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Social Compacts in Regional and Global Perspective

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Abstract This article addresss four issues related to the emergence of new social compacts. It discusses various attempts to theorize and conceptualize the notions of globalization and global and regional governance. It then looks at the transformation from welfare to workfare and examines the impact of global restructuring on labour and social conditions. Examples of the distributional consequences and resulting inequality, poverty, and unemployment are provided. This process has had an important impact on the emergence of reactive regional social compacts based on various forms of negotiated contracts. Finally, the article explores new, proactive attempts to challenge the existing dogma of neo-liberal governance.

Résumé *Perspectives régionales et globales sur le contrat social.* L'auteur analyse quatre questions liées à l'émergence de nouveaux contrats sociaux. Il discute diverses tentatives de théoriser et de conceptualiser les notions de la mondialisation et de la gouvernance globale et régionale. La transformation de l'aide sociale en *workfare* (assistance sociale en échange du travail) et les impacts d'une restructuration globale sur le travail et les conditions sociales sont analysés, exemples des effets sur la distribution des richesses ainsi que l'inégalité, la pauvreté et le chômage qui en découlent à l'appui. Des contrats sociaux régionaux fondés sur diverses formes de consultation sociales se sont formés en réaction à ce processus. Enfin, l'auteur étudie de nouvelles initiatives de contestation de l'actuel dogme de la gouvernance néolibérale.

Economic globalization is said to bring with it the material basis for the transnationalization of political systems, civil societies, social classes, and cultural life. As a new social structure of accumulation unfolds, national societies are transformed and forced to integrate one way or the other. Information communication technology and the new knowledge-based economy provide a strong impetus for nation-states to act regionally to increase negotiation and bargaining power in the global economy. The important state-led experiments based on Keynesianism, corporatist and nationalist-cum-populist modes of *dirigisme*, and developmentalist states based on an egalitarian Listian neo-mercantilist strategy are either in crisis or stretched to their limits. The nation-state as

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the main mobilizer for development is restructuring, and new political forms of governance are emerging at global, regional, and sub-state levels.

At the same time, there is a new emerging trend in global governance, which indicates that the old Bretton Woods regime is being replaced by new actors. It is also the result of an endemic crisis of democratic global governance as the world is seemingly being fragmented into nations, regions, cultures, and communities. As Held et al. (1999, 451) mention, "Growing nationalism and global inequalities reinforce cultural divisions and global fragmentation. Cultural relativism too, increasingly a hostage to authoritarian politics, undermines the basis of common agreement on democracy as a global ethic."

If this analysis is correct, a number of questions need to be answered. First, why global governance matters, and second, how to make sense of the growing importance of regionalism? The above definition implies a normative plan for an international order, as a portmanteau term for institutions and practices favourable to peace, development, and effectiveness. The underlying assumption is based on a problem-solving approach: that an issue can be managed, a problem resolved; that there be accommodation of mutual interests (Smouts 1998, 88). But as Craig Murphy (2000) reminds us, the international system has to take into consideration that the new world order will have to accommodate the emergence of new actors. As he points out, we live in a world where China and India are shifting the balance of capitalism away from the West to the East; with these emerging economies comprising half the population of the globe, it seems odd to spend so much time investigating the world polity. Murphy's answer is moral and ethical. What has emerged in the past decade in the debate about global governance is a renewed focus on a double crisis of governance and globalization. The old types of public institutions underpinning global governance, such as the IMF, the World Bank, and WTO, "through their promotion of unregulated economic globalization[,] have contributed to the growing number of the destitute as well as to the growing privilege of the world's rich" (Murphy 2000, 791). These institutions are termed the *nébuleuse* by Robert Cox ([1992] 1996, 300–2), or in other words, "governance without government[,] meaning the cloud of ideological influences that have fostered the realignment of elite thinking to the needs of the world market."

It is within this stalemate that the new actors have emerged and created a whole new development vocabulary. In neo-liberal newspeak (Bourdieu and Wacquant 2001; Hersh 2004), this situation is sometimes referred to as "global public policy networks" or so-called private-public regimes. New transnational problems have emerged, and others have intensified or simply gained increased importance on the public agenda. At the same time, transnational corporations are attempting to shape the course of globalization and now hold considerable leverage over vast networks of suppliers and, to varying degrees, governments, international organizations, global civil society, and NGOs. Some commentators add global integrated mafias and a narrow group of economists who define the norms and ideology of that profession and the treasuries and most important private institutions of capital regulation.

The newspeak is embedded in mainstream governance theory, which normally operates with three basic principles of organizational structure: hierarchy, market, and network. Interestingly, its counterpart in the discipline of international relations sees

governance through the dichotomy of anarchy and hierarchy. However, "economically 'rational' responses do not emerge automatically in the political sphere; they are bound up in complex processes of social and political intermediation involving values, identities, and social bonds, all located in particular time/space contexts" (Cerny 1999, 189).

Whereas governance can be defined simply as organizing collective action, or in the instrumental sense it entails the establishment of institutions being the rules of the game that permit, prescribe, or prohibit certain actions (Prakash and Hart 1999), globalization usually refers to the internationalization of goods, capital, and services. According to the proponents of globalization, the hegemony of international capital and global markets forces a "neo-liberal convergence" of domestic political capacity where national autonomy and sovereignty are conceded to the market. It furthermore increases economic and financial openness, technological change, compression of time and space, consumerism, and neo-liberal economic policies. The neo-liberal form of globalization is based on an ideational consensus that usually refers to a set of ten policy prescriptions (Williamson 1990) resting on fiscal discipline, market economy, and greater openness to the rest of the world.[1] However, with regard to the North-South dichotomy, Williamson (2002) later admitted that the policies were perhaps too rigid for developing countries. The neo-liberal form of globalization's most important impact in terms of economic policy is that it performs the role of a powerful discourse that shapes domestic and international debates, a process that has changed the state's role to one of an "enforcer of decisions and/or outcomes which emerge from world markets" (Cerny 1997, 258; Beeson 2001, 483). Until very recently, this discourse ruled by consent and, promoted by a constant discursive intrusion on the majority of global, regional, and national policy and academic circles, is now being challenged by a number of new issues, factors, actors, contradictions, and conflicts.

This article follows the approach proposed by Cerny (1999, 194–95), who suggests that the type of collective action and global governance emerging out of the ashes of the old Bretton Woods system is characterized by a complex process deriving directly from structural differentiation. This implies that we should identify the main kinds of structural differences that characterize the new world order—not holistic categories based on territorial boundaries, but what might be called functional categories—such as social

1. Williamson's (1990) ten policy actions are: (1) budget deficits should be small enough to be financed without recourse to the inflation tax; (2) public expenditure should be redirected from politically sensitive areas that receive more resources than their economic return can justify … toward neglected fields with high economic returns and the potential to improve income distribution, such as primary education, and health, and infrastructure; (3) tax reform so as to broaden the tax base and cut marginal tax rates; (4) financial liberalization, involving an ultimate objective of market-determined interest rates; (5) a unified exchange rate at a level sufficiently competitive to induce a rapid growth in non-traditional exports; (6) quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced until a uniform low rate in the range of 10% to 20% was achieved; (7) abolition of barriers to the entry of foreign direct investment (FDI); (8) privatization of state enterprises; (9) abolition of regulations that impede the entry of new firms or restrict competition; and (10) the provision of secure property rights, especially to the informal sector.

2. This framework rests on the assumption that globalization as a political phenomenon entails that "the shape of the playing field of politics itself—the possibilities of effective collective action internally and the capacity of states to make credible commitments externally—is increasingly determined not

contracts or social bonds that are being challenged and in some cases eroded at the national level by the impact of neo-liberal globalization.[2] This framework will not be explored in detail here, but the article will rely on its usefulness in terms of investigating a more complex and multi-hegemonic world and will concentrate on the emerging regional social compacts that I see as part of the most important responses to the crisis of neo-liberal globalization.[3] This is in essence what some authors refer to as multi-layered global governance and it is in this context that a comparative analysis of regional systems of social redistribution, regulation, and empowerment becomes relevant as a new form of resistance. Regional governance is becoming a more entrenched feature of the global political economy, while inter-regional diplomacy, through which regional associations seek to build global alliances and preferential agreements, is a potential countervailing influence to the power of the United States in dominating global agendas and setting global priorities (McGrew 2003, 11).

The political ambition of establishing regional coherence and regional identity is of primary importance. It is possible to distinguish between three kinds of region building initiatives: integration through trade liberalization, regional governance, and regionalism as citizenship or political identity. Along these variants of regionalism enter questions of redistribution, democracy, accountability, participation, transparency, security, and social policy. This has brought with it a new set of social and political actors but also highlights the fact that regionalism is in many cases based on "the idea of regional identities and the catalytic challenges posed by external challenge" (Breslin, Higgott, and Rosamond 2002, 8).[4] In this respect, regional social compacts ought to be understood as constructed endeavours of resistance by social actors in response to the looming crisis of contemporary international capitalism. In this sense, the regional dimensions of structural change have been something of an inconvenience for the less reflexive "globalizers" who have used the hegemonic discourse of globalization to dispense with any meaningful notion of a national state (Phillips 2000, 386).

This article addresses four issues in the context of neo-liberal globalization and global/regional governance. First, it discusses various attempts to theorize and conceptualize the

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within insulated, relatively autonomous, and hierarchically organized structures called states. Rather, it derives from a complex aggregation of multi-level games played on multi-layered institutional playing fields, above and across, as well as within, state boundaries. These three-level games are played out by state actors and other political forces, as well as market actors and cultural actors." (Cerny 2006, 377–78).

3. The notions "social compact" and "social contract" are used interchangeably. Compact or contractualism originally stems from Hobbes and Locke but was developed in a different direction by Rousseau ([1762] 1913) who argued that through an ideal social contract, individuals would freely consent to exchange their natural autonomy for a share in government. This could be achieved only by a direct, participatory democracy, which would be directed by the General Will. It can also be modified to identify an arrangement in which government makes an implicit or explicit promise to deliver benefits to citizens in exchange for political support and stability (Hewison 2004, 520).

4. There are resemblances between this approach and the literature on New Regionalism (Hettne, Inotai, and Sunkel 1999; Bøås, Marchand, and Shaw 2005), especially in the emphasis on a multi-polar view of world order and the less institutionalized view of regionalism; thus it also involves a greater role for civil society actors.

notions of globalization and global and regional governance. Second, it looks at the transformation from welfare to workfare and examines the impact of global restructuring on labour and social conditions in the North and South. Examples of the distributional consequences and resulting inequality, poverty, and unemployment are provided. Third, this process has had a huge impact on the emergence of regional social compacts based on varieties of social consultation and social reconciliation. These agencies are mainly adjustments to neo-liberalism or internationalization of the state. The pros and cons for these social compacts are discussed, and the article rounds up by exploring new attempts to challenge the existing dogma of global governance.

The Transformation from Welfare to Workfare

During the past two decades, we have witnessed an almost epochal shift in the balance of social forces. The world economy has been transformed from the "Golden Age" to the "Leaden Age" as a result of overproduction, falling prices, and cyclical crises (69 major banking crises from the 1970s to the 1990s according to the World Bank), the majority of which took place in so-called transparent developed economies.

In comparison, the golden years of capitalism in the 1950s–1970s saw very high growth rates averaging 4–5%, while the present phase of neo-liberal globalization has seen dismal growth rates of about 2% (see Ricupero 2004, 3).[5] The prospects of achieving full employment seem to have permanently receded from the global agenda. Global unemployment rates are reaching proportions leading to a downsizing of the welfare state itself. As will be recalled, the resolution of the great depression demanded the emergence of the Keynesian macroeconomics model with its societal welfare compact.

Comparative political economists have developed different arguments regarding the determinants of social policies.[6] One type of argument points to the fact that the convergence of social welfare policies can be related to an underlying logic of industrialism, while another sees the policies as state responses to the social requirements of capitalism. A third view approaches the *problématique* from quite another angle by suggesting that the survival of market-based capitalism is essentially based on a Keynesian strategy that saves it from self-destruction (Galbraith 1997, 5). The necessary prerequisite is a compact between labour and capital. This type of argument is based on two readings of the Keynesian social welfare model. One sees it as a tool of compromise when the foundation of capitalism is at stake—for example, during and after the crisis in of the 1930s and post–Second World War. The second reading regards the socio-economic dimension (i.e., the surplus absorption): by functioning as a demand primer, including social expenditures, Keynesian macroeconomics alleviates the tendency towards stagnation (Schmidt and Hersh 2000, 8). These readings form the foundations of Scandinavian corporatism, where the state is projected to be the arbiter between labour and capital.

5. The period extending from the end of the Second World War to the oil shocks of the 1970s, roughly the 30 years that the French call the Trente Glorieuses (the Glorious Thirty), coincided with the reconstruction and recovery of the European and Asian economies that had suffered widespread destruction during the conflict (Ricupero 2004, 3).

6. For this and the following see Schmidt (2000).

This understanding is closely related to the important debate regarding the past and present ways that ties to the world economy, patterns of geopolitical and geo-economic competition, and processes of transnational cultures, ideologies, and policy discourses have influenced social policies. The impact of the external determinants on social policy agendas and labour market policies cannot stand alone; rather, it should be paired with an understanding of the impact of states on social and labour market policy-making.[7]

It is commonly recognized that by the late 20th century three ideal types of functional industrial capitalist organizations had emerged that can be analyzed on their own merits in spite of the hegemonic position in the policy-making institutions neo-liberalism later achieved (Schmidt and Hersh 2006). East Asian, US, and European models of capitalism have many distinct characteristics. Trade, production, and financial networks are tied into the different models. There are also important inter-regional differences as well as intra-regional differences and exceptions (such as the Philippines in East Asia, Chile in Latin America, and Mauritius in Africa).[8]

Market-Led Capitalism

The first of the three aforementioned types of functional industrial capitalist organizations is the market-led type of capitalism principally identified with the United States and the United Kingdom, generically seen as "neo-American" or "Anglo-Saxon" capitalism (Albert 1993). The basic characteristic, as related to the accumulation of capital and societal arrangements, is that economic decisions are overwhelmingly left to the discretion of private actors who are given the space and opportunities of maximizing the short-term profitability of the enterprise and to raise needed capital in available financial markets. As far as the socio-political dimension is concerned, in this type of society labour enjoys limited legal industrial and social rights; workers' livelihood depends on the wage they can negotiate with employers in a more or less unregulated labour market.

With regard to state involvement in the economic sphere, it is primarily centred on creating and protecting a favourable environment for productive and financial capital markets. In these societal arrangements, politics, morality, and ideology lean toward promoting individualism and liberalism. In the laissez-faire model of US capitalism, the role of the state with regard to social protection is one of minimal allocations to low-income groups. Private insurance schemes are worked out at the place of employment. The Thatcher/Reagan counter-revolution spelled the end of the New Deal/welfare state and the introduction of lean and mean capitalism.

State-Led Capitalism

The second model is what has been categorized as state-led capitalism. Also in this type of society, decision making at the micro-level of accumulation is understood as the privilege and responsibility of the private enterprise. But in contrast to market-led capitalism, strategic business decisions are made in collaboration and contact with public agencies and often indirectly arrived at through the administrative guidance of central planning

7. Here, social policy is broadly understood as social security, health, and education.
8. For this and the following distinctions, see Schmidt and Hersh (2006, 74–75).

organs and state leadership of the banking system. In these capitalist societies, labour organizations and movements lack political and social rights as well as institutionalized representativeness. While the space for labour bargaining ties some workers to large private corporations through enterprise-based welfare benefits, employment conditions in family and medium-sized factories are more precarious. The ideological hegemony of the ruling elite, which influences the management of society, is most likely to be based on some variant of economic nationalism. Socially and politically, there is an alliance between the bureaucracy, industry/business, and the governing political party. Having excluded the participation of organized labour at the macro decision-making level, this is regarded as corporatism without labour. The rationale for this arrangement is based on the imperative of late industrialization and "catching up" that legitimizes the social control posture of semi-authoritarian or authoritarian regimes. The prototype of state-led capitalism in the aftermath of the Second World War has been that of Japanese society and of South Korea after the Korean War. These cases, together with Taiwan, were later joined by countries in Southeast Asia and China and are considered representative of a particular variant of capitalism known as the model of "East Asian capitalism" or the "developmental state" form.

Negotiated or Consensual Capitalism

The third type of industrial capitalism can be referred to as negotiated or consensual capitalism. Its basic characteristic is that whereas the degree of direct state regulation of capital accumulation may be limited, the political system allows a series of workers' rights and social welfare; organized labour is accepted as a market actor that to some extent has participated in macroeconomic decision making. Thus, in comparison to the aforementioned state-led variant of capitalism, the corporatism of consensual capitalist society does include labour. Culturally and ideologically, these capitalisms have tended to be either social-democratic or Christian democratic. These types of political parties had to compete for the allegiance of the working classes, and aside from a strong anti-communist bias internally, they have been externally antagonistic toward the Soviet Union and pro-American. Although differences are discernable especially with regard to income equality or gender equality, the Scandinavian welfare state models as well as the West German *soziale Marktwirtschaft* [social market economy] have been considered exemplars of this capitalist variant under the label of "European welfare capitalism" or the "Rhineland model" (Albert 1993).

The shift from the Keynesian welfare state and the Listian developmental state to the less state-centred Schumpeterian workfare state involves subordination of the social sectors to the needs of labour market flexibility and much more emphasis on the promotion of products, process, organizations, and market innovation in open economies, in order to strengthen as far as possible the structural competitiveness of the national or regional economy by intervening on the supply side. In particular, the Schumpeterian workfare regime marks a clear break with the welfare cum developmental state insofar as (a) domestic full employment is de-prioritized in favour of international competitiveness, (b) redistributive welfare rights take second place to a productivist reordering of social policy; and (c) the primary role of the nation-state is de-privileged

in favour of governance mechanisms operating on various levels (Jessop 1999, 69–70).[9] In fact, there is evidence that the outcome of this process is a gradual move of the East Asian and West European models toward the market-based type of industrialization in North America.

However, seeing societal arrangements and levels of inequality as the outcome of economic and political imperatives for the functioning of capitalist industrial societies under specific conditions does not automatically signify that their scope and reach are predetermined. The differences in benevolence and inclusivity as well as democratic foundations of these regimes have to be explained as functions of societal agencies and social actors also influenced by their existing (political) cultures. Although social control is inherent to this type of industrial society, it can take various forms. While the end result of social well-being may very well involve neutralization of dissent and dissatisfaction, it might be preferable for the populations, compared to more coercive regime types. Given its adaptability, the ruling class may under specific conditions be willing to impose its hegemony by means of consensual corporatism whereby labour is also included.

The international trends of the 1980s and 1990s were superimposed onto a regional grid, which led to a differential impact and response. In the Western hemisphere, where US influence is strongest, governments adopted the neo-liberal dogma and reduced state involvement in the economy, slashed tariff and other trade barriers, and welcomed any type of foreign capital. In the Japanese sphere of influence, by contrast, some privatization took place, but governments continued to collaborate closely with the private sector (Stallings and Streeck 1995, 2).

Increased international capital mobility has resulted in significant levels of welfare retrenchment during the 1970s and 1980s. For instance, Sweden and Germany reduced welfare expenditures and introduced privatization in the areas of health care, housing, and daycare centres. The most radical version of welfare reform has involved the privatization of the public pension system. Along the lines of the Chilean model, which was developed in 1981, a number of countries from Latin America (Mexico, Argentina, and Uruguay) and the former Soviet bloc (Hungary and Poland) have dramatically privatized public pension systems in order to reduce government expenditures and deficits, and have downsized government (Kim 2005, 377). However, as I will illustrate below, the impact has not been uniform. The welfare state and its traditional industrial relations institutions and trade unions have in some cases been resilient, especially in the Scandinavian region, despite massive domestic and international pressures. It demands that (a) domestic labour institutions remain fundamentally unchanged, and (b) that union density, union coverage, union monopoly on interest representation, and centralized union authority remain coherent and significant in national policy-making (Minnich 2003, 32).

9. However, it is important to note, as Cerny (2006, 378) does in his conceptualization of the "competition state," that "in a globalizing world, states play a crucial role as stabilizers and enforcers of the rules and practices of global society. Indeed state actors are the primary source of the state's own transformation into a competition state."

Although the outcomes of neo-liberal globalization differ significantly, the distributional impacts of the restructuring from welfare to workfare have widened the global levels of inequality and polarization in a uniform way, and created frictions between democracy and globalization, thus corroding the notion of social solidarity. The direct impact has essentially been a hollowing out of territorial democracy and the social cohesive state (again with important exceptions). Despite the claims of the promoters of neo-liberal globalization and no direct evidence of the benefits for society of private sector involvement in education, health services, and the mixed results of private-public partnerships in water and sanitation utilities, there is still relentless pressure from all IFIs "through inter-locking conditionalities and other means to promote the growth of the private sector in basic social services, and where possible privatization of public services. This pressure, which signals that the Washington Consensus is alive and rejuvenated, tends to ignore the historical experience of both industrialized countries as well as that of high-achiever developing countries in education, health and water/sanitation" (Mehrotra and Delamonica 2005, 166). The end result of the so-called golden years of neo-liberal globalization has been devastating, as the global levels of inequality, unemployment, and poverty have tremendously increased. The following gives only some examples of the socio-political consequences of the "commodification" of economic and social relations.[10]

ILO figures show that of the more than 2.8 billion workers of the world, half have wages below the US$2/day poverty line (ILO 2005, 2) Among these working poor, 535 million live with their families in extreme poverty on less than US$1 a day (ibid.). One consequence has been the tremendous growth of informal and casual work. According to ILO, the urban informal economy was the primary job generator during the 1990s in Latin America. In Africa, the informal economy generated more than 90% of all new jobs in the region in the 1990s (see Schmidt 2006).

Furthermore, changes in the nature of work have led to increasing levels of casualization, and competition in secondary labour markets for jobs characterized by low wage and poor job security. For instance, the increase in unemployment in Latin America from 6.9% in the 1990s to 10% in 2004 has been coupled with an expansion of informal economic activity. As a result, over the past decade, 70% of all new jobs have been created in the informal sector, while over 63% of the employed members of the poorest 40% of households work in the informal sector and must use their entire labour income simply to meet their subsistence needs. This is seemingly the result of the increasing flexibility of labour markets. Coupled with the downsizing of social security, the consequence has been that "social cohesion needed to pursue collective endeavours is also seriously impaired and democratic channels for participation are undermined" (ECLAC 2005, 7).[11] In Latin America, regional adjustment to the global economy has been effectuated through the neo-liberal guideline, which is most advanced in this region

10. See the chapters in Ghosh (2006).

11. The inequitable distribution of income is a reflection of a highly uneven distribution of assets (land, capital, education, and technology) and unequal access to them.

and is based on creating the optimal environment for private transnational capital to operate as the putative motor of development and social welfare (Robinson 1999, 48–49).

Taken together, the Asian, African, and Latin American situations indicate a worsening in unemployment and labour market conditions. In addition, unemployment rates in many countries mask widespread underemployment. The working poor are largely invisible in official statistics. Billions of women and men do not have work that taps their individual creativity and uses their productive potential. For the most part, women's work remains undervalued and unaccounted for (Schmidt 2006). Obviously, the exceptions to this picture are Japan, China, South Korea, Taiwan, and to a lesser degree Southeast Asian would-be NIC countries, although even in these countries inequality and unemployment have been on the rise.

Finally, the evidence of growing inequalities between the North and South is not hard to find: "The income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960" (UNDP 1999, 3). The levels of inequality in the global realm increasing in the developed North itself and especially North America provide the prime example *in legio* of the shift from welfare to workfare.

The middle class is being hollowed out under the jobless growth regime in the United States, where a certain degree of "thirdworldization" has taken place. During Bush's presidency, the United States has experienced the slowest job creation on record (going back to 1939). In other words, there is what some commentators call a job depression in the US economy. Stephen Roach of Morgan Stanley reports that the mood at the recently concluded Davos meeting was downbeat because the predicted "wins" for the industrialized world have not made their appearance. Roach points out that "job creation and real wages in the mature, industrialized economies have seriously lagged historical norms. It is now commonplace for recoveries in the developed world to be either jobless or wageless—or both." Roach is the first free trade economist to admit that the disruptive technology of the Internet has dashed the globalization hopes. It was supposed to work like this: The first world would lose market share in tradable manufactured goods and make up the job and economic loss with highly-educated knowledge workers. The "win-win" was supposed to bring about cheaper manufactured goods to the first world and more and better jobs for the Third World. According to Roach, things did not work out this way because the neo-liberal dogma and the Internet allowed job outsourcing to quickly migrate from call centres and data processing to the upper end of the value chain, displacing first world employees in "software programming, engineering, design, and the medical profession, as well as a broad array of professionals in the legal, accounting, actuarial, consulting, and financial services industries" (Morgan Stanley 2006; Roberts 2006).

The point is that in tandem with the attack on the social regulation of the nation-state, the social compacts are increasingly being restructured to meet the interests and conditions set by the global elite, and the most important impact is the loss of national regulation over labour markets. A certain degree of convergence in terms of social regulation of the wage relation implies that capital no longer needs to worry about the reproduction of labour power or domestic markets (Hoogvelt 1997, 148; McMichael 2000, 182–83).

However, as I will show in the following section, there are important exceptions and examples of divergence as well.

New Regional Social Compacts

It has been predicted again and again that the global economy would break down into a triad, centred on the European Union (euro), the United States (dollar), and Japan (yen). As a matter of fact, what has emerged is an East Asian mastodon region encompassing China, Japan, and other Asian countries and, on the other side, the United States. As former UNCTAD Secretary-General Rubens Ricupero notes, "Inside this heterogeneous group, the Asians export to the gigantic 'black hole' of the American market and finance its enormous external deficit through the purchase of dollars and Treasury bonds." What is even more compelling for our purpose here is his second remark: "There are today only two groups among developing economies: those able to finance their growth through exports to the United States, and the rest, the legion of countries still plagued by Prebisch's infamous 'trade gap,' which they are forced to finance through debt. This is certainly not the coherence that we need between the trade and the financial systems, but it is the closest we have come to it" (Ricupero 2004, 9).

In this context, to claim that there are oppositional regional resistances that in some cases are mirrored by the pooling of strength in the WTO against the power structured alliances of the United States and the EU may seem challenging. However, it might be the only route out of the crisis of a dysfunctional mode of global economic and governance system and at the same time the only "rational choice" of policy-makers, politicians, and other societal actors. Thus, I propose in the following that it is possible to identify four regional social compacts, all based on different institutional structures and cultural orientations, from government monetary, fiscal and industrial policies to labour legislation, work ethic, trust, and even the creation of new identities. Regionalism itself constitutes an element of an increasingly complex system of governance operating at a variety of levels on which questions about public goods, welfare, economic organization, and political participation are addressed (Phillips 2000, 395).

Although considerable political and cultural diversity still exists among the three different types of capitalism or industrial models described above, and despite the hegemony of neo-liberal globalization, there are at least three arguments in favour of regional offensive projects. First, there are strong and apparently growing tendencies for top-down internationalizing, and second, bottom-up transnationalizing forces work in parallel or even converge over a policy that favours regional action. "The third source of regional action is the apparent or likely trend towards emphasizing identity and legitimacy in addition to, sometimes even before, efficiency" (Hveem 2000, 78–79). Regional social compacts may be defined according to common historical experiences and increased socio-cultural, political, or economic links that can lead to the development of organizations to manage the region's collective affairs. This implies not only the formal institutions or types of governance but also the social institutions such as political conflict resolution and welfare systems cum politico-ideological derivatives such as corporatism, liberalism, and Confucianism (Stubbs and Underhill 1994, 232–33). The question is

whether it is possible to identify distinctive forms of capitalism based on different relations between state, capital, and labour, since political and economic rationalism alone cannot explain why, for instance, Asian regionalism has been, more often than not, articulated on cultural grounds rather than on economic (as in North America) or political grounds (as in Western Europe) (Ching 2000, 239).

The difference between the three models introduced above and the four proactive models is the attempt to explore the resistance potential against neo-liberal globalization and search for new types of labour market regulation, bargaining arrangements, and social bonds denoting a new type of social compact. Regionalism seen from this perspective is "a form of resistance to globalization and the site where alternate norms, ideas and practices to those that predominate in contemporary global governance are consolidated" (Nesadurai 2005, 158).

As mentioned above, the virtues of the dominant type of workfare globalization emanates from the Anglo-Saxon political and economic liberalist compact, which claims that coping with globalization—maximizing gains and minimizing risks—requires flexible domestic economic structures so that economic agents can speedily and effectively adapt to external pressures. Small rule-bound government upholding property and contracts, within which framework private actors interact freely on the basis of a decentralized world price-mechanism, best serves national flexibility (Sally 2000, 238). Here the deregulated labour market is prevalent. This model is furthermore characterized by weak labour unions and lack of bargaining power. However, there are important signs that a new economic policy is undermining this compact. As noted above, the result of the current policy will sooner or later lead to a radical change that will adversely impact the global economy. The Anglo-Saxon model has not only been imposed into global governance institutions such as the IMF, World Bank, and the WTO, but there have also been systematic attempts to establish regional formal institutions relying on the ideology of the workfare state. These attempts have largely failed in Latin America (free trade agreement) and East Asia (Asia-Pacific Economic Cooperation [APEC]), whereas the United States has seen its interests challenged by new regional initiatives; it is only NAFTA that is working according to its original purpose of transposing the flexible labour regime onto North America and Mexico. These new emerging regional social compacts will be elaborated below.

The first alternative to globalization is the so-called "flexicurity" model. It rests on negotiated social contracts between labour, employers, and the state: social corporatism is a way to cushion and spread the costs of adjustment to global liberalization. This model also rests on the Scandinavian extensive and universal social security systems. Trust, long-term co-operation, and acceptance of collective objectives are based on social, industrial, and political citizenship rights. Together, these constitute a highly developed welfare state securing a high floor of provision for each citizen, as well as institutionalized rights of individuals and organized groups to participation and voice in the polity and at the workplace, making exit less necessary for expressing discontent. The model rests on politically negotiated social compacts in a bargained economy (Stallings and Streeck 1995, 91). Corporatist bargaining networks, while based on traditional class cleavages that may seem less relevant today, are contextually dependent

institutions that remain viable and effective in the globalized economy. Those countries that are highly corporatist remain so due to the increasing returns of this type of interest mediation, which has produced economic and social equality in highly internationalized economies (Minnich 2003, 24). What is interesting is the attempt by the Commission of the European Union to dissolve the Rhine-capitalist and the French *étatiste* model or continental-Western European model and adopt the flexicurity model in the whole of the EU. Whether this will materialize remains to be seen; the model itself is being challenged by right-wing forces and the increasing relative weakness of trade union bargaining power.

Also sub-Saharan Africa has seen important attempts to redress existing or new defensive regional social compacts. The following provides some examples of interesting similarities as well as important differences between the top-down Southern African Development Community/African Union and Southern Common Market (Mercosur, comprising full members Argentina, Brazil, Paraguay, and Uruguay) regions. The most important difference is that Southern Africa has spent numerous efforts and energy on reconciliation and the creation of stability and security in the aftermath of apartheid and wars. The experience of resistance has been heroic regardless of the conditionalities of the IFIs in the region.

The Latin American and African models today are characterized by a massive restructuring of capital-labour relations. The contraction of domestic markets, the dismantling of "uncompetitive" national industry, the growth of the informal economy, revised labour codes directed at making labour "flexible[,] and austerity programs have resulted in the informalization of the work force, mass under- and unemployment, a compression of real wages, and a transfer of income from labour to capital" (Robinson 1999, 49). Whether the African responses are mere adjustments to the dominant neoliberal discourse is debatable, while the new initiatives involving left-wing populist elected governments in Latin America are interesting because of their launch of a new approach to regionalism. This is best illustrated by ALBA (Alternativa Bolivariana Para Nuestra América),[12] the Venezuelan Hugo Chávez-led initiative that strives to establish a progressive regionalism against US hegemony.

On paper, Mercosur has a nuanced approach to the social dimension of regionalism that may be ascribed to the Latin American legacy of corporatism. In some ways it copies and is influenced by the EU model but falls far short of the achievements of Europe in the social sector. The Southern Cone region is the most advanced in terms of codifying a common policy on labour rights. The Declaración Socio-Laboral del Mercosur promulgated in 1998 is an important declaration of the rights of labour to organize, to nondiscrimination, to be involved in social dialogue, and more. There is a monitoring mechanism involving trade union participation. The declaration reflects the continuing resilience of corporatist politics in the region. From 2000, the implementation of the supranational law on the mutual recognition of social security rights and the first joint inspections under the Health and Safety agreements took place. "The existence of the Socio-Economic Consultative Forum upon which trade unions sit is also testimony to

12. See http://www.alternativabolivariana.org.

this political tradition as well as to EU influence … One of the questions about this high degree of union involvement is whether it represents the interests of the wider civil society and of non-organized groups" (Deacon 2001, 26).

The best example found in the East and Southeast Asian nation-state compact, including China and Japan (i.e., the capitalist developmental state), has already been characterized by a corporatist arrangement without labour and a substantial state involvement in economic affairs. This compact relies on a specific type of highly cohesive and disciplined civil society, structured by strong developmentalist institutions and orientations, which are easy to mobilize for collective action and which protect society from the dysfunctions of possessive individualism, excessive competition, and non-cooperative, particularistic rationality. By putting "politics in command," the developmental state in East Asia played an important role in the capitalist growth process. Historically, the East Asian late industrialization development model was based on the implementation of a specific understanding of political economy, whereby the state assumed a function in the guidance of the economy without disregarding the importance of the market. Government policy-making was thus organically tied to the production factors—land, labour, and capital—in actively creating comparative advantages. Before the financial crisis, neo-Listian theory enabled a clear explanation and provided the definition of the East Asian developmentalist state, which had "a role different from that of the Keynesian welfare state in the already advanced countries. The Keynesian welfare state serves to restrain market rationality by measures to protect groups vulnerable to the consequences of market rationality. By contrast, the developmentalist state restrains market rationality in order to pursue a policy of industrialization per se" (Hoogvelt 1997, 206). The national developmentalist social compacts in East Asia were challenged by the financial crisis, but as I intend to show, some of its main trajectories have been transposed to the regional realm.

This can be discerned in the attempts to provide an adequate response to the East Asian financial crises in the late 1990s, which started with the devaluation of the Thai currency and later spread to Indonesia, South Korea, Russia, and Brazil. The existing regional institutions such as the Association of Southeast Asian Nations, APEC, and Mercosur did not have either any leverage or instruments to interfere and support the crisis-ridden economies. In the case of Mercosur it made the crisis even worse, since it spread to Argentina because Brazilian companies benefited from the devaluation of the real and were able to out-compete their Argentinean counterparts.

The new emerging resistance models signify hybrid attempts to create new regional social compacts. The question is whether they are proactive or reactive. The first evidence of a new emerging albeit hybrid regional social compact is to be found in East Asia: the emergence of monetary regionalism and a turning away from the IMF. The IMF's policies are rightly perceived in the region as an affront and problematical. In addition, in the summer of 1997 the IMF, together with the US government, impeded the Japanese initiative to create an Asian liquidity fund. The Asian Monetary Fund (AMF) was explicitly to apply softer conditions than those of the IMF. The AMF's concept corresponded to being more of a "lender of last resort" than the IMF. Essentially, the AMF idea was about providing unconditional loans to overcome liquidity crises (Dieter 2000, 20). Reflecting

Asian resistance to Western-driven models, the region—policy elite and wider community alike—perceived IMF policy throughout the late 1990s as humiliating and wrong.

Despite its heterogeneity in terms of religion, ethnicity, and economic potential, what we are seeing in East Asia is the emergence of a new regional compact that exhibits three overlapping and complex trends: (1) an interest in monetary regionalism arising from the desire that has emerged, since the financial crises of the late 1990s, to combat financial volatility; (2) an interest in bilateral trade initiatives within the context of the wider multilateral system, largely at the expense of the APEC-style open regionalism of the 1990s; and (3) the emergence of a discourse and resistance of a region beyond that of the sub-regions—Southeast and Northeast Asia—but more restricted than that of the Pacific as a mega-region. The voice of East Asia that is emerging within the global political economy is a new factor (Dieter and Higgott 2003, 446).

The essential feature of the resistance model as featured by the AMF example is that it seeks to preserve through regionalism particular forms of national policy instruments or domestic social and economic arrangements that are difficult to sustain individually amid globalization (Mittelman 2000, 116–30). The resistance model also emphasises concern with non-economic or social values such as distribution and social justice as the main driving force for regionalism. Although systemic forces (globalization) do come into the picture, the response to them (resistance regionalism) is mediated through the domestic political economy. Legitimacy is usually an underlying concern for policymakers contemplating this form of regionalism (Hveem 2000, 75–78; Mittelman 2000, 116–30). Governments, deriving political legitimacy from their capacity to undertake traditional social responsibilities, may be compelled to turn to regional collective action as the only viable option to maintain national social, economic coherence. The forward-looking and inclusive character of the project is underlined through China's participation. China has been emphasizing that the relevance of the project is more for the sake of the creation of a regional structure than for China's own interest (Dieter 2000, 22).

In other parts of the world, the picture might be a different one. The Mercosur, for instance, would have too limited foreign reserves to start a project of monetary regionalism based on the creation of a regional liquidity pool. Even if Chile participated, the foreign reserves of Argentina, Brazil, and Chile currently total only US$74.9 billion, an insufficient amount for the creation of a regional liquidity fund that only uses 10% or 20% of all reserves. However, those economies with more limited reserves could still implement other elements of monetary regionalism—for example, drop regional banking supervision or the creation of a private regional liquidity fund. Also, macroeconomic co-ordination and joint monitoring would be possible (Dieter 2000, 24). The regional integration project, while young, has the potential to influence domestic institutions with respect to homogeneity in a few ways. The statement of Las Leñas decrees that democratization and consolidation of democracy in the region are among the major goals of Mercosur. "Reform fatigue" has long been the major problem in Latin America. However, there are several indications that show that the future trajectory of politics in South America will "reflect a trend away from 'automatic pilot' market strategies towards more active policies of the types enshrined in the Asian 'developmental

state' model and now advocated in Latin America by a growing number of governmental, societal and media voices. This condemnation of the 'stateless market' points to a (re-)recognition (in policy intellectual circles) of the institutional and social embeddedness of markets as well as the ways in which the functioning of domestic and global markets depends on the generation of political consent" (Phillips 2000, 388–89).

What these examples show is limited but ample evidence of an emerging regional resistance based on government and state initiative but to various degrees involving social actors as well. In the case of Mercosur and especially ALBA, there are recent initiatives growing out of the anti-globalization movement, the World Social Forum in Porto Alegre, and the re-emergence of the left on the Latin American continent. The recent massive popular rejection of the North American-induced FTA creates new identities and a collective political will to resist and potentially create more cohesive social structures in a regional setting. Mercosur, ALBA, and the AMF and surrounding initiatives and institutions are in this context proactive by their very existence and the fact that they aim to establish new types of regionalism, without any interference of the United States. They build on the idea of a specific identity, citizenship, and social compact in varying degrees.

One caveat—or, rather, contradiction—exists. It is quite inconceivable to imagine that the problems related to social solidarity and that are difficult to solve at the national level can be easily solved in regional settings; as such it remains unresolved whether the primary function of the emerging regional social compacts is external as a proactive defence against the perils of neo-liberal globalization and/or whether they are able to develop distributional mechanisms internally as well.

Although there are important differences between the flexicurity model, the new sub-Saharan African formal regional initiatives, Mercosur, ALBA, and the new emerging East Asian regionalism, they do exhibit a new type of comprehensive search for identity, societal/regional cohesion, and to varied degrees resistance against the prevailing hegemony of workfare and neo-liberal globalization.

Challenges to Global Governance

The big question is how new regional social compacts can encourage a reorientation that benefits the domestic economies and local markets and carry out long-postponed measures of redistributive and socially oriented policies. Neo-liberal globalization has systematically transferred power over patterns of resource allocation to largely unregulated financial markets, reflecting the belief that these markets are fundamentally efficient. As Bourdieu (1998) has mentioned, neo-liberal hegemony reflects "a program of the methodical destruction of collectives."

Although there are signs of crisis in the world economy, especially with regard to the absorption of the new Eastern capitalist economies, and current tendencies toward the creation of regional social compacts that reject US dominance, it seems clear that the theoretical approach to regional integration also must change. In an ideal situation, regional integration should prioritize its defensive potential against the problems associated with neo-liberal deregulation and privatization, and create mechanisms for

collective action. "In the context of current shifts in approaches to globalisation, the question is how some sort of reconstituted regionalism will relate to broader 'global' trends" (Phillips 2000, 385). Regionalism will have to offer enhanced protection against financial and social crises, whereas trade liberalization does not deliver the promised benefits (Dieter 2000).

Both Latin American and East Asian responses to the present crisis of neo-liberal globalization suggest a move toward defensive regional organizations that provide some level of regulation and a more cohesive type of social compact. This very much resembles the strategies of the EU; although it is paralyzed at the time of writing, it has been rather successful in promoting a contract both horizontally between new member states and vertically through social integrative strategies. However, even the EU must comply with the demands of neo-liberal globalization as reflected in the proposal about liberalization of the service sector and the confrontations and popular mobilization against the new constitution. As Phillips (2000, 384) mentions and as envisaged in the examples above, although

> regionalism is inherently a project driven by states and a significant means by which some measure of policy latitude threatened by globalisation might be salvaged, there is a persuasive argument to be made that the domestic impact of recent global trends will necessarily involve a redefinition of the bases of regionalism in various parts of the world. In addition, if the central foundations on which contemporary regional arrangements are constructed are challenged, modified or torn down, then it seems reasonable to expect, supported by recent evidence, that the nature of the resulting regional projects will undergo a consequent and related process of change.

The regional agenda is vital not only for development in Asia, Africa, and Latin American and Caribbean countries but also for the consolidation of a common regional position in negotiations on new international rules aimed at creating a more balanced form of globalization. In fact, WTO trade negotiations in Seattle and Cancun have shown the strength of collective action on behalf of developing countries, and how regional cohesiveness of shared interests can be mutually reinforced. Without shared economic interests, the countries will find it harder to present a united front in a globalized world (ECLAC 2005, 22).

Conclusion

Let me end this exposé on regional social compacts by quoting Kari Polanyi Levitt, daughter of Karl Polanyi: "He [Polanyi] envisaged a regionalized world of co-existence of different economic and social systems linked by negotiated and managed trade," a world order that "would subordinate economics to social objectives" (Levitt 2006, 175).[13] Polanyi's vision of the coexistence of regional economies with different and diverse economic institutions linked by flows of trade, knowledge, and people should be revitalized.

13. This and the following builds heavily on Levitt's article in *Rev. Int. Polit. Economy* (2006).

Serious crises in excessively open and export-dependent economies are likely to redirect attention to domestic markets not on a national but on a larger regional scale. In Latin America, a new generation of leftist political leaders is responding to a profound disillusion with neo-liberal policies. Similar currents are stirring in Africa and especially East Asia (although with a different political and ideological flavour). The common struggle against the entrenchment of property rights in the WTO has forged political and economic links between major regions of the global South. Given the severe imbalance of power between the developed and the developing worlds, it is difficult to imagine that a multilateral financial and economic order would not be biased to favour the rich and mighty. Regional formations would have to furnish themselves with financial institutions to complement the management of external trade and investment.

Still, it is imperative to acknowledge that the term global, or regional, governance is heavily overloaded: "[Anthony] Payne's illustration of the diversity of forms of regionalist governance—multilevel governance in the EU, 'hub-and-spoke governance' in North America and what he calls 'pre-governance' in Asia (which might, incidentally, apply usefully also to South America)—highlights that simplistic conceptions of a single relationship between something called 'regionalism' and something called 'globalism' are analytically and empirically problematic" (Phillips 2000, 395).

As Smouts (1998, 87–88) reminds us, "We cannot speak of global governance. International regulation exists among a small number of states, with private and elitist companies sharing the same communication code (that of free trade and the Western conception of human rights)." If this is true, "minilateralism" would more likely be the correct term than a global or regional construction. The term global governance itself is based on an irenic representation of social life. It disregards the fight to the death, the phenomena of outright domination, and the problems that arise from the ungovernability of whole sections of international society. In fact, it is subject to all the reproaches levelled at the theories of public choice on which it is basically founded.

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