



The state and new social responsibilities in a globalising world



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The state and new social responsibilities in a globalising world

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FOREWORD

Globalisation is a vast process that extends far beyond economic relations and demands a rethink of how social responsibility is understood and exercised at state, market and civil society level. It raises questions about the legitimacy and capability of the relevant players with regard to building new types of social architecture and using new instruments to achieve that end.

The Council of Europe believes that social responsibility is an integral part of social cohesion. It concerns aspects of governance, the future of the social model and relations between European countries and between them and the rest of the world. Understanding the impact of globalisation on the development of the roles of the various players and structures, in both the public and private sectors, is therefore crucial to the further development of the Strategy for Social Cohesion promoted by the Directorate General of Social Cohesion. It raises the following questions, for instance :

- Is there a decline in the presence and impact of political parties and trade unions, which used to be the “interpreters” of social expectations ?
- Is the state losing power ?
- Is the national level appropriate for defining the terms of social responsibility ?
- What framework would foster more active public participation in the exercise of social responsibility ?
- What type of social responsibility should be adopted towards third countries ?

In order to help clarify the changes in the roles of the various players, the Division for the Development of Social Cohesion chose this theme for its annual forum, which was held in Strasbourg on 2 and 3 October 2002 in partnership with the Flemish Ministry for Economics, Foreign Policy, Foreign Trade and Housing and the European Parliament Committee on Employment and Social Affairs. The forum on New Social Responsibility in a Globalising World : the Role of the State, the Market and Civil Society dealt with four aspects of this complex issue :

- A framework to promote social responsibility in a global world ;
- Governments and social responsibility of enterprises ;

- Governance and corporate social responsibility;
- Europe's international social responsibility.

Obviously, each of these aspects can be tackled from various angles. The Council of Europe chose to emphasise the concepts of the public interest and ethics in the exercise of social responsibility. After all, social responsibility does not only concern the freedom and independence of individuals or bodies: it is also a factor in collective well-being in just and balanced societies. At the same time, social responsibility covers the idea of coexistence, co-operation and the need for participation by all individuals.

In spite of the difficulties, failures and setbacks, the Council of Europe believes that modern society is committed to seeking new forms of social responsibility. In this volume of "Trends in social cohesion" entitled *The state and new social responsibilities in a globalising world* we are therefore presenting the contributions made at the forum on states' social responsibilities. The next volume in the series will deal with the new social responsibilities of civil society bodies.

I should like to thank all participants for their valuable contributions to the debate and also the Flemish Minister for Economics, Foreign Policy, Foreign Trade and Housing, the European Parliament Committee on Employment and Social Affairs and, especially, Ms Marie-Hélène Gillig, Member of the European Parliament.

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Director General of Social Cohesion
Council of Europe

INTRODUCTION

The four articles in this issue of “Trends in Social Cohesion” focus on one of the main topics discussed at the Forum, “New social responsibilities in a globalising world: the role of the state, the market and civil society”¹ – the role and scope for action of states in practising social responsibility in an increasingly international world, where national measures and traditional policy instruments are no longer enough to guarantee social cohesion.

In the first of these articles, Giuseppe Pennisi and Giuseppe de Filippi tell us that economic policy, as conceived and taught for the last fifty years – that is, action by national authorities to promote economic development – is a thing of the past. They ascribe this to two factors: international economic integration and the net economy.

To illustrate the effects of international economic integration on states, they borrow Thomas Friedman’s image of the rules of the global economy as a “golden straitjacket”, limiting states’ political and economic choices. Social cohesion policies are also subject to rules which restrict states’ freedom to transfer public funds to social sectors. In other words, economic policy is today at a transitional stage between the national level, which no longer matches the situation created by international economic integration, and an emergent supranational level, which still gives rise to questions.

The breakdown of the “Washington consensus”, secured between the main international financial institutions in the late 1970s and described by the authors in the appendix, and the various questions still unanswered concerning the building of social cohesion (again the focus of discussion today) illustrate the difficulties associated with this process. New financial institutions have appeared, and seem to be introducing new rules, which again restrict the development of state social policies.

The authors go on to suggest that the net economy - which reduces the spatio-temporal constraints and cost of economic transactions – should

1. This seminar, organised in Strasbourg on 2 and 3 October 2002 by the Division for the Development of Social Cohesion, in partnership with the Flemish Government and the European Parliament’s Social Affairs Committee, analysed four aspects of social responsibility in Europe today: a framework to promote social responsibility in a global world; governments and social responsibility of enterprises; governance and corporate social responsibility; and Europe’s international social responsibility.

be considered as a possible basis for collective action, negotiated between the various levels and players, and making up (at least partly) for loss of the state's own capacity for action. The net economy operates by involving everyone, providing equal access to information and relying on assessment systems. It facilitates the production, collection and dissemination of information, and the authors believe that it reduces information gaps between players, helps to level social hierarchies, and so allows "everyone" to participate in social innovation and contribute to it. One may wonder what role the state plays in this scenario. The answer probably is that it provides the political and legislative basis needed for co-operation and collective action.

In the second article, Peter Kenway examines states' reduced room for manoeuvre in exercising social responsibility and encouraging companies to exercise it too. He asks whether the economic situation has affected states' capacity to impose social norms, or whether they have simply stopped wanting to use the powers they have.

In the United Kingdom, for example, there has been no increase in exposure to international competition on the jobs market in the last twenty years to suggest that the powers of the state have declined. This makes one wonder why states prefer not to use their own social powers, and rely on "voluntary consent" and "corporate goodwill" to secure compliance with rules and practices which used to be compulsory – knowing full well that voluntary measures can cease at any time, and have no effect on serious levels of social exclusion. As a result of their *laissez-faire* attitude, governments share the blame with companies for dismantling welfare and pension schemes which benefited millions of people in the past.

The author argues that social legislation is needed for two reasons: firstly, laws alone can ensure that social measures last; secondly, the state alone can represent the general interest. Moreover, the social divide itself is changing, since it now exists between people whose purchasing power interests the market, and all the others. If the private sector wants to take over services previously provided by the state, then it must try to cater for everyone, instead of dividing people into solvent and insolvent, customers and non-customers. The way in which large sections of the community are currently excluded from commercial, banking and basic services shows that profitability can still be attained by concentrating on the best-off clients. Peter Kenway concludes that the state alone can counter this trend by making equal treatment for all members of society compulsory in law.

The third article, by Ernst-Ulrich Petersmann, deals with governments' responsibility to ensure that the protection of constitutionally guaranteed basic rights is not affected when they work together on specific questions within international organisations or under international agreements. Specifically, freedom, equality and good living conditions in an environment which respects human dignity are rights and principles of "sustainable development", which must be fostered and respected by national authorities and international organisations alike. Within the liberalisation process (commercial negotiations apart), it is therefore vital that states should retain their basic responsibility for enforcing human and social rights. Integration at EU level may have partly turned sovereign nation-states into "market states", but the author argues that the integration policy has brought human rights into EU law. Outside Europe too, recognition of the inalienability and indivisibility of human rights by the UN states has gone hand in hand with creation of a global market. The important thing now is to ensure that markets take human rights on board within a "social market economy".

Given the risks of "malfunctions" and inequality in the distribution of resources, "social justice" can play a vital part in fulfilling the aims of "social market economies" and promoting "public assets". "Solidarity" with those who are excluded from market systems is crucial. How, in effect, can fundamental rights be made compatible with competitive markets that deal with regional or global organisations? The author identifies four types of approach which partly complement one another: the benevolent government approach (proposed in the European Commission's White Paper on European Governance); the ordo-liberal market approach; the human rights approach, which sees those rights as an integral part of "social market economies"; and finally, the social citizenship model, illustrated by the EU Charter of Fundamental Rights.

The fourth article, by Ulrich Becker, focuses on the role of the European social model in the debate on globalisation, and asks whether social protection and globalisation are actually compatible. Overlooking differences between countries, the main feature of the European social model is that most social expenditure is covered by the public sector. This model is the product of basic agreement (at least in the EU countries) on the state's duty to protect its citizens against exclusion and poverty.

How do integration processes affect social protection? The author starts by taking the example of the Council of Europe, and makes the point that its basic social security standards and European Social Charter are a "softer"

form of law, since they apply to a mixed group of states and focus on the rights of individuals. He argues that national systems within the EU have been Europeanised in ways which give them a certain similarity – a similarity which is also influenced by other factors, such as ageing of the population. This process does not, however, involve delegation of social policy decision-making to the European Commission. In spite of all the argument about the extent of the powers of states and the Commission, there is a growing realisation that market integration and social protection must be reconciled, and that Community action may be needed for this purpose. However, the wider a community and the more general its tasks, the less sense it makes to transfer to it powers which are rooted in national solidarity. This is why the EU's social policy stands little chance of being copied at world level – although it might be interesting to compare it with other regional communities which “primarily” pursue economic objectives. The author argues that the content of social protection can be defined only on a political level, where democratic legitimation guarantees that decisions will be accepted. Decisions on the convergence criteria must also be taken on that level. A remaining question is how far territorially limited solidarity can be reconciled with cross-border economic activities and markets. How can cross-border solidarity be implemented? According to Ulrich Becker, minimum procedural guarantees, such as the principle of non-discrimination, must be kept. Finally, in the light of growing economic integration, it is clear that social rights are becoming ever more important. This being so, they cannot be protected solely at national level – but shifting them to a higher level will not necessarily mean obliterating distinctive features of national social protection.

These four articles illustrate the complexity of the debate on the social responsibility of the state and public services in a globalising world. The changes currently under way require a fine institutional and social balance between public and private, territorial and cross-border, national and international, the market and universal values.

The Council of Europe's Directorate General of Social Cohesion believes that the responsibilities of governments also need to be better understood by the public than is sometimes the case – even when the public themselves are involved. In this connection, it would be a good thing to incorporate social analysis of the changes (new forms of poverty and exclusion, new types of work, etc.) more fully into the social policies introduced to deal with them.

In the social field, there is often a tendency, in the name of globalisation, to give priority to economic and organisational issues, particularly with a

view to controlling expenditure and adopting market rules. However, there is a danger that demographic change and ageing of the population will indeed limit expenditure, while unsolved social problems generate huge costs. The public, on the other hand, are often anxious to keep the social sector (health, education, social protection, culture and information) clear of market forces, relying on the state to preserve equity and guarantee solidarity. They are likelier to expect the state to guarantee their “social capital” than to set about creating “social capital” themselves, to make up for a diminished and weakened state’s failure to do so.

In this tense situation, the state can discharge its social responsibility only by bringing the public into the decision-making process. Consultation thus holds the key to defining social policy, but consultation itself requires a shared approach to identifying, analysing and solving social problems. For us, at the Council of Europe, using consultation to guarantee a modern, supportive social state is the great social challenge of our time.

I – TO WHAT EXTENT IS GLOBALISATION WEAKENING THE CAPACITY FOR ACTION BY GOVERNMENTS IN THE AREA OF SOCIAL COHESION?

By Giuseppe De Filippi

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Introduction

Social cohesion is one of the established concepts of European society and one of the values and aims on which the Council of Europe and its member states have been basing their action ever since the Organisation's inception in 1949. This role is especially important for countries that have recently joined the Council, particularly those belonging to the Commonwealth of Independent States in eastern Europe and central Asia, which are currently undergoing a transition from centralised planning to a market economy. Many of these countries are in fact underdeveloped in terms of average levels of income and consumption as well as in terms of institutional development and economic structures. In western Europe, social cohesion has taken on certain features over the past century in the form of welfare systems (social security, social assistance, health care, and measures to integrate the unemployed, persons with disabilities and those on the fringes of society). However much these may vary in terms of access to benefit, finance, allowances and administration, they are all characterised by a high level of public expenditure, which, setting aside educational expenditure, accounts on average for 25% of total national income.² In the United States and Canada, and also in the high-income industrialised countries with market economies in Asia and the Pacific, the percentage of public expenditure earmarked for social cohesion is equivalent to 15% of average GNP, although this is usually adjusted to some 25% of final government budgets.

2. Council of Europe, 2001; Esping-Andersen, 1996a, 1996b and 2000; Ferrera, 1993 and 1998; Flora and Heidenheimer, 1983; and Fondazione Ideazione, 2001.

As explained in the appendix to this chapter, social cohesion (taken as meaning overall measures to combat exclusion from essential goods, services and rights) is not only a value and an aim aspired to by Europe and other regions with a high average income: over the past forty years the thinking on economic development has sought solutions involving domestic policies and/or international co-operation, but so far without much success. Such solutions are being sought mainly for the least developed countries (in sub-Saharan Africa), where, on the one hand, lack of social cohesion leads to serious conflicts, including military engagements,³ and, on the other, the extreme administrative and financial weakness of governments and their various departments makes it very difficult to formulate and implement public policies to promote social cohesion.

This paper was drawn up for the Council of Europe's forum by two professors at the Italian National Institute of Public Administration (Scuola superiore della pubblica amministrazione, Sspa)⁴ and deals with just one of the many themes of social cohesion at the start of the twenty-first century, namely the extent to which international economic integration, as facilitated by the development of the new information and communication technologies, will involve rethinking social cohesion policies and strategies, as well as new forms of partnerships between the public and private sectors. It is intended as an open-ended document aimed more at putting questions than at providing answers.

The paper opens with a discussion of a number of defining problems, and goes on to deal specifically with the implications of developments in governmental action on social cohesion over the last few years. It winds up by investigating whether we can pinpoint precisely from among these developments any alternative solutions which, if properly channelled, might open promising new avenues leading to the goal of social cohesion.

1. Some defining problems

Three different terms will be frequently used: "international economic integration", "net" or "new economy", and "social capital". We prefer the expression "international economic integration" to "globalisation" because it is more neutral, given the latter's usual negative connotations. The economic definition of "social capital" is the institutional dimension

3. Some twenty wars are being waged in sub-Saharan Africa as at June/July 2002.

4. Sspa is the institution responsible for pre-service training of middle-level and senior civil servants in Italy as well as the continuing further education of a vast gamut of public servants, mostly but not exclusively in central government employment.

of all the financial transactions, agreements and contracts that underpin stable economic relations, based on mutual trust. Such capital also involves information exchange between economic actors (individuals, enterprises and government departments) aimed at the attainment of individual and collective goals. Social capital is particularly important in analysing any market imperfections involving public or social assets. "Trust", an important component of social capital, is formally defined as one party's expectations regarding another party's actions, such as to help the former decide on a specific course of action: the degree of "trust" corresponds to the ability to foresee the actions and reactions of the other party.

The expression "net economy" or "new economy"⁵ refers to the changes triggered by the new information and communication technologies. These changes have three main characteristics:

- extensive and intensive use of information and communication technologies;
- frequent recourse to Internet structures both in-house and outside the enterprise;
- a large pool of knowledge and a vast information flow used for determining comparative advantages.

One of the main consequences has been the dismantling of barriers to market entry,⁶ particularly those arising where, in order to exist or survive, enterprises have to bring together a critical mass of resources in order to tap into the economies of scale generated from operating as an environment and intermediary for contracts in various markets (namely, the capital, labour and other markets). This creates a large network of explicit or, more often, implicit contracts within the enterprise, concluded among all the subjects involved in and with the latter. This function and mode of operation on the part of the enterprise (as demonstrated in the "Coase theorem")⁷ is being challenged by the net economy, which requires a fairly

5. The terms "new economy" and "net economy" are interchangeable in this paper, as is the practice not only in the press but also in Italian and international official documents on the subject: both refer to the whole area of information and communication technology as applied to business transactions, facilitating drastic reductions in the corresponding time, space and costs.

6. For a very interesting recent study of this phenomenon see Sabbatini (2001).

7. See Coase (1960) who demonstrates in his theorem that the specific aim of the enterprise is to control price mechanisms. Such an institution, which is an alternative to the market, stems from and is vital to the market economy in that it facilitates the reduction of transaction costs in the contracts on which the enterprise is based.

modest level of financial resources and great flexibility (thereby also minimising contracts within the enterprise itself). The net economy is, therefore, reducing general enterprise size and encouraging the use of external services (via outsourcing). This fosters the dissemination of information and communication technologies and other related activities.⁸

2. International economic integration, net economy and public policies

Every decade or so we are told that something is coming to an end. The 1960s were labelled the “end of the economic miracle” in an outstanding work analysing all the determining factors and implications of this process by the Hungarian economist Ferenc Janossy,⁹ which only attracted the attention of English-speaking economists five years later. The 1970s saw “the end of economic growth”,¹⁰ casting a long shadow of discussion and controversy which continued from oil crisis to financial crisis well into the 1980s. Since the beginning of the 1990s, we have been facing “the end of history”,¹¹ as outlined by the Japanese-American political scientist Francis Fukuyama in a brief article in 1989 in the periodical *The Public Interest*. Adopting a Hegelian stance, the writer posits that the victory of liberal democracy over other forms of government (especially various attempts at “real socialism”) coincided with the completion of History with a capital “H”.

On the threshold of the twenty-first century, the debate began on yet another “end”, the “end of economic policy” (and of its main components such as monetary policy, budgetary policy and prices and income policy,¹² as well as the corresponding public policies and, *a fortiori*, policies to promote social cohesion) as we have known it for at least the last two or three generations. Even the ability of the government to guide the economy, which is the essence of economic policy, is under attack and may be completely blocked by two decisive factors: namely, international economic integration and the net economy. These latter are jeopardising the levers used by governments, parliaments and social partners (trade unions and employers’ associations) over the last fifty years (if not more) to direct the various economic systems towards objectives relating to development and redistribution of production, consumption and income, that is to say

8. Quah (2002).

9. Janossy (1966).

10. Meadow, G.L., Meadows, D.L., Randers and Behrens (1972).

11. Fukuyama (1989).

12. As normally taught in economics courses (see, for example, Acocella (1994) and De Vincenti (1997)).

the very core of all the policies, strategies, programmes, measures and individual actions to promote social cohesion. This means that it is vital that we re-think our whole approach: if not the *raison d'être* of governments, parliaments and social partners, then at least their role in formulating and implementing public policies in general and social cohesion policies in particular.

The importance of the argument is demonstrated by the fact that the *Journal of Economic Perspectives*, the American Economic Association's professional-cum-popular periodical, has devoted an issue to this subject, calling on the services of the *crème de la crème* of economists from America and elsewhere, including many Nobel prize-winners.¹³ In the French journal *Revue d'économie politique*, two important figures from one of the *grandes écoles* go even further, asking "What is the use of economic science?" and "Does economic policy have a future?"¹⁴ Another French journal bluntly asks whether economic periodicals serve any useful purpose any more.¹⁵ The question prompts an immediate response, with reference to the centralised, or at least planned, type of economic policy, from one of the leading think tanks of the French left wing.¹⁶ However, in the French-speaking world, the concept of the end if not of economic policy then at least of the increasing constraints on its formulation and implementation, is gaining implicit support from major economists in articles published by two organisations which have for decades been considered "culturally interventionist" (or in favour of public intervention, especially in the field of social cohesion), namely the OECD Development Centre¹⁷ and the Observatoire français des conjonctures économiques.¹⁸ The list of quotations could be continued.¹⁹ In short, the problem is there and cannot be dodged. Let us examine its main components.

13. The *Journal of Economic Perspectives*, No. 14, winter 2000. The writers include (in order of publication of articles) A.B. Krueger, J. Bradford De Long, T. Taylor, R. Easterlin, J. Kornai, W.E. Kovacic, C. Shapiro, J.J. Wallis, J. Persky, W.E. Becker, D. Colander, R.H. Thaler, B. Allen, R. Solow, R. Lucas Jnr, P. Krugman, D. Rodrik, D.T. Ellwood, P. Portney and B. Anderson.

14. Quinet and Wallisser (1999).

15. Party (2001).

16. Boyer (1999).

17. Tanzi (1999).

18. Drèze (2000).

19. The following texts are interesting in their diversity: the wide-ranging theoretical essay by Zafirovsky (1999), the informative and provocative exploration by Fox (1999) and the essay by Drucker (1999).

International economic integration has radical, far-reaching ramifications for the very ability of governments to conduct economic policies in terms of both formulating and implementing public policy. In many cases, for example as regards monetary union, integration comprises explicit constraints on either monetary sovereignty or budgetary policy,²⁰ as well as prices and incomes policy (which are, as we have seen, the three main instruments available for the purposes of economic policy). However, in the absence of explicit contractual constraints set out in inter-state agreements, integration comprises the constraint which Thomas Friedmann has felicitously called a “golden strait-jacket”.²¹ Anyone wishing to exploit the benefits of international integration must accept the fact that politics shrink as economics grow. The “golden strait-jacket” confines the political and economic options of those in power between very specific parameters, so much so that it even becomes difficult to tell the difference between the programmes of parties in power and those in opposition. Would convergence between government and opposition in terms of social cohesion policies and strategies make the latter easier to formulate and implement? Or would both government and opposition tend rather to react to the implications of international economic integration with direct measures to limit public action to promote social cohesion?

With the accent on the need to implement not only “virtuous” but also “competitively virtuous” economic policies, the fact that international economic integration places the economic policies of every state in competition with those of every other state shows that the “golden strait-jacket” is a highly appropriate image, especially because it binds social cohesion policies and strategies, and constrains the levels of public fund transfers which the latter require. Whether bound by constraints explicitly set out in contracts or merely under the influence of economic policies competing for “most virtuous” status, governments (and opposition parties) can choose whether or not to don the “golden strait-jacket” imposed by international economic integration. Once they are wearing this “garment”, they can even decide to remove the constraints which it involves. However, the price to pay for so doing is heavy, immediate and (depending on market imperfections, particularly those of the information market, and their effects on capital movements, especially in the short term) often much more punishing than might have been expected. This

20. There is a very extensive bibliography on these matters. One useful work was the recent essay by Savona (2000), which outlines, in non-technical language, the stages by which Italy has pursued, but never quite achieved, monetary sovereignty.

21. Friedmann (1999), and De Filippi and Pennisi (1999).

was graphically demonstrated by the “financial crises” of the 1990s – from the crisis at the beginning of the decade that more or less caught the European exchange rate agreements off their guard and hit the lira, and therefore Italian economic policy, particularly hard, right up to the those that occurred in the mid-1990s, heavily affecting a number of Asian countries and the Russian Federation and threatening Brazil.²² Is the main issue who establishes the definition of policy “virtue” ? Is this role being played by an international board of governments, executives and other stakeholders or markets, to which, as the French trade unionist Marc Blondel has been saying for years, governments and parliaments have become sub-contractors ?

The constraints imposed by the “golden strait-jacket” have some even weightier, if less well-known, aspects, including very effective constraints on monetary sovereignty. Not only do they involve, as was noted many years ago, the development of an international *lex mercatoria* to be superimposed on national legislations (in such areas as taxation, economy, labour and social protection for the least privileged sections of society),²³ but they also rob governments and parliaments of the requisite instruments for conducting economic policy, namely the power to lay down guidelines (in the case of governments) and to legislate (in the case of parliaments). Domestic legislation (not just public or private economic law) has to be modelled on international practice and the approach of the more competitive countries, and not simply brought into line with them on the basis of multilateral or supranational decisions. It is because of these “institutions”, in the sense of implicit practices and rules observed by all the parties involved,²⁴ that national economic policies are vying with one another within ever-narrower channels.

The international financial organisations set up in the middle of the last century to oversee the reconstruction and development of the global economy are also having to grapple with a form of economic integration that is restricting their field of action.²⁵ In particular, privately-run specialised bodies are taking on an increasing role in preventing financial crises,

22. For a non-technical overview see Jacquet (1999). The Richard Ely Lecture was also very interesting; it was given by Lawrence H. Summers in his capacity as an economist rather than US Treasury Secretary, the post he held at the time; Summers (2000).

23. See, for example, Galgano, Cassese, Tremonti and Treu (1993).

24. As specified by the neo-institutionalist school led by North (1990).

25. One eloquent example is the debate on the reform of the International Monetary Fund and the World Bank; for an overview, see Wolf (2000); for a more in-depth analysis, see Bergsten (2000) and Salop (2000).

including the Basle Committee on Banking Supervision, the International Organisation of Securities Commissions, the International Organisation for Insurance Supervision, the International Accounting Standards Committee and so on. The rules adopted by these bodies (which are legitimated by private-law agreements – drawn up and concluded by the market and not by government or parliament – rather than by any intergovernmental agreement, let alone formal legal statutes)²⁶ provide the basic corpus of the international *lex mercatoria* and, by moulding national legislation, give life to the “institutions” of “*ex ante* conditionality”²⁷ and *ex ante* constraints (and the corresponding evaluations) on economic policies. These constraints not only concern macro-economic, monetary, budgetary and price-policy indicators and parameters (such as those set out in the Maastricht Treaty and the Growth and Stability Pact) but are also highly relevant to corporate governance and corporate accounting and auditing standards, banking supervision, the operation of stock and bond markets, and therefore financial valuation. Accordingly, these constraints are bound also to influence other aspects of economic policy, namely social, regional planning, employment and labour, immigration, culture and human resources policies; in short, all the policies aimed at social cohesion in the broad sense of the term.

Obviously, different countries and groups of countries have very different approaches to defining high-quality “institutions” responsible for promoting growth in a competitive environment. However, we no longer have any “Washington consensus” – the main points of which are appended to this document – describing the only way forward, which, a little over five years ago, was codified on the basis of an in-depth analysis by the Institute for International Economics.²⁸ Public policies are assessed on the basis not of the “Washington consensus” but of other objectives and parameters, many of which have not yet been systematically identified and formulated. Nevertheless, even those who analyse (and advocate) greater differentiation in the approaches to defining “institutions” to promote growth (taking account of the “local stock of knowledge and experience”) agree that in the long run we cannot afford to have one sector or compartment of the economy and/or of society completely at one with the international economic integration process (and enjoying all the concomitant advantages) and another excluded from it (protecting specific

26. Guérot (2000).

27. Gomel (2000).

28. J. Williamson (1994), Liard-Muriente (2001), and Crafts and Venables (2001).

groups, categories and interests).²⁹ The “integrated” sector cannot “conduct” economic policy (or economic valuation) in the sense used up until the mid-1980s, when individual countries and groups of states had limited access to the world market, let alone to “international integration”.³⁰ Non-integrated sectors are falling prey to those which are “politically destined to lose”, as the latter can raise bulkheads and dig trenches to obstruct progress, even though in the long run they will still be forced out.³¹ All this should also lead to greater “domestic integration” and therefore less “exclusion” and more “social cohesion”. Is this feasible in a context where international “virtue” necessitates cutting public expenditure in general and social expenditure in particular?

3. The net economy, information, the “news”, the media and social capital

This is where the net economy comes in: the “net of nets” is intangible and exclusively technical, it does not pollute, and above all it constitutes an intangible link among various disparate economic operators (individuals and enterprises).³² The debate has largely centred on the connections between the net economy and productivity, the challenges arising out of such connections for economic policies aimed at governing them, and the “new discriminations” caused by the net economy.³³ The main implications in terms of identifying how to formulate and implement economic policies are as follows:

- the depletion of a number of major economies of scale characteristic of manufacturing production processes;
- drastic cuts in transaction costs (virtually jeopardising the very existence of the enterprise defined as a set of standardised contracts in the Coase theorem mould);³⁴

29. Rodrik (2000).

30. It is interesting to re-read, with the benefit of hindsight, the work produced by Myrdal after his experience at the helm of the United Nations Economic Commission for Europe, Myrdal (1958), and compare it with recent texts on similar subjects, such as that by Salvatore (1999).

31. Acemoglu and Robinson (2000) have recently provided an extremely stimulating analysis of this phenomenon.

32. De Filippi and Pennisi (2000b and 2000c), and Pennisi (1995).

33. Jorgenson and Stiroh (2000), Kiley (1999), Zarnovitz (2000), OECD (2000) and the International Monetary Fund (2001).

34. Paganetto and Scandizzo (2000). Further interesting Italian cases in Butera et al. (2001). Shapiro and Varian (1999) also provide useful information, very effectively stressing

(continued next page)

- the abolition of spatio-temporal considerations and the consequent rush to delocalise and decentralise economic activities.

The depletion of the economies of scale challenges the very concept of a factory or production unit as formulated in the late twentieth and early twenty-first centuries, and as implemented in Taylor's and Ford's systems of production and industrial relations. Even the stakeholders in the process of formulating, evaluating and implementing public policies and social cohesion policies now look radically different: for instance, the trade unions now play a completely different role.

The consequences in terms of transaction costs are even more significant, although perhaps less immediately noticeable. The central aim in formulating and implementing economic policy is to use "public policies" to influence transaction costs in interactions among economic actors (individuals, enterprises and organisations).³⁵ The "death of distance"³⁶ has, however, a number of important implications, namely a transformed relationship between producers and consumers, and problems of ownership rights and access regulations. Producers/sellers (particularly the larger concerns, which are capable of securing detailed information on their potential customers and their changing tastes and demands) benefit from a major imbalance in access to information, which in the 1990s led to soaring profits (for shareholders). The regulations on patents and intellectual property rights drawn up one hundred years ago are becoming increasingly irrelevant. Access rights are becoming more important than ownership rights, and often lead to distortions.³⁷ All this calls for strengthening, rather than weakening, the action of various government levels to promote social cohesion.

(continued)

the differences between economies of scale, the manufacturing industries and the net economy; the important thing is the economies of scale affecting the demand (rather than the supply) side, particularly those liable to emerge among consumers. Markets are emerging in which "the winner takes all", as reproduction costs are minimal and not confined to the economies of scale, such as those inherent in the difficulty of managing enterprises above a specific size.

35. Dixit (1996)

36. Deaglio (2001).

37. We are thinking of excessive online trading by private individuals with rudimentary knowledge of financial market operations; see Moati (2002).

A new avenue is opening, or at least half-opening, to students interested in social cohesion in a context in which international economic integration and the information and communication economy would seem to be weakening the power of the state. This new avenue is net economy's potential contribution to social capital as defined above.

In addition to the theoretical constructs and the 500 or more empirical analyses that have been published over the past ten years,³⁸ two recent works are particularly useful for illustrating the interaction between information (in the broad sense, embracing the news, the media and the net economy), "social capital", the functioning of the market and hence growth, development and social cohesion. The first text is an econometric analysis of the effects in terms of wealth generated by CNBC, the main economic and financial digital TV channel in the United States.³⁹ The second, which adopts a popularising style and is therefore accessible to those unfamiliar with the economist's jargon and mathematical formulae, is a background paper commissioned for the preparation of the last World Development Report by the World Bank. The 2001-2002 report is entirely given over to information and communication and the markets, and comprises a chapter on interaction among the "media" as linked to the net economy and economic and social development.⁴⁰ The first of these texts concentrates on one single country, the United States, even though CNBC is broadcast in all industrialised countries and many developing countries in Asia and Latin America. The second work, on the other hand, is a comparative analysis of ninety-seven countries at various stages of development. Furthermore, the first document places the emphasis on financial information regarding a specific temporary phenomenon, namely the 1997-2000 stock market bubble, while the second dwells on the structural and institutional aspects. Let us examine the main points of these publications.

The analysis of CNBC leads to the conclusion that information is extremely effective in influencing the actions and reactions of economic actors. However, strategic interaction between news, on the one hand, and actions by individuals and enterprises, on the other, tends to become a "double-edged sword" precisely because it influences "over-efficiently". This leads to "overshooting", over-reacting, over-magnifying the least

38. For an overview, see O.E. Williamson (2000).

39. Morris and Shin (2001).

40. Djankov, Caralee McLiesh and Shleifer (2001).

little rumour that inexorably creeps into the information provided, thus increasing the “vulnerability” of markets, particularly of financial markets (which are subject to econometric checks), so that information ends up being considered “inefficient from the social angle” but “perfectly rational from the viewpoint of individual actors”. In order to mitigate the phenomena of “overshooting” and provision of a glut of stocks and shares information, a proposal has recently emerged for using the available technology to establish a “global alarm system”, which would be developed by the leading universities and research centres and operate like high-tech “meteorological centres”. The system would compare the myriad items of information channelled through the telematics networks and help separate the wheat from the chaff.⁴¹ The information-action-reaction chain is in fact based on what another writer has felicitously called a “rational rite”⁴² in which market “exuberance” is not “irrational”, as claimed by the title of a recent bestseller,⁴³ but the result of the “social capital” of a group, or of the “virtual” communities and market-places created and fuelled by information-sharing. This type of social capital, to use the terminology of games theory, is based on “repetitive games” and on the economic “trust” such games presuppose among the actors involved, without spatio-temporal differentiation. The fact that “social capital” can under certain circumstances have adverse effects (such as an over-reaction to the news) or a wholly negative impact deleterious to social cohesion (we might think of the “social capital” of associations pursuing what can only be seen as anti-social aims, such as “amoral familism”, or downright criminal ones, for example mafia-like organisations) is a well-documented phenomenon that has been researched by sociologists and economists.⁴⁴

The empirical study of media structures in ninety-seven different countries emphasises the importance of “virtual” communities and market-places for constructing and developing social capital. “Today, with high literacy rates, lower printing costs, and new broadcast technologies (and the Internet), the media are even more important in informing traders, consumers and investors. The media also provides information on political markets, exposing corrupt and unethical politicians and giving people a platform to voice diverse opinions on governance and reform. The media can also affect politics and market development and create demand for

41. Olsen and Cookson (2001).

42. Chew (2001).

43. Shiller (2000).

44. Woolcock (1998) and Fine (1999)

new institutions.” The main determinants rendering the media effective in improving political, economic and social results (or in developing social capital) are independence (and accountability), quality and wide coverage. The empirical analysis concludes that media ownership structure is a vital determinant for independence; quality also depends on competition and access to information of public interest, as well, obviously, as the professional skills of information producers. Extension and diversification of coverage presuppose reducing access to the sector, involving private individuals (especially in developing countries and those in transition) and support for community and non-profit-making initiatives.

The World Development Report 2001-2002 further suggests that the net economy in general and the Internet in particular have increased the media’s potential for independence, quality and coverage by drastically cutting costs in the sector: a comparative analysis of 107 countries shows that in 2000, seventeen states have introduced strict controls on the Internet. Such countries as North Korea, Iraq, Myanmar and Syria restrict access through their criminal legislation. Others place a state monopoly on Internet supply, thus confining public access to a small number of sites and monitoring information coming in from abroad. However, they are finding this increasingly difficult and expensive to do as spatio-temporal differences are abolished, this being one of the intrinsic features of the Internet and other forms of new economy. The countries that control the Internet are also those that present the lowest levels of human development, social cohesion and market development, with lower growth rates and social capital indicators, for example voluntary association networks based on self-regulation and self-government, remembering that such indicators are also used to assess the level of social cohesion. A recent econometric study⁴⁵ suggests, however, that the Internet is producing short- as well as long-term increases in the number of persons consulting the news; in the short term the effects are proportional to the potential readership of specialised information sectors, whereas in the long term a relationship emerges between site quality and a steady increase in readership. “Information sharing”, stable relations and, to a varying extent, “trust”, which underpin the economic definition of social capital, are therefore assisted by information and the “virtual” communities and market-places created by the media, and are subsequently facilitated and assisted by the instruments of the net economy.⁴⁶

45. Pauwels (2001).

46. For a recent sociological analysis of the “case of Italy”, see Leto, Gallo, Abruzzese and others (2001); for two strictly economic analyses (complete with econometric verifications), see Dellarocas (2001a and 2001b) and Moulton, Madnik, and Siegel (2001).

Where the neo-institutional economic analysis of political transaction costs is concerned,⁴⁷ we might say, in connection with social capital and to some extent with social cohesion, that in addition to installing “repetitive games” in the actual or virtual communities⁴⁸ in which they are operating, information and the media share some typical features with education: they all provide low-potential incentives which, if well implemented and distributed, help to reduce information (and sometimes positional) imbalance and to contain the phenomena of unfavourable selections and moral hazards, facilitating the “trust” which, as we have seen above, is central to producing and expanding social capital. This is one of the inferences from a recent empirical study of ninety-seven countries regarding the influence of independent, non-aligned media on election decisions by conducting cost-benefit analyses of governmental policies and ascertaining whether governments have respected the promises they made on their election platforms.

4. Information and evaluation of public policies as social capital

Research into the media and social capital has highlighted a further finding, namely the connection between information as the outcome of a process of evaluating public policies, on the one hand, and social capital, on the other. Sociologists, political scientists and specialists in administrative matters have been scrutinising this issue for years now.⁴⁹ Recently, however, eminent economists have also taken an interest in this phenomenon, including the Nobel prize-winner Stiglitz⁵⁰ and the Director General of Operations Evaluation at the World Bank, Picciotto.⁵¹ We might consider the main points here and analyse how they are affected by the net economy.

Firstly, all the economists who have now dealt with information as the outcome of evaluation and as a determinant of social capital are from the “neo-institutional” school as defined by Williamson⁵² and as further specified by Nugent.⁵³ This school defines an institution as “a series of links governing behavioural relations between individuals and groups,” a

47. Dixit (1996).

48. Besley and Prat (2001).

49. For a thorough up-to-date overview, see Bezzi (2001).

50. Stiglitz (1998).

51. Picciotto (2001).

52. O.E. Williamson (2000).

53. Nugent (1998).

definition not unlike that which we have provided for “social capital” in this paper. At the macro-economic level (we are thinking here of the parameters of the Maastricht Treaty, the Growth and Stability Pact between the countries of the European Monetary Union, or again the stabilisation or structural re-adjustment programmes defined by developing countries or countries in transition in co-operation with the international financial institutions), evaluation provides criteria and standards for examining policy efficiency *vis-à-vis* the pre-established objectives or for modifying these objectives, if appropriate. Information on evaluation helps guide the policy makers (as well as the general public and the parties in opposition) and is an integral part of the governance of society.⁵⁴

The net economy is a prime instrument not only for improving the collection and processing of the vast amounts of data needed to evaluate macro-economic and structural policies, but also for disseminating the results among the public, the latter being taken either in the broad sense or in the narrower sense of the “virtual communities and market-places” referred to in the previous section. Moreover, the net economy makes society less hierarchical: nobody can see the cut of your suit and there are no secretaries blocking your way to the director general or the minister if you send them your ideas through electronic channels.⁵⁵ Younger researchers do not have to openly defy senior professors in order to disseminate the results of their work on the Internet since all they have to do is to put them on a website. “Deference” which curbs innovation in the administrative and academic worlds is crumbling away. All these facts (particularly the reduction of information imbalance and hierarchies) help create and develop social cohesion.

Information/evaluation is even more important at the micro-economic level, especially in organisations whose “agents” (directors and officials) and the “agencies” on whose behalf they operate (governing boards) seek to pursue specific public or private objectives. Information/evaluation operates through a system of incentives which promotes the “agent” rather than the “agency” and highlights any discrepancies between them, thus checking any opportunistic tendencies and encouraging the whole organisation to learn from experience. In the public sector, information/evaluation is largely replacing the audits formerly requested in the private sector by the authorities supervising corporate governance. If “virtues” include social cohesion among the priority objectives of any

54. Weiss (1998).

55. *The Economist*, 10 November 2001.

collectivity, information/evaluation scrutinises public policies and actions from this same angle.

Information/evaluation contributes to three key functions underpinning social capital and its development and which are key components of social cohesion :

- collective action ;
- participation ;
- co-ordination.

This contribution – and this is the crux of the matter – is made through market intervention or incentives to pursue the objectives set or to adapt them through concerted action. Another channel is to improve identification of opportunistic tendencies and to sanction them in a co-ordinated manner. In democratic societies where neither the state nor private organisations are empowered to unilaterally define and implement their own actions, collective action stems from explicit or implicit negotiations,⁵⁶ producing rules accompanied by accountability requirements in terms of, for instance, reputation and credibility. Information/evaluation is one of the main means of eliminating information imbalance, especially between “principals” and “agents”, as well as between individuals and social groups enjoying differing degrees of access to information, and in preventing problems of unfavourable selections and moral hazards. A number of development assistance organisations that are assisting countries with low average incomes have drawn up a highly detailed survey of information/evaluation systems to be used as a handbook for collective action.⁵⁷ A significant component of strategies for comparatively under-developed European Union regions is actually based on information/evaluation as an instrument for “collective action” by a wide variety of organisations, bodies and groups.⁵⁸ The methods and procedures for participation in structural funds and other European financing instruments are a further example of the progress of the language, as posited by Sen,⁵⁹ of the development of social capital and social cohesion in the

56. Olson (1965).

57. We are thinking here of rapid rural appraisal techniques, particularly in the “participatory” forms which have proved their worth in preparing projects in the agricultural sector (Fanciullacci, Guelfi and Pennisi (1991)), and similar techniques in the education and training field (Pennisi, (1991)).

58. See area contracts and territorial pacts (Ministero del Tesoro, del Bilancio e della of Finance, Budget and Economic Programming (2001) and Viesti (2001)).

59. Sen (2000).

European “community” of persons involved in evaluating plans and projects. The net economy has cut transaction costs in spatial and temporal terms, and has therefore had a positive effect on unfavourable selections and moral hazards, and facilitated the formation and growth of this form of social capital and therefore of cohesion (or at least of opportunities for cohesion).

Participatory or “participated”⁶⁰ evaluation subsequently increases the potential of information/evaluation in the production of “social capital”. Picciotto (2001) and Carroll (2001) touch on or go into numerous cases, primarily in developing countries, where information/evaluation has not only helped to produce social capital and encouraged cohesion at community level but also facilitated privatisation and devolution of tasks to territorial or other operational bodies. Even highly centralised states like France have developed extensive documentation⁶¹ on information/evaluation as an instrument for decentralisation, which began there in the late 1980s. There are many examples of information/evaluation in Italy, particularly in connection with technological innovations. This procedure uses the net economy to produce “social capital” linking up different, often remote, areas.⁶²

Lastly, information/evaluation helps solve a wide range of co-ordination problems,⁶³ particularly in situations of devolution and/or decentralisation: “social learning” is facilitated by various forms of monitoring based on information/evaluation⁶⁴ which promote collective action between the persons and bodies involved.

However, the situation has undergone a sea change in the recent past, owing to the growing partnership between the different levels of government (supranational, intergovernmental, national, regional and local) and between public and various forms of private bodies (commercial, non-profit-making and tertiary sector) in action to promote social cohesion. Social cohesion policies and strategies which draw on social capital and the facilities of the net economy in general (and of information in particular) in fact involve a huge number of actors and stakeholders. More often than not, the nation-state is left with the sole task of defining

60. Palumbo (2001).

61. Warin (1993).

62. Scuola Superiore Sant’Anna (2001).

63. It is a well-known fact that economic research into transaction costs stresses the relation between transaction costs and co-ordination costs (O.E. Williamson (1987)).

64. Sabel (1994). The analysis by Cooke and Morgan (1998) is also very interesting.

background policies, because co-operation and collective action is decided among the actors involved.

5. Some questions by way of conclusion

Let us try to draw all the various strands together. In the first part of this paper we stated that two concurrent determinants (international economic integration and the net economy) are causing a crisis in economic policy as it has generally been understood and transmitted over the last fifty years. In the late twentieth and early twenty-first centuries we are faced with a different type of “end” from the “end of History”, growth and “economic miracles” which have characterised the transition from one decade to another.⁶⁵ Using slight hyperbole in order to highlight the main point, we are facing the “end of economic policy” and therefore the end of national public policies aimed at social cohesion. In the second part, conversely, we have explored the potential of the net economy for launching a fresh protracted cycle of development by influencing the production and expansion of social capital and thus paving the way for long-term productivity boosts and encouraging the creation and distribution of revenue through improved social cohesion. We outlined a number of cases (information, media and evaluation) in which the link between the net economy and social capital is solid and social capital apparently represents a new, promising avenue for enriching social cohesion.

However, in the current period of change and transition a great many questions remain :

- Social cohesion was an objective and a central value in public sectors in the last century, particularly during the last fifty years. If international economic integration limits government action by rewarding “virtuous” strategies, how are the “virtues” to be defined, and by whom?
- To what extent does international economic integration lead per se to greater and better domestic integration, and therefore better domestic social cohesion?
- What new opportunities is the net economy providing, and what are the implications for the stakeholders’ role in policies on the production of social capital and social cohesion?

65. Janossy (1966), Meadow G.L, Meadows D.L., Randers and Behrens (1972) and Fukuyama (1989).

- To what extent can the reduction of information imbalances inherent in the net economy facilitate collective action and co-ordination with a view to social cohesion?
- How are the roles to be apportioned between supranational, inter-governmental, national, regional, local and private bodies in terms of social capital and social cohesion in an increasingly integrating international economy which is dominated more and more by the net economy?

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Appendix – Economic development and social cohesion: an overview

1. Key issues of the 1960s

In the 1960s, those who were interested in the problems of the countries lumped together at the time under the term “Third World”⁶⁶ were primarily concerned with three key issues: world famine, illiteracy and Europe. The scale of famine in the world was one of the first issues to hit us in our own homes through radio and television. It was made real to us not by the tragedy – still unresolved, moreover – in the Sahel and much of Africa south of the Sahara, but by the drastic food shortages in the Indian sub-continent,⁶⁷ before the “green revolution” and analyses of the links between the social and political system, poverty and food shortages⁶⁸ provided India, Pakistan and Bangladesh with the means of coping with periodic food crises.

Looking back some four decades later, we realise that what later came to be called “information asymmetry” and to be seen as the main obstacle to development coloured the views of the then young generation of Europeans who were embarking on their working lives. We were aware of the “Asian drama” because, thanks not least to a skilful media campaign by the then Prime Minister of India, Indira Ghandi, it came into our sitting-rooms and dining-rooms (where the television had pride of place). We also saw, among all that was mythical and exotic, Africa to the south of the Sahara afflicted by much wider-ranging scourges, which can be summed up, to pick out a single indicator, by a life expectancy at birth of a bare thirty-five years.

The tragedy of illiteracy also came to the attention of many people through the “Asian drama”.⁶⁹ Here the degree of awareness and the attitude was different. It was widely believed that if the countries of Asia, Latin America and the southern shores of the Mediterranean basin wanted to, they could, by making better use of the resources at their disposal, tackle the problem of the basic education of their human resources, and perhaps solve it within the space of a generation or two. In the case of

66. The recent brief essay by Wallerstein (2000) is very perspicacious.

67. See the three volumes, fundamental at the time, edited by Myrdal (1968).

68. Sen (1981).

69. See part VII of Myrdal (1968).

Africa south of the Sahara, however, the opposite view prevailed : with an illiteracy rate of 70 to 80% of the adult population, primary school attendance of between 10 and 30%, and current expenditure on education often standing at 20% of the total state budget of the individual countries (and in certain cases – Kenya and the Ivory Coast – at nearly 30%), it was believed that the problem could never be tackled with the techniques and instruments available at the time.⁷⁰

To the age group that identified with the process of European integration, Europe, and not the policies, strategies and development aid of individual countries, was seen as the only possible means of tackling famine and illiteracy.

There were also other views at the time :

- that development could, and indeed should, be planned in order to overcome the structural obstacles that were preventing it from taking off and were exacerbating the disintegration of the social fabric within the individual countries;⁷¹
- that the operational rules of the world economy actually worked against the developing countries, penalising them in particular in terms of international trade and the transfer of technology;⁷²
- that the domestic policies of the industrialised countries, by shaping the workings of the world economy, militated more or less consciously against the Third World.

There was also a completely new international context : although the cold war prevailed, within what was called the “Atlantic community”, Europe acquired a new voice and new weight in relation to the United States. Wide-ranging multilateral trade negotiations, the “Kennedy Round”, were taking place, in which the free trade approach of the United States administration was matched by Europe’s more protectionist stand-point, particularly in relation to agriculture and manufactured and semi-manufactured goods from the newly industrialising countries. The constant con-

70. Of key importance here was the International Conference on the World Crisis in Education, held in Williamsburg, Virginia, in 1967 under the auspices of the International Council for Education Development – see Coombs (1968) – and, a few years later, the report commissioned by Unesco – Faure (1972).

71. The review in the second part of Little (1982) is excellent.

72. See, in addition to the enormous amount of literature on “dependencia” and unequal trade, particularly by Latin American economists of the time, Myrdal (1958).

frontation between the two “pillars” (to use the terminology of the time) of the “Atlantic community” gave rise to debate and analysis and spawned a wealth of ideas which, in a context of freedom, could have paved the way for a new vision of development and for policies geared to accelerated growth and improved distribution of the benefits of that growth.

The argument underpinning the writings at the time of one of the two authors of this paper⁷³ was that only a European development policy (rather than policies in the individual member states) could trigger the growth process and make for a better distribution of the revenue of the countries that were lagging behind. At the time, however, people did not see what form such a policy could take, except with specific regard to its “defence” aspect. In the context that prevailed at the time, what was relatively new was the choice that had been made in favour of, and the enthusiasm for, the liberalisation of international markets and, in a nutshell, domestic policies that, both in the industrial and post-industrial countries and in the Third World countries, took account of the structure of international production.⁷⁴ These were novel ideas, given that it was taken as gospel that, on the one hand, development should be planned and, on the other, world trade should be re-organised on the basis of an alternative approach to the reduction of protectionism and to free trade. Opening up to the world market on the basis of the principles of reciprocity and most-favoured nation (the cornerstones of Gatt)⁷⁵ was actually seen, particularly in certain currents of Latin American and Indian and Pakistani literature, as a factor which, by undermining or obstructing national policies and penalising the exchange rates of backward countries, made it even more difficult for them to progress.

2. The 1970s and “basic needs”

Towards the end of the 1970s, the emphasis in development policies moved increasingly towards social cohesion and its central importance. It

73. For example, Pennisi (1967, 1969a and 1969b).

74. In Italy in the 1960s, the economic thinking of those interested in development was greatly influenced by Latin American and Asian literature, and by Myrdal. For an update of Pennisi (1967), see Pennisi (1991a).

75. Gatt (General Agreement on Tariffs and Trade) was a temporary agreement under which world trade was gradually liberalised from the end of the second world war until the mid-1980s.

is interesting to look at the changes in the World Bank during the long term of office (thirteen years) of Robert S. McNamara, former president of the Ford Motor Company and former US Defence Secretary. Endowed with great vision and tremendous organisational ability, McNamara introduced major changes in the organisation, in line with the new development models that emerged during the late 1960s and early 1970s. Neglecting the agricultural sector, the area which accounted for the bulk of the World Bank Group's funding from the 1960s to the late 1990s, the Bank concentrated its aid on infrastructure and public utilities (particularly telecommunications and power stations) in the belief that, although they were not sufficiently attractive to private investors, they were essential if such investors were to be drawn to the immediately productive sectors of agriculture, industry and services. The Bank would not therefore intervene in the social sector (for instance, in health and education), which was difficult to assess and in which applications for loans could increase exponentially. In the late 1960s, mass poverty, the spread of illiteracy and the scourge of famine highlighted the need to pay direct attention to the "basic needs" of the worst-off sections of the population.⁷⁶ In the course of the 1970s, partly because of the effects of the increase in oil prices on the poorest countries, the Bank further extended the areas in which it intervened, from infrastructure and rural and urban development projects (including health and education projects) to "structural reorganisation" in order to help establish industrial plants and hence strengthen the production capacity of the developing countries, in line with the organisation of production internationally, with which the developing countries would, in any case, have to contend if they sought to export or replace their imports.

Two complementary aspects are still highly relevant (indeed, perhaps they are more relevant today than they were at the time):

- human resources, in particular education, as a factor making both for social cohesion and for what has been known since the second half of the 1980s as "endogenous development" ;
- the inclusion of "social objectives" in quantitative cost-benefit analysis methods and techniques.⁷⁷

76. See, among the wealth of literature produced at the time, Chenery *et al.* (1976), Streeten *et al.* (1981), and Baum and Tolbert (1985).

77. See, for example, Pennisi and Scandizzo (1985 and 1991) and Pennisi (1981, 1990, 1991*b* and 1991*c*). For a recent analysis of these subjects, see in particular Barro and Lee (2000).

These are complementary aspects, even though, paradoxically, technical and procedural difficulties (particularly in connection with the collection and processing of data) meant that programmes and projects concerning the social sector in general (and education and health in particular) enjoyed what could be called an “administrative exemption” from the application of cost-benefit analysis, among the tests of economic suitability and, instead, a greatly simplified cost-effectiveness analysis was used.⁷⁸ They are complementary in that an economic analysis of public spending (both current expenditure and capital expenditure) inevitably entails consideration of aspects relating to the distribution of consumer goods among the population and over time and the definition of “shadow prices” or “accounting prices” which differ from current market prices. The issue, much debated at the time,⁷⁹ of the analysis of “social” costs and benefits became crucial to the preparation of development programmes (in the broad sense) and projects geared to the training of human resources for economic growth, improved distribution of the benefits of that growth or, in particular, basic needs.

Very soon, however, it was realised that the more sophisticated and elegant the techniques for analysing “social” costs and benefits, the more, when applying them, one came up against obstacles to devising strategies related not to the individual programmes or projects or to a single sector (education, health, rural development, etc.) but to whole economies, their structures and economic institutions. In short, in meeting basic needs and rescuing from poverty the sections of society at lowest levels of income and consumption, with an eye to increasing production, one came up against structural and institutional problems which could not be tackled by the strategy in question.

Let us try and simplify this passage, which is particularly important to an understanding of the change in thinking as regards economic development between the second half of the 1960s and more recent times. A “social” cost-benefit analysis is based on two very strong implicit hypotheses:

- on the one hand, the need, sooner or later, to bring the domestic production system into line with the international system (the origin

78. Among the pioneering analyses in this area, see in particular that summarised in Thias and Carnoy (1972).

79. These were the years when the definition in the OECD and Unido handbooks prevailed; the handbooks are still largely unsurpassed as far as the key features are concerned. For a summary, see Pennisi and Scandizzo (1985 and 1991).

of “shadow prices” or “accounting prices” pegged to prices at the frontier and hence to the international market);

- the need to use public investment as a means of redistributing income and consumer goods in so far as it is impossible to do so, in less developed economies and societies, by more traditional and transparent means such as taxation (which also entail lower transaction costs).

These two implicitly very strong hypotheses (of which those who apply “social” cost-benefit analysis are not always fully aware) bring to light very serious structural and institutional problems that have a huge impact:

- How can the domestic production system be brought into line, sooner or later, with the international system if the production structure remains “closed” and does not open up to the international market?
- How can one ensure that the “replacement” instrument (the project) is not “taken over” by those same vested interests as have, in the context of a “soft” state and “soft” institutions, made the main institution, taxation, largely, if indeed not completely, useless?

If it did not openly tackle structural and institutional problems, therefore, an analysis of social costs and benefits either lost credibility or became largely unfeasible.⁸⁰ On the other hand, tackling the structural and institutional problems meant going beyond the procedural certainties of cost-benefit analysis. It meant venturing into much more difficult terrain where, particularly in the case of institutional matters, the quantitative tools of the economist and technical expert (engineer or agronomist) had to be combined with those of the political analyst, sociologist and, in particular, historian.⁸¹ Otherwise, attempts to set up programmes and projects to meet the needs of the poorest sections of the population (still from a production-oriented approach) would be unsuccessful on two counts: they would not get through to those who were meant to benefit from them and they could exacerbate structural and institutional problems. The key issue was therefore how to set structural and institutional

80. See Pennisi (1989). The problem was not resolved by replacing techniques based on weighted distribution by a Rawlsian maximin – see Pennisi (1989) – or by combining analyses of the effects with cost-benefit analyses – see Martelli and Pennisi (2000). Boeri (1990) is also well worth consulting on the subject.

81. See North (1994).

82. See Hirschman (1990).

reforms in motion and, in particular, how to ensure that they were accepted.⁸² Without such reforms, not only were the actual outcomes of the projects and programmes in jeopardy, but the seeds of what was to be the debt crisis of the 1980s were being sown.⁸³

3. The 1980s and structural adjustment

Structural adjustment policies, triggered by foreign debt, to some extent monopolised debate for the next decade. They were anticipated in the “Brandt report”, the jargon name given to the final document produced by an international commission set up at the end of the 1970s to analyse development issues.⁸⁴ They became the key aspect of what was, at the end of the decade, to be called the “Washington consensus”,⁸⁵ a term used to indicate the common denominator of diagnoses, forecasts, advice and formulae supplied in the 1980s by the institutions based in Washington (International Monetary Fund, World Bank, Inter-American Development Bank, Federal Reserve, United States administrative departments and the main international banks) to the countries that were most indebted, mainly those in Latin America. Given that similar suggestions, though with sometimes significant differences with regard to timing and methods, were put in the early 1990s to the countries of central and eastern Europe that were undergoing a transition from central planning to a market economy, other authors have considered it more appropriate to use the term “one world consensus”.⁸⁶

What did this mean? Firstly, there was a change of emphasis from projects and programmes involving capital investment and investment in human resources to structural re-organisation policies designed to re-organise domestic production and lay the foundations for long-term

83. See, for a summary, Pennisi and Scanni (1991).

84. See Brandt (1980). Ten years earlier, a similar commission (the Pearson Commission) had paved the way for development approaches and policies in the 1970s; see Pearson 1969.

85. See, among the vast amount of literature on the “Washington consensus”, J. Williamson (1994).

86. See Waelbroeck (1998).

87. See Easterly and Wetzel (1989). The change of emphasis entailed radical re-organisation of the World Bank, the main regional development banks and the International Monetary Fund itself. From then on, according to critics, the World Bank Group became increasingly involved in macro-economic and structural analyses and lost the supremacy as regards investment rating that it had had since it was set up.

“sustainable” growth.⁸⁷ The “consensus” was, and to a large extent still is, based on ten points:

- rigorous budget policies to contain public deficits, one of the most clearly identifiable causes of inflation, and a poor balance of payments;
- redirecting public spending priorities towards sectors that could, at the same time, offer high profits and had the potential to improve the distribution of income (such as essential infrastructure, education and basic health);
- tax reform (to reduce marginal rates and, at the same time, broaden the tax base);
- liberalisation of interest rates;
- a “competitive” exchange rate;
- liberalisation of trade;
- liberalisation of access to investment from abroad;
- privatisation;
- deregulation (in the sense of the abolition of entry and exit barriers);
- establishment of ownership rights and their protection.

The “Washington consensus” re-emerged with full force in the second half of the 1990s on the occasion of the 1996 Asian debt crisis and the crisis which, some eighteen months later, threatened to spread from the Russian Federation to Brazil and many other developing countries and countries in transition.⁸⁸ The economic analysis of plans and projects carried out by means of cost-benefit techniques or more sophisticated methods incorporated the “Washington consensus” implicitly in its assumptions (as we have seen in the preceding paragraph), if not explicitly.

What does the “consensus” mean and, in the context of this appendix, how did it affect economic development thinking and practices in the 1980s? These are two separate questions that require separate answers.

Firstly, the “consensus” was not so much a consensus (each of the ten points was hotly debated throughout the 1980s and 1990s and still is)⁸⁹ as an analytical attempt to sum up the lessons learned in forty years of development policies and strategies.⁹⁰ The need for economic policies

88. See Soros (1998).

89. See Pleskovic and Stiglitz (2000).

90. This point is made with great insight by Srinivasan (2000).

that maintained or promoted a high degree of “openness” to ensure that the world market provided the incentive and discipline needed to keep domestic production systems in line with the international system is a constant and was so even at the time when “structuralism” held sway, particularly in Latin American, Indian and Pakistani thinking.⁹¹ Similarly, “prudence” with regard to budget policy was based on the experience of many countries (and not only in Latin America) that had gone through periods of hyperinflation of varying lengths, with more or less devastating results. At the same time, suggestions concerning interest rates and the rechanneling of public spending for social purposes, albeit with a strongly production-oriented content, also reflected a common-sense approach and conventional wisdom. The novel features of the consensus were, firstly, privatisation and deregulation, an openness to the flow of capital from abroad and the establishment of “competitive” exchange rates, and, secondly, the “neo-liberal” interpretation that was given to the proposals as a whole.

It should be pointed out that, before the countries making the transition from a centrally-planned to a market economy appeared on the scene, the problem of privatisation and deregulation was confined to a limited number of developing countries. Indeed, in the vast majority of such countries, the state was weak and regulation, where it existed, was unlikely to be implemented. What was meant by openness to the flow of capital from abroad and “competitive” exchange rates was not clear until the 1996 Asian crisis, which, on the one hand, highlighted the volatility of short-term capital movements and, on the other, provided an empirical demonstration of the fact that exchange rates could be fluctuating or fixed (but supported by some form of “currency board”).⁹²

What was more important, therefore, in the 1980s than the specific suggestions was the interpretation and “neo-liberal” emphasis given to

91. “Structuralism” is used to denote a school of thought that long prevailed in Latin America and the Indian sub-continent and in some European academic and intellectual circles, according to which the “structural reforms” needed to render economic policies and market incentives operational require a more or less lengthy phase of centralised planning and, therefore, protectionism on the part of the developing countries. Among the works favouring, on the contrary, “open” economies in order to bring domestic production systems into line with international production during the years when “structuralism” was permeating economic thinking, see Little, Scitovsky and Scott (1970) and Belassa (1970).

92. A board that ensures that the issue of currency is strictly pegged to the level of reserves.

the “consensus”. By the end of the decade, on the basis of UN and International Monetary Fund statistics, a study had been made, *inter alia*, of the effects of tax equalisation and efforts to introduce “competitive” exchange rates.⁹³ Firstly, the data showed that the reduction in deficits and renewed “prudence” with regard to budget policy were not accompanied by the hoped-for rechanneling of expenditure into infrastructure and human resources. On the contrary, public spending on education and health had undergone the largest cuts, which had hit the weakest and less influential sections of the population hardest and had unfortunate long-term side effects in that they ate away at human capital (and at fixed social capital, such as the infrastructure essential for relaunching private production) and damaged international public assets (for example, the environment).⁹⁴ Secondly, the search for “competitive” exchange rates led to very marked depreciation,⁹⁵ yet it triggered economic growth only in the countries that exported manufactured goods, and was matched by a reduction in investment in the countries exporting raw materials other than oil and in those exporting oil and its derivatives. In turn, the reduction in the investment rate jeopardised the potential for long-term growth. In short, the “consensus” had entailed a shift of emphasis away from public social cohesion policies, and less priority was given to funding them.

By the end of the 1980s, the “Washington consensus” had been dented, particularly as a result of the spread of poverty, even in regions and countries that were on the road, or were getting back on to the road, to sustained growth. “Social protection networks” and programmes catering for the weakest sections of the population, although part of structural re-organisation strategies, were thin.⁹⁶ The emphasis was shifting towards institutional development problems and how to tackle them – the issue, in this highly simplified account, that drew together the different schools of thought and practices regarding development in the last decade of the century.

There were also methodological and operational implications as regards the analysis of projects and programmes. In short, structural reorganisa-

93. See Pennisi and Scanni (1991).

94. Cornia, Jolly and Steward (1987) is well worth consulting.

95. Some 40% on average between 1982 and 1988 in eighty-three developing countries, each with a population exceeding a million (see Faini, De Melo, Senhadji and Stanton, (1990)).

96. A few years later, a “post-Washington consensus” was apparently forged. See Burki and Perry (1998) and Stiglitz (1998).

tion meant that there was little point in applying “social” cost-benefit techniques to countries that were actually engaged in reorganisation, and indeed made such techniques somewhat futile for those that were not, particularly if they had not set themselves this as a medium-term objective, or were merely talking about it.⁹⁷

4. The 1990s: unresolved problems and current issues

To simplify somewhat, the 1990s were characterised by attempts to tackle unresolved problems, mainly poverty, which affected an ever-larger area despite structural re-organisation policies (or, according to some, precisely because of these policies). Almost symbolically, the 1990s began and ended with two reports on world economic development and, more specifically, poverty, and proposed, within the space of ten years, strategies for tackling the phenomenon that were markedly different, not least in conceptual terms.⁹⁸ Social cohesion was again central to the debate, precisely because of the spread of poverty. If we want to find a common denominator in the wealth of new approaches (many still only sketched out, some only theoretical and others not much more than a slogan or pure fabrication), the relaunch of neo-institutionalism, but with the quantitative analytical methods developed in previous decades, would seem to be the factor common to endogenous development theories, those based on the application of economic information theory to development, those still rooted in the analysis of economic and political transaction costs, the review of certain basic models for the international economy and the use, for explanatory purposes, of certain technical and economic models stemming from the new information and communication technologies.⁹⁹ For instance, the underlying concepts of the last World Development Report are clearly neo-institutionalist: “opportunity, security and empowerment”. These are concepts that attempt to systematise the wealth of approaches at a time when public development aid is being drastically cut back in real terms, public opinion and governments have put development problems on the back burner and the attractiveness of university courses in economics and the economics of development seems to have worn off as far as young people are concerned. The concept

97. See Pennisi (1999).

98. See World Bank (1990 and 2000).

99. See, for two good reviews of the literature, Paganetto and Tria (1999) and O.E. Williamson (2000).

100. See Woolcock (2000).

of “social capital”, in the sense of a set of rules and networks that allows individuals to act collectively, is also neo-institutional.¹⁰⁰ As O.E. Williamson points out so perspicaciously, we are dealing with a melting-pot of ideas, many of them in competition with one another, about economic history and the development of social norms and hence of social capital, transaction costs, the understanding of informal semi-contractual relations and the design of models for those relations, and evolutionary economics. Even one of the basic concepts underpinning both endogenous development theories and the various facets of neo-institutional economics, that of “path dependence”, is interpreted in different ways in the various schools of thought. Ultimately, each school seems to follow its own approach to analysis and research within a vast interdisciplinary neo-institutional area in which the economist’s tools must be combined with those of the political scientist, the historian, the psychologist and the expert in administrative and managerial problems – an approach which, paradoxically, is particularly suitable for the interdisciplinary training of economic journalists.

Was less progress made than when the emphasis was on basic needs or structural re-organisation? It is difficult to say. There is no doubt, however, that institutional problems and issues are vastly complex: for this reason, development economists have, for decades, refused to choose them as the main subject of their studies, leaving them to organisational disciplines that have no real scientific ambitions. The very fact that they are being tackled is a sign of progress and, to paraphrase O.E. Williamson again, pluralism is the most promising recipe because it is a means of overcoming our ignorance. A fresh look at old issues that keep cropping up (such as international debt, financial crises and poverty) from a neo-institutional angle (or, better still, in the light of various neo-institutional theories) is the most promising approach, because it provides a fuller understanding of the mechanisms of development.

There is, however, one field in which the various neo-institutional schools have, as yet, made only a limited contribution: that of the methodology of programme and project analysis, which is still largely based on the cost-benefit analysis of the 1960s and the economic equilibrium models of the 1980s.¹⁰¹

101. In national and international professional “rating” agencies, the emphasis is increasingly socio-organisational and less and less economic. See Palumbo (2000) and Pennisi (1999b).

5. Conclusions

In the material covered in this appendix, the first subject about which we still have much to learn is undoubtedly that of the institutional mechanisms underpinning social capital and hence the individual and collective action needed to make progress. When the problems of famine and illiteracy were broached in the 1960s, the belief prevailed that the solutions were essentially technical and economic: once the technology had been found and sufficient resources had been put into it, it would be possible to solve them. The “green revolution” seemed tangible proof of this axiom. That is no longer the case today. On the contrary, on the one hand, we have seen countries such as Korea, once considered Malthusian cases of increasingly serious under-development (because of the shortage of natural resources and demographic pressure), become industrial powers; on the other, we wonder to what extent under-development in Africa south of the Sahara (the only geographical region in which development and welfare indicators have worsened over the last four decades) depends on technical factors and to what extent it is the result of institutional ones. We know that we may one day be able to influence the former with the help of technical progress, but that we are much less able to tackle the latter, because of our ignorance of the mechanisms underpinning cohesion and social capital.

Forty years ago, as stated at the beginning of this appendix, those who tackled development issues concentrated on three basic issues (Europe, world famine and illiteracy) in the hope that the first of these could provide a means of tackling the other two. Few people still share this view: even if it wanted to, Europe could not alone succeed in mobilising the resources in terms of knowledge needed to tackle world famine and illiteracy. If we have something to learn from the flourishing neo-institutional approach, it is that in order to understand the mechanisms behind progress we need to look further than the “European” model and perhaps even beyond the “western” model.

But is this not what Myrdal himself tried to tell us in the 1955 Cairo lectures?¹⁰² Is it not true that for forty years we have failed to get the message?

102. Myrdal (1957).

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II – HUMAN RIGHTS AND LIBERALISATION OF MARKETS: THE SOCIAL RESPONSIBILITY OF INTERNATIONAL ORGANISATIONS TO MAKE MARKET COMPETITION AND SOCIAL RIGHTS MUTUALLY CONSISTENT

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1. Need for clarifying the human rights obligations of international organisations

In Europe, human rights have become recognised as “constitutional restraints” on government powers not only at the national level but also at the level of international organisations which exercise government powers collectively through intergovernmental, parliamentary or judicial organs. Long before human rights were explicitly incorporated into the primary law (for example, Article 6 of the EU Treaty) and secondary law of the European Union (EU), the European Court of Justice (ECJ) had construed the common human rights guarantees of EC member states as constituting general constitutional principles limiting the regulatory powers also of the EC.¹⁰³ The European Court of Human Rights has likewise held: “Where states establish international organisations or, *mutatis mutandis*, international agreements to pursue co-operation in certain fields of activities,

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103. In *Internationale Handelsgesellschaft* (Case 11/70, (1970) ECR 1125, at 1134), the ECJ held that respect for human rights forms an integral part of the general principles of Community law: “the protection of such rights, whilst inspired by the constitutional traditions common to the Member States, must be ensured within the framework of the structure and objectives of the Community” (paragraphs 3 and 4).

there may be implications for the protection of fundamental rights. It would be incompatible with the purpose and object of the [European Convention on Human Rights] if contracting states were thereby absolved from their responsibility under the Convention in relation to the field of activity covered by such attribution."¹⁰⁴

The UN Charter includes explicit human rights obligations for the more than 190 UN member states (for example, in Articles 55 and 56) which, in case of conflict, assert legal primacy over other international treaties (Article 103). The law of many UN specialised agencies (such as the IMF and the World Bank) and of other worldwide organisations (such as the WTO) does, however, not mention human rights. Yet, all their member states have accepted human rights obligations under international treaty law as well as under general international law. All UN members have also recognised, for instance in various UN resolutions like the Universal Declaration of Human Rights (UDHR) of 1948, that "Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realised" (Article 28 UDHR). Hence, the UN resolutions on the "right to development" define development in terms of fulfilment of basic needs and human rights.¹⁰⁵ If, as universally recognised in Principle 1 of the Rio Declaration of the UN Conference on Environment and Development of 1992, "Man has the fundamental right to freedom, equality and adequate conditions of life, in an environment of a quality that permits a life of dignity and well-being," such rights and "sustainable development" must be respected and promoted not only by national governments but also by international organisations. UN human

104. European Court of Human Rights, Application No. 43844/98, T.I. v. United Kingdom, Admissibility Decision of 7 March 2000, *European Human Rights Law Review* (2000), pp. 429-430. In *Matthews v. UK*, the European Court of Human Rights found the United Kingdom in violation of the human right to participate in free elections of the legislature even though the law which denied voting rights in Gibraltar implemented a treaty concluded among EU member states on the election of the European Parliament: "There is no difference between European and domestic legislation, and no reason why the United Kingdom should not be required to 'secure' the rights (under the ECHR) in respect of European legislation in the same way as those rights are required to be 'secured' in respect of purely domestic legislation". See European Court of Human Rights, Judgment of 18 February 1999 on Complaint No. 24833/94 and *Europäische Grundrechtszeitschrift* (EUGRZ), 1999, p. 200.

105. See, for example, UN General Assembly Declaration 41/128 of 4 December 1986 on the "Right to Development".

rights bodies increasingly insist that, for example, the World Trade Organisation (WTO) should adopt a “human rights approach to trade” which :

- sets the promotion and protection of human rights as objectives of trade liberalisation, not exceptions ;
- examines the effect of trade liberalisation on individuals and seeks to devise trade law and policy to take into account the rights of all individuals, in particular vulnerable individuals and groups ;
- emphasises the role of the state in the process of liberalisation – not only as negotiators of trade law and setters of trade policy, but also as the primary duty bearer of human rights ;
- seeks consistency between the progressive liberalisation of trade and the progressive realisation of human rights ;
- requires a constant examination of the impact of trade liberalisation on the enjoyment of human rights ;
- promotes international co-operation for the realisation of human rights and freedoms in the context of trade liberalisation.¹⁰⁶

Even though 191 UN member states have ratified the UN Convention on the Rights of the Child (1989), only 137 have accepted the UN International Covenant on Economic, Social and Cultural Rights (ICESCR, 1966). The UN Convention on the Human Rights of Migrant Workers and their Families has been ratified so far by only twenty UN member states. The ILO Declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference on 18 June 1998, recognises “that all members, even if they have not ratified the conventions in question, have an obligation, arising from the very fact of membership in the organisation, to respect, to promote and to realise, in good faith and in accordance with the constitution, the principles concerning the fundamental rights which are subject of those conventions, namely :

106. Report of the UN High Commissioner for Human Rights on “Liberalization of trade in services and human rights”, Document E/CN.4/Sub.2/2002/9, p. 2. While earlier reports from the High Commissioner (for example, on “Globalisation and its impact on the full enjoyment of human rights”, EC/CN.4/Sub.2/2000/13) had been written without consultation with the WTO and had condemned the WTO as a “nightmare” for human rights, the more recent reports were elaborated in consultation with the WTO and other world-wide organisations and duly take into account the contribution of WTO rules to the promotion of freedom, non-discrimination, rule of law and welfare creation ; see E.U. Petersmann, “Human rights and the law of the WTO”, *Journal of World Trade*, April 2003.

- freedom of association and the effective recognition of the right to collective bargaining ;
- the elimination of all forms of forced or compulsory labour ;
- the effective abolition of child labour ;
- the elimination of discrimination in respect of employment and occupation".¹⁰⁷

The UN and the International Court of Justice (ICJ) have, however, not yet clarified the extent to which UN member states and international organisations are obliged under the UN Charter and under general international law to promote economic and social human rights (for example, those recognised in the UDHR) even if they have not ratified the ICESCR (like the United States). As human rights also protect individual and democratic diversity, national laws on the protection of economic and social rights often differ from country to country depending on particular social traditions and preferences.

2. Need for clarifying the reciprocal relationships between markets and human rights

European integration reflects a move from formerly sovereign nation states to internationally integrated "market states". National welfare states retain primary responsibility for social and health security on their territory, but the role of, for example, trade unions, collective bargaining and unemployment continues to differ from country to country. National social and health services in EU member states have become subject to single market principles such as freedom to provide services, free movement of workers and non-discriminatory treatment (for example, of migrant workers). The EC treaty prohibitions of national market access barriers have been construed as constituting fundamental individual rights to free movements of goods, services, persons, payments and capital. The EU's policy integration has led to the explicit incorporation of human rights guarantees into the primary and secondary law of the EU.

Also beyond Europe, global market integration has been accompanied by global recognition of "inalienable" and "indivisible" human rights and corresponding obligations of governments and intergovernmental organisations to ensure that international market integration and the related

107. ILO Declaration on Fundamental Principles and Rights at Work, 1998, p. 7.

social adjustment processes do not undermine human rights, especially those (for example, to non-discrimination, food, health and education) that are of particular importance for migrant workers and their families and for the poor, vulnerable and disadvantaged in society. While the economic gains from transnational division of labour offer additional resources for the promotion of human rights, the human rights of the “losers” in the competition and adjustment processes must not be infringed. Human rights and international trade law pursue complementary objectives (such as freedom, equal opportunities and welfare creation) on the basis of similar legal principles (such as “necessity” and “proportionality” requirements for governmental restrictions of individual freedom). Their respective interpretation (for example, of non-discrimination requirements) raises numerous questions that have so far been little studied and calls for a clarification of the interrelationships between human rights and market liberalisation.

Markets as an inevitable consequence of protection of human rights

Human rights protect the moral, rational, personal and legal autonomy (“human dignity”) of individuals so as to promote individual and democratic self-development. Human rights thereby also protect the “market forces” of individual demand for, and supply of, scarce goods, services and job opportunities necessary for the enjoyment of human rights. Effective protection of liberty rights, property rights and other human rights gives rise inevitably to the spontaneous emergence of markets and “equilibrium prices” co-ordinating supply and demand. Like families and other social institutions, markets – in their diverse functions (for example, as information mechanism, social dialogue about values, competition among suppliers and consumers) – are inevitable complements of human rights.

The economic efficiency and “social justice” of markets depend on rules. For instance, market transactions consist of exercises of liberty rights (for example, freedom of contract) and agreed transfers of property rights (for example, in money). The value of goods (which might have been stolen) and of other market prices depend also on the legal title of property enabling the owner to exclude others from using the good. Given the ubiquity of “market imperfections” (for example, cartels and involuntary unemployment) and the uneven distribution of resources (including individual capabilities), “social justice” depends on social rights guaranteeing effective access to the resources necessary for individual self-development in dignity. The constitutional and legislative definition and the administrative and judicial protection of economic and social rights differ from country to country and from international organisation to organisation.

Protection of human rights requires consumer-driven markets

Protection of human rights (for example, to food, health and education) depends on economic resources. Division of labour and market competition have proven to be the most efficient means of producing and supplying goods and services necessary for enjoying human rights and for supplying consumer demand. Protection of human rights also depends on “political markets” (democracy) for the collective supply of “public goods” (such as “social justice”). The economic and social gains from economic as well as political markets depend on the scope, openness and efficiency of markets. The “paradox of freedom”, namely the inherent tendencies of markets to destroy themselves (for example, through abuses of market power), requires constitutional restraints on private and public abuses of power so as to protect general citizen welfare and, through consumer-driven competition, general consumer welfare.

The social functions of market competition can be enhanced through protection of human rights

Economists value markets because of their spontaneous information functions, allocation functions, co-ordination functions, and sanctioning and distributive functions. “Law and economics” and “institutional economists” explain why these social functions of markets are not gifts of nature. Human rights can make citizens not only “better democrats” but also “more efficient economic operators”.¹⁰⁸ For instance, the more precisely equal liberty rights, property rights, non-discrimination rights, procedural rights (for example, of access to courts and democratic participation in collective rule-making) and other human rights are defined and assigned to all economic actors and to all economic resources, the more there are legal incentives for using and exchanging scarce resources efficiently in a manner satisfying individual preferences, consumer demand and “internalising” adverse “external effects”. Human rights offer additional legal justifications for the economic theorem that the larger the markets, the larger are the potential social gains from division of labour. For example, open markets offer more freedom of choice and more scope for mutually beneficial exchanges for individual self-development.

108. See *Human Development Report 2000: Human rights and human development*, UNDP, 2000.

From the perspective of human rights and constitutional theory,¹⁰⁹ individual and social “welfare” should be defined in terms of respect for equal human and other constitutional rights. All UN member states have acknowledged in numerous UN resolutions the “inalienable” nature of core human rights, and that “all human rights are universal, indivisible and interdependent and interrelated”.¹¹⁰ Human rights require governments to promote general citizen interests through the democratic implementing of legislation aimed at protecting equal rights (rather than special interest groups) and welfare-increasing, non-discriminatory division of labour (rather than welfare-reducing market access restrictions). Economic policies, however, often do not define whether they are aimed at maximising “consumer welfare” (for example, by prohibiting price and quantity restrictions), “producer welfare” (for example, by allowing private price fixing) or “total welfare” (for example, by promoting export cartels enhancing domestic producers’ and consumers’ surplus at the expense of foreigners). Ordo-liberal economists argue that economic policies, in order to maximise general consumer welfare (as measured by price, quality, quantity and diversity of goods and services), must be legally constrained by non-discriminatory competition rules and by legal and judicial protection of equal individual rights against abuses of economic power. While all citizens are consumers, their respective producer interests often conflict with each other and must be reconciled through non-discriminatory competition and social adjustment rules enabling citizens to adjust to change and protect themselves against abuses of power (for example, monopolisation and cartel agreements).

109. See, for example, J. Rawls, *A theory of justice*, revised edition, 1999, Chapter II, whose conception of “justice as fairness” for defining the basic rights and liberties of free and equal citizens in a constitutional democracy gives priority to maximum equal liberty as “first principle of justice”. Rawls’ “principle of fair equality of opportunity” and his “difference principle” are recognised only as secondary principles necessary for socially just conditions essential for the moral and rational self-development of every person. Kantian legal theory also gives priority to a legal duty of states to ensure conditions of maximum law-governed freedom over moral “duties of benevolence” to provide for the needs of the citizens (see A.D. Rosen, *Kant’s theory of justice*, 1993, p. 217; and P. Guyer, *Kant on freedom, law and happiness*, 2000, p. 264 et seq.).

110. Vienna Declaration of the UN World Conference on Human Rights (1993), Section I.5, *The United Nations and human rights 1945-1995*, United Nations, 1995, p. 450. On the interdependence, indivisibility and “justiciability” of economic and social “core human rights” and “core obligations”, such as the rights to food and to education, see, for example, K. Arambulo, *Strengthening the supervision of the International Covenant on Economic, Social and Cultural Rights*, 1999, Chapter IV.

3. Human rights offer decentralised remedies against “market failures” and “government failures”

Human rights complement the objectives of “social market economies” by offering additional safeguards against “market failures”, such as “external effects”, “asymmetries in information” and “social injustice”, resulting, for example, from selfish utility-maximisation by individual economic actors. Economics teaches that “market imperfections” should be corrected through government interventions directly at the source of the market imperfection (for example, competition rules prohibiting cartels) so as to avoid welfare-reducing “by-product distortions”, as they often result from indirect, less optimal government interventions. Human rights and social rights can, *inter alia*, serve instrumental functions (see below) for limiting “market failures” and for promoting “public good” (“*biens publics*”) in French.

For various reasons, government interventions are often characterised by “government failures” reducing consumer welfare (for example, governmental market distortions for the benefit of “rent-seeking” producers). Human rights historically emerged through “bottom-up struggles” in order to empower citizens to limit abuses of public and private powers through “inalienable constitutional rules” of a higher legal rank. First-generation “civil” and “political” human rights aim at regulating “political markets” (democracy) by protecting general citizen interests (for example, in individual and democratic self-governance and judicial protection) against abuses of power. Second-generation “economic and social human rights” focus on regulating “economic markets” and promoting “social welfare”.

One of the most important lessons of the EC Treaty guarantees of free movement of goods, services, persons and capital and non-discriminatory competition was that international guarantees of freedom, non-discrimination and other human rights, and their judicial protection by international courts (like the EC and EEA courts and the European Court of Human Rights), can extend the protection of fundamental freedoms and human rights across frontiers and introduce reciprocally-agreed constitutional reforms “top down” that are often politically impossible through unilateral national reforms. The EC Treaty guarantees of individual “market freedoms”, non-discrimination and procedural and social human rights have proven to be powerful incentives for overcoming “government failures” (for example, welfare-reducing, and national border discrimination) and for promoting a social market economy across frontiers.

4. Human rights require a “social market economy”: diversity of democratic legislation protecting and balancing human rights

Modern national constitutions (for example, Article 1 of German Basic Law) and EU law proceed from the value premise that “human dignity is inviolable. It must be respected and protected” (Article 1 of the EU Charter of Fundamental Rights). Human rights entail social responsibilities of governments for enabling each citizen to live a life of dignity, freedom and responsibility. In addition to constituting individual rights and corresponding government obligations, human rights also require governments to promote “principles of justice”, such as “solidarity” (see Chapter IV of the EU Charter), equal opportunities and promotion of welfare-increasing competition without undermining human rights, so that also the disadvantaged in society and the “losers in the market game” retain effective access to the goods and services necessary for the enjoyment of human rights.¹¹¹ The democratic definition and balancing of human rights, and their legislative, administrative and judicial protection, legitimately differ from country to country according to the respective social consensus and “constitutional contract” among citizens and their available resources. Yet, in Europe as well as in the WTO, international market integration has proven politically unsustainable without complementary social rights and solidarity obligations for a “social market economy”.

5. Social responsibility of international organisations: different approaches towards reconciling human rights and market competition

The approaches of regional and worldwide organisations – such as the EU, NAFTA, IMF, World Bank, WTO and ILO – to the promotion and protection of human rights and market competition continue to differ considerably. Four different, and in part complementary, approaches can be distinguished:

111. On the diverse functions of human rights as “rules”, “principles”, individual rights (for example, of a negative, positive, procedural and participatory nature) and corresponding obligations, see, for example, R. Alexy, *Theorie der Grundrechte*, 1994.

Benevolent government approaches: inadequacies of the European Commission's White Paper on Governance in Europe

Benevolent government approaches are characterised by government discretion to define the "public interest" in a manner discriminating among domestic citizens (for example, discretion to redistribute income among domestic citizens through discriminatory border restrictions and discriminatory regulation of the domestic economy in favour of powerful producer interests). Several worldwide and regional organisations commit themselves to "good governance principles" without clarifying their relationships to human rights.¹¹² The recent Commission White Paper on European Governance¹¹³ likewise recommends "good governance principles" (such as openness, participation, accountability, effectiveness and coherence) and objective constitutional principles (such as the "Community method") for "connecting Europe with its citizens" and protecting the "general interest" through legislative and policy proposals by the European Commission, rule-making by the European Council and by the European Parliament, and judicial protection of rule of law. Yet, the Commission proposals for administrative and constitutional reforms are not clearly linked to EU citizen rights, general consumer welfare and "social justice". As long as so many EU policies are designed to serve protectionist producer interests (for example, of agricultural, textile and steel industries) rather than general citizen interests,¹¹⁴ there are good reasons for popular distrust of "benevolent government approaches" that do not effectively limit discriminatory abuses of government powers.

Contrary to the white paper, "governance" in the EU should not only be defined in a formal manner as "rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards openness, participation, accountability, effectiveness and coherence".¹¹⁵ Nor should "civil society" be reduced to its organised components.¹¹⁶ The EU treaty (for example, Article 6) and the EU Charter of Fundamental Rights rightly proceed from "normative individualism" as the constitutional premise of EU law. Individual self-governance ("human

112. See, for example, *Governance and human rights*, World Bank, 1995; and *Participatory development and good governance*, OECD, 1995.

113. European Governance: A White Paper, COM (2001) 428, 25 July 2001.

114. See, for example, Balme, Chabanet and Wright (eds.), *Collective action in Europe*, 2002.

115. White Paper, p. 7.

116. White Paper, pp. 13-14.

dignity”), public confidence and democratic participation in EU governance depend more on EU protection of equal individual rights than on paternalistic “good governance” principles that do not effectively constrain interest group politics in the EU. Arguably, the greater the distance between citizens and representative governance at the international level (for example, the EU Parliament and European Council), the greater the need for complementing “representative democracy” through direct citizen rights defining the “public interest” in a justiciable manner by empowering citizens to defend their equal rights vis-à-vis majority politics.¹¹⁷ Not only the EU’s internal market integration, but also its policy integration and EU leadership for global integration should be more clearly based on legal and judicial protection of fundamental rights and consumer welfare.

Ordo-liberal market integration approaches: an insufficient basis for social policy

The EC Treaty guarantees of “an open market economy with free competition favouring an efficient allocation of resources” (Articles 98 and 105) are based on a non-discriminatory “system ensuring that competition in the internal market is not distorted” (Articles 3, paragraph g, and 81 *et seq.*). The advantage of an ordo-liberal approach is that the EU’s common market and competition rules protect consumer welfare through constitutional limitations on discriminatory market access restrictions that have been applied by nation states for centuries. Additional social policies are left to national discretion and were only progressively developed at the EU level, initially only in order to promote market integration (for example, by extending free movement of persons to family members) and prevent unfair competition (for example, by securing non-discriminatory minimum standards for social security and employment regulation). For instance, the EC treaty guarantees for “equal pay for male and female workers for equal work” (Article 141) was originally motivated by French concern to avoid competitive distortions.¹¹⁸ The ordo-liberal competition approach was not applied to labour markets and offered no coherent concept for national and EU social policies.

117. On this “inverse relationship” between human rights and parliamentary democracy at national and international levels, see E.U. Petersmann, “From state sovereignty towards sovereignty of citizens in the international relations law of the EU?”, in N. Walker (ed.), *Sovereignty in transition*, 2003.

118. See M. Bell, *Anti-discrimination law and the EU*, 2002, p. 8.

Human rights approaches: recognition of social human rights as integral parts of "social market economies"

While human rights are not mentioned in the law of many worldwide economic organisations (such as the IMF, World Bank and WTO) and regional organisations (such as NAFTA), they have proven to be indispensable for promoting democratic legitimacy and social responsibility in European integration. According to Article 136 of the EC treaty, the "Community and the member states, having in mind fundamental social rights such as those set out in the European Social Charter signed at Turin on 18 October 1961 and in the 1989 Community Charter of the Fundamental Social Rights of Workers, shall have as their objectives the promotion of employment, improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion. To this end the Community and the member states shall implement measures which take account of the diverse forms of national practices, in particular in the field of contractual relations, and the need to maintain the competitiveness of the Community economy." In contrast to the earlier distinction of a "market correction function" of national social policies and a "market-building function" of EC social policies,¹¹⁹ the newly introduced "open method of co-ordination" has led to an increasing integration of employment, labour, social, economic and human rights policies in the EU aimed at promoting full employment and human dignity as overriding paradigms.¹²⁰ Emphasis on corporate social responsibility and on more precise obligations of the social partners is another characteristic of the evolution of social policies in the EU.

At the worldwide level, the ILO and various UN human rights bodies likewise emphasise the need for taking into account the human rights obligations of all UN member states in all policy areas, including monetary policies in the IMF, development policies in the World Bank Group and trade policies in the WTO context. Human rights entail legal obligations not only for national governments but also for the collective exercise of government powers in regional and worldwide organisations. For

119. See, for example, the contribution by Streeck to Liebfried and Pierson (eds.), *European social policy: between fragmentation and implementation*, 1995.

120. See E. Szyszczak, "The new paradigm for social policy: a virtuous circle?", *Common Market Law Review*, No. 38, 2001, pp. 1125-1170.

instance, UN human rights bodies rightly emphasise that the human rights to food, health, education, development, property, rights to the enjoyment of the benefits of scientific progress and intellectual property rights may be relevant for interpreting WTO rules on protection of intellectual property rights, and trade in goods and services (for example, regarding availability, accessibility and acceptability of educational and health services, food and medicines).¹²¹

Social citizenship models: the EU Charter of Fundamental Rights

The EC Treaty and the EU Charter of Fundamental Rights¹²² protect additional rights and duties of the “citizens of the Union”, such as “the right to move and reside freely within the territory of the member states” (Article 18 of the EC Treaty). Chapter IV of the EU charter on “solidarity” recognises comprehensive social rights and corresponding government responsibilities, thereby complementing the economic market access rights by rights to participation in labour markets and to social security. The comprehensive EC powers to “combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation” (Article 13 of the EC Treaty) have led to European Council directives on racial equality¹²³ and on equal treatment in employment and occupation,¹²⁴ reflecting a further move towards an anti-discrimination law that is based more on protection of fundamental rights than on an economic market integration rationale.

6. Need for protecting economic efficiency: instrumental functions of human rights

The economic theory of optimal intervention teaches that governments should correct “market failures” directly at the source of the market distortion without reducing the social gains from non-discriminatory competition. The ECJ has confirmed the applicability of EC competition rules to certain social and labour policies, such as state monopolies for employment placement services and pension funds set up in collective agreements.¹²⁵ Yet, collective agreements among “social partners”

121. See above, note 106.

122. *Official Journal of the EU (OJ)*, C 364/1 of 18 December 2000.

123. Council Directive (EC) 2000/43 of 29 June 2000, *OJ*, L 180/22.

124. Council Directive (EC) 2000/78 of 27 November 2000, *OJ*, L 303/16.

125. See the references to the jurisprudence of the ECJ in Bell (note 118), p. 71.

appear to be immune from EC competition law.¹²⁶ So far, not only labour law and its participatory institutions but also the broader EC social policies fail to secure the labour market flexibility necessary for achieving full employment without inflationary wage policies and without abuses of social security systems.

Human rights constitute not only moral and legal rights and corresponding obligations of governments. They also serve instrumental functions for solving social problems confronting all societies, such as promoting welfare-increasing division of labour, social justice and the overall consistency of legal systems in a manner respecting and protecting individual self-development, responsibility and human dignity.¹²⁷ The EC Treaty – by protecting free movements of goods, services, persons, capital and related payments as individual “fundamental freedoms”¹²⁸ – pursues not only economic but also social objectives (for example, to empower EC citizens to reside, live and work in all EC member states).¹²⁹ The EC guarantees of freedom of association, collective bargaining, the right to strike, and of other workers’ rights and social rights must likewise be made consistent with the social responsibility of governments to promote efficient economic and labour markets based on individual autonomy and responsibility (for example, in order to avoid inflationary wage policies and reduce incentives for “moral hazard” in labour markets and social policies).¹³⁰ So far, social rights, and the corresponding obligations of governments and “social partners”, are not yet adequately designed to achieve full employment. “Regulatory competition” among diverse national labour and social laws, within the limits of common core labour standards guaranteed by EC law, may correspond better to the diversity of preferences, resources and “social opportunities” of citizens in EC member states than premature EC harmonisation of national labour and social

126. See ECJ, Case C-67/96 (*Albany*), (1999) ECR I-5751.

127. On the instrumental function of human rights for dealing with the problems of limited knowledge, conflicting interests and abuses of power, see, for example, R.E. Barnett, *The structure of liberty, justice and the rule of law*, 2000.

128. See, for example, ECJ, Case C-55/94, *Gebhard*, (1995) ECR I-4166, paragraph 34.

129. See, for example, Case C-44/94, *The Queen v. Minister of Agriculture*, (1995) ECR I-3115, where the ECJ emphasises (paragraph 28) that economic freedoms “are not absolute but must be viewed in relation to their social function”.

130. See S. Deakin, “Labour law as market regulation: the economic foundations of European social policy, in P. Davies et al. (eds.), *European Community labour law: principles and perspectives*, 1996.

laws. Recognition of social rights at EC level will help to build an ever broader European consensus on the right balance between wealth creation and distributive justice.

7. Conclusion : constitutional functions of international guarantees of freedom and human rights for non-discriminatory market integration

European integration is characterised by “multi-level”, national and international guarantees of freedom, non-discrimination, rule of law, democratic peace and other human rights that can be invoked and enforced by citizens in national and international courts. WTO rules and human rights entail corresponding worldwide obligations of governments and intergovernmental organisations to respect and promote freedom, non-discriminatory competition and individual self-development in dignity across frontiers.¹³¹ Liberty rights, property rights and other human rights protect private savings and investments, act as incentives for private demand and supply of goods and services, promote rule of law and efficient use of scarce resources through decentralised market mechanisms (for example, freedom of contract), and limit “market failures” as well as “government failures”. Social human rights are essential for dealing with the social adjustment problems (for example, unemployment) of market competition in a manner respecting and promoting individual self-development, responsibility and dignity.

The “instrumental”, economic and social functions of human rights for creating and distributing scarce resources needed for enjoying human rights are of particular importance vis-à-vis less developed WTO member countries and the eastern European “transition countries” that have decided to open and adjust their formerly protected economies so as to benefit from international division of labour. Human rights and market integration law pursue complementary objectives (for example, freedom and equal opportunities of individuals) on the basis of complementary principles (for example, “necessity” and “proportionality” of governmental restrictions of individual freedom) that must be construed in a mutually

131. On the very different concepts of the human right to liberty, notably with regard to economic liberty, in EU law and Anglo-Saxon human rights tradition, see, for example, E.U. Petersmann, “Taking human dignity, poverty and empowerment of individuals more seriously”, *European Journal of International Law*, 13, 2002, p. 845 et seq.

consistent manner. The international government obligations to protect human rights and non-discriminatory competition across frontiers complement and extend the corresponding obligations in domestic legal systems; they thereby reinforce national “bottom-up struggles” by international “top-down pressures” to abolish welfare-reducing market access restrictions and protect human rights more effectively. The “constitutional functions” of international guarantees of freedom, non-discriminatory competition and social security are particularly visible with regard to international movements of persons where, for example, the market freedoms and non-discrimination requirements of EC law have been supplemented by transnational citizen rights and social security rights for migrant persons. International guarantees (for example, in WTO law) for transnational movements of goods, services and capital likewise go far beyond autonomous domestic laws and serve “constitutional functions” by protecting citizens against welfare-reducing restrictions and discriminations by their own governments.¹³²

132. See E.U. Petersmann, *Constitutional functions and constitutional problems of international economic law*, 1991.

III – DO GOVERNMENTS STILL HAVE THE POWER TO IMPOSE LEGAL (SOCIO-ECONOMIC) FRAMEWORKS FOR THE EXERCISE OF SOCIAL RESPONSIBILITY?

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One of the many useful things that debate and discussion at the Council of Europe reveal is that just because nearly everybody speaks English nowadays, we are still far from understanding one another. This question – do governments still have the power to impose legal frameworks for the exercise of social responsibility? – may be a case in point. The answer to it seems to me so obviously to be “yes” that I fear I am missing something.

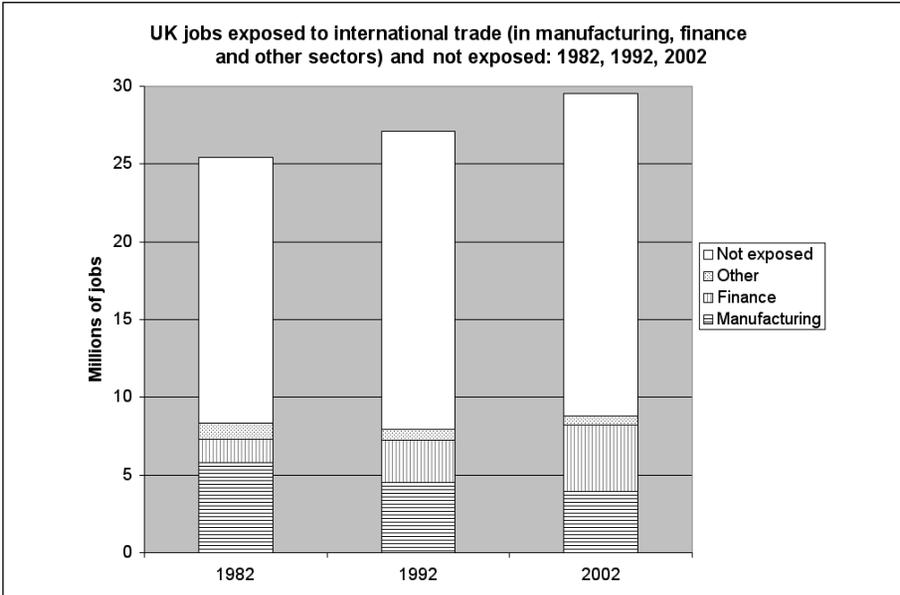
Since my short answer is an unequivocal “yes”, there is room for the long answer to travel rather further from the question. In order to make the argument as clear as possible, I have reduced it to eight propositions, which make up the headings in the paper. The outline of the argument can therefore be gathered by reading these headings in isolation from the supporting text.

1. There is no economic reason to believe that any power that governments once had to set legal frameworks has now disappeared, or even been much reduced

As an economist, I can well see that, in those sectors of the economy where there is the possibility of moving production to another country, the scope to impose conditions on companies is more limited. One thinks here of course of manufacturing, but one thinks of it also when it comes to services: for example, my car insurance company whose head office is in Wales has its phone-based customer representatives working out of India.

This shows the vulnerability of workers in such “call centres” who provide the customer-facing support for banks, insurance companies, utility companies and the like. These numbers have grown hugely over the last decade, accounting for 300 000 UK jobs, more than in the whole of the energy, water and mining industries put together.

This is, however, actually an exception to the general situation. By my calculation, the proportion of jobs in the UK economy exposed to international competition is the same in 2002 as it was in 1992, at around 30% – and is, if anything, a little lower than in 1982.¹³³ The following chart presents the numbers behind this calculation.



Although this is clearly a very rough calculation only, I do not believe that any reasonable set of assumptions could be found which would show that exposure to international competition has increased very much over the last decade or two – which is what would be necessary to support the view that government is now much more limited than it used to be.

Thus, while the operation of international free markets certainly does impose limitations on what governments acting alone can do to protect the position of workers, whether in their pay or conditions of work, the

133. These estimates are based on analysis of jobs by industrial sector from the Labour Force Survey for the UK. In reaching them, I assume that the whole of the manufacturing sector and the agriculture, forestry and fishing sector, one half of the energy, water and mining sector and one quarter of the transport and communications sectors are fully exposed. For the banking, insurance and finance sector, the assumption is that the proportion exposed rose, from 0.5 in 1982 to 0.7 in 2002. Although the proportion would be higher if I counted a part of the hotel, restaurant and distribution as “exposed”, it would not alter my principal conclusion that there is no evidence that the share exposed to global trade has increased at all.

position (at least in the UK) is no worse than ten years ago and the proportion directly affected is still only a minority. If government once had the power to impose legal frameworks for socio-economic purposes, then surely it still has that power now?

2. Instead, the question is to do with the willingness of governments to exercise the power they have

If economic considerations have not altered the power of governments to act in these matters, the question becomes why they have chosen not to use that power. It is certainly not because opportunities are lacking or because of concerns about international competitiveness.

For example, the hotel, restaurant and distribution sector in the UK is not only large – equal in size to the public sector – but also contains some of the lowest paid workers in the country. One way of improving pay and conditions in low paid sectors is unionisation. Government could help this process by making it a legal requirement for there to be a secret ballot in non-unionised workplaces, to give the workforce the opportunity to express its wishes without any individual having to expose themselves to their employer (an important consideration for workers such as this, many of whom will be in a vulnerable position). It has chosen not to do this.

3. At present, the fashion is to insist that corporate social responsibility is essentially a voluntary matter

Not only has legislation like this not been forthcoming, but also the most important statement at a European level on the subject of corporate social responsibility – the European Commission's 2001 green paper – actually drives in completely the opposite direction. Rather than exploring the role that legislation might play in obliging companies to act more responsibly, the Green Paper asserts, as a fact, in its very first paragraph, that:

“Corporate social responsibility is essentially a concept whereby companies decide *voluntarily* to contribute to a better society and a cleaner environment.”¹³⁴ (*emphasis added*)

134. European Commission, *Green Paper: promoting a European framework for corporate social responsibility*, Brussels, 2001, paragraph 8.

In stressing the view of corporate social responsibility as a voluntary matter, I do not believe that I am in any way misrepresenting the tone or tenor of the Commission's paper.

4. There is no reason to believe that voluntary action will be on anything like the scale required

What are the problems with voluntary action? Well, there are a number of them. First, while companies certainly give a nod to the importance of corporate social responsibility, there is no reason to suppose that it is on anything like the scale that would be required to address some of the problems identified by those advocating greater social responsibility. A recent report on the UK, the overall aim of which is to take forward the concept of corporate social responsibility, concludes that:

“Despite the widespread rhetoric, the impact of CSR is patchy. In practice, many companies' implementation is shallow and fragmented. (...) Too often, the impact on the company and its reputation is viewed as more important than the impact on the supply chain or the local community. In some companies, CSR has become an adjunct of the marketing department. But despite its increased profile, the 100 biggest companies in the UK are contributing just 0.4% of their pre-tax profits to charity and community projects.”¹³⁵

One immediate response to this last finding, that only 0.4% of pre-tax profits are being devoted to charity and community projects, is that corporate social responsibility is not meant to be charity and that the amount devoted to such projects is therefore not a proper measure of it. That is certainly a view that I have heard expressed by speakers from companies who insist that if corporate social responsibility is to work, it has to impact on the financial bottom line. The importance of the effect on profitability is something that is also noted by the Green Paper.¹³⁶

In my view, this insistence on the connection with profitability is not only realistic but right. One of the great strengths of the profit-orientated, private sector company is that its objectives and priorities are clear. This

135. Rachel Jupp, *Getting down to business: an agenda for corporate social innovation*, London, Demos, 2002, pp. 4-5.

136. European Commission, *op. cit.*, paragraph 1.

makes it efficient and effective but also capable of being judged very simply on whether it is succeeding or not.

Large companies will surely engage in fashionable activities when they are under some political pressure, but these will only move from the margin to the mainstream of the business if there is a commercial incentive to do so. Socially responsible activities will be especially attractive, I suggest, if companies believe they will give them some competitive advantage, whether to woo potential customers, or to attract and retain the workers they need.

5. The track record on voluntary action is not good – and what is done voluntarily can cease at any time

Overcoming problems of a shortage of labour is one area where there is evidence to show that a company's private interest can overlap with the wider social interest, to the benefit of both.¹³⁷ However, the idea that there is a vast number of social and environmental needs out there that can be addressed profitably by companies is both unproven and implausible.

On the other hand, there is evidence to the contrary, that things which do have a strong social dimension to them have either not been pursued voluntarily, despite government urgings, or are even in the process of being withdrawn.

For example, soon after it was elected in 1997, Mr. Blair's government began to take a great interest in the problem of "financial exclusion" : in short, people who lacked any kind of bank or savings account. What the evidence showed was that poor people were far more likely to be in that position than the average person : in 1997, 18% compared with just 5%. Having examined the issues, the government decided against taking any

137. The activities of the Lattice Group, the company responsible for the UK's gas pipe distribution network provide the example here. Lattice's problem, along with the rest of the gas, electricity and water industries in the UK, is a shortage of workers, particularly at younger ages. By developing education and training projects aimed at children who have really given up on school, Lattice is both meeting its own need for new workers while at the same time addressing a major social issue, namely the poor life prospects of young people who leave school with few or no qualifications. Lattice's efforts have extended to running a programme in a prison (where the nineteenth-century playwright Oscar Wilde was once incarcerated) to train young men to drive mechanical diggers.

legislative measures, relying instead on exhortations to the banks to do something about it. Three years later, however, these proportions have remained completely unchanged. Voluntary action is having no effect.¹³⁸

Even more serious are recent developments in the provision of private company pensions schemes for employees. These “final salary” schemes, which have been going for forty or more years, not only provide people with an income in retirement that is related to what they were earning at work, but also provide them with the certainty of that income. While the emergence and spread of these schemes predate the social responsibility rhetoric by decades, they certainly deserve to be recognised as an excellent example of successful, voluntary corporate social responsibility.

Yet over the past couple of years, companies have been abandoning these schemes, with a recent survey by the Association of Consulting Actuaries suggesting that half of them will have been closed to new employees within a few years.¹³⁹ The reasons for this are complex and disputed – with blame probably due to both companies and government – but the result is the same: the severe weakening of what has been a long-standing instance of voluntary corporate social responsibility benefiting millions of people.

6. Government, acting through the state, is the only institution that can impose universal minimum standards right across society

And so to the crux of my argument: there are two fundamental reasons why governments must be prepared to legislate if we want companies to behave in socially responsible ways. The lesser reason is that it is only by legislation that permanence can be assured. The greater reason is that the state – and the state alone – is in a position to represent the universal interest and to compel universal outcomes.

I would stress that this is true even in comparison with the stakeholder model of the company. The stakeholder idea is useful as a means of widening the group of interests which a company has to serve, away

138. Mohibur Rahman and Guy Palmer, *Monitoring poverty and social exclusion 2002*, Joseph Rowntree Foundation, York, forthcoming.

139. Quoted in the *Guardian* newspaper, 18 June 2002.

from an exclusive focus on shareholders and bondholders to encompass both employees and customers. However, this leaves out of account a crucial group, which in fact in every case is far larger even than the stakeholders, namely, the people who are neither consumers, employees nor shareholders of the company in question, many of whom would like to use the company's goods and services but for one reason or another do not or cannot. The only institution that can look after the interests of this group of people – whom we could think of as the non-stakeholders who would like to be stakeholders – is the state. To look after their interests, government needs to lay down what I call minimum standards of service which essentially define a set of rights for every citizen.

The design of legal minimum standards calls for great skill and understanding, particularly of the likely reactions to any legislation. It should certainly involve the companies or industry in question. Clear proof of a problem is also required, such as the failure I have just mentioned of our financial institutions to ensure that they provide equal service to all sections of our society.

Nonetheless, the idea of legal minimum standards is itself perfectly familiar: for example, the EU's 1997 directive on postal services, which both prescribed that each member state should ensure that a universal service was available to all its citizens and also defined the minimum conditions that such a service had to meet.¹⁴⁰ Without going into the question of whether such standards should be the subject of an EU directive, we have previously identified a range of services – “essential” services, whether provided by the private or public sector – where this approach could be followed. As well as telephones (where universal service standards already exist), they could include basic financial services, electricity, water and gas supplies, public transport, the Internet and possibly even food.¹⁴¹ Such standards could cover either the level of service, its suitability, the price or all three.¹⁴²

140. Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service, *Official Journal*, L 015, 21 January 1998, p.p. 14-25.

141. Catherine Howarth, Peter Kenway and Guy Palmer, *Responsibility for all: a national strategy for social inclusion*, London, New Policy Institute and Fabian Society, 2001.

142. The postal services directive does not recommend a universal price (referring only to an affordable price) but the national implementation of the directive usually does prescribe a uniform price for the basic service.

7. As market relations become ever more dominant, social cohesion depends on government ensuring that the market serves all members of society in a non-discriminatory way

While the framework of corporate social responsibility is certainly one which allows the interests of the workforce to be advanced, it is not the only one. In particular, since there are still strong, well-established civil society organisations – in other words, trade unions – who can be relied upon to continue to represent them, their interests do not stand or fall on what corporate social responsibility delivers.

In contrast, the other area of social concern to which I have referred frequently throughout this paper does in my view depend far more critically on the success and effectiveness of the idea of corporate social responsibility. What I am referring to here is something that we could call “market exclusion”, whereby the logic of the market means that some sections of our society are served, if at all, on terms that are much more unfavourable than those available to the rest. This, I believe, is the great threat to social cohesion, a divide opening up between those who are attractive as customers and those who are not.

I take it as read that we are now operating in a world where market principles will continue. The reach of the “market”, moreover, is extending all the time: things that were once provided by the state are now increasingly provided by the private sector, on market principles. Since we are set on this road, we have to ensure that the market continues to do what state provision used to do, namely bind us together, rather than divide a minority from the majority.

To do this, ways must be found to resist the natural tendency of profit-seeking companies to concentrate on the most profitable customers to the exclusion of others, by obliging them, loosely speaking, to serve all members of society on equal terms. I see this as the heart of the challenge for corporate social responsibility.

8. This problem – “market exclusion”– which in EU countries afflicts only a minority of people, afflicts the great majority on a world scale

Domestically, throughout western Europe, those who are left out – who are increasingly excluded from the “normal world” – are the minority, somewhere, I would guess, between 5 and 10% at the moment.

In global terms, though, it is the majority who stand to be left behind: thus, the former Peruvian diplomat and that country's former ambassador to the UN, Oswaldo de Rivero, estimates that "of a total world population of about 6 billion, there are scarcely 1.8 billion consumers who can really afford products and services in the world market". He goes on:

"Only some 900 million have enough income to be 'bankable' or to be offered an international credit card. Therefore the great majority are not 'bankable', have no access to international credit and thus cannot take part in the globalisation of consumption."¹⁴³

For the time being, this does not pose a problem for the major corporations, since there remain perhaps 500 million consumers who can afford products and services in India and China – a small minority in those countries, of course, but a substantial addition to the world market to be going on with. The pursuit of this half billion would, of course, be hugely divisive for those countries.

What therefore looks like an important, but small, problem for most of our countries, is, it turns out, just the tip of an iceberg. For the world as a whole, it is a huge problem that must be addressed if the pursuit of the market is not to leave us even more deeply divided between the haves and the have-nots.

143. Oswaldo de Rivero, *The myth of development: non-viable economies of the 21st century*, London and New York, Zed Books, 2001, p. 82.

IV – THE IMPORTANCE OF THE EUROPEAN SOCIAL MODEL IN THE DEBATE ON GLOBALISATION

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Introduction

Social protection, on the one hand, and globalisation, on the other, are frequently perceived as somewhat contradictory. According to a widespread view, the removal of barriers to trade and to the free movement of persons and capital is threatening the existence of welfare state regimes, especially by setting incentives for the reduction of public expenditure on social protection. This view is, however, reductive to say the least. More far-reaching considerations must begin with the question of how globalisation and social protection relate to each other. This above all prompts debate on whether globalisation restricts national social policy's scope of action, necessitating a reconstruction of social protection systems.¹⁴⁴ In this context, reflection on a European social model and its relationship to globalisation holds a particular attraction.

As the topic I am going to address is quite broad, I will only focus on observations of a more general nature, instead of going into detail and trying to discuss every aspect which might be of relevance. In particular, I do not wish to spend too much time on definitions. Thus globalisation is quite generally regarded as the process of increasing international, notably economic, exchange. The reference to the ongoing globalisation debate eliminates the need to prove that globalisation actually takes place and at the same time makes clear that the various possible reactions to this genuine or purported phenomenon are at issue. In the given context, the term "social model" stands for social protection in a broad sense, comprising

144. For a positive assessment of competition between different systems, see Berthold and Neumann, in Müller, Fromm and Hansjürgens (eds.), *Regeln für den europäischen Systemwettbewerb*, 2001, p. 253 et seq.

labour market policy and social security, including health systems and social assistance. Here again, a precise circumscription is not required as we are speaking of a social model, and the word “model” signifies fundamental aspects that not only overlap countries but also systems.

Hence, one must begin by asking whether a European social model exists in the first place and, if so, determine its outstanding features. Subsequently, the connection between this social model and globalisation can be examined, both in terms of how the model is impacted by globalisation and with a view to its possible exemplary function for global developments.

1. The European social model

When comparing the social protection systems of European states, one encounters more differences than common features at first glance. Depending on the criteria considered decisive, different types of welfare state regimes can be discerned.¹⁴⁵ In particular, differences in the level of benefits, the organisation of the systems and their funding make it seem advisable to distinguish four or, perhaps, even five, European “families”. Viewed from a greater distance, the systems’ common features come to the fore – quite in the spirit of Tocqueville¹⁴⁶ – because now, inevitably, the perspective is widened, impelling one to compare other, non-European, systems. It then becomes apparent that public expenditure on social protection is higher in European countries than in other developed states. That is not tantamount to a higher amount of social spending altogether, but mainly due to the larger share held by the public sector.

This is attributed to the fact that the “core of the European social mode” lies “in the combination of its productivity orientation, on the one hand, and adequate minimum protection, on the other,” whilst the differences between the European systems, the different sub-models, could be explained by different policy-making traditions.¹⁴⁷ Perhaps this approach could be generalised further. Much speaks of the fact that, at least in the member states of the European Union, there is mutual basic agreement on the question of the tasks assigned to the state to protect its citizens against social risks and poverty. Admittedly, in this context national particularities

145. See, for example, Esping Andersen, *The three worlds of welfare capitalism*, 1990.

146. See Tocqueville, *De la démocratie en Amérique*, Chapter VIII.

147. Berghman, “The European social model and decision making on it”, in *Festschrift (liber amicorum) für von Maydell*, 2002, pp. 19 and 23.

do appear in the concrete historical developments underlying the protection systems. Thus the Bismarckian model would never have emerged in its time and its unique form had it not been backed by general political motives¹⁴⁸ and a particular – at that time seemingly German-specific – notion of state functions.¹⁴⁹ Yet further developments indicate that the diversity of historical ideas have tended not to produce opposites, but only differing configurations of the intervening welfare state.

The underlying reasons and the influence of national political philosophy are not to be pursued further. What becomes clear, notably from the normative foundations applicable at European level, is that there is agreement on the meaning of social protection. Thus, alongside national common features, a second level has to be taken into account – namely that of the European institutions. Indeed, the links between the two levels are exceedingly close, but that does not prevent them from being examined separately. Of particular interest here is the European Union (EU) because of its supranational character, allowing it to enact its own legislation that is directly applicable and enforceable in the member states. Although the EU (or the EC) was originally conceived as an economic community, the Treaty establishing the European Economic Community already contained a chapter on social policy. Acceptance of the latter is, however, known to have been highly contested, and the Community was unable to generate its own socio-political impetus. That was not because the member states did not wish to grant social protection; rather they did not agree on the distribution of powers between national and supranational levels. In addition, especially as regards the protection of social rights, great importance is attached to the activities of the Council of Europe because, on the one hand, this body represents Europe comprehensively and, on the other, the European Social Charter and the European Code of Social Security set minimum standards of social security, with the rights of the individual accorded a vital role. Nevertheless, it must be added of course that, figuratively speaking, this broader approach – both in terms of its substance relating to social rights and its geographic reference to the larger diversity of contracting states – represents a softer form of law.

148. See Stolleis, in *Geschichte der Sozialpolitik in Deutschland, Vol. 1: Grundlagen der Sozialpolitik*, 2001, p. 233 *et seq.*

149. As can be seen from a comparison between the English and German history of industrial development and social policy; see Ritter, *Der Sozialstaat, Entstehung und Entwicklung im internationalen Vergleich*, 2nd edn, 1991.

2. The process of Europeanisation as regional globalisation

Both to comprehend the European social model and to answer the question of how far this model may serve global development in an exemplary way, it is important to insert an intermediate step, for the nationally founded systems have, to an increasing degree, been hit by a process of "Europeanisation". Implied here are the changes wrought by the EU and the EC respectively in the member states, with this process generating considerable interaction between the various levels. Of particular interest in this context is that Europeanisation, in one respect, appears to be a reaction to globalisation, namely in that it fosters a closer union of states with common traditions and common constitutional roots with the aim of enhancing their significance. In another respect, Europeanisation can be regarded as a territorially limited yet heightened globalisation process since it is based on the removal of barriers to the free movement of goods, persons and capital and, hence, on market integration.

Looking at the developments national social protection systems have undergone, a number of changes, in the sense of approximations, become apparent. Nevertheless, one cannot by any means precisely ascertain whether the causes of these changes actually stem from the process of European integration, or rather from internal factors or general phenomena such as demographic developments. Moreover, some systems have been impacted more heavily than others. Thus, for instance, most of the European old-age protection schemes show an unmistakable trend towards privatisation,¹⁵⁰ whereas the differing organisational structures of national health care systems have remained unaffected so far. In any case, economic and monetary union encourages the avoidance of deficit spending within these protection systems and thus increases their efficiency, with economic freedom and competition law demanding greater scope. All this can change the attitude towards the state's task of providing social protection to the individual. Above all, much speaks for the fact that the various European sub-models will, to differing extents, be confronted with the need to adapt,¹⁵¹ so that further approximation can be expected for these systems' organisational structure and financial basis.

150. As in nearly every old age pension scheme in industrial countries; see Gern, in Feldstein and Siebert (eds.), *Social security pension reform in Europe*, 2002, pp. 439 and 445.

151. See Scharpf, "Globalization and the welfare state", in Sigg and Behrendt (eds.), *Social security in the global village*, 2002, p. 85 *et seq.*

At the outset, the powers of the EU and the EC respectively were highly restricted in the social policy field. Influence was exerted at national level by co-ordinating the protection systems and striving for their convergence. The Amsterdam Treaty has changed something here in so far as it has now endowed the Community with its own powers in the sphere of social protection. In addition, stronger emphasis has been placed on the need to complement the economic integration process by an adequate social policy. Thus social policy no longer serves merely as a flanking measure, but has been entrusted with a status of its own. According to some appraisals, this development signifies that “the constitutional balance has shifted away from member state competence.”¹⁵² I would say that goes somewhat too far. The new Community activities primarily constitute “soft law”, the effects of which are not as yet foreseeable. As an interim conclusion, one could rather point out that the process of Europeanisation, as far as social protection is concerned, persists and requires further reflection, especially on the assignment of powers to the various levels. At any rate, there seems to be a growing realisation that market integration and social protection must be brought into line with each other, possibly making it necessary to permit action at Community level. To what extent this will call for a new network of legitimisation between individuals and the Community remains to be clarified. Union citizenship, which in conjunction with the principle of non-discrimination leads to social equality, according to the most recent case-law of the European Court of Justice,¹⁵³ could serve as a basis for this.¹⁵⁴

3. The European social model – a global model?

As yet, the question of the scope within which social rights can or should be incorporated at EU level remains open. For this reason alone, the European social model can hardly serve as a model for the appropriate distribution of powers – at least not to this day. All the same, it seems apparent that an interplay of various measures at differing levels will be required if a specific level of protection is to be sustained. On the other hand, the following holds true: the wider a community and the more general the formulation of its tasks, the less necessary and reasonable the transfer of powers, which – like those providing social protection – are

152. Szyszczak, “The new paradigm for social policy: a virtuous circle?”, CML Rev., 2001, pp. 1125 and 1169.

153. See ECJ, Case C-184/99, Grzelczyk, (2001) ECR I-6193; Case C-224/98, D’Hoop, (2002) ECR I-6191.

154. For a sceptical view, see Zacher, “Wird es einen europäischen Sozialstaat geben?”, EuR 2002, p. 147 *et seq.*

historically rooted in national solidarity. For this reason, too, at least the EU's social policy is unlikely to be copied on a global scale. Yet it might be interesting to draw a comparison with other regional communities that primarily, if not exclusively, pursue economic objectives. Here – so the assumption goes – it will be easier to find a basis for establishing a new form of solidarity and, hence, a common social policy.

Probably not so much from a regional, but from a global perspective, one objection to a European model of social policy could be that it creates additional barriers for the less developed countries. This does not pertain to the debate on the relevance of social standards in terms of economic law,¹⁵⁵ but rather to the potential consequences ensuing from differences in the level of social protection. Countries with a lower level of protection enjoy a comparative cost advantage, which they will want to uphold; countries with a higher level will strive to prevent high social benefits from becoming a singular incentive for immigration. Thus the point at issue will be a just regulation of systems competition for all participants. An approximation of the level of protection must be ruled out as an option; it has not even been achieved in Europe on a mentionable scale given that the European model allows perceptible differentiation. This means that developed countries may not impose customs duties or other charges on commodities from less developed countries simply because their own social security costs are higher than those of the producer country. On the other hand, every country must, in principle, be allowed to enforce its own protection level in its sovereign territory. This applies above all to financial charges imposed (through taxes or social insurance contributions) on the work performed by domestic and migrant employees; on the grounds of equal treatment and equal competition, differentiation is not permissible here. This principle creates problems in cases where employees are posted abroad to perform services offered by an employer – say, a building contractor – from a country with a lower protection level to a country with a higher protection level. In spite of the freedom to provide services within the framework of the EU, it is currently accepted that member states may demand compliance with minimum conditions for posted employees, especially as regards wages and holidays, provided this occurs in a non-discriminatory manner and offers genuine advantages to the employees.¹⁵⁶ Hence, at least within this scope, the maintenance of national labour and social protection is fundamentally given precedence.

155. See Reuß, *Menschenrechte durch Handelssanktionen*, 1999.

156. See ECJ Cases C-49/98, C-50/98, C-52/98-C-54/98 and C-68/98-C-71/98, *Finalarte*, (2001), ECR I-7831; Case C-164/99, *Portugaia Construções*, (2002) ECR I-787.

What conclusions can be drawn from the aforementioned European social model, and its development in the process of Europeanisation, for the global establishment of a relationship between economic freedom and social security? A preliminary appraisal seems to underscore the following issues.

The content of social protection can only be defined at a political level where responsibility and democratic legitimation guarantee the acceptance of pertinent decisions. To the extent that the relationship between the individual and the constituent society is affected directly, social protection will inevitably be linked to distribution. For this reason, a uniform level of protection still does not exist in Europe, not even among the EU member states. Nor will it be prescribed through directly applicable law in the foreseeable future. Nevertheless, economic constraints and intensified communication in the wake of globalisation will prompt certain approximation processes. What changes and what potential unifications the future will bring is currently open.¹⁵⁷ From the normative viewpoint, this is not problematical as long as those bearing political responsibility and legitimation are able to decide on the convergence criteria. A remaining problem is not only economic decision-making pressure but, with a view to safeguarding social protection, the very fundamental issue of how far territorially limited solidarity can be reconciled with the opening of frontiers for economic activities and the creation of transborder markets – or, conversely, in what way a new, border-crossing solidarity can be justified. In this respect, the current stage of the European integration process is scarcely able to provide helpful leads.

Even the setting of minimum standards proves difficult as soon as these are to be given specific substance. The wider the circle of addressees, the more cultural and economic differences will encumber a generally accepted fixing of such standards. At any rate, there is still the possibility of laying down specific procedural minimum guarantees. European developments show moreover that substantial progress as regards the status of individuals can already be achieved where no rights to particular social benefits have been laid down at a common level, if compliance with the principle of non-discrimination is guaranteed as far as the application of existing national social rights is concerned. However, this guarantee should be then fixed on a supranational level.

157. See, for example, the proposed reform of social security systems by Van Langendonck, "The future shape of social security", ISSA Conference on Social Security in the Global Village, Helsinki, 2000, <http://www.issa.int/pdf/helsinki2000/topic1/2vanlangendonck.PDF>.

To close with a positive summary: European experience definitely shows that in the light of more intense economic integration, social rights play an increasingly important role and can therefore no longer be protected solely at national level. At the same time, through a careful shifting of these rights to a higher level, national particularities of social protection need not be obliterated. Whether the substantive development of this protection will be influenced by global processes is another story.

