.001	0.001	0.002
Carlsberg		**-0.698**	**0.192**	**0.238**	**0.481**
Globality		-0.580	0.326	0.260	0.681
Footprint		0.012	0.006	0.009	0.007
H. Lundbeck		**-**	**-**	**-**	**-0.079**
Globality		-	-	-	-0.148
Footprint		-	-	-	0.005
Moller-Maersk		**-**	**-**	**-**	**1.279**
Globality		-	-	-	0.213
Footprint		-	-	-	0.060
Novo-Nordisk		**-0.429**	**-0.645**	**-0.621**	**-1.601**
Globality		-0.637	-0.452	-0.399	-0.624
Footprint		0.007	0.014	0.016	0.026
TDC	**28**		**-0.867**	**-0.961**	**0.837**
Globality			-0.360	-0.360	0.291
Footprint			0.024	0.027	0.029

Finland	**note**	**1991**	**1995**	**1999**	**2002**
Fortum		**-**	**-**	**-2.203**	**-1.165**
Globality		-	-	-0.353	-0.134
Footprint		-	-	0.062	0.087
Nokia		**-**	**-0.079**	**0.680**	**1.325**
Globality		-	-0.029	0.155	0.188
Footprint		-	0.027	0.044	0.070
Repola	**5**	**-**	**-**	**-1.375**	**-1.094**
Globality		-	-	-0.300	-0.279
Footprint		-	-	0.046	0.039
Stora Enso	**6**	**-**	**-**	**1.226**	**1.930**
Globality		-	-	0.301	0.375
Footprint		-	-	0.041	0.051
UPM-Kymmene	**7**	**-**	**-2.090**	**-2.794**	**-1.102**
Globality		-	-0.279	-0.429	-0.146
Footprint		-	0.075	0.065	0.075

Netherlands	**note**	**1991**	**1995**	**1999**	**2002**
Ahold		0.116	0.122	0.259	0.401
Globality		0.332	0.225	0.591	0.888
Footprint		0.003	0.005	0.004	0.005
Akzo Nobel	**8**	0.274	0.340	0.349	0.386
Globality		0.294	0.412	0.562	0.591
Footprint		0.009	0.008	0.006	0.007
ASML		**-**	**-**	-0.123	-0.303
Globality		-	-	-0.668	-0.517
Footprint		-	-	0.002	0.006
Buhrmann	**9**	**-**	**0.168**	**0.115**	**0.113**
Globality		-	0.400	0.806	0.751
Footprint		-	0.004	0.001	0.001
DSM		**-0.817**	**-0.288**	**-0.208**	**-0.126**
Globality		-0.537	-0.304	-0.204	-0.102
Footprint		0.015	0.009	0.010	0.012
Equant		**-**	**-**	**0.010**	**0.017**
Globality		-	-	0.923	0.858
Footprint		-	-	0.000	0.000
Gucci Group		**-**	**0.001**	**0.017**	**0.071**
Globality		-	0.975	0.975	0.921
Footprint		-	0.000	0.000	0.001
Heineken		**0.190**	**0.164**	**0.148**	**0.172**
Globality		0.552	0.591	0.698	0.771
Footprint		0.003	0.003	0.002	0.002
Heineken Holding	**10**	**-**	**0.041**	**0.021**	**0.191**
Globality		-	0.591	0.156	0.732
Footprint		-	0.001	0.001	0.003
KLM Royal Dutch Airlines		**-**	**-0.930**	**-1.009**	**-0.839**
Globality		-	-0.531	-0.727	-0.688
Footprint		-	0.018	0.014	0.012

Netherlands (continued)	note	1991	1995	1999	2002
Numico		**-**	**-**	**0.044**	**0.034**
Globality		-	-	0.844	0.905
Footprint		-	-	0.001	0.000
Philips		**1.178**	**0.916**	**0.859**	**0.921**
Globality		0.575	0.539	0.495	0.647
Footprint		0.020	0.017	0.017	0.014
Polygram	11	**0.079**	**0.081**	**0.094**	**-**
Globality		0.792	0.838	0.990	-
Footprint		0.001	0.001	0.001	-
Randstad		**-**	**-**	**0.009**	**0.010**
Globality		-	-	0.064	0.066
Footprint		-	-	0.001	0.001
Reed Elsevier		**-0.055**	**0.109**	**0.176**	**0.128**
Globality		-0.195	0.816	0.769	0.920
Footprint		0.003	0.001	0.002	0.001
Royal Dutch Shell		**3.198**	**2.523**	**1.942**	**2.577**
Globality		0.759	0.769	0.838	0.802
Footprint		0.042	0.033	0.023	0.032
United Global Communications	12	**-**	**-**	**-0.034**	**0.092**
Globality		-	-	-0.038	0.178
Footprint		-	-	0.009	0.005
Unilever		**0.269**	**0.451**	**1.091**	**0.637**
Globality		0.868	0.835	0.845	0.868
Footprint		0.003	0.005	0.013	0.007
VNU		**-**	**-**	**0.122**	**0.315**
Globality		-	-	0.425	0.622
Footprint		-	-	0.003	0.005
Wolters Kluwer		**0.016**	**0.034**	**0.139**	**0.188**
Globality		0.077	0.390	0.300	0.440
Footprint		0.002	0.001	0.005	0.004

Norway	**note**	**1991**	**1995**	**1999**	**2002**
Hafslund Nycomed	**13**	**-0.274**	**0.214**	**-**	**-**
Globality		-0.257	0.414	-	-
Footprint		0.011	0.005	-	-
Orkla		**-**	**-**	**-**	**0.565**
Globality		-	-	-	0.360
Footprint		-	-	-	0.016

Sweden	note	1991	1995	1999	2002
ABB	**14**	**1.213**	**1.211**	**1.062**	**0.989**
Globality		0.720	0.750	0.763	0.794
Footprint		0.017	0.016	0.014	0.012
AGA (Linde)	**15**	**0.147**	**0.106**	**0.107**	**0.121**
Globality		0.635	0.764	0.770	0.952
Footprint		0.002	0.001	0.001	0.001
Alfa-Laval	**16**	**0.146**	**-**	**-**	**-**
Globality		0.440	-	-	-
Footprint		0.003	-	-	-
Assa Abloy		**-**	**-**	**0.030**	**0.135**
Globality		-	-	0.859	0.811
Footprint		-	-	0.000	0.002
Assidoman	**17**	**-**	**-0.238**	**-0.082**	**-**
Globality		-	-0.266	-0.125	-
Footprint		-	0.009	0.007	-
Astra Zeneca	**18**	**0.077**	**0.261**	**0.487**	**0.565**
Globality		0.180	0.304	0.855	0.849
Footprint		0.004	0.009	0.006	0.007
Atlas Copco		**-**	**0.156**	**0.201**	**0.205**
Globality		-	0.519	0.783	0.800
Footprint		-	0.003	0.003	0.003
Electrolux		**0.431**	**0.458**	**0.256**	**0.264**
Globality		0.731	0.734	0.828	0.864
Footprint		0.006	0.006	0.003	0.003
L.M. Ericsson		**0.000**	**0.014**	**0.438**	**0.329**
Globality		0.000	0.006	0.100	0.064
Footprint		0.017	0.025	0.044	0.051
Europolitan	**19**	**-**	**-**	**0.163**	**0.269**
Globality		-	-	0.881	0.995
Footprint		-	-	0.002	0.003

Sweden (continued)	note	1991	1995	1999	2002
Hennes & Mauritz		**-**	**-**	**0.074**	**0.134**
Globality		-	-	0.620	0.719
Footprint		-	-	0.001	0.002
Gambro (Incentive)	**20**	**-0.286**	**0.228**	**0.075**	**0.075**
Globality		-0.300	0.381	0.897	0.901
Footprint		0.010	0.006	0.001	0.001
Pharmacia (Procordia/Pfizer)	**21**	**-0.477**	**0.562**	**0.524**	**0.352**
Globality		-0.306	0.421	0.560	0.610
Footprint		0.016	0.013	0.009	0.006
Sandvik		**0.140**	**0.197**	**0.217**	**0.293**
Globality		0.220	0.316	0.427	0.333
Footprint		0.006	0.006	0.005	0.009
Scania (Saab-Scania)	**22**	**-1.097**	**-0.030**	**0.005**	**0.191**
Globality		-0.522	-0.033	0.005	0.168
Footprint		0.021	0.009	0.011	0.011
SCA		**0.365**	**0.474**	**0.483**	**0.588**
Globality		0.390	0.559	0.645	0.714
Footprint		0.009	0.008	0.007	0.008
Securitas AB	**23**	**-**	**-**	**0.025**	**0.060**
Globality		-	-	0.941	0.929
Footprint		-	-	0.000	0.001
Skanska		**-1.999**	**-0.252**	**0.245**	**0.433**
Globality		-0.719	-0.171	0.288	0.607
Footprint		0.028	0.015	0.009	0.007
SKF		**0.135**	**0.190**	**0.183**	**0.190**
Globality		0.820	0.715	0.651	0.681
Footprint		0.002	0.003	0.003	0.003
Stora Enso	**6**	**0.556**	**0.064**	**0.640**	**1.123**
Globality		0.704	0.036	0.318	0.591
Footprint		0.008	0.018	0.020	0.019

Sweden (continued)	**note**	**1991**	**1995**	**1999**	**2002**
Tele2		**-**	**-**	**-0.407**	**0.210**
Globality		-	-	-0.727	0.262
Footprint		-	-	0.006	0.008
Volvo		**-2.490**	**-1.726**	**-0.292**	**0.970**
Globality		-0.455	-0.331	-0.064	0.190
Footprint		0.055	0.052	0.046	0.051

Switzerland	note	1991	1995	1999	2002
ABB	**14**	**0.774**	**0.556**	**0.541**	**0.587**
Globality		0.864	0.878	0.894	0.899
Footprint		0.009	0.006	0.006	0.007
Adecco		**-**	**-**	**0.092**	**0.105**
Globality		-	-	0.886	0.920
Footprint		-	-	0.001	0.001
Alusuisse-Lonza (Alcan)	**24**	**-**	**0.201**	**0.239**	**0.256**
Globality		-	0.368	0.332	0.928
Footprint		-	0.005	0.007	0.003
Lonza	**25**	**-**	**-**	**-**	**0.051**
Globality		-	-	-	0.110
Footprint		-	-	-	0.005
Ciba (Ciba-Geigy)	**26**	**0.649**	**0.855**	**0.381**	**0.469**
Globality		0.176	0.285	0.644	0.616
Footprint		0.037	0.030	0.006	0.008
Electrowatt	**27**	**-**	**-1.793**	**-**	**-**
Globality		-	-0.607	-	-
Footprint		-	0.030	-	-
Holcim	**29**	**-**	**0.432**	**0.379**	**0.365**
Globality		-	0.681	0.838	0.906
Footprint		-	0.006	0.005	0.004
Nestle		**0.394**	**0.346**	**0.371**	**0.269**
Globality		0.931	0.941	0.945	0.981
Footprint		0.004	0.004	0.004	0.003
Novartis (Sandoz)	**26**	**0.592**	**0.384**	**2.106**	**1.243**
Globality		0.620	0.824	0.484	0.135
Footprint		0.010	0.005	0.043	0.092
Richemont		**-**	**-**	**-**	**0.648**
Globality		-	-	-	0.381
Footprint		-	-	-	0.017

Switzerland (continued)	note	1991	1995	1999	2002
Roche		**0.984**	**1.114**	**1.318**	**1.481**
Globality		0.481	0.592	0.808	0.835
Footprint		0.020	0.019	0.016	0.018
Serono	**30**	**-**	**-**	**0.048**	**-0.389**
Globality		-	-	0.190	-0.371
Footprint		-	-	0.003	0.010
STE Generale de Surveillance		**-**	**0.020**	**0.018**	**0.024**
Globality		-	0.936	0.931	0.915
Footprint		-	0.000	0.000	0.000
Swatch Group	**31**	**-0.106**	**-0.058**	**-0.090**	**-0.450**
Globality		-0.240	-0.111	-0.145	-0.400
Footprint		0.004	0.005	0.006	0.011
Syngenta	**32**	**-**	**-**	**-**	**0.403**
Globality		-	-	-	0.226
Footprint		-	-	-	0.018
Synthes-Stratec		**-**	**-**	**0.017**	**-0.262**
Globality		-	-	0.580	-0.493
Footprint		-	-	0.000	0.005

Notes for Corporate Globalization Data

1. Petrofina was acquired by Total of France in 1999. The resulting company was named TotalFina. TotalFina acquired Elf Aquitaine of France in 2000. The resulting company was named TotalFinaElf. The company subsequently readopted the name Total in 2003.

2. Societe Generale de Belgique was acquired in full by Suez Lyonnaise in 1998.

3. Tractebel was acquired by Suez Lyonnaise in 1999. In 2002, Tractebel and Societe Generale de Belgique were merged to for Suez-Tractebel, which is wholly owned by Suez.

4. Sophus Berendsen was acquired by Davis Group of Britain in 2002 and became a wholly owned subsidiary. Global corporate totals included are those of Davis.

5. Repola merged with Kymmene Corporation and United Paper Mills in 1996 to form UPM-Kymmene.

6. Stora of Sweden and Enso of Finland merged in 1998 to form Stora-Enso. Subsequently the firm is included here as both a Swedish and a Finnish corporation.

7. UPM-Kymmene was formed by the merger of Repola and United Paper Mills in 1996.

8. Akzo was renamed Akzo Nobel after its merger with Nobel Industries in 1994.

9. KNP was renamed Buhrmann NV in 1998.

10. Heineken Holding is a separate company from Heineken.

11. Polygram was acquired by Seagrams of Canada in 1998 and incorporated into Seagrams' Universal Music Group (UMG). UMG was spun-off and merged to Vivendi of France in 2000.

12. United Pan-Europe Communications was renamed United Global Communications in 2001.

13. Nycomed ASA was spun-off from Hafslund-Nycomed in 1996. Hafslund thereafter continued as a separate firm. Nycomed merged with Amersham of Britain in 1997 under the name Nycomed, following which it was no longer a publicly traded firm and thus no longer included here.

14. Asea Brown Boveri (ABB) was formed by the merger of Asea of Sweden and BBC Brown Boveri of Switzerland in 1988. Subsequently the firm is included here as both a Swedish and a Swiss corporation.

15. AGA was acquired by the Linde Group of Germany in December 1999 and became a wholly owned subsidiary. Global corporate totals included are those of Linde.

16. Alfa Laval was acquired by Tetra Pak in 1991, and spun-off as an independent firm in 2000. Because Tetra Pak is not a publicly traded firm, Alfa Laval is not included after for 1995 or 1999. Because the new Alfa Laval was not included on Business Week's List in 2002, it is not included for that year.

17. Assidoman was purchased by the Swedish state in January 2002, following which it was no longer a publicly traded firm and thus no longer included here.

18. Astra was renamed Astra Zeneca after its merger with Zeneca Group of Britain in April 1999. Global corporate totals included are those of Astra Zeneca

19. Europolitan was acquired by Vodafone of Britain in 2000 and became the Swedish subsidiary of Vodafone. In 2002 Europolitan was renamed Swedish Vodafone.

20. Incentive AB ws renamed Gambro in 1998

21. Procordia was renamed Pharmacia in 1995. It was acquired by Upjohn of the United States in 1998 and renamed Pharmacia-Upjohn and subsequently renamed Pharmacia. Pharmacia was acquired by Pfizer of the United States in 2001.

22. Saab-Scania was demerged in 1998. Scania AB is subsequently included here.

23. Securitas AB is not to be confused with Securitas AG, a Swiss firm not included here.

24. Following the demerger of Lonza from Aluisuisse in 1999, the remaining company was renamed Aluisuisse-Lonza Group. Aluisuisse-Lonza Group was acquired by Alcan of Canada in 2000.

25. Lonza was demerged from Alusuisse-Lonza in 1999 and thereafter operated separately as Lonza Corporation.

26. Ciba-Geigy and Sandoz merged in 1996 to form Novartis. Ciba Specialty Chemicals (Ciba SC) was spun-off from Novartis in 1997.

27. Electrowatt was acquired by Siemens of Germany in 1998 and integrated into Siemens' Building Technologies division.

28. TDC was named Tele Danmark prior to 2000. Prior to 1994 the firm was a state telecommunications utility, and then a publicly traded firm with the Danish government as the largest shareholder. The firm was completely privatized as of 1995.

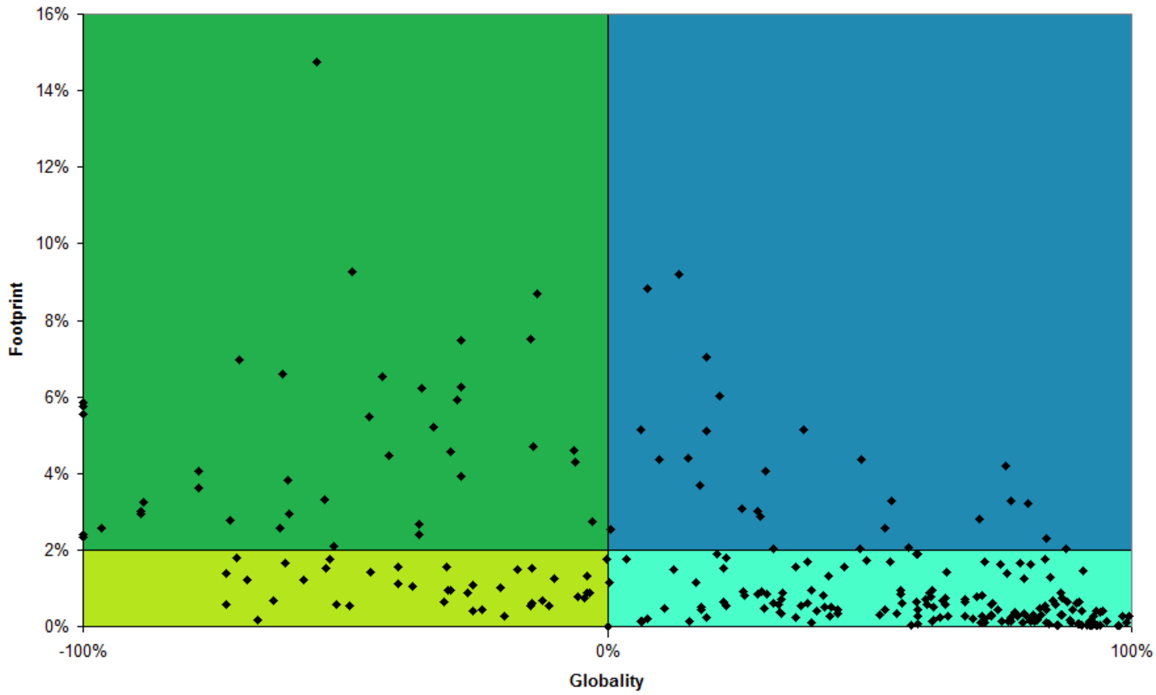
29. Holderbank Financiere Glarus was renamed Holcim in 2001.

30. Ares Serono was renamed Serono in 2000.

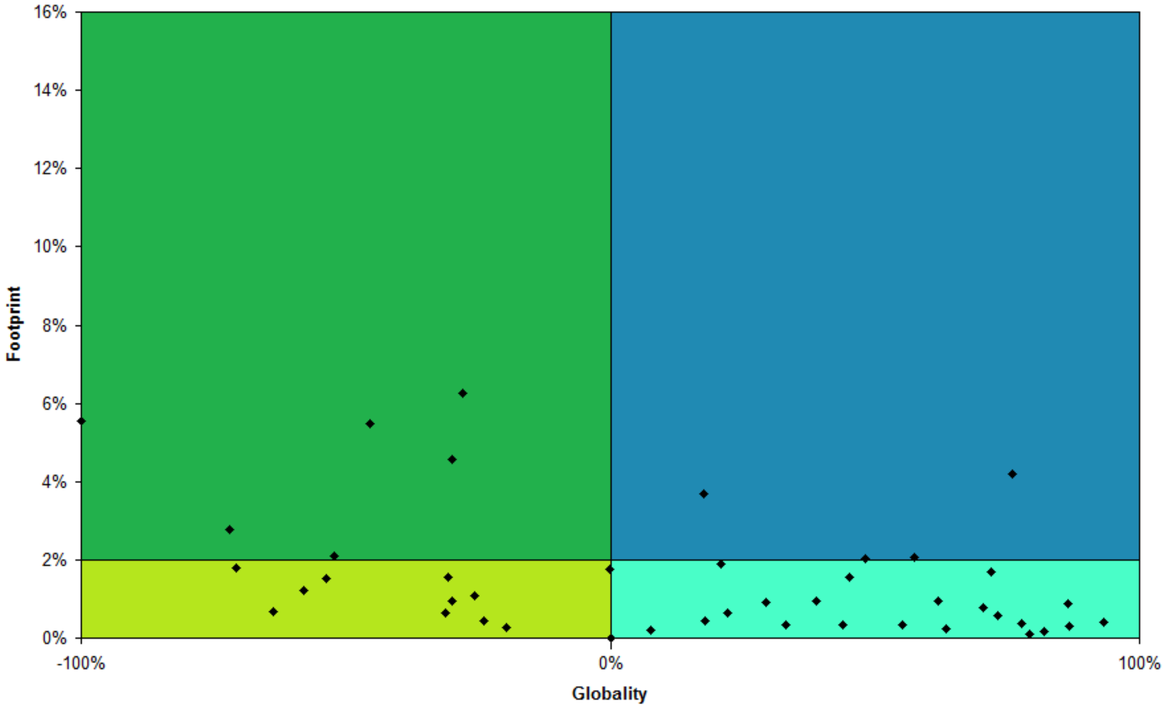
31. SMH was renamed Swatch Group in 1998.

32. Syngenta was created in November 2000 by the merger and spin-off of the agricultural divisions of Novartis and Astra Zeneca.

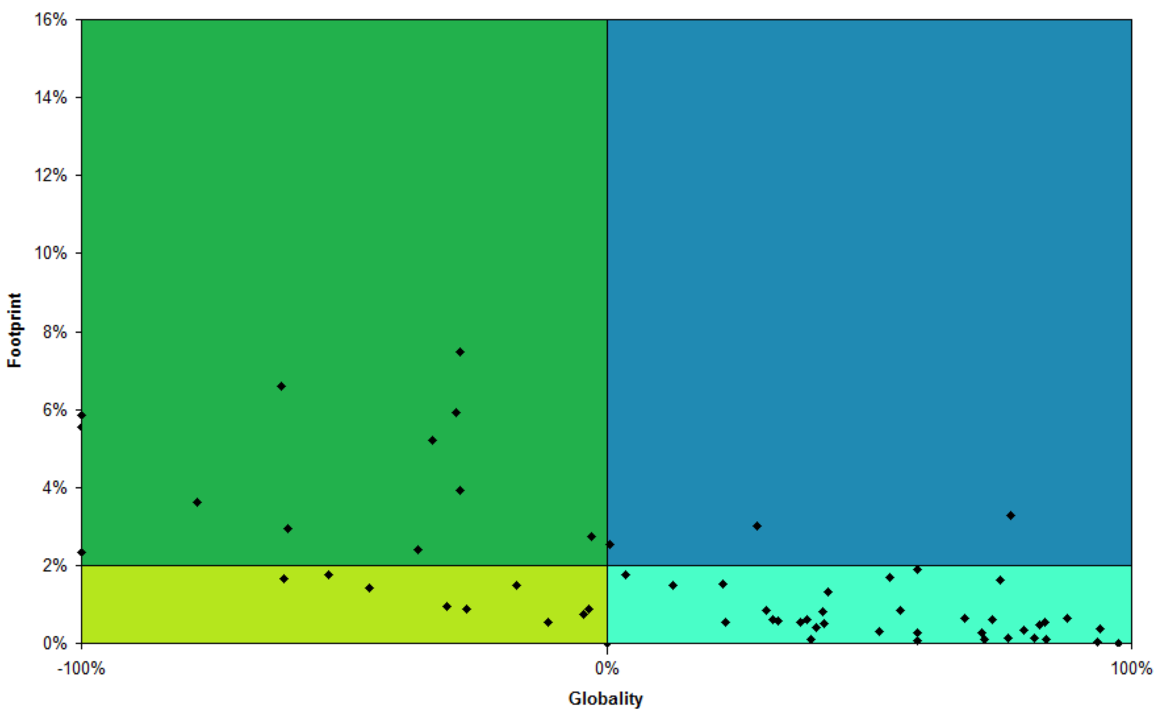
Global Leverage Position for All SES Firms 1991-2002



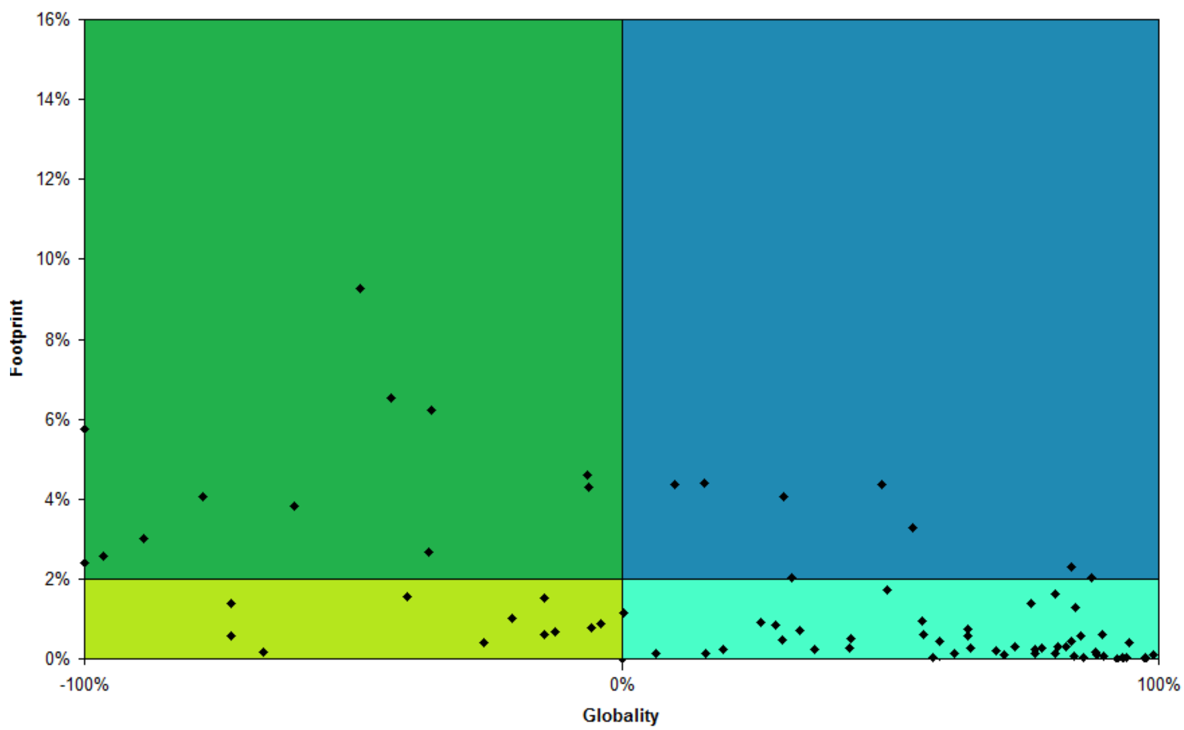
Global Leverage Position for All SES Firms 1991 Observations



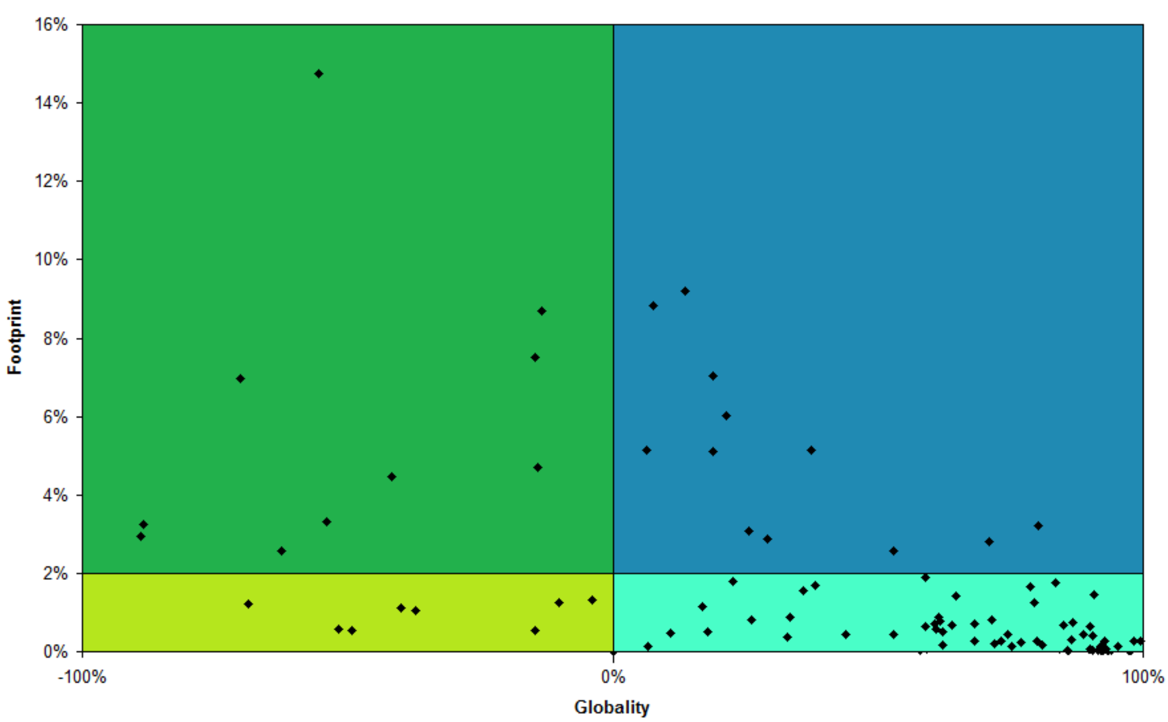
Global Leverage Position for All SES Firms 1995 Observations



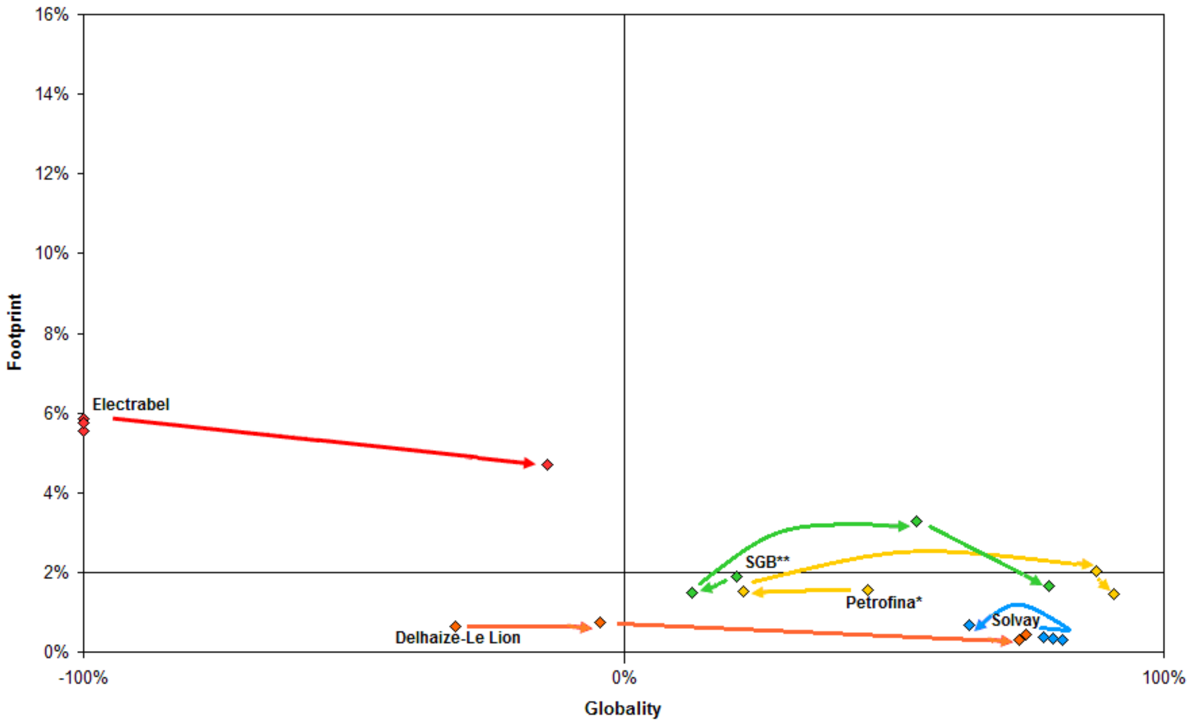
Global Leverage Position for All SES Firms 1999 Observations



Global Leverage Position for All SES Firms 2002 Observations



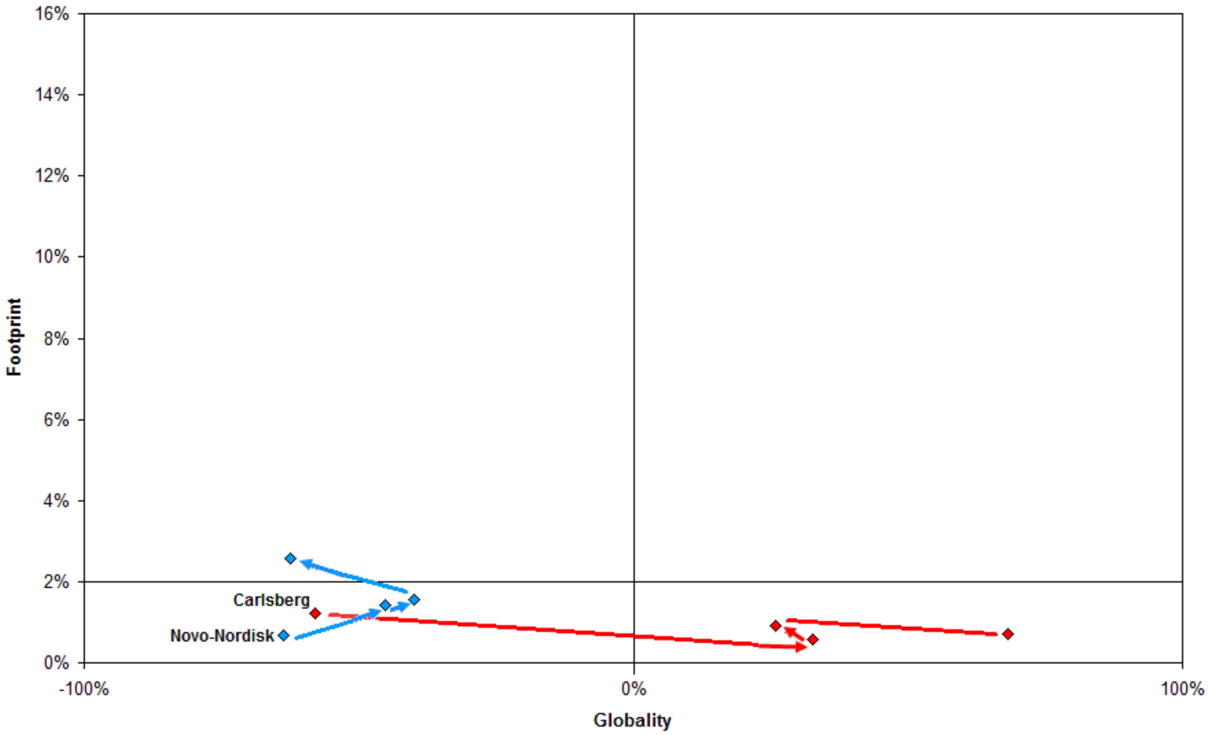
Patterns of Globalization: Belgium
(Only includes firms with observations at each of the four time periods)



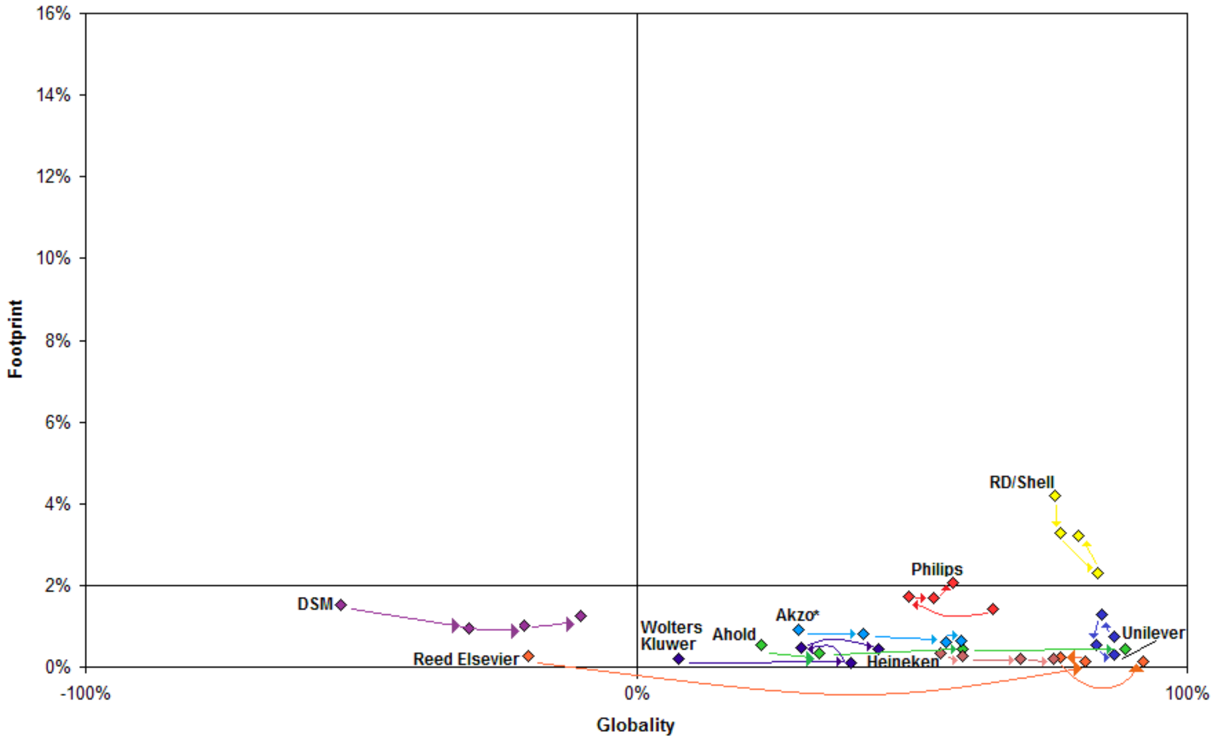
*Petrofina was merged to Total, creating Totalfina in 1998, and later became TotalFinaElf after the acquisition of ElfAquitaine. The company was later renamed "Total."

**Societe Generale de Belgique was merged to Suez-Tractabel in 2001.

Patterns of Globalization: Denmark
(Only includes firms with observations at each of the four time periods)

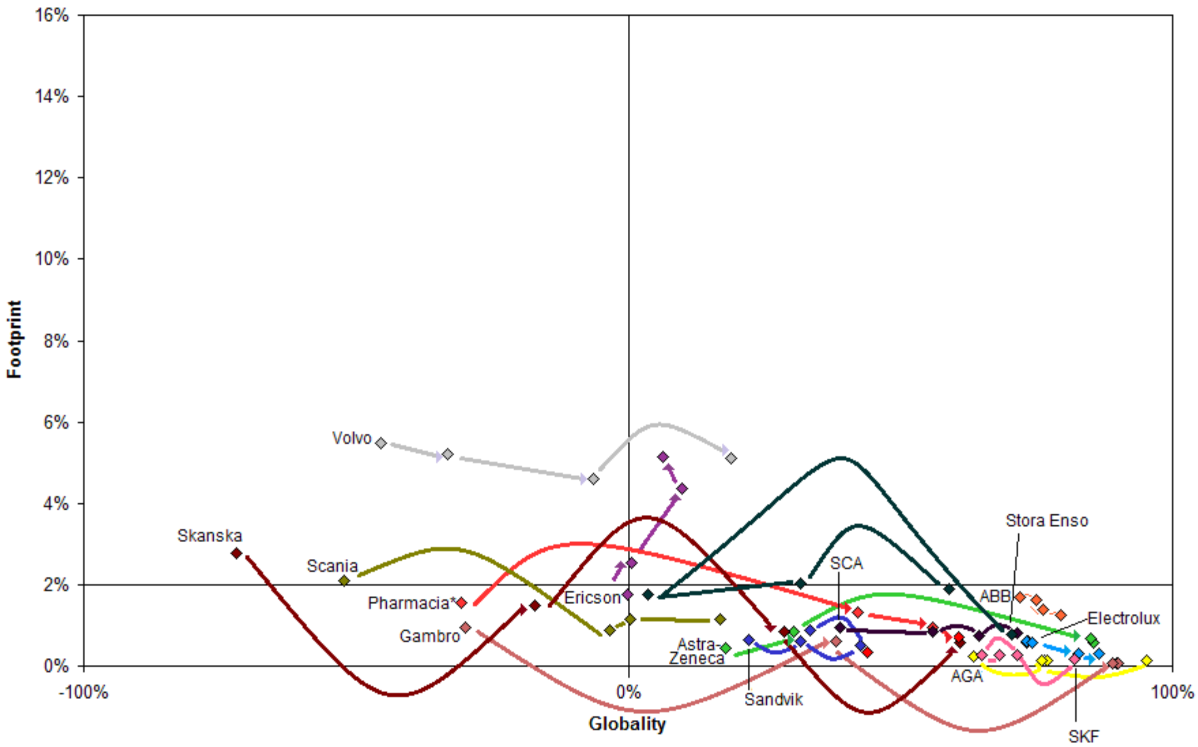


Patterns of Globalization: Netherlands
(Only includes firms with observations at each of the four time periods)



*Akzo became AkzoNobel in 1994

Patterns of Globalization: Sweden
(Only includes firms with observations at each of the four time periods)



Patterns of Globalization: Switzerland
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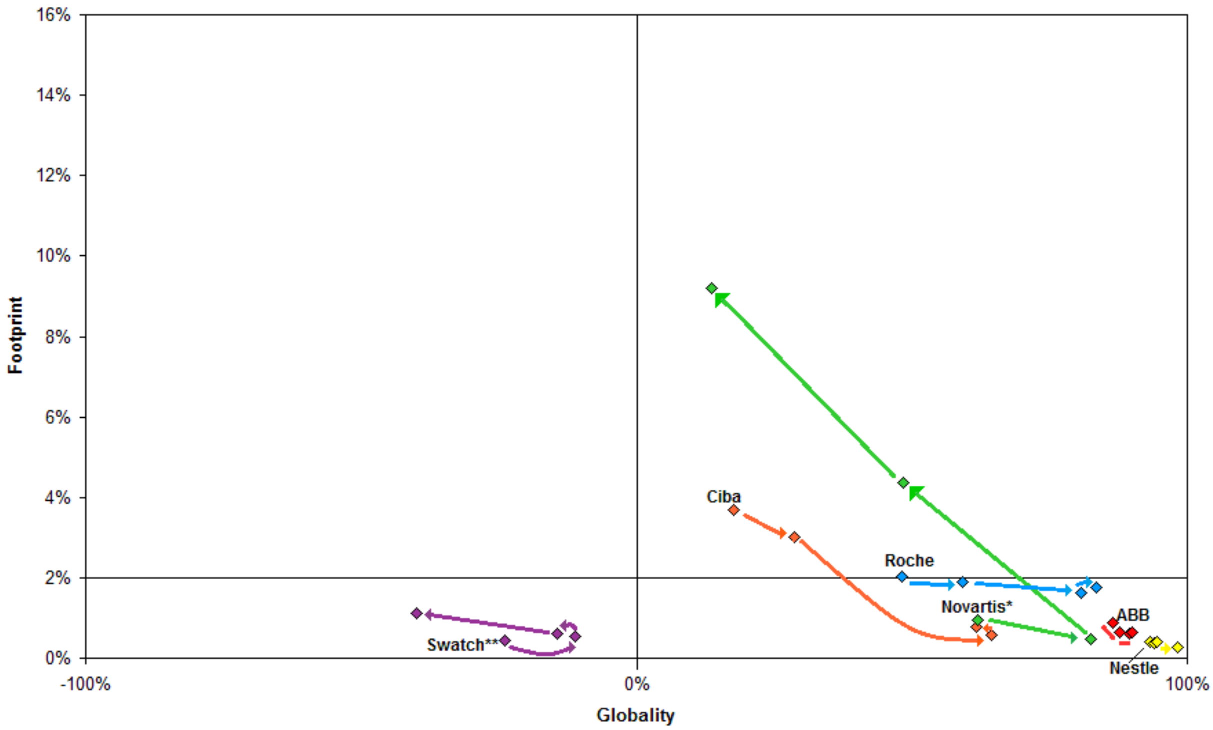

*Sandoz became Novartis in 1996
**SMH became Swatch Group in 1998