

The Tampere Lecture 2003

Globalisation and Varieties of Democracy

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I. Introduction

I have been asked to speak on the topic of the ‘future of democracy’ and to connect that topic, if possible, to globalization issues.

I shall meet this brief only in part. I will be talking about democracy and of how to think about democracy within the emerging global order. But that is a big topic and I shall only bite off a small part of it. Specifically, I shall try to engage with the question of whether globalisation represents a threat to democracy.

Lots of people seem to think so. They seem to think that globalisation diminishes the capacity of national polities to control their own affairs. They think that the capacity of citizens to determine their own collective future is likely to be whittled away by the forces of international economic competition. If this were so, then globalisation would indeed be bad for democracy – at least in one important sense. There would, in that case, be a further argument as to whether this was a bad thing or not. But as a matter of fact, I think the threat is grossly overstated. And that is what I want to argue this evening.

To do so involves me in speculating on the future of democracy. And I feel uncomfortable about that, for two reasons. For one thing, I am not much given to predictions. The closest I come to making them in the normal course of events is in the context of my local football pool. And I have to tell you that my record of success in that context is poor.

More to the point, I am not persuaded that ‘the future of democracy’ as such is a very interesting question. Democracy has over the last half century become a sacred cow almost everywhere. When someone describes some regime or some practice as “undemocratic”, they invariably intend that description as abuse – and we almost invariably take it as such. And when a regime self-describes as “democratic” we have learned to be a bit sceptical. All sorts of regimes have done so – including many of the more despotic and thuggish around. The term “democracy” usually does

more emotive work than it does descriptive or analytic. And it is usually used in contexts where that emotive work is intended. Whatever else, “democracy” has certainly won the battle of words: we are all “democrats” now. But what exactly that means is an open question.

The truth is that democracy comes in many different shapes and sizes – and the shapes and sizes are usually more interesting than the democracy. To describe a political system as democratic does not mean a great deal. We need to know what is meant by this description – which of the many variants of democracy the speaker has in mind and what features of ‘democratic order’ are taken to be crucial.

II. Varieties of Democracy

For the next little while I want to focus on the varieties of democracy and the implications of that variety. This will serve to put into play the pieces that I shall need in discussing globalisation and the alleged “globalisation threat” to democratic order. But for the time being, I shall set globalisation on one side.

I want at this point to offer an empirical generalisation, based on my own casual observations. This is that what most people take democracy to be turns out almost uncannily to be the particular set of political institutions and practices with which they are personally familiar – the institutions and practices that characterise their own domestic political arrangements.

Let me illustrate what I have in mind by reference to local experience. I mean here my locale, rather than Tampere’s of which I know little – and certainly less than I should. Australia is in fact one of the world’s older democracies. We have had virtually universal franchise for almost a century. Women were given full voting rights earlier than almost anywhere else. The first known instance of an election based on proportional representation was in Australia (for what that is worth, of which more anon.) For a long time, the ‘secret ballot’, which most people regard as a quintessential feature of a proper democratic system, was known as the Australian ballot, because it was first practiced there. In short, many of the features of democracy that have since come to be regarded as essential were initiated in Australia (or New Zealand, which has a similar history of institutional experimentation.)

But in addition, Australia has many institutional features that are quite distinctive. And in areas where the elements are not distinctive, the particular combination of elements is. So, for example, in Australia voting in State and Commonwealth elections is compulsory. The fine

for not voting is not very large, and the proportion of non-voters who are actually fined is extremely small. Nevertheless, the existence of the law is sufficient to ensure turnouts of the order of 98%. In most other parts of the world, this law would be seen as peculiar, and conceivably as highly objectionable. To many of a libertarian cast of mind, forcing people to vote represents a gross violation of their rights. Consequentialists might worry that, if parties do not have to work to get the party faithful to the polls, then an important discipline on party action is lost. Yet others might be concerned that if voters are forced to vote then the perceived legitimacy of democratic processes might be undermined. After all, many observers worry about low turnouts in countries where voting is voluntary on the grounds that such low turnouts undermine legitimacy. But simply rounding up the voters and compelling them to attend the polls might well strike such observers as a cure worse than the disease. For Australians, however, the thought that Australian law might be changed and voting made voluntary strikes almost all of them as an assault on a crucial feature of their democracy. It is hard to find an Australian who does not regard compulsory voting as, not just a virtue of the Australian system but something that is crucial to the functioning of “true democracy”. What “true democracy” is for an Australian, in this particular respect, turns out to be pretty much what Australian practice is. The same goes for preferential voting, for single member electoral districts, for strong bi-cameralism – all elements of the distinctive Australian institutional mix. Actually, partisans for the ruling party in the lower House do often complain about the Senate’s powers – but they change their tune quickly enough when they become the opposition, and join the general chorus of praise for Australian institutions.

Australians are not unique in this affection for their own. Ask an American what is crucial for democracy and you are likely to be given a description, more or less, of the US system – with its particular form of the separation of legislative and executive powers, its bicameralist structure, its emphasis on a written constitution and so on. Equally, every Swiss political economist I know seems to be an advocate of citizens’ initiative and direct democracy. Is it just accident that these are practices that are distinctively predominant in Switzerland? Those who come from countries with electoral systems based on proportional representation are disposed to think that a system of single-member electoral districts is indispensable to true democratic procedure. They find it puzzling that a party might be elected to office in a two-party system with only 40% of the popular vote. It is, of course possible to win an election with 26% of

the total vote – 51% of the votes in 51% of the electorates and no votes in any other electorate. Needless to say, such outcomes are rare. But it is not unusual for a party to win office in Australia with less than 50% of the two-party-preferred vote. People who come from the outside often regard any such outcome as just inherently “undemocratic”. But that is a feature of the system that applies in the US, the UK and Canada – and these countries are not undemocratic by world standards, whatever else they are.

Equally, observers from two-party systems find it a strange feature of PR systems that it is not an easy business to get rid of a government that has, as we might put it, “lost the confidence of the people”. Parties can lose large numbers of votes and seats, and end up with more power than they had before. The size of parties can change, while the basic composition of the government remains the same for long periods. Proportional representation systems are good for some things; but they are not good at locating political responsibility – and certainly not as good as two-party systems are.

The general point is that, not only is democracy as such a sacred cow in political circles, but what people almost everywhere tend to mean by democracy – what is taken to be “true” democracy – is the particular variant with which they happen to be most familiar – namely, their own. We shouldn’t perhaps be too surprised at this. Political arrangements invest a significant amount of effort in their own justification. Politicians, often persons selected for their rhetorical gifts, tend to look benignly on the institutional forms within which they personally have won success. They are professionals at massaging “national identity”. And one aspect of national identity that is most salient to them is the distinctive political institutions their country exhibits. I take it that in Finland, politicians are more likely to appeal to the worthy traditions of Nordic democracy than to the no less worthy traditions of British or American democracy. But of course equally, British politicians when they want to invoke spontaneous cheers, do not invoke Nordic democracy either. By and large, each of us tends to be committed to the political system we know, even if we are critics of what government does, or political sceptics by disposition.

Nor is this all bad, by any means. Stability is an important attribute of political institutions. Certain inertia in them is an advantage. And political legitimacy, which goes with that stability, depends on political institutions having the broad support, even affection, of the broad mass of people.

Still, there is something a bit disturbing about this state of affairs. If democracy as such, and the particular variant of it that happens to prevail

in our respective parts of the world, are valued essentially for their own sake, then something important is missed. I do not think that democracy is to be properly conceived just as a value. We admire democracy, if we do, not so much in itself but rather because of the good things we think that it gives us: greater freedom; or greater justice; or greater prosperity; or greater something else. And if “something else”, then exactly what that something else is needs to be specified. To say this is not to imply that we shouldn’t value democracy, or we should value it less: it is just to say that we should value it more as a means to some, more basic ends, than as an end in itself. We shouldn’t in that sense value democracy entirely unquestioningly – exclusively as a matter of political faith. We should value and desire it on the basis of judgements about what it delivers – judgements that can be questioned and defended intellectually.

And we might hope that in the process of that questioning and defending, we can discover which of the many variants of democracy is likely to best give us what it is we most want.

Now, if a particular set of political institutions is valued in part because of its consequences, then we need to be clear as to what those consequences are. And not all of these consequences are entirely self-evident. For example, it is a well-attested feature of proportional representation (PR) systems that they tend to give rise to a more extensive welfare state than do two-party single-member electorate systems of the Anglo-American kind. That seems to be borne out empirically in the work, say, of Arendt Lijphart. And there are good theoretical reasons why we ought to expect that outcome. But are we to suppose that this consequence of PR is a primary reason why the countries that have it adopted it, or remain with it? Are we equally to assume that countries that do not have PR have rejected it for the same reason? I think not. My suspicion is that the implications of PR for the welfare state were largely unintended consequences of the institutional choices originally made.

Equally, single member electoral district systems lend electoral politics a geographic cast that is essentially absent under proportional representation. The concept of a “marginal electorate” makes no sense in a PR system. But in the Australian case, protection policies seem to be crafted with an eye to their effects on industries that are relevantly geographically concentrated; and decisions on the number and location of universities seem to be motivated in part by marginal electorate considerations. In the US, what seems to be the most common form of Congressional vote-buying involves expenditure policies targeted at particular electoral districts. Under PR, special interest parties can of course get explicit political representation;

but the special interest in question is rarely of a geographically oriented kind. Again, it is not clear whether these differences played a major role in the original design of the institutions under which various political systems operate. But it seems clear that institutions have significant consequences for the kinds of policies that emerge under them.

At the same time, there are feedback effects that operate in the other direction. As public choice scholars have emphasised, we should not expect the political system to operate independently of economic forces. Salient interest groups will predictably lobby governments to implement policies that favour their particular interests. So, for example, as emphasised in the work of David Soskice, powerful industrial interests will predictably exercise their influence to ensure that education policies are as far as possible oriented towards the needs of their industries. Where education is mainly a public activity, education policy is to be seen as part of the overall structure of industry-support mechanisms. And in corporatist systems like Japan and Germany – though the two are different in many other respects – this influence will be exercised explicitly within the political structure. In the British and American economies, the education systems are largely independent of direct industrial control, and individuals have greater incentive to acquire education that is flexible, that can be used in a wider variety of employments, and that is geographically as well as industrially mobile. Whether the education system is of this flexible kind or whether it is expressly tailored to the needs of existing industry will, in turn, have consequences for the operation of the respective economies of the two kinds of systems.

More generally, whether it is the case that institutions drive policies, which in turn drive economic structure; or the economic structure that drives the choice of policies and institutions, one thing seems clear. It is that political institutions, public policies and economic structures can usefully be seen as part of an overall ‘equilibrium system’ in which the various elements are broadly consistent and to some extent mutually supportive. I don’t want to suggest that any such equilibrium will be exempt from internal tensions. As a matter of fact, I tend to the view that political and economic considerations are often in conflict – more often than most of my economist colleagues are inclined to allow. And I shall want to indicate later one particular instance of that conflict. But I also want to concede that, as a first approximation, we can indeed think of the political/institutional/policy/economy nexus as a single equilibrium system, with significant mutually enforcing and supporting influences operating across all of the various connections.

All this serves to set the scene for the discussion of globalisation that follows. The picture of the global order that is on the table is one in which there is a set of rather different economic/political systems, most of them broadly democratic, but with quite some variation in the institutional detail, and therefore quite some variation in the kinds of policy regimes that the various systems give rise to. There will be different degrees of central determination, different sizes of government in aggregate expenditure terms, different public expenditure priorities, and so on. In turn, those different policy regimes will be conducive to different patterns of economic activity. Some systems will be more conducive to innovation, to greater mobility of workers across employments and locations. Others will be more suited to long-run stable economic activity, somewhat resistant to innovation except within the prevailing structure of firms.

So, two general claims. First, political institutions have consequences for policy, for economic structure, for the sorts of goods that the economy is likely to have a comparative advantage in.

Second, each country is likely to develop a certain affection for its own style of doing political business, and for the policy regime to which its political institutions give rise. Each country is inclined to see its own particular version of democracy as “the best”, or at least as the most essentially ‘democratic’. And so there is natural concern if the policy regime in place, or the political institutions themselves, are seen to be under some threat from the forces of globalisation. The question is whether globalisation really poses such a threat.

III. Globalisation

Unlike democracy, which everyone seems to love – at least nominally – globalisation is deeply contested. But like democracy, globalisation is a term that often carries more emotional than descriptive or analytical freight. Indeed, one of the striking things about many of the critiques of globalisation is the lack of consensus about what precisely is being attacked. I was for example puzzled and somewhat mystified when I recently read Joseph Stiglitz’s book entitled *Globalisation and its Discontents* to discover that what the book delivered was basically a diatribe against the IMF and its allegedly mindless free-market ideology. This was, I should add, not a diatribe against “global institutions” or their emergent power more generally – since the World Bank emerges in the book as the “good guys”. I say I found this mystifying because Stiglitz

is a good economist and, I had thought, a reasonably sensible man (supposing that these are not mutually exclusive categories!). But, in some ways, if the IMF and other global institutions like it have more power rather than less in the current world order, that would strike me as at best orthogonal to the process of globalisation, and arguably somewhat antipathetic to it. I suspect that Stiglitz was in the grip of an editor who had a wonderful title for a different book!

Still, I think Stiglitz does pick up on one reasonably wide-spread anxiety about something that globalisation is taken to entail – namely, the anxiety that globalisation will lead to the homogenisation of the world, and specifically homogenisation along American lines. Countries that have their own distinctive ways of doing things and their own distinctive political-economic institutions find themselves confronted with a “one-size-fits-all” ideology that seems to leave no room for cherished particularities. Globalisation is seen as primarily an exercise in American hegemony. And so understood globalisation is seen to make an assault not just on various customs and practices but on political institutional arrangements that are, as I have said, an important part of the national identity of the countries involved. Critics of globalisation mistrust globalisation in part because it is seen as a threat to institutional autonomy. Perhaps they are right to mistrust the IMF on such grounds. But on what basis are we to regard the IMF as the spokesman for, or as an articulation of, ‘globalisation’?

So I had better make my own conception of globalisation clear. What I shall mean by the term is the reduction in the costs involved in the international transfer of goods and services. This is, to be sure, an economic definition, but it is I think a reasonable point of departure because much of what is at stake in the transfer of goods and services generalises to the transportation of capital and labour and information and ideas.

To make the argument stark, it is useful to focus on the simplest case. Consider two national economies that have developed in isolation from one another. Suppose, at some point, a new technology is developed that permits the transport of goods between those two economies. What will be the effect of opening trade between them? This is, I think, a useful way of thinking about globalisation, because the effects are similar in kind to those that occur more marginally when there is a reduction in transport costs. It just makes the message clearer to deal with a more extreme example.

Our interest here is in one particular question – namely, is there any reason to expect that the opening of trade will involve pressures that lead to greater homogenisation of political institutional structures? Will trade

encourage the trading partners to adopt more similar political institutions and/or policies?

Standard international trade theory suggests that the effects of trade on homogenisation are ambiguous. Specifically, globalisation as I have defined it, encourages convergence in consumption patterns but greater diversity in production activities. Before trade wool costs more in Portugal than wine; and wine costs more in England than wool. So in Portugal, citizens will consume a lot of wine, but rather less wool. The English will have cheap high quality clothes; but they will be drinking their own local wine – which is low quality and expensive. After trade, the relative prices of wool and wine tend to converge to the same levels in both countries. The Portuguese will dress better, because more cheaply; the English will drink better, because more cheaply. So whether one lives in Portugal or in England, one's consumption patterns will be much the same. All this will be familiar to the student of elementary economics – but the implications for diversity and homogeneity are worth underlining.

We can certainly expect that globalisation – increased trading opportunities internationally – will lead to more McDonalds franchises across the globe. This is the McWorld phenomenon that many critics of globalisation complain about. But globalisation also leads to a greater variety of restaurant options of all kinds. Over the last thirty years in Australia – to take the case with which I have the greatest familiarity – the range of eating options has increased enormously. French, Italian, Chinese, Vietnamese, Thai, Turkish, Indian – all plausibly claiming some degree of authenticity to the original. You do not have to go to France to have top quality French cuisine. You can have it in many parts of the world, and especially in those parts most open to trade. I was intrigued some years ago to read that the most common evening meal in the US was some form of pasta. McDonalds may have a presence in Rome; but Italian cuisine it seems has overtaken America.

The eating case is just a conspicuous example that can be replicated a thousand times over. For the tourist, the increased homogeneity can make for a certain disappointment. In the old days when one travelled, the restaurant options in each place seemed more different. Now, with the reduced costs of international commerce you don't have to leave home to have almost all the variety you want. Or at least this has been my experience. And it is certainly what the theory predicts.

But there are also ways in which countries have become more different. As Portugal specialises in wine production and England in wool production, the shape and structure of their respective economies becomes more

unlike. Before trade, there was an English wine industry. After trade, it is a tiny boutique activity. Before trade, there was a large Portuguese cloth industry. After trade, most of the Portuguese productive activity is devoted to satisfying the almost insatiable English demand for wine!

And this increased specialisation has an effect within the wine and wool industries themselves. So while we're on the topic of wine, consider the Australian case. Increased exports have meant that there has been a very significant investment not just in quantity but in improving the quality of Australian wines. And to some extent to making the Australian product more rather than less distinctive. This is a topic on which I can easily become boring; so let me just remark that the tendency in Australia these days is to exploit the distinctive features of Australian wines – to go for yet bigger, fruitier “blockbuster” style reds – because these are the features of Australian wines that make them distinctive. In short, globalisation has meant not just a more extensive wine industry, but a wine industry that produces a product that is not producible anywhere else in the world. We have become in that sense more distinctive, not less. The effect of trade has greatly increased investment in technology and expertise; there's been significant expansion in the industry and a major increase in the average quality of the product. There has of course also been something of an increase in wine prices – especially at the top end – because Australian consumers effectively compete with American and British connoisseurs – and for all I know, Finnish ones as well. But all this is basically what the theory would predict.

To the extent that relative prices of goods differ between countries, such differences are more likely to reflect government policies than natural barriers to trade. The price of wine in Finland is not to be explained by the cost of producing wine in Finland: quite rationally, mobile phones are produced in Finland and wine in France, California and Australia. If the price of Australian or French wine in Finland is high, this fact reflects Finnish tax policies and perhaps other parts of the prevailing regulatory regime rather than transportation costs.

And this observation brings me back to the question as to whether and to what extent globalisation – reductions in the natural barriers to trade – makes for greater institutional and policy homogeneity. Does globalisation mean that we have to give up on some of our cherished political institutions and their associated policy regimes?

Reasoning from the simple trade model suggests that there would be greater pressures towards homogenisation in political institutions and policy regimes when these things are internationally traded consumption

goods, like food and wine. But they are not. They are either non-traded 'services' – or part of the production side of the analytic ledger.

I want here to focus for a moment on this latter aspect. We said earlier that different institutional arrangements tend to lead to different policy consequences, and that different policy regimes can play an important role in shaping a country's economic structure. What this means is that comparative advantage may owe as much to policy-regimes as to geographical factors. To explain the Australian car industry, for example, one should look as much to our tariff structure as to our iron ore or coal deposits, or any natural automotive talent in the Australian population. The world-wide dominance of French cheeses owes perhaps as much to French agricultural policies as it does to natural factors.

But this is as we should expect. As globalisation leads to greater specialisation in production, as entrepreneurs exploit local features of the policy regime to develop productive capacity in particular goods and services, so political forces will develop to support those developments. And the increased political support for those developments will in turn encourage increased investment in those areas.

To the extent for example that Finnish policy was conducive to the emergence of the mobile phone industry, then that industry developed and expanded under the forces of globalisation. And as it flourished, the political stakes in its continued flourishing increased. And with that industry of course the capacity of the industry to mobilise political pressure also increased.

Here then is the general picture. Increased globalisation means increased productive specialisation. That increased specialisation involves increased political pressure to support the policies that are congenial to the expanded industries. And this tends to give rise in turn to greater specialisation. The point is that political process is not a totally passive player in this overall story. Political institutions may lead or they may follow. Probably they do both. But they tend to move in a direction that is consistent with the changes that globalisation encourages. Globalisation and policy regimes tend to be mutually reinforcing in their effects on specialisation.

And by "policy regime" here I do not just mean specifically oriented industrial policies of the tariff protection, tax advantage kind. As emphasised in the comparative capitalism literature, welfare policies, education policies, health insurance arrangements and a whole host of other more general public activities are implicated here.

So, at least on the face of things, there is no reason why globalisation should lead to a convergence of institutional arrangements or associated

policy regimes. On the contrary, we ought to expect increased institutional and policy heterogeneity, as increased specialisation encourages those features of the political regime that are especially conducive to expanding industries. There seems no reason why we ought to expect any increased homogenisation of institutional practice or policy regime, and certainly not around a specific American model.

Indeed, there is a further normative point that ought to be underlined here. When we do international comparisons of political institutions, we are inclined to evaluate the options comparatively – to rank them according to various criteria in the search for the “best”. The foregoing remarks suggest that this may be a mistake. It is in Australia’s interests to have Finland produce first-class mobile phones and not try to imitate Australia in the production of wine; likewise, it is in Australia’s interests to have Finland maintain its distinctive political institutions – at least to the extent that those institutions are conducive to the maintenance of a vibrant mobile phone industry. In this sense, it is precisely not in Australia’s interests to have Finland imitate Australia’s political institutions. Within the global trading perspective, it is not the case that it would be better for all to adopt the same political institutions. Some heterogeneity across trading partners seems to be a “good thing” and positively to be encouraged. And this not because of a kind of global tolerance of diversity; but rather because of a recognition that the relation between alternative institutional configurations is symbiotic rather than competitive. Let me elaborate briefly here.

We are sometimes inclined to think that competition is the key feature of the international market order. That is a mistake. The essential feature of the global market is that it is a huge engine for cooperation. As Adam Smith recognised, the market is to be justified because and to the extent that it is the most effective arrangement in mobilising such cooperation. The doctor and the farmer cooperate in ensuring decent diet and decent health for both: neither would gain if the doctor decided to become a farmer. The specialised producers within the market order – whether purely national or international – are in a symbiotic relationship in which each gains from the other’s distinctiveness. To the extent that distinctive political institutions and the distinctive policy regimes to which they give rise operate to undergird distinctive patterns of productive activity as between nations, then those political features too are symbiotically rather than competitively related.

I see nothing in the basic logic of globalisation that would give grounds for fears that American political institutions and practices will come to

dominate the world. That would not be good for either America or the rest of the world.

Now having said all this, it is I think undeniable that globalisation may increasingly threaten several features of some policy regimes. Globalisation does involve increased competition; and that means that countries will find it more difficult to place high rates of tax on mobile factors of production. Brain drains and skill drains will become more of a constraint on the taxation of human capital; just as the increased mobility of financial capital has limited capacity to levy capital income taxes around the world. In other words, relatively immobile factors of production will come to bear a higher burden of total taxation; and this will in turn have effects on the shape of policy. This is clearly likely to be a much bigger problem for countries that already have high tax rates and generous social welfare schemes. The Nordic countries clearly fit that categorisation. And for them globalisation may well involve increased tension between a popular political demand for generous social welfare provisions and the economic reality of what weight the fisc can actually bear. It is clear that the welfare state operations within Nordic countries are very popular politically. Whether they will prove entirely sustainable economically is an increasingly pressing question. And it is a question that is pressed partly by increased globalisation.

In other words, globalisation will place some constraints on the policy regimes that countries can maintain. But within those constraints, nothing suggests that the choices different countries make will be or ought to be the same. Within the domain of what is economically feasible, all countries gain from the political institutional heterogeneity among them. The challenge for each country is to find its niche – not to ape what is done elsewhere.

Within the global political economy, expanded trade can be predicted to provoke greater political institutional heterogeneity, not less. It may not be an altogether good thing that we are as unquestioningly devoted to our own particular variants of so-called “democratic practice” as we seem to be. But whether that devotion is a good thing or not, globalisation does not seem to me to represent any deep challenge to either the variety of practices or to the devotion that attaches to the particular variants.

