Globalization: One world, Two versions

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Introduction

That the world is changing seems obvious to most observers. What is less obvious is the structure of those changes. Individuals, communities, and firms are already struggling with how to cope with an increasingly globalized economy. Many feel that they are unable to determine their own destinies in the face of what seems to be relentless world-wide economic integration. Options presented range from the enthusiastic embrace of the global village to advocacy of community self-reliance. We are just beginning to fathom the emergence of what is commonly referred to as the global economy.

I will suggest in this essay that there are really two versions of economic globalization: the late-industrial age form, and the early-information era variant. It remains to be seen whether these two versions of globalization are mutually exclusive, competing models or whether they are complementary. At least in the near term, both versions will be found in the global economic system, resulting in a mixed mosaic. It is clear, however, that the two are very different and have different ramifications for governance and society. Note that I will be addressing globalization as an economic and a political phenomena, even though it is the cultural dimension which may be responsible for much of the public reaction.

The industrial age gave us a centralized, hierarchical, technocratic form of government management. The information era is creating a decentralized, network system of governance. To use an American sports metaphor:

> If baseball is the remembrance of our pastoral past and football is based on the mythology of our industrial-corporate present, then basketball is the metaphor for our information-entrepreneurial future. Basketball combines creative individual expression and initiative with a fluid team approach in a fast-paced environment. The same description applies to the modern "high-performance" work organizations needed in today's knowledge-based economy.[1]

While the forms of governance do not correspond directly with the forms of economic globalization, they are connected and derivative. However, that is not to say that centralized forms of governance are inappropriate for information-age problems, or that network forms of governance may not be applicable for problems of industrial globalization. Governance in the 21st Century is likely to be a varied pattern of centralized-decentralized models, similar to the emerging rich mosaic of economic structures.

Industrial-era Globalization

Economic activity has always meant meeting human needs – either by directly meeting those needs or indirectly by supplying the productive means with which to meet those needs. In the industrial era, a revolution took place with respect to the means of production. Machine made interchangeable parts assembled in a factory system lead to an explosion of productivity and a new emphasis on volume production. Key to this system was the division of labor, including the division between thinkers and doers – labeled "Taylorism" in America and "Fordism" in Europe (although there are differences implied in those terms). Managers were thinkers and workers were doers.[2]

Of course, the process was more than just the rise of the factory system and mass production. A number of changes occurred that can be loosely labeled as "modernization". These changes include urbanization, increased individual mobility (both geographically and socially), the replacement of a self-sufficient economy with a market economy, increased prosperity and materialism, and the rise of the middle-class.[3]

Much of the economic history of the 20th Century has been the slow emergence of a global version of the modern industrial economy. This process of globalization is well documented, if not well understood. As one commentator succinctly described it:

> For the first time in human history, anything can be made anywhere and sold everywhere. In capitalistic economics that means making each component and performing each activity at the place on the globe where it can be most cheaply done and selling the resulting products or services wherever prices and profits are highest.[4]

This vision is an apt representation of the late industrial-era model of production – even though it is not exactly true.[5] A modern assembly-line type factory, highly capital intensive and "dumbed down" by design to eliminate the need for worker skills, can be built in any location where there is cheap labor yet an adequate infrastructure. The resulting implied competition between production locations gave rise in the 1980s to the concern by governments, both nationally and locally, about their economic competitiveness – a concern that continues in a different form in light of rapid movements of investment capital.

This current late-industrial era version of globalization differs in detail from the earlier models, i.e. La Belle Epoch and post-World War II. Most importantly, globalization has changed from trade to economic integration. The difference is best seen in the shift of trade policy from issues

concerning at-the-border activities (tariffs and customs regulations) to questions arising from internal operations of a nation's market. The major new topics of trade and international economic policy reflect this shift: currency controls and capital flows, intellectual policy, competition policy, anti-corruption policy, investment policy, labor standards, and environmental standards.

But the basic framework of industrial era globalization is still the same. Capital (both physical capital and financial capital) is mobile, while labor is not. The result is "the evisceration of ties between place and capital."[6] In this sense, the current concerns over so-called casino capitalism is nothing new. The imbalance leads some to call for restrictions on the mobility of capital in order to allow individual (workers) and local governance structures to assert some degree of control. Such restrictions, however, fly in the face of the economic rationale that production should be located wherever it is most efficient. Thus, the debate over globalization is often set up as one between economic values and social values.

Globalization in the Information age

Over 200 years ago, Adam Smith argued that the wealth of nations consisted of its productive abilities, not its hoard of gold or other precious commodities. Today, that lesson is still relevant – with a new twist. The wealth of nations (and communities and individuals) still lies with their productive capability. But, productive capability is no longer completely depended on capital and equipment. In the information era, productive capability is becoming more a function of workers' skills, knowledge, and expertise. As Peter Drucker has recently observed:

> Increasingly, the human being does not work in mass production, but in what might be called 'team production.' And that means that increasingly the producing human being is a knowledge worker. Workers as they did before the Industrial Revolution, own the means of production. The means is between their ears.[7]

In part, the rise of the information age has been made possible by advances in computer and telecommunications technology (tele-informatics). Tele-informatics has enabled all individuals involved in a production process, from customer to supplier to engineer to worker, to have access to the same information and cooperatively share ideas. This ability to work together through computers on a real time basis has allowed firms to sharpen their core competencies, or to increase their specialization, and find and work with other firms that have critical competencies which complement and bolster their business efforts.

Companies and other institutions are using these technologies to re-structure their operations. In essence, we are seeing the creation of a new decentralized social organization of work – variations of which have been tried before with only limited success.[8] In this new system, success depends on the ability to capture and use the skills and knowledge of the entire workforce, rather than rely on the knowledge of some small specialized information elite to direct the organization from above. Empowerment, flattening and decentralization of the organization, and a focus on innovation and continuous improvement are all hallmarks of the modern enterprise. Even in what might be considered lower-level activities, information and

knowledge plays an increasingly important role as this new social organization of work drives front-line workers to assume greater and greater responsibility for their own tasks. In an information-driven economy, the key to success is so well known that it has become a cliché: "working smarter."[9]

Hand in hand with the changing nature of the production process is a switch in business strategy: from lowest cost mass produced good to "total customer satisfaction" and high valued-added. As one observer described the process in the computer industry:

> Businesses paid new attention to total customer satisfaction by delivering a complete system of hardware, software, and service. Like IBM, many discovered that offering service may bring more profit to the firm and more value to the customer than simply selling hardware whose price continues to fall.[10]

As a result, the traditional barriers between goods and services is increasingly blurred. As one business analysts puts it, "Producers think they are making products. Customer think they are buying services. From the customer's standpoint, a product is nothing more than a tangible means of getting a service performed."[11] In such a system, customization becomes a key competitive advantage. The result is more competition on intangibles (quality, features, etc) as companies seek to avoid information-heighten competition based on price (the so-called frictionless commerce) for those products and services which remain indistinguishable, i.e. commodities.

A third component of the information age is the rise of the value of information as an end commodity, in and of itself. The output of those empowered workers is more likely to be an intangible – such as ideas, services, music, literature, etc. – rather than a physical good. In this sense, advanced economies are becoming "weightless."[12] Information previously available only as a service becomes a mass produced good. Information services (both customized and mass produced) is increasingly an integral part of a manufactured good.

However, in this new system of production, utilization of information and knowledge is what counts, not just its production or manipulation. The future belongs not solely to the computer programmer and the knowledge creator – but, as importantly, to the knowledge user. That includes the ability to use both formal knowledge (which is explicit and codified in books, manuals, and databases) and tacit knowledge (which is experiential and intuitive).

Economics and business under this new system will be fundamentally altered, even though some of the changes may be gradual enough so as to not appear radically different. In the new information age, the rules of industrial-era production no longer apply. A major rule of economic efficiency is the substitution of expensive resources with cheaper resources. In ancient times, this may have meant the use of slaves rather than freemen. In industrialization, it clearly meant the substitution of mechanical energy for human/animal energy, as manifested by the substitution of machinery for labor (or as economists would say, capital for labor). In the information age, it means the substitution of information (which has no reproduction costs, only creation costs) for capital and labor.

Economists are gradually exploring the results of this shift. New rules of economic growth are emerging that focus on skills and information as the drivers of increased productivity and economic growth and as the key commodities in the market place. For example, previously knowledge was assumed to be a pure public good that moves freely. More recently some economists have pointed out that information and knowledge is different from other forms of resources (land/financial capital/physical capital/labor).[13] Information and knowledge varies in terms of both rivalry (ability of more than one person to use the economic good at the same time – a non-rival good is one that can be used by more than one person at a time, such as a software program) and excludability (the ability of someone to prevent others from using the economic good). Knowledge is infinitely expandable and inherently uncertain concerning its value. As a result, spillovers from knowledge and the context in which knowledge is used are key to its potential contribution to economic activities, unlike for other forms of resources. Because of these differences, some basic assumptions about economic policies are subject to careful reexamination.

These changes in the nature of economic activity result in a new form of globalization. In this new information driven economy, the importance of physical capital is diminished with respect to human capital, skill, local relationship, and knowledge, etc. Physical capital is easily transferable from one location to another location; knowledge and human capital is not. A worker's skills and formal and tacit knowledge is as mobile or immobile as the worker. Codified knowledge is easily shared, especially given advanced tele-informatics technology. But, as it is a non-rival good, knowledge is not transferred in the sense that it leaves a location (and is therefore no longer of economic value in that location) when it is shared.

If the new key factor of competitive economic success is that cluster of human capital, skills, knowledge, and local relationships, etc., then production may not be as mobile as physical capital. In the new economy, production may be rooted in place to a greater extent then it was in the industrial age. In this new economy, place-based comparative advantage is rooted not in a place's natural resources or in its current physical capital (which may flee at any moment) but in its (relatively immobile) human resources. Thus, as the regional school of economic development asserts, the new key factor of competitive economic success is clusters of human capital, skills, knowledge, and local relationships.[14]

Yet, in the new information age, individuals and information appear to be more mobile than ever. People can fly anywhere in the world and communicate instantaneously. Tele-informatics allows human resources to be utilized and shared across traditional boundaries of time and space– resulting in what some call the death-of-distance. This has lead some to argue that new information technologies will cause services to follow manufacturing toward footloose production.[15]

It is not clear that this death-of-distance argument holds true in an information-rich production system, given the importance of both tacit and formal knowledge. Tacit knowledge is needed for customization and the ability to adapt to rapidly changing situations that are the hallmark of the information age. Tele-informatics does not preclude or substitute for face-to-face interactions – both planned and serendipitous. Face-to-face interaction remain the most information intensive means of communications, an important factor in an information-rich economy. As one

commentator put it: “Paradoxically, location matters more than ever in high tech. To be a player in Silicon Valley, you have to be in peoples’ faces.”[16]

Rather than the death-of-distance, we are seeing the localization of global knowledge – the importance of being there. Customized services depend on the combination of tacit localized knowledge and information from global sources to meet the needs of local customers. For example, a local insurance agent can tap into the company’s knowledge base (formal and informal) to better custom design coverage to meet the specialized needs of a local client. The result is the creation of a system of production that is strongly rooted in its local market and local knowledge-based comparative advantage, while drawing upon resources from, and contributing resources to, global networks.

Implications for Governance

How the interaction between these two systems of globalization plays out will influence (and define) the challenge to governance. The problems and concerns created by one form of globalization are likely to be very different. Likewise, the organizational forms and political economy developed under each system will create alternative ways of grappling with the various problems and concerns. What may evolve is a mosaic of economic organizational forms and governance models – rather than one universal model.

Problems of governance in the industrial-era

Social governance in the industrial age closely mirrored the corporate governance model that evolved in the transformation from individual/family capitalism to managerial capitalism.[17] In the United States, the good-government movement coincided with the rise of the large corporation and the spread of professional management. This trend was accentuated as government moved from an activity of making the rules and dispensing justice to a provider of public services. Governance became management. Professionally trained civil servants replace political functionaries. It was (and is) the age of the bureaucrat and eventually the technocrat. It was also corporatist. Operating under such a system, the obvious solution to the rise of large, powerful corporations was the creation of countervailing powers in “big government” and “big labor.”[18]

Under this system, the logical response to the problems of globalization is hierarchical and bureaucratic. Such a response I will call “internationalism” – or what others might label “one-world-ism.” It involves the granting of government powers and responsibilities to supra-national organizations. This may be an appropriate solution to that set of management problems that cross national boundaries and have therefore become international or global nature.

Adoption of an industrial-era form of governance at a global level may provide the same mitigation of the problems of industrialization and modernization that national-level forms of industrial-age governance accomplished. Comparing the problems of the earlier days of

managerial capitalism to today, those accomplishments have been significant – regardless of the what the critics on both the left and right have said. In the United States, the Roosevelt to Roosevelt reforms (from Teddy to FDR) created a mixed-economy of private enterprise and government regulation/management that has worked. The extension of some of those same forms of governance to the global level – and to areas only now being touched by managerial capitalism, i.e. emerging markets – may be called for, and may go far to quell the fears of casino capitalism.

Such an extension of ways of coping with industrialization will not, however, answer the fundamental critics of globalization. Much of the fear and loathing of globalization is not necessarily a nationalistic phenomena. It is more likely locally and regionally based. Those who disdain global government also dislike distant national government. They ask the question "Can we possibly benefit from a system that destroys local and regional governments while handing real power to faceless corporate bureaucracies in Geneva, Tokyo, and Brussels?"[19] Substitute Washington and New York, and that statement would have made sense to 19th and early 20th Century American populists. Thus, the issue is not globalism but the global spread of modernization – with all of the concerns over loss of control, alienation, environmental degradation, etc.

It is also unclear that an extension of the industrial-era form of governance is suitable to address the problems of information-age globalism. A more networked, decentralized form of governance may be more appropriate. The current debate over international flows of financial capital illustrates the myriad of possibilities of the combination of industrial-era and information-age governance. Alternatives proposals range from greater local control to greater coordination of local/national regulatory authorities to the creation of a supra-international regulatory body. How this system evolves will help elucidate both the forces at play and the possible outcomes to other issues of globalization.

Governance in the information age

Governance in the information age is likely to move in the same direction as private sector organizational forms. In the United States, this is evidenced in the anti-government focus of the Republican party and the "third way" anti-bureaucracy, decentralization orientation within the Democratic party, especially the so-called New Democrats.

These forms of governance are decentralized and operate at the local/regional (sub-national) level. They are networks rather than hierarchies; coordination rather than control. Under such a framework, the response to problems of globalization are network based and outside of the traditional hierarchical forms of government. It will not, however, resemble the hyper-individualistic model of the techno-libertarians. Key to this decentralized form of governance is the role of intermediaries and mediating structures. These mediating structures include neighborhood groups, churches, unions, and other civic organizations.

The U.S. has a rich history of local level intermediaries.[20] But, this is not simply an American phenomena. The "velvet revolution" in East Europe is a testimony to the power of civic organizations. European governance also has a recognized place established for the so-called social partners. We have also seen the rising of the importance of non-governmental organization (NGOs) in international affairs. However, only recently has renewed attention been paid in the U.S. to the concept of civil society and civic renewal.[21]

One important role of such intermediaries is as a mechanism for the delivery of services. As such, the operation of intermediaries is relatively straightforward. Questions arise over efficiency, effectiveness, and accountability in the use of public funds. But, as non-governmental organizations have long delivered social services in the United States, these questions are answerable within the context of existing experience.

What is not so straightforward is the implications of the broader economic shift on the nature of the governmental services needed. For example, the information-age demands on the educational system are different from those of the past. As Lynne Chisholm remarks, this shift "would imply an across the board and a root and branch reformulation of the structures, contents and processes of teaching and learning as we have come to know them."[22] Part of that reformulation may well be a new set of roles and responsibilities for intermediaries – as well as new organizational structures which intermediaries might assume to carry out those roles and responsibilities.

More importantly, these intermediaries take on a significant role not only in the delivery of services but also in the conduct of governance itself. Wolfgang Reinicke describes this as a process of horizontal subsidiary: the delegation of aspects of public policy making to non-state actors such as business, non-government organizations, foundations, and other interested civil society participants.[23]

Intermediaries have often been seen as antithetical to governance, rather than as a necessary component. In some cases, unfortunately, intermediaries have not been healthy for the democratic process. A number of questions remain to be answered about the role of intermediaries in governance within the democratic process. Key among those are concerns about access and capabilities. In order to work, the process must be highly inclusive – so that all interested parties have both the opportunity and the resources with which to fully participate. But, all interested parties must disclose their interests and have a legitimate stake in the process – especially if the process is to avoid manipulation and "astro-turf" politics.[24] Likewise, those who might be affected by the decision but may not understand their stake in the outcome, and the public at large, must also be represented in the process. Otherwise, the process can easily devolve to business-as-usual interest group politics and the rule of iron triangle.[25]

Thus, the current resurgence of civic groups (or special interests) looks like a crisis of legitimacy for the traditional governance forms. It need not be. It may be, instead, an evolution to a rich new mosaic. It is a mosaic that is still developing, and deserving of renewed scrutiny.

Conclusion

Just as new forms of economic organization are emerging to characterize the information age, so to are new forms of governance arising. It would be presumptuous, naïve, and most likely wrong to argue that the movement to a new form of work organization and a decentralized network form of governance will answer the problems of modernization and industrialization. It would be correct, however, to assert that it may help alleviate some of the concerns – while creating new ones.

Thus, the problems of governance in the global economy of the 21st Century are likely to be a mix of new and old. The struggle between these various forms is likely to define the political economy for the next few decades, as the world seeks to create the most appropriate structure for the specific problem at hand. In the final result, we are likely to see a rich mosaic of governance forms – mirroring the blend of forms of economic organization.

Models Compared

Industrial Age	Information Age
centralized command and control; hierarchy and bureaucracy	decentralized coordination; network
mass production – mass consumption; standardization; economies of scale and scope	flexible production; customization; economies of flexibility and speed
national and international governance	local and regional control
corporatist	proliferation of non-governmental actors
direct government management and service delivery	rise of “intermediaries”
internationalism/one-world-ism	regionalism

Notes:

[1] Kenan Patrick Jarboe, Letters to the Editor, New York Times, September 9, 1998.

[2] Of course, this theoretical division never really existed in its pure form. Part of the managers job was doing – translating information and following of procedures. Part of workers job was always thinking – using their tacit knowledge to make the system work.

[3] For a succinct description of modernization, at least from a European perspective, see Norman Davies, *Europe: A History*, Oxford University Press, New York, 1996, pp. 764-782 and Appendix III, "Modernization: The Component Processes", p. 1293.

[4] Lester C. Thurow, *The Future of Capitalism,* William Morrow and Company, New York, 1996, p. 115.

[5] In industrial era globalization, costs, especially labor costs, are not the only factor in determining the location of a production facility. Other factors, such as resources, transportation, closeness to market, and preferences of the owners/managers all play an important part.

[6] Michael H. Shuman, *Going Local: Creating self-reliant Communities in a Global Age*, The Free Press, New York, 1998, p. 43.

[7] Quoted in Patricia Panchak, "The Future of Manufacturing: An exclusive interview with Peter Drucker", *Industry Week*, September 21, 1998, pp. 102-104.

[8] Much of the current attempt to create "high performance work organizations" is a direct descendent of earlier experiments under the rubric of sociotechnical systems.

[9] For two perspectives on working smarter, see David A. Garvin, Working Smarter, Harvard Business School Video Series, Boston, MA 1997; and Ray Marshall and Marc Tucker, *Thinking for a Living: Education and the Wealth of Nations*, Basic Books, New York, 1992.

[10] Lewis M. Branscomb, "America's Industrial Comeback: a Review of 'The Productive Edge: How U.S. Industries Are Pointing the Way to a New Era of Economic Growth'", *Scientific American*, August 1998.

[11] Rosabeth Moss Kanter, *World Class*, Simon & Schuster, New York, 1995, p. 49.

[12] See Danny Tyson Quah, "Policies for the weightless economy," Social Market Foundation Lecture, London, April 21, 1998.

[13] For example, see Paul M. Romer, "Endogenous Technological Change," *Journal of Political Economy,* 98(5), October, 1990, pp. S71-S107.

[14] For example, see Michael E. Porter, *The Competitive Advantage of Nations*, The Free Press, NY, 1990.

[15] See Frances Cairncross, *The Death of Distance: How the Communications Revolution Will Change Our Lives*, Harvard Business School Press, Boston, MA, 1997, and
William Knoke, *Bold New World*, Kodansha International, New York, 1996.

[16] Paul Saffo of the Institute of the Future in Menlo Park, CA quoted in G. Pascal Zachary, "Megacommuters Begin to Thrive As They Head to Silicon Valley", *Wall Street Journal*, September 9, 1998, online edition.

[17] For a history of the rise of managerial capitalism, see Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business*, Harvard University Press, 1977.

[18] For a classic description of "the system", see John Kenneth Galbraith, *The New Industrial State*, Houghton Mifflin, Boston, MA, 1967.

[19] Jerry Mander, "Facing the Rising Tide," in *The Case Against the Global Economy and for a Turn Toward the Local*, edited by Jerry Mander and Edward Goldsmith, Sierra Club Books, San Francisco, 1996, pp. 5-6.

[20] For example, see Alexis de Tocqueville's *Democracy in America*.

[21] See numerous articles in the Brookings Review, Fall 1997 Vol. 15 No. 4, and *A Nation Of Spectators: How Civic Disengagement Weakens America And What We Can Do About It*, The Final Report of the National Commission on Civic Renewal, Washington DC, 1998, available at
http://www.puaf.umd.edu/civicrenewal

[22] Lynne Chisholm, "'Education is More': The Momentum for Reform", presented at Globalization and Social Governance in Europe and the US: Improving Responsiveness to International Change Project Round Table, Brussels, 19/20 November 1998.

[23] Wolfgang H. Reinicke, *Global Public Policy: Governing without Government?* Brookings Institution Press, Washington, DC, 1998.

[24] "Astro-turf" politics is a term used to describe artificially created grassroots politics, whereby local interest groups are covertly sponsored by or recruited by public relations apparatuses to give the appearance of an outpouring of local support for one side of an issue.

[25] The "iron triangle" is used to describe an exclusive system of public policy in the United States, whereby policy is made by negotiations among a governmental agency, the Congressional committee or subcommittee with jurisdiction over that agency and selected interest groups with a stake in the policy. See J. Leiper Freeman, *The Political Process*, Random House, New York, 1965.