

# **Public and Private Governance: Are We at a Turning Point?**

## **Lecture #3**

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## **1. Globalization Backlash**

At the beginning of the 21<sup>st</sup> century a rising tide of protest threatens to engulf the global economic system. Workers in wealthy countries denounce unfair competition from their poorer counterparts, while developing countries balk at neo-liberal prescriptions for development and vie for power in global economic forums. Every meeting of the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank is challenged in the streets by a global protest movement.

In some ways, the current situation parallels that faced by industrializing nations in the first half of the 20<sup>th</sup> century. Writing in the early 1940s, Karl Polanyi argued that the rise of the modern industrial economy had created a relatively autonomous market no longer “embedded” in traditional institutions of government or community, which constituted a threat to workers, to nature, and even to the stability of markets themselves (Polanyi 1944). Polanyi predicted in 1944 that there would be a retrenchment from international capitalism as a means of restoring social control over markets. Reviewing the first three decades of the post-war economy nearly 40 years later, however, John Ruggie judged that while Polanyi had been wrong in his prediction of the end of capitalist internationalism, he was essentially right in concluding that governments would need to assume a much greater role in providing social protection (Ruggie 1982). In Ruggie’s view, a system of “embedded liberalism” had enabled an increasingly open international economy by tying it to strong interventionist policies domestically and by retaining a measure of protection from international financial markets.

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Globalization is not only a problem for developing countries. In the advanced economies, too, there are concerns about the loss of white-collar jobs to developing countries. The decline of traditional manufacturing heartlands across North America and Western Europe has been attributed to growing competition from developing countries. And now even some of the beneficiaries of these changes in the global industrial landscape, such as Mexico and Eastern Europe, are beginning to suffer competition from East Asia, and above all China.

A political backlash against global outsourcing appears to be brewing in industrial economies, as well-educated and highly paid white-collar workers are finding themselves traveling the same road their blue-collar peers took in the 1970s and 1980s. Both are suffering from “the triple threat of computerization, tech-led productivity gains, and the relocation of their jobs to offshore sites” (Schwartz 2003). It’s not just call centers anymore. Now U.S.-trained Indian radiologists in Bangalore can analyze CT scans and chest X-rays for less than half what would be paid to their counterparts in the United States and Ernst & Young has 200 accountants in India processing U.S. tax returns (Schumer and Roberts, 2004).

These shifts reveal a sobering globalization paradox: the dramatic expansion of production capabilities reflected in global outsourcing across a wide range of industries does not necessarily increase sustainable development, generate adequate numbers of jobs, or contribute to poverty reduction in the exporting nations. As more and more countries have acquired the ability to make complex as well as standard manufactured goods, barriers to entry have fallen and competitive processes on the production stage of value chains have increased. The emergence of China, India, and other large developing nations has expanded the global labor force so significantly that a likely consequence of globalization is to bid down the living standards not only for unskilled work and primary products, but increasingly for skilled work and industrial products as well (Polaski, 2004; Kaplinsky, 2005). Developed and developing economies alike are now competing to capture the relatively high value activities in global production networks.

The global economy is increasingly concentrated at the top and fragmented at the bottom, both in terms of countries and firms. Because of this structure, profits are driven down at the base of

global value chains because of intense competition, and there is no money for reinvestment, innovation, or for improving wages and profits among smaller producers. The real opportunities to move up value chains in the global economy are concentrated in a very small number of developing countries, and within the largest of these economies (like China and India), in particular regions. This is why there is considerable pessimism about “spreading the gains” from globalization.

## **2 The Global Governance Deficit: Market, State, and Society after Globalization**

### ***2.1 The Nature of Governance***

Before turning to the question of how globalization has created a governance deficit, it is useful to be clear about what we mean by market governance and how governance systems relate to markets. By governance we mean those institutions, governmental and non-governmental, that both encourage and constrain the behavior of markets and market actors.

Governance is not the same thing as government. Governance systems may be public, i.e. governmental, but private governance can be equally or more important. Public governance is the familiar stuff of governmental policy: laws, regulations, enforcement capacities, and the like. Private governance includes social mores that determine acceptable market behavior, professional standards and codes of conduct, collective bargaining agreements that define the obligations of firms towards workers, and other non-governmental institutions.

Governance systems play at least three roles with respect to markets:

*Facilitation*—Governance institutions play a crucial role in facilitating the operation of markets by establishing property rights, enforcing contracts, establishing rules of fair competition, providing information, and much more. No market, even the most primitive, can operate outside of some institutional context.

*Regulation*—Governance institutions are necessary to regulate the negative externalities of private market transactions. Without constraints (or incentives), markets would

exploit and endanger workers, pollute the environment and over-harvest natural resources, and generate other negative externalities.

*Compensation*—Governance institutions play a crucial role in limiting and mitigating the unequal impacts of markets. Social insurance, health care, public education and retraining, progressive tax systems, and other welfare policies all serve to temper the tendency of markets towards highly unequal outcomes.

Table 1, below, provides a typology of market governance and examples that fit each of these categories.

Table 1: A Typology of Market Governance

<i>Modes of Governance</i>	<i>Realms of Governance</i>	
	<i>Public</i>	<i>Private</i>
<i>Facilitative</i>	Property rights Banking and commercial policy Competition policy	Market ideology Professional norms and codes
<i>Regulatory</i>	Labor law Environmental regulations Health and safety regulations	Voluntary codes of conduct Corporate social responsibility Pressure and consumer boycotts
<i>Compensatory</i>	Social insurance Education/retraining programs Public health policies	Collective bargaining Philanthropy

Historically, there was a rough congruence between the geography of markets and the scope of governance institutions. Both were, for the most part, organized on the unit of the nation-state. This co-existence of markets and governance, often contested, was crucial to the success of the modern industrial state. Without strong governance systems to facilitate market transactions, markets could not have prospered as they have. Without strong governance systems to regulate and distribute, societies would not long have tolerated free markets.

Globalization, in our perspective, disrupted this balance between markets and governance systems, and created a mismatch between the global scale of markets and the still largely national scale of traditional governance systems, both public and private. Table 2 summarizes

the evolution of global governance capacity as economic globalization has deepened. From the pre-globalization era to the partially globalized world of the early 1990s, international governance institutions designed to facilitate the operation of global markets grew in strength, as the GATT evolved into the WTO and the IMF became an important force in the spread of neoliberal economic policy. But there was no similar evolution in regulatory and redistributive capacity at the global level. In short, the facilitative aspects of governance that are the essence of the neoliberal regime that spurred the initial phases of globalization are exceptionally robust and well developed, while the regulatory and redistributive aspects of governance remain relatively weak.

Table 2: The Evolution of Global Governance Capacity

	<i>Phases of Globalization</i>		
<i>Governance Dimensions</i>	Partial Globalization	Public Governance: Trade-Plus	Private Governance: Codes of Conduct
Facilitation	High	High	High
Regulation	None	Limited	Limited
Redistribution	None	None	Limited

## 2.2 *Market, State and Society in the Pre-Globalization Era*

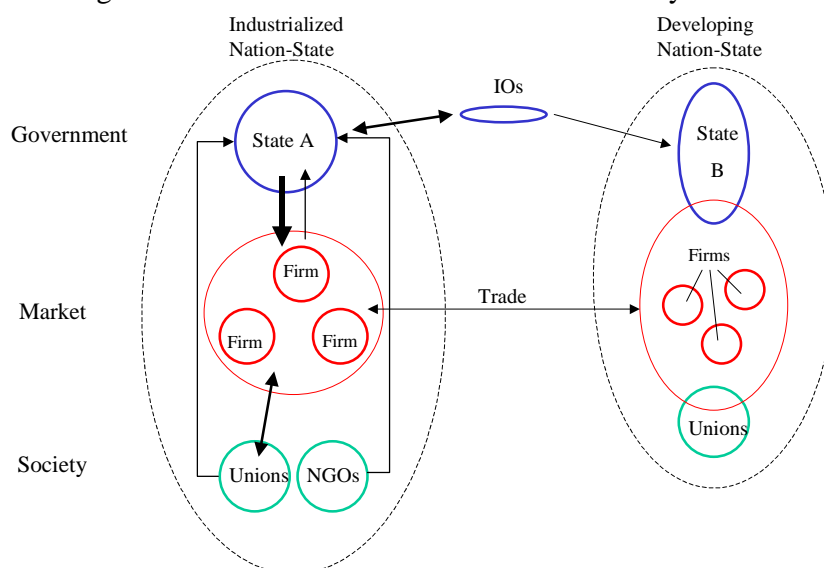
In the era before globalization, the mature industrialized nations had developed thick systems of governance to facilitate the operation of markets, to regulate market actors, and to compensate for market effects. As Polanyi argued with respect to an earlier era, markets demand systems of governance; indeed, they require them. This co-existence of markets and governance, often contested, was crucial to the success of the modern industrial state. Without strong governance systems to facilitate economic transactions, markets could not have prospered. Without strong governance systems to regulate and compensate, societies would not long have tolerated free markets.

Historically, governance capacity existed almost exclusively at the national level, which is one reason why the international economy of the early 20<sup>th</sup> century proved impossible to sustain. After World War II, the Bretton Woods institutions, most notably the IMF and the General Agreement on Tariffs and Trade (GATT), helped to facilitate the growth of international commerce by providing greater stability, but markets and market governance remained predominantly national in scope, and regulatory and compensatory functions of governance could be accomplished by national governance systems. From the pre-globalization era to the partially globalized world of the early 1990s, however, international governance institutions designed to facilitate the operation of global markets grew in strength, as the GATT evolved into the WTO, and the IMF became an important force in the spread of neo-liberal economic policy. The global market took off. But there was no similar development of regulatory and redistributive capacity at the global level. In short, while the facilitative governance capacities that are the essence of the neo-liberal regime are exceptionally robust and well developed, the regulatory and redistributive aspects of global governance have remained relatively weak.

### ***2.3 The Emergence of Globalization***

To understand the implications of globalization, it is useful to illustrate the evolution in the relationship among the three realms of governments, markets, and societies. Figure 1 presents a highly stylized picture of the pre-globalization world, roughly circa the 1950s through the 1970s. In this simplified world, there are essentially two kinds of nation-states: advanced industrial nations and developing nations.

Figure 1. The World Before Globalization: A Stylized View



At the governmental level, states are the pre-eminent actors. International economic organizations, notably the GATT, are relatively weak and focused on international market facilitation rather than market regulation, and deal primarily with commerce among developed nations. Markets and firms are largely national in scale. International trade tends to be arm's length, mainly between the advanced industrial nations, and international investment is limited. At the societal level, labor unions, NGOs and other groups are national in scope and have little international interaction.

In this stylized view, the governance of markets takes place within the nation-state, although it takes different forms in industrialized countries than it does in the developing world.<sup>2</sup> In advanced industrial countries, free markets are constrained by both public governance, in the form of elaborate regulatory institutions dealing with minimum wage, workplace conditions, environmental performance, and the like (the arrow from state to market within the industrialized nation oval), and to a somewhat lesser extent by private governance, largely in the form of collective bargaining agreements between unions and firms (the arrow from unions to market).

<sup>2</sup> We recognize that we are ignoring importance differences among developed nations, as explored extensively in the varieties of capitalism literature (see, for example, Hall and Soskice 2001; Kitschelt et al. 1999).



The relationship among state, market and society in the developing country is more corporatist, with high levels of public ownership and other forms of market intervention and less independence for labor unions. The domain of the market is less prominent, and is largely disconnected from the world economy. There are few of the regulatory and compensatory mechanisms present in the advanced industrial countries. These intertwined systems are illustrated here by overlapping circles of state, market, and society.

## **2.4     *Globalization and the Governance Deficit***

In the ensuing three decades, processes of internationalization altered the global landscape. Facilitated by the market opening of successive rounds of the GATT, market actors responded by becoming increasingly international, both in the form of transnational corporations (TNCs) and a growing reliance on the outsourcing of production to firms in the developing world. The large, vertically integrated TNCs that predominated in the 1950s and 1960s began to spread their global reach, initially through international subsidiaries fostered by the import-substitution policies of many developing economies. In the 1980s, the shift to export-oriented development models in much of the developing world, coupled with the growth in the industrial capabilities of offshore suppliers, contributed to the vertical disintegration of TNCs, especially in consumer goods industries, and the rise of international production networks in which TNCs emphasized coordination and control over relatively high-value activities, rather than ownership (Dicken 2003). As Milner (1988) has shown, the increasingly international outlook of corporations made them supportive of further market opening.

Figure 2 depicts a highly stylized view of the “partially globalized” world (Keohane 2002) of the late 1980s and early 1990s. Globalization is most advanced in the economic realm. In the new global economy, TNCs, production and supply networks, and international financial markets operate on continental, hemispheric or global scales. A large proportion of international trade is now intra-firm or via inter-firm networks (Gereffi et al., 2005).

At the governmental level, globalization is much less advanced. States remain pre-eminent. Although international organizations that facilitate international trade are stronger (the reach of the GATT is expanded, negotiations to create the WTO have been launched, and there is talk of a North America Free Trade Agreement), there remain only the thinnest of international regulatory and redistributive institutions. Societies remain largely national in scope, although there are the beginnings of linkages between environmental and other NGOs and, to a lesser extent, labor unions.

Figure 2. A Partially Globalized World

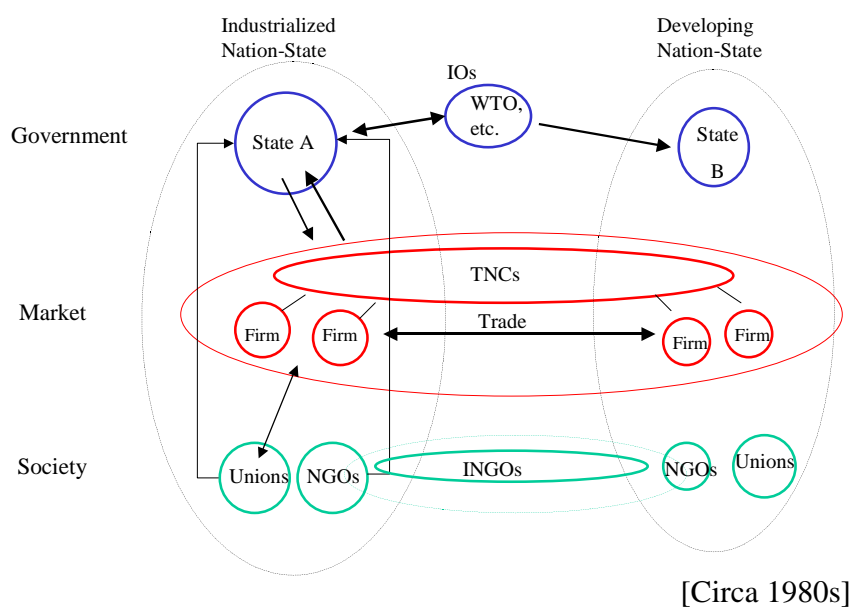


Figure 2 illustrates the partial breakdown of old, national systems of governance, and the governance deficit that results. As national borders became increasingly porous in the global economy, the old governance structures, organized on the unit of the nation-state, lose some of their capacity to govern the market.

In advanced industrialized countries, competition from developing markets and competition for investment began to hollow out both regulatory and social safety net institutions. Although there were few dramatic regulatory rollbacks, outsourcing provided opportunities to avoid some forms of regulation and a credible threat that chilled others. Social insurance, welfare, and other

societal programs are insufficient to compensate those who lose out in the international marketplace. In the private governance realm, the ability of unions to demand wage and other concessions from firms has diminished greatly.<sup>3</sup>

In the developing countries the impact of economic globalization on governance was even more dramatic. The neo-liberal prescription of privatization and open markets eroded the old corporatist model and strengthened the role of the market in national societies. In fairness, that model had often been co-opted by privileged elites, but it had at the same time provided some mechanism to involve firms in the provision of certain social goods. In the new system, since governments lacked the governance apparatus of the advanced industrial countries, there was little effective public governance of markets at all. Given the intensely competitive international environment, unions had very limited ability to constrain corporate behavior, and other societal interests were largely unorganized. Previously sheltered nations found themselves unable to adjust rapidly enough to intense international competition and volatile financial markets.

In the international arena, little new capacity had arisen to replace the old. Intergovernmental organizations dealing with labor, the environment, and other social issues remained largely ineffective, and in the private realm there were few transnational institutions capable of pressuring global market actors. In summary, the new global economy had created a global governance deficit.

### **3 GOVERNANCE RESPONSES: PUBLIC AND PRIVATE**

In response to the governance deficit, manifested in social costs and domestic inequality, forces in society have mobilized to demand greater governance. In this section, we explore the nature of the societal pressures arising from economic globalization. We argue that two seemingly unrelated developments—the push to link social issues to trade liberalizing negotiations, and the

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<sup>3</sup> In this regard, as in others, the European Union is an exception to the general trend, but it also is an illustration of the broader point about the need to develop stronger international institutions. Europe has responded to the governance challenge posed by globalization by establishing a vast internal market and by simultaneously developing thick governance institutions at the European level that have enabled it, so far, to maintain much of its regulatory and compensatory apparatus.

attempt to force corporations to behave in more socially responsible ways—constitute two faces of the same effort to strengthen governance of the global economy.

### ***3.1 Social pressures and the demand for governance***

The contemporary social backlash against globalization could be traced to many moments, but the controversy surrounding the North American Free Trade Agreement (NAFTA) was seminal. From the announcement in 1990 that the United States intended to seek a free trade agreement with Mexico, its less developed neighbor to the South, to the eventual passage in 1993 of NAFTA's implementing legislation by the U.S. Congress, there arose a remarkably broad and intense opposition that almost scuttled the agreement (Mayer 1998).

In the last decade, a broad anti-globalization movement has emerged in developed countries that mirrors many of the concerns expressed in the NAFTA debate. As markets have gone global, many people sense that globalization paradoxically means both greater vulnerability to unfamiliar and unpredictable forces that can bring economic instability and social dislocation, as well as a flattening of culture in the face of well-financed global marketing machines and “brand bullies” (Rodrik 1997; Klein 1999; Ritzer 2000). The massive protests against WTO trade talks in late 1999, against the IMF and the World Bank in 2000, and of every major economic summit since, were triggered by perceptions of a lack of accountability and transparency in the deliberations of dominant global economic institutions like the WTO and the IMF. There was also a sense of outrage that corporate-sponsored international liberalization was moving full steam ahead, while the regulatory concerns, social safety nets and adjustment assistance traditionally provided by national governments were endangered. The historic compromise of embedded liberalism, characterized by the New Deal in the United States and social democracy in Europe, whereby economic liberalization was rooted in social community, was being undone (Ruggie 2002a; 2002b).

### **3.2     *The Public Governance Response: “Trade Plus”***

One form that societal pressures have taken is a push to link social concerns to the trade agenda, particularly labor and environmental regulatory issues. This push is most advanced at the regional level, especially in Europe, where continental economic integration has been accompanied by the creation of strong regulatory, social, and development institutions. Europe appears to have found a way to address governance issues by creating deep (or thick) institutional structures at the regional level that are difficult for other parts of the world to emulate.

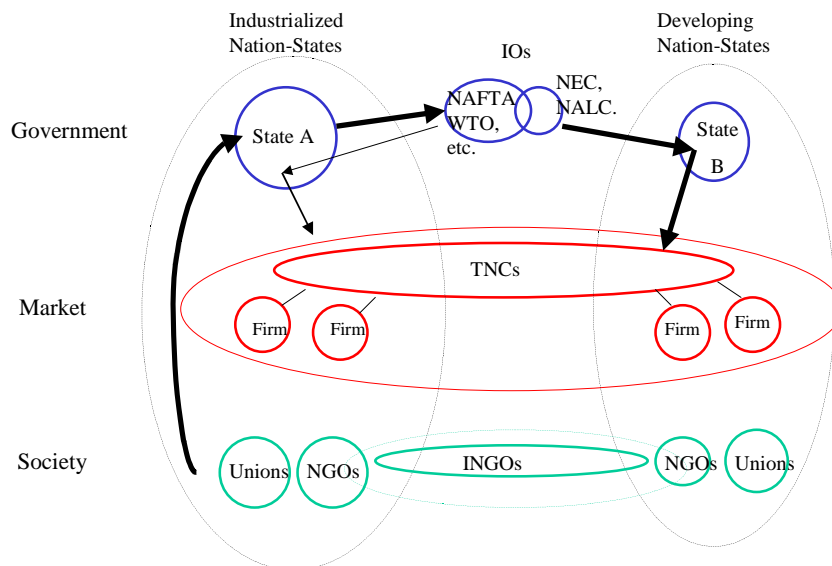
In North America, NAFTA, unlike the European Union, was initially envisioned as purely a free trade (and investment) agreement, with few provisions to deal with the governance implications of integrating a developing economy (Mexico) with two advanced industrial ones (the United States and Canada). From the outset, NAFTA was a highly contentious issue in U.S. politics. Organized labor immediately saw it as one more step down the path of corporate outsourcing, in which U.S. workers were increasingly forced to compete with low-wage labor in other countries. Environmentalists saw free trade with Mexico as opening the door for polluting companies to move to Mexico. Both groups also saw NAFTA as a force for deregulation at the national level. If companies could move to Mexico to avoid higher labor and environmental standards, even the threat of such movement would weaken the hand of labor and environmentalists in domestic debates.

In 1993, to obtain sufficient Congressional support to pass the NAFTA implementing bill in the face of this societal resistance in the United States, the Clinton Administration compelled Mexico to negotiate separate labor and environmental “side agreements,” intended to ensure that there would be no “race to the bottom” with Mexico (Mayer 1998). The side agreements established an international process to which claims that a country was failing to enforce its environmental or labor laws could be brought, and potentially result in fines or trade sanctions.

The basic logic of this public governance response is illustrated in Figure 3. Pressure from societal forces in the developed economy (the United States) compelled supplemental

negotiations to establish new international institutions, intended to pressure the developing country (Mexico) to enforce labor and environmental standards governing private market actors.

Figure 3. Public Governance Response: “Trade Plus”



Few social activists were satisfied with what was accomplished in the context of NAFTA, but labor and environmental groups have pursued this logic of linkage in subsequent U.S. free trade negotiations. In both the U.S.-Jordan and U.S.-Cambodian Free Trade Agreements, which entered into effect in December 2001, as well as the U.S. free trade agreements subsequently negotiated with Chile and Singapore, labor and environmental provisions were moved from side agreements into the main text of the trade accords. The U.S.-Cambodian agreement is considered particularly important because the International Labor Organization has agreed to undertake a monitoring program in the textile and apparel sector, to report its results in a credible, efficient and transparent manner, and to make quota levels contingent on adequate performance (ILO, 2002).

Nevertheless, the prospects for further progress on the trade-plus front currently seem limited. Advocates for worker rights had hoped for strong linkage in the context of the U.S.-Central American Free Trade Agreement (CAFTA). In one ambitious proposal, “CAFTA must include a specific provision that the benefits of the agreement can be accelerated—or delayed—for each

Central American country and for each sector within those countries on the basis of whether the country and sector have met the agreement's obligations with respect to workers' rights" (Polaski, 2003: 3). Since current trade preference programs already passed by U.S. Congress (such as the Generalized System of Preferences, the Caribbean Basin Economic Recovery Act of 1983, and the Caribbean Basin Trade Partnership Act of 2000) all extend unilateral market access benefits to the Central American countries on the condition that they respect workers' rights, the Polaski proposal hoped to "succeed where Central American governments alone have not" by aligning "private sector incentives with public interests regarding good governance and the rule of law" (Polaski, 2003: 7). Thus far, CAFTA has fallen short of this proposal.

The limits of the trade-plus strategy in the CAFTA context illustrate just how difficult it will be to go much further with the trade-plus agenda. It is highly unlikely that the Free Trade Agreement of the Americas (FTAA), if concluded, will include significant new institutions for dealing with labor, environmental, or other social impacts of free trade. In part this reflects a strong resistance from developing countries, who perhaps rightly view the strategy as a Northern one, and who fear that making free trade conditional on regulatory performance leaves them vulnerable to political forces they can't control. In addition, there is a structural difficulty with the approach that may limit its usefulness. The threat of withholding trade benefits to a nation because of the behavior of a private market actor seems to many in developing countries to put them in an untenable position as they lack the capacity to effectively regulate multinational corporations.

### ***3.3 The Private Governance Response: Corporate Social Responsibility, Codes of Conduct and Certification***

A different approach to addressing labor and environmental issues has emerged in the private governance arena from the confluence of interests among civil society and government actors. In the textile and apparel sector, aggressive campaigns by labor groups, NGOs, and student activists compelled apparel manufacturers to adopt stringent codes of conduct and establish independent monitoring. The revelation in 1995 of the virtual enslavement of Thai workers in a garment factory in El Monte, California, prompted the Clinton Administration to form a task

force called the Apparel Industry Partnership (AIP). Composed of manufacturers, NGOs, unions, and U.S. Labor Department representatives, the AIP forged a code of conduct for apparel firms, stipulating the payment of the local minimum or prevailing wage, that workers be at least 14 years old, and that workers not be required to work more than 60 hours per week (although they could work unlimited voluntary hours). In November 1998, the AIP created the Fair Labor Association (FLA) as the monitoring organization that would implement this code of conduct. Subsequently, there has been a proliferation of different codes of conduct and factory monitoring systems in the apparel industry (Maquila Solidarity Network 2002; Esbenshade 2004).

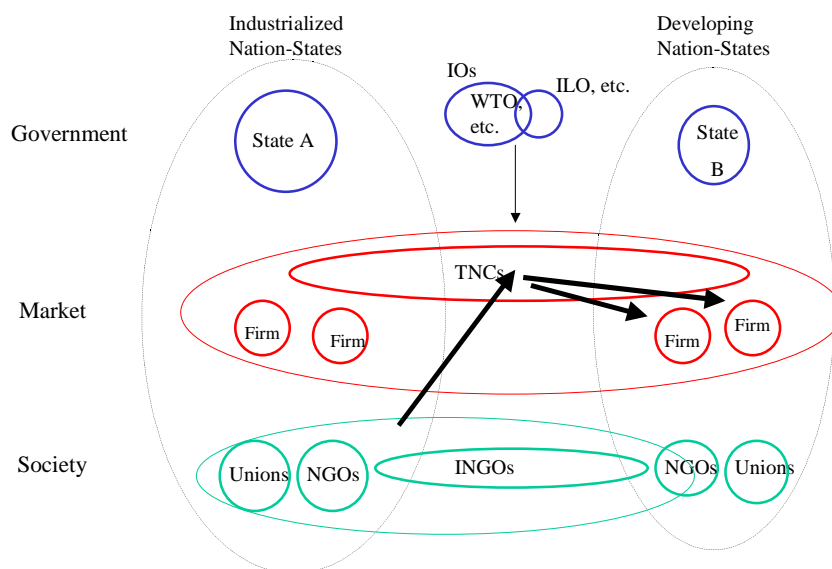
More generally, a variety of new “private governance” responses or certification institutions are emerging (Gereffi et al., 2001). These include: individual corporate codes of conduct; sectoral certification schemes involving NGOs, firms, labor, and other industry stakeholders; and third-party auditing systems, such as SA8000 for labor standards or the Forest Stewardship Council (FSC) certification for sustainable forestry practices. The United Nations’ Global Compact is an initiative that encourages the private sector to work with the United Nations, in partnership with international labor and civil society organizations, to move toward “good practices” in human rights, labor standards, and environmental sustainability in the global public domain. While skeptics claim there is little evidence to show that these codes have significant impact on corporate behavior (Hilowitz, 1996; Seidman, 2003), proponents generally argue that new systems of certification, enforced either by global consumers or by institutional actors such as the United Nations, could provide the basis for improved regulatory frameworks (Fung et al, 2001; Williams, 2000).

Figure 4 illustrates the main dynamics of the private governance model. The goal of private governance campaigns is to force the peak or lead firms in global supply chains to set higher standards of corporate conduct that lesser known suppliers would be forced to adopt (hence the arrows from TNCs to other developing country suppliers in the figure). Brand-named multinational manufacturers (Levi Strauss, Nestle), retailers (Gap, Benetton), and marketers (companies like Nike, Liz Claiborne, and Disney) are the targets for campaigns by transnational NGO activists and labor groups usually based in developed countries that are intended to improve labor, environmental, and development conditions in Third World production locations.



The logic of the private governance model is to identify the most profitable and visible branded companies at the apex of global supply chains, not because the conditions of their suppliers are the worst in the world (actually, they are often quite good in relative terms), but rather because these companies have a to protect their reputation with consumers. Their global brand names become a double-edged sword: they are a source of great market power, but they also make branded companies vulnerable to charges of exploitation that could harm their image among consumers.

Figure 4. Private Governance Response:  
Codes of Conduct, Monitoring, etc.



Despite considerable progress, various challenges confront the codes of conduct regime. First, it is clear that government policy alone is inadequate to handle these grievances: they are transnational in scope, and they deal with social demands on which regulations are weak, ill defined, or simply absent. Second, there is a “free rider” problem in the sense that only a handful of the most visible branded companies (such as Nike, Reebok, The Gap, Phillips-Van Heusen, and Liz Claiborne) currently have codes, and they are receiving the brunt of the criticism from NGOs and unions even though their standards tend to be well above the industry norm. Thus, efforts to defend the collective reputation of apparel brands are concentrated among

the most visible branded firms,<sup>4</sup> and the large retailers and unbranded manufacturers who account for most of the global outsourcing in the apparel industry are not held accountable by the public for the labor violations of their offshore contractors. Third, there is much discussion regarding the possibility of consolidating codes of conduct, many of whose provisions are virtually identical, in order to avoid the time and expense of carrying out repetitive factory audits for similar codes.

Private governance in multi-stakeholder arrangements seeks to strengthen oversight in global supply chains by charting a course that goes beyond conventional top-down regulation based on uniform standards, on the one hand, and reliance on voluntary initiatives taken by corporations in response to social protest, on the other. Some argue that a continuous improvement model based on “ratcheting labor standards” upward would work well in a highly competitive, brand-driven industry such as apparel (Fung et al. 2001). Others propose a “compliance plus” model that pushes beyond the basic floor of minimum standards set by most codes, and seeks an “inside-out” approach to ethical sourcing based on training and empowerment initiatives that address the needs and interests of factory-based stakeholders (Allen 2002). Still others contend that because of the power relationships and conflicts of interest within the monitoring paradigm, greater involvement by workers themselves is essential in order for private monitoring to effectively address the sweatshop problem (Esbenshade 2004). In any case, private governance responses probably need to be integrated wherever possible with public efforts and legal institutions before sustainable social change is possible.

#### **4      Are We At a Turning Point?**

The next couple of years are a defining period for the global economic system. At stake, obviously, are the WTO and FTAA negotiations, both already behind schedule. But it is not just

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<sup>4</sup> The Gap, the largest U.S. clothing chain with more than 3,000 stores and an estimated 3,000 factories in 50 countries, promoted its corporate responsibility campaign with the publication of its 2003 “Social Responsibility Report” (Gap Inc., 2004). While Gap monitors found problems in many of its overseas suppliers, and revoked its stamp of approval from 136 factories in 2003, it took a big step toward making its anti-sweatshop policy more transparent, and thereby placed pressure on its branded and unbranded competitors alike to do the same thing.

the talks that are in peril; it is the future trajectory and shape of globalization. Can globalization be made more participatory, and if so, for whom and by whom?

What we are witnessing today is a crisis of governance – that is, of the inadequacy of institutions not only to *facilitate* market growth and stability, but also to *regulate* markets and market actors, and to *compensate* for undesirable effects of market transactions. The rise of an increasingly global economy no longer firmly rooted in nation-states, and one that encompasses a large portion of the developing world, is challenging the regulatory and compensatory capacities of both developed and developing countries. Northern governments find it increasingly difficult to maintain their capacities in the face of competition from less regulated, lower cost economies. Developing nations lack both governmental and societal capacities to cope with the domestic challenges imposed by international openness. And at the international level, little regulatory or compensatory capacity has evolved to take up the slack. Taken together, these developments have led to a *governance deficit* of considerable magnitude.

Governance deficits provoke social responses. The clamor over globalization represents a social response to the perceived threat posed by the global market to workers, the environment, and, particularly in the developing countries, to the stability of the productive system itself. In part, the movement can be seen as a protest against economic globalization. Indeed, many of the loudest voices in the social movement are merely obstructionist, and deserve to be labeled as anti-globalizers. But in important ways the movement is better seen as a response to the governance deficit created by economic globalization, and as a demand for greater governance.

Social responses create a demand for governance. Just as in the early part of the 20<sup>th</sup> century, when the rise of the welfare state in the public arena and patterns of collective bargaining in the private realm represented institutional innovations to meet the demand for new forms of governance at the national level, at the beginning of the 21<sup>st</sup> century we are witnessing the invention of global governance mechanisms. We discussed two of these above: the attempt to link labor and environmental standards to trade agreements (a public governance mechanism), and the trend towards corporate social responsibility in the form of codes of conduct and

monitoring (a private governance mechanism). Neither is likely to be sufficient, yet each constitutes an important innovation and points the way towards other governance responses.

In the current transition toward “full” or “deep” globalization, the governance deficit will likely grow more acute. Deeper economic globalization will require greater governance capacity. The contrast between robust facilitative institutions of governance and the lagging regulatory and compensatory institutions is stark. At the international level, there has been only modest movement to establish stronger environmental, labor, or other regulatory institutions (in the form of the “trade plus” and private governance initiatives discussed earlier), and even less action to provide compensatory mechanisms for redressing unequal market impacts. In the domestic arenas, the need for regulatory and compensatory capacity will likely outpace the growth of that capacity, particularly in developing countries.

These circumstances place enormous pressures on workers, on the environment, and on national governments. The question is: what alternative development strategies are available that balance the needs of economic growth, export efficiency, and domestic employment? Private governance approaches, such as corporate codes of conduct and more extensive factory monitoring, help to improve labor market conditions in some factories and in some developing countries. However, the regime of voluntary codes now in place is extremely vulnerable. Unless more firms are brought into the system, there is a chance that what has been accomplished so far will unravel. What is needed is a much broader conceptualization of the challenge before us, more creative thinking about how to address it, and the political will and opportunity to change course.

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