Globalization and the Nation-State: Concerning the Transformation from the Welfare State to the Competition State

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Over the past two decades a great number of studies have been made concerning the relationship between globalization and the nation-state, and since the mid-1990s a "backlash"[1] against the mainstream approach has emerged.[2] Previously, in contrast, the majority of studies had focused on the decline of the nation-state caused by globalization. In those studies, the nation-state, particularly the welfare state, was regarded as passive against the advent of globalization and as deprived of sovereignty and the capacity to manage the economy. Since then, in parallel with them, studies shedding light on states as an active agent have arisen, which emphasize the role of the state in promoting and driving globalization. In particular, we should note studies that grasp the state through the concept of the competition state, into which the welfare state is considered to have transformed. In addition to these two approaches, studies concerning policy globalization or global governance have also been on the increase.

In this paper, I would like to start summarizing the above three approaches that have emerged in series since the 1980s: namely a structure-centric, agent-centric and policy globalization approach respectively. Second, two models depicted by the former two approaches, that of a declining welfare state and a competition state respectively, are scrutinized and used as ideal types to analyze policy transformation in the United States and Japan. Finally, the implications of the concept of the competition state for further studies are examined.

THREE APPROACHES

Studies concerning the relationship between globalization and the nation-state can be classified as having three types of approach.[3]

The first approach examines the impact of globalization on the nation-state, particularly on the welfare state. This approach is termed a structure-centric approach,[4] because it privileges the global structure as a "realm of necessity" and is based on the "strong globalization/weak state" theories that "portray it as a techno-economic, natu-

* The first version of this paper was published in Japanese in *Keizai Riron Gakkai Nenpo Dai 40 Shu* (Bulletin of the Japan Society of Political Economy, No.40), 2003, titled "Globalization to Kokumin Kokka: Fukushi Kokka kara Kyoso Kokka eno Tenkei Setsu no Kento wo Tyushin ni" (Globalization and the Nation-State: On the Transformation from the Welfare State to the Competition State). This paper is a revised version of the work.

1 Hobson and Ramesh (2002: 5).

2 Plan and Abbott (1999: 5)

3 Yeates (2001: 20) classifies studies concerning the relationship between globalization and social policy into three approaches. This paper's three approaches are based on her classification, but the content and naming of each approach vary from her choices.

4 Hobson and Ramesh (2002: 5–7).

ralistic and inevitable force which erodes states' political powers, policy autonomy and their public policy role."[5] In other words, it conceives of globalization as "an economic, external phenomenon which is largely passively received by states"[6] and the impact as the erosion of state's sovereignty, policy autonomy and public role and as the so-called "race to the bottom." Since it argues the decline of the nation-state in general and the welfare state in particular, we may also term the model it depicts a declining welfare state model.

Conversely, the second approach examines the impact of the nation-state on globalization. We should note, among other things, an approach that emphasizes the impact of the nation-state as the competition state on globalization, into which the welfare state is considered to have transformed. This approach is termed an agent-centric approach, since it privileges agency (states) and is based on the "weak globalization/strong state" thesis conceiving of globalization as a creature with states as active agents. A model depicted using this approach can be termed a competition state model. It also emphasizes strategic responses and the capacities of states for adaptation. To be precise, it focuses on how states as competition states deploy diverse strategies for globalization according to their position within the global political economy as an economic and political world order and according to their individual national histories, institutions and political power structure.[7]

The third approach examines globalization of the nation-state itself. I would like to call it a policy globalization or global governance approach. Policy globalization has been observed, for example, in international macro and micro economic policy coordination, the move to "global security" and "global social policy," OECD's treatment of the so-called "harmful tax competition," etc. In this connection, we may also draw attention to regional economic blocs and policy coordination such as in the EU, if not global. Policy globalization or global governance has been rendered necessary due to limitations of each nation-state and, to put it more concretely, by the decline and rise in the welfare and competition state respectively. In other words, it has arisen from the need to cope with the welfare state in crisis and the decline of the Pax Americana as well as the need to maintain the global political economy. We can identify a policy globalization model (a prototype) based on the third approach with the international "locomotive' strategy" used for international policy coordination in the second half of the 1970s. At that time, the United States could no longer carries the world economy unassistedly and tried to force Japan and West Germany to share the burden of maintenance costs involved by making them expand their domestic demand. Thereafter policy coordination took place during the G-5 Plaza Accord in 1985 and during the G-2 and G-7 "world growth strategy" in 1992. Although macroeconomic policy coordination seems to have been declining since the mid-1990s, efforts to coordinate national policies have been progressing in various locations. Policy globalization and global governance necessarily involves the burden-sharing of maintenance costs of the global political economy.[8] This research area

5 Yeates (2001: 2).
6 Yeates (2001: 32).
7 Yeates (2001: 3)
8 See Higuchi (2002).

is very important, but a detailed discussion is beyond the scope of this paper.

Besides this triple categorization, there is the classification into two theories as referred above: the "strong globalization/weak state" and the "weak globalization/strong state" theses.[9] Needless to say, the former corresponds to the first approach and the latter to the second. In any case, there appear to be three approaches, but we need not think that any single one of them is absolutely right. Each approach grasps an aspect of the object. The key is to reconstruct a picture of the global political economy as a whole on a systematic basis, using all three as the basis for doing so. With this in mind, the current paper is a preliminary work towards this goal.

THE DECLINE OF THE WELFARE STATE

In the first approach, globalization is supposed to be "a techno-economic, naturalistic and inevitable force which erodes states' political powers, policy autonomy and their public policy role." The nation-states are depicted as "coming 'under siege' from global capital and its institutional allies" and as "having no choice but to pursue social and economic policies that are compatible with the 'realities' of globalization and the 'needs' of the international business classes."[10] Supposedly, globalization undermines the economic, political and social foundations of the welfare state in particular.

Aspects of the erosion of the welfare state may be summarized as follows:[11] First, the welfare state loses its tax revenue, because the state has to counteract the acceleration of capital mobility through cutting taxes on capital that means expansion of the so-called exit option. The so-called tax competition emerges in the global political economy and it leads to shifting the tax burden on capital to labor. Consequently, the welfare state finds income redistribution, its essential function, problematic.

Second, acceleration of capital mobility puts pressures on labor market and renders it flexible, i.e. leads to wage cuts and increased unemployment. It weakens organized labor that constitutes the main power base of the welfare state. In short, increasing economic openness renders mobile capital dominant over immobile states and labor, and put pressure on expensive states and labor to be cheap. Thus, the state is deprived of tax revenue and forced to reduce social welfare expenditures that are supposed to lead to heavy taxation.

Third, financial globalization makes a considerable impact on the welfare state as follows: (1) the threat of downgrading by credit rating agencies compels states to perform "credit watch" and fiscal consolidation; (2) the state has to reduce fiscal deficits and restrain inflation in order to obtain the confidence of domestic and foreign investors.

Fourth, Keynesian fiscal policy for full employment loses its effect or its mobilization is restrained in the following ways: (1) increasing market openness makes aggregate demand stimulated by fiscal policy more and more being spent on foreign goods and encourages increases in import and current account deficits, though this is not always the case; (2) as the state is forced to reduce fiscal

9 Hobson and Ramesh (2002: 5).
10 Yeates (2001: 2).
11 Stryker (1998), Mishra (1999), Yeates (2001), et al.

deficits due to the exit option of capital, it becomes difficult to mobilize fiscal policy; (3) in terms of policy thought, neo-liberalism rises and Keynesianism declines.

In brief, according to the 'strong globalization/weak state' thesis, the welfare state is, thanks to globalization, deprived of its tax revenue, has its main power base dismantled, is subject to forced fiscal austerities, and driven to the extent that it loses its capacity to mobilize Keynesian fiscal policy. This can be termed a declining welfare state model.

As a result, policy autonomy of the state becomes largely limited in nature. In other words, the state sees serious narrowing of its policy options. Based on these facts, two main scenarios for the welfare state have been argued and debated:[12] policy convergence and a "race to the bottom." The former argues that the welfare state has no alternative but to adopt similar economic, fiscal, and social policies, such as deregulation, privatization, and welfare cuts. It goes on to state that welfare states have converged into the competition state. The latter, which is also known as "social dumping," is an aspect of the former and means that states scramble to lower its various domestic standards of social protection that cost capital.

In response to the decline of the welfare state caused by globalization, policy globalization or global governance has emerged. The third approach as mentioned above deals with this issue. Keynesian fiscal policy is a typical example. National Keynesian fiscal policy was made difficult by the collapse of the Bretton Woods international monetary system and globalization. In response to this situation, international Keynesian fiscal policy as international policy coordination emerged. Examples of this included the "locomotive" strategy in the second half of the 1970s, the "Plaza" strategy in the second half of the 1980s and the "Strategy for World Growth" in the first half of the 1990s. However, international Keynesianism has declined since the mid-1990s and so-called global social policy has also shown few signs of real progress. At the beginning of the 21st century, with talk of the American unipolar age or the American empire, policy globalization seems to experience a setback.

Policy localization or decentralization are equally deserving of attention as well as policy globalization and there are also many arguments that the "strong globalization/weak state" thesis exaggerates the decline of the welfare state.[13] For further research, it is necessary to analyze the actual situation of the welfare state.[14]

THE EMERGENCE OF THE COMPETITION STATE

Although the crisis, decline, dismantlement, or end of the welfare state and the post-welfare state has been argued widely in developed countries since the 1970s, it seems that there have been only a few studies that make an attempt to positively conceptualize

12 Yeates (2001).

13 For example, Campbell (2004: 173) argues as follows: "the extent of globalization has been misunderstood, the causal mechanisms by which globalization is said to influence national institutions have been oversimplified, the effects of globalization have been exaggerated, and the national-level institutional changes that have been attributed to globalization have been far more evolutionary than revolutionary."

14 Hayashi, Kato, Kanazawa and Mochida (2004) analyze welfare state finance in the United States, the EU, and Japan and discuss whether the welfare state has been in decline or not.

the post-welfare state or a newly emerging type of state. The background seems to be the fact that nation-states in advanced countries appear to retain character as the welfare state in terms of both social welfare expenditure levels and institutional configuration. Accordingly, it may be that we should not argue in haste the end of the welfare state. However, that being the case, we cannot make sense of the new economic and political trends since the 1980s, such as the rise of neo-liberalism and policy deployment it has spawned, transformation of the state, the revival of American hegemony and its turn to the "empire," etc. That is why we would like to note the studies that grasp it as the transformation from the welfare state to the competition state. Such studies first appeared in the United Kingdom where neo-liberalism was the first to emerge in Thatcherism.[15]

The transformation from the welfare state to the competition state[16] began against the background of the welfare state in crisis, which was caused by its decreasing capacity to insulate the national economy from the global economy, so-called stagflation, the "overloaded" states, etc. In short, the competition state appeared as a response to the welfare state in crisis, to be concrete, in the from of Thatcherism and Reaganomics and has been since also termed a "neo-liberal" state or Anglo-American model. In other words, in response to their industrial decline, heavy stagflation and declining position in the world economic and political order, the United States as the hegemonic country and the United Kingdom as the former hegemonic country, both of which have been international financial centers, were the first to convert to the competition state.

The competition state aims to strengthen national competitiveness and to this end promotes marketization or commodification. Its policy stance is contrary to the welfare state that was intended to promote decommodification under the strong pressures of socialism at home and abroad. The state transforms from a "decommdifying" to a "commodifying agent", a role which it was often seen to play in the emergence of capitalism in the years of mercantilism.[17] This competition state's marketization strategy, needless to say, has stimulated globalization.

According to Cerny, the transformation of the welfare state into the competition state involved four types of policy change: (1) a shift from macro-economic to micro-economic interventionism, as reflected in both deregulation and industrial policy; (2) a shift in the focus of the interventionism from the development and maintenance of a range of "basic" economic activities to one of flexible response to competitive conditions in a range of diversified and rapidly evolving international marketplaces, i.e. the pursuit of "competitive advantage" as distinct from "comparative advantage"; (3) an emphasis on

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15 It seems to be Cerny (1990) who first used the concept of the competition state. See Peterson (1993: 5). I would like to examine here the competition state according to Cerny (1997), Cerny (2000) and Palan and Abbott (1999). There are some concepts similar to the competition state, of which one is Jessop's "Shumpeterian workfare state" that put emphasis on innovation and flexibility. It is regarded as grasping a new type of state positively and as replacing such negative concepts as the post-welfare state, "post-Keynesian state" or "post-Fordist state." In Germany, separately from studies in the United Kingdom, Hirsh (1995, 1997) uses the concept of "Der nationale Wettbewerbsstaat" (the national competition state).

16 Cerny (1990) and Cerny (1997).

17 Cerny (1990: 230).

the control of inflation and general neo-liberal monetarism as the touchstone of state economic management, (4) a shift in the focal point of politics from the general maximization of welfare within a nation (full employment, income redistribution, and social service) to the promotion of enterprise, innovation and profitability in both private and public sectors.[18]

With respect to micro-economic interventionism, Cerny points out some innovations in the area of industrial policy and related strategic trade policy. The state can alter some of conditions determining competitive advantage: encouraging mergers and restructuring; promoting research and development; encouraging private investment and venture capital, while providing or guaranteeing credit-based investment where capital markets fail; developing new forms of infrastructure; pursuing a more active labor market policy while removing barriers to mobility and so on. Continuing on this theme, deregulation as another micro-economic interventionism, it is argued, should not be seen as merely the lifting of old regulations, but also the formation of new regulatory structures which are designed to cope with shifts in competitive advantage. Furthermore, it is pointed out that these new regulatory structures are often designed to enforce global market-rational economic and political behavior concerning rigid and inflexible private actors as well as state actors and agencies, and that the state itself is increasingly marketized or "commodified" and becomes the spearhead of structural transformation to market norms both at home and abroad.[19]

We must note that the competition state is neither a night-watchman nor a laissez-faire state. It is an interventionist state for market creation. According to Levi-Faur, the competition state is a neo-mercantilist state that plays the part of market generator, which cannot reconcile with economic liberalism. He distinguishes "regulated" from "deregulated competition" that implies the retreat of the state from the economy or a matter for any "invisible hand," and then illustrates two types of regulated competition: "regulation-of-competition" and "regulation-for-competition." While the first is a liberal form of intervention aiming to correct market failure, the second has a mercantilist character and aims at market creation by the state. The competition state may deregulate some area while enforcing competition in others; it functions as "the generator of market." Its aim is also to promote national interests through the creation and enforcement of competition.[20]

The above illustrates a general character of the competition state or a competition state model. Variance in state strategy would, of course, trigger wide variations in the competition state. In other words, competition states would adopt diverse strategies, conditioned and constrained in particular by the position of each state relative to the global political economy. Defining the competitive strategy in general as "a set of policies that are explicitly aimed at improving the climate for business (national and/or multinational) and hence at enhancing the 'competitive' advantage of such countries in the global economy," Palan and Abbott[21] identify seven competitive strategies, four of

18 Cerny (1997: 260).

19 Cerny (1997: 264).

20 Levi-Faur (1998).

which are open primarily to developed countries, while three are primarily open to less developed countries.

The former four are as follows: (1) "strategy of size" or joining in large markets (large regional blocs such as EU, NAFTA, etc.); (2) strategy of the "developmental state" (East Asia); (3) "shielding strategy" (selective integration into the world economy) of the "social democratic" state; (4) strategy of the hegemonic country (the United States). Just for information, the latter three, which are beyond of the scope of this paper, are as follows: (5) "downward mobility strategy" (exploiting their cheap and abundant labor); (6) "parasitical strategy" (exploiting parasitical niche in the world market such as tax havens and off-shore finance); (7) no strategy (impeded from joining the competitive game at all). These strategies are supposed to represent ideal types and not mutually exclusive: states can and do pursue them concurrently and simultaneously.

In terms of the agent-centric approach, it is very useful to note variations on the competition state. As it is impossible to examine appropriateness of each strategy identified above in a very thorough way, I would like to take this opportunity to examine two developed country's strategies: namely American strategy as a strategy of the hegemonic country and Japanese strategy, supposedly as a strategy of the "developmental state." The United States, together with the United Kingdom, was the first nation to transform into a competition state in the first half of the 1980s and it generated "the second American model" in the latter half of the 1990s against the background of the end of the Cold War, globalization, and the information technology (IT) revolution, though the country had been perceived to be in decline up to the first half of the 1990s. In contrast, Japan went into a slump in the 1990s when the economic bubble burst, triggering long stagnation and accentuating ineffectiveness of Keynesian fiscal policy, though the country had been regarded as rising and representing a leading growth model up to the beginning of the 1990s. However, it seems to have transformed itself in recent years into a competition state under the Koizumi administration.

COMPETITION STRATEGY OF THE UNITED STATES

The hegemonic country in its prime period may not so much need to adopt a strategy for national competitiveness, because it undoubtedly possesses the strongest competitiveness in the world. When strong rivals rise and its industries begin to weaken, this is the moment the hegemonic country launches its competition strategy, exploiting benefit accruing to it. To be the hegemonic country involves benefit and cost alike. The benefits relate to the matters involving the country building and determining the economic and political world order and related rules. The so-called privilege of the key currency country is one of them. Costs, meanwhile, include maintenance costs of the world order, in other words hegemonic burden-sharing of the costs. The decline of its economic power renders such burden-sharing unbearable.

Palan and Abbott observe that "once US industry began to lose ground to its competitors, the US began to employ the benefits of

21 Palan and Abbott (1999: 6).

being a hegemonic country to the detriment of others in the system," that the "'second phase' or 'renewed' period of American hegemony" since the end of the Cold War "is marked by the United States taking a much more parochial and instrumental view of its power and hegemony, forcing other states to open markets for US products, often with the threat of trade warfare only superficially concealed," and that "there is more than a coincidental link between globalization, neoliberalism and the current period of US economic renewal."[22] Also, Boyer points out the "renewed American hegemony" and notes that "it is not abusive to speak of a second Americanization of the world."[23], The renewed American hegemony, huwerer, is not on firm ground. The most precarious factors to date have been the bubble bursting in 2000, the September 11 in 2001, and the renewed "twin deficits," of which one, fiscal deficits, is partly due to the costs of the anti-terrorism and the war in Iraq, beginning in 2003.

In any case, however, how did the American hegemony revived? As well as the end of the Cold War, didn't the competition strategies of the United States play a role? On the one hand, the United States has required Europe and Japan to share the burden of maintenance costs of the world order; on the other it has mobilized active competition strategies. Here let us briefly examine financial globalization and trade policy as a case study on the latter, though the former can also be regard as a competition strategy proper to the hegemonic country.

American financial globalization policy as a competition strategy, which reminds us of the British "strategy" in the late nineteenth century that tried to cover its industrial decline through its international financial domination, had strategic importance in maintaining its hegemonic position in the world economy, made a crucial impact as a catalyst for globalization, and led to "the transformation of the United States into the key financial intermediation center of the world" and to the so-called American "finance-led" growth regime.[24] Of course, financial liberalization or deregulation had been seen in the emergence and expansion of the Eurodollar market, the collapse of the Bretton Woods fixed exchange rate system and the switch to floating exchange rate system, a response to speculative international capital flows, a response to increased fiscal deficits, etc., but American policy accelerated the move.

Helleiner considers "a dramatic liberalization trend" in finance in the 1980s to have been following the failure of states to implement effective control over speculative capital movements in the 1970s and early 80s, which is represented by "four turning points": Britain in 1976, the United States in both 1978-79 and 1979-80, and France in 1983. He cites three points as the key factors: the growing interest in neoliberal framework of thought, the political difficulties of controlling capital movements, and American hegemonic interest in maintaining financial openness.[25] As for the 1980s' liberalization trend in finance, he argues that three political considerations explain it: "the specific

22 Palan and Abbott (1999: xv, 134). They also refer to Parboni's thesis that "the US had 'managed' what appears to be a decline to achieve tactical concessions from its allies" (ibid.).

23 Boyer (2002: 52, 60).

24 Boyer (2002: 27, 55).

25 Helleiner (1994: 124).

'hegemonic' interests of the United States, Britain, and Japan as existing, fallen, and rising financial powers; the growing strength of the neoliberal movement; and the prominence of competitive deregulation strategies."[26] The point we should especially note is that in a background of financial globalization lay growing speculative capital movements and the specific "hegemonic" interests of the United States, Britain, and Japan. The hegemonic interest of the United States, among others, was significant. And the need to finance the "twin deficits" that expanded enormously under the Reagan administration accelerated financial globalization.

To finance the "twin deficits," the United States, given its low savings rate, needed to stimulate foreign capital inflow and advanced financial liberalization. In 1984, the Treasury Department moved "to use tax and regulatory changes at home and abroad not simply to increase borrowing from abroad but to permanently expand the pool of international mobile capital on which the United States could draw."[27]

At home,"to increase the attractiveness of U.S. financial assets and financial markets to foreign investors, it convinced Congress to abolish the 30 percent withholding tax on interest payments to foreign holders of U.S. bonds." "Like the 1981 decision to permit the establishment of IBFs" (tax-free, regulation-free international banking facilities), "the move was also intended to return Eurobond business to New York markets." "The Department also issued a special set of 'targeted' Treasury bonds directly into the Eurobond market for the first time."[28]

Abroad, "the Treasury pressured other governments to liberalize their capital markets. Japan was most important object of these liberalization efforts and in fact had been so since 1982. In the yen-dollar agreement concluded in May 1984, the Treasury won most of what it had sought from the Japanese Ministry of Finance. Although the agreement included measures to promote both inflows and outflows of Japanese capital, the net effect was to liberate large sums of Japanese savings for American use."[29]

In addition, this financial globalization policy, which can be termed a "foreign capital (foreign savings) absorption strategy," was supported by American-led international policy coordination, typified by the Plaza strategy resulting in the Plaza Accord in 1985. It should also be noted that whereas the foreign capital absorption was "negative finance" financing the "twin deficits" during the 1980s and the first half of the 1990s, it became "positive finance" financing the "New Economy" or the IT boom in the second half of the 1990s, through which the "renewed American hegemony" came into being.

Turning now to American trade policy, it also changed over significantly during the 1980s in response to American industrial decline. That was a change to the so-called aggressive reciprocity, which argued that American foreign trade deficits and the decline of its industrial competitiveness had been caused by unfair trade practices or barriers set by foreign countries and demanded competition based on equal footing. In other words, it was a strategy that pressed for the opening of foreign markets and reforming of foreign domestic institutions in line

26 Helleiner (1994: 147).
27 Destler and Henning (1989: 28).
28 Helleiner (1994: 149).
29 Destler and Henning (1989: 29).

with American systems. The Japan-U.S. Structural Impediments Initiative talks in 1989-90 were a typical case.[30]

Two points characterize American trade acts in the 1980s (the Trade and Tariff Act of 1984 and the Omnibus Trade and Competitiveness Act of 1988): innovation with the purpose of enhancing the competitiveness of American industry and strengthening of reciprocity clauses typified by "Super 301," which authorized the identification of "priority foreign countries" that displayed "major barriers and trade distorting practices," and "Special 301" to cope with violators of intellectual property rights.[31] It was obvious that the principal target of Super 301 and Special 301 was the rising Japan.[32] The pivot of American competition strategy was, among others, the intellectual property protection that concerns high-tech industry including IT industry. For example, the Semiconductor Chip Protection Act of 1984, which innovated and protected a 10 year exclusive right of exploitation, provoked international disputes over intellectual property in the United States. The United States, by way of the Act, pressured foreign governments to assimilate to the American system.[33]

American competition strategy has had not only foreign policy aspects, but also domestic ones that include promoting defense conversion programs, constructing an information infrastructure known as the "Information Superhighway," fostering of venture business, promoting of technology and science, etc. Once the Cold War was over, this became the top priority for United States global policy. To put it another way, in response to the challenge of fiscal consolidation and the international post-Cold War situation, United States global policy switched to one of strengthening its competitiveness to cope with globalization or mega-competition. The Clinton administration stated as follows: "The end of the Cold War provides an opportunity to reinvest some defense industrial, technological and work force capabilities to contribute to our Nation's economic competitiveness: those who helped us win the Cold War can help us compete globally."[34] Defense conversion programs to enhance industrial competitiveness were a distinctive strategy that only the United States as the hegemonic country was able to choose.[35] According to Boyer, the American long boom of the 1990s known as the "New Economy" was related not only to the dominance of market logic, but to its position in the world economy and specifically its financial intermediation, scientific advances, technological innovations and cultural values. Importing the former, he argues, would not imply the rewards of the latter.[36] We should note that the United States was able to gain the rewards from being the hegemonic country during its economic revival, which included a big reduction in its defense budget, a peace dividend, following the end of the Cold War.

30 Richadson (1994) characterizes U.S. trade policy during the 1980s as having three new tilts: "minilateral" initiatives, managed-trade initiatives, and Congressional activism.

31 Kahler (1996: 312).

32 Gilpin (2000: 236).

33 The Act, which created a new kind of industrial property containing elements of patent, copyright and competition law, provided a new way of imposing international pressure. All nations had to adopt the main elements of the Act, otherwise topographies and mask work of a foreign chip producer would not be protected in the United States. See Hoeren (1991).

34 OMB (1994: 122).

DELAYED JAPAN'S SHIFT TO A COMPETITION STATE

Palan and Abbott estimate that Japan had deployed a "developmental state" strategy since around the time of the Meiji Restoration in 1868 and saw its breakdown in the 1990s. Referring Pempel's view that Japan underwent a "regime shift" in the 1990s, which means that "the success of Japan in the period up to the late 1980s generated changes within the Japanese polity that made the institutions having created the success unsustainable," they interpret it as showing that the institutions that underpinned Japan's post-war high growth were unable to support "the new demands of the expanded and increasingly internationalized Japanese economy."[37]

The type of "developmental state" strategy supposed to have been deployed by Japan, however, is not clear since they tend to grasp something in common with other East Asian countries, Taiwan and South Korea in particular. Precisely, the question still remains as to whether Japan can be classified as a type of developmental state, because Japan escaped colonization and established capitalism by the late nineteen century as well as imperialism, called "the last empire," before the First World War. From then, although its expansion was interrupted by the Second World War, Japan grew up to be the second largest economy in the developed capitalist world in 1968 and also a welfare state. Therefore, even if there have been similarities between Japan and other East Asian countries, notably there is a significant difference between Japan and them with regard to their position in the world economic and political order. For further studies, we must research afresh the nature of Japanese competition strategy since the Meiji era, how it has change in response to the shift of its position in world order, and how it has responded to globalization, American global policy, and foreign pressures (Gaiatsu).

Let us briefly examine the transformation of the Japanese state from a welfare to a competition state.[38] After the Second World War, Japan was incorporated in the Pax Americana as an economic and political world order and was strongly affected by United States global policy. The Constitution of Japan, which was enacted under the direction of the United States occupying forces, stipulated demilitarization in Article 9 and the right to life in Article 25. Thus, the state of Japan was to be reconstructed as a 'civilian'[39] and welfare state. The former determined Japanese public finance as a comparative "small government" and the latter did not counteract this character because of factors at that time such as low-level population

35 The defense conversion program, which was unveiled in 1993 as the five-year, multi-agency Defense Reinvestment and Conversion program, had "a two-pronged strategy: invest in civilian high-technology conversion opportunities for defense firms, and promote dual-use technologies that have both a commercial and military application." As for the former, there were, for example, NASA's aeronautics initiative, which helps defense firms and workers use defense expertise in civilian aircraft technology development, and Department of Commerce's Information Highways, which use defense-related software and hardware. "These investments," OMB (1994: 122) argued, "leverage the talents and resources of defense workers and firms, diversify the economy, and build overall competitiveness."

36 Boyer (2002: 66-67).

37 Palan and Abbott (1999: xi).

38 Higuchi (2003a: 157-166), Higuchi (2003b: 6-13).

39 Chalmers (2000: 27-30).

ageing and considerable dependence on welfare among companies and families. The Pax Americana had lightened Japanese burden-sharing of maintenance costs of the world order. The savings were used, through public works and tax reduction, for economic growth and for balancing economic gap between urban and rural areas that economic growth widened. Expansion of public works led to the emergence of the "construction state" (Doken Kokka) regime, by which Japanese welfare state came to be characterized to a great degree.[40]

Since the decline of the Pax Americana and the rise of the Japanese economy clashed between the 1970s and the early 1990s, American and international pressures on Japan to share the burden of the world order maintenance costs mounted up. The burden that Japan was asked to share covered three points: exchange rate adjustment, market opening and domestic demand stimulation, and burden-sharing in a narrow sense such as defense and ODA. In a broad sense, all of them may be regarded as maintenance costs of the world order. Among Japanese policy responses to the pressures, the most active was Keynesian fiscal policy, which was supposed to expand domestic demand and employment, reduce current account surpluses, and serve to stabilize the world economy. Such policy was mobilized five times in response to the five waves of foreign pressure, which arose in 1971-1972, 1977-1978, 1985-1987, 1992-1995, and 1998-2000. Of course, it was also a policy response to a domestic recession every time.

Japanese Keynesian fiscal policy since the latter half of the 1970s has been mobilized as part of international policy coordination, typified by a policy globalization model as mentioned before. Such a Keynesian welfare state was conditioned and constrained domestically by, among others, the "construction state" regime. Japan had maintained Keynesian welfare state until 2000, though, according to a declining welfare state model, Keynesian fiscal policy ought to have lost its effect or been restrained its mobilization under globalization.

It was the Koizumi administration inaugurated in 2001 that tried to finally transform Japanese welfare state into a competition state. An indication of the transformation to such a state emerged in the times of the Nakasone administration from 1982 to 1987. It came out against the backdrop of a fiscal crisis and the international influence of neo-liberalism that emerged in the form of Reaganomics and Thatcherism. In those days, however, as the Japanese economy was strong and its performance appeared to be the best in the world, it was not so urgent for Japan to transform to a competition state. Although the Hosokawa administration, which was formed in 1993 as a coalition government for the first time since 1955 and heralded the fall of the long-lasting LDP (Liberal Democratic Party)-only administration, included deregulation policy as part of its policy package, but more large-scale Keynesian fiscal policy continued to be dominant from 1992 to 1995.

The Hashimoto administration formed in 1996 launched a full-scale fiscal consolidation called the Fiscal Structural Reforms (Zaisei Kozo Kaiaku) against the background of a more acute fiscal crisis. Internationally, too, the G-7 and the IMF had begun to put emphasis on fiscal consolidation. EU coun-

40 Shibuya (2002).

tries had to reduce their fiscal deficits to meet the criteria of the Maastricht treaty. Also in the United States, fiscal consolidation was one of main issues to address during the presidential election in 1996. However, due to the Asian economic crisis and the Japanese banking crisis in 1997, in addition to deceleration of the Japanese economy and a renewed increase in current account surpluses, Japan was hit by the fifth wave of foreign pressures since the 1970s to stimulate the economy and this time also to reform the financial system. There was a mounting fear abroad that Japan as the world's largest creditor country might trigger "a Global Depression." Again, the Japanese government had to turn to large-scale Keynesian fiscal policy. Despite large-scale fiscal policy mobilized four times between 1998 and 2000, however, the Japanese economy failed to revive and Japan came to face a heavy fiscal crisis, now regarded as the worst among developed countries, and to face serious narrowing of policy options.

Pressed by these situations, the Koizumi administration abandoned Keynesian welfare state policy based on the "construction state" regime and adopted neo-liberal competition state policy. In his first policy speech to the Diet in April 2001, Prime Minister Koizumi pointed out that "Since the outset of the 1990s the Japanese economy has been suffering from a complex illness resulting from the confluence of various factors. Comprehensive structural reforms are imperative in order to solve these problems" and declared that his Cabinet would implement "three key economic and fiscal structural reforms."

The three key "structural reforms" were as follows: (1) "final disposal of non-performing loans within the coming two to three years" and "ensuring harmony between stabilization of our financial systems and the market mechanism"; (2) creation of a "competitive economic system": "we will promote the creation of new industries and employment opportunities and ensure the effective functioning of the Council for Comprehensive Regulatory Reform and advance thorough regulatory reforms spanning all of our economic and social structures. Furthermore, we will strengthen the structure of the Fair Trade Commission, which should serve as the guardian of the market"; activation of the securities market, promotion of "the information technology revolution" ("making our nation the most advanced IT state in the world within five years" through the "e-Japan Priority Policy Program."), promotion of science and technology, and enhancement of "international competitiveness" of cities; (3) fiscal structural reforms: "a two-phased approach," first, government bond issues "targeted to less than 30 trillion yen in the FY2002 budget", second, "not relying on new borrowing for expenditures other than interest payments on past loans."[41]

Thus, the Koizumi administration stated its aim to create a "competitive economic system," and to put it symbolically, "the most advanced IT state in the world." In order to carry such goals through to completion, "final disposal of non-performing loans," marketization and "fiscal structural reforms" were considered necessary. Koizumi's catchword has been "no growth without reforms," and its principles include "from public to private sector" and "from the state to the regions," in other words, privatization and decentralization. Among other things, the

41 Koizumi (2001).

privatization of the Japan Post, which has carried out three functions, namely postal services, postal savings, and postal life insurance, is cited as the most sweeping example of reform. Decentralization is called the "trinity reform": central government subsidies, local allocation taxes, and the transfer of tax resources. Public works cuts show weakening of the "construction state" regime. Under the Koizumi administration, Japanese welfare state seems finally to have begun transforming to a competition state.

Needless to say, the transformation was caused not only by domestic factors such as ineffectiveness of Keynesian fiscal policy, a heavy fiscal crisis, and serious narrowing of policy options, but also international factors. Among others, as previously noted, critical was the surprising fact that the United State, which had been considered in decline up to the early 1990s, achieved a long boom known as the New Economy based on the IT revolution in the 1990s and has generated a new world situation called the "Second Americanization" and "Second Pax Amricana" since the latter half of the 1990s. Besides, the other East Asian countries were catching up with Japan in the world market of industrial products. It is clear that this international situation and the "second American model" made a great impact on Japan.

CONCLUSION

Up to now, we have examine three approaches to the relationship between globalization and the nation-state, three models depicted by them, a declining welfare state model and competition state model in particular, competition strategy of the United States, and delayed Japan's shift to a competition state. As mentioned at the beginning, most studies concerning the relationship between globalization and the nation-state focused the impact of globalization on the nation-state up to the middle of the 1990s. However, since then studies that cast a light in reverse on the impact of the nation-state on globalization have increased. This notable reaction signified the emergence of an agent-centric (state-centric) approach against a structure-centric one. In concrete terms, it was the emergence of the new concepts of the contemporary nation-state such as the "market-oriented, 'post-Fordist' welfare state,"[42] the Shumpeterian workfare state, the neo-liberal state, the enabling state,[43] the competition state, instead of the negative concepts such as the post-Fordist and post-modern welfare state. Of those mentioned, it seems to me that the competition state best expresses the Zeitgeist in an era of globalization called mega-competition and best includes most of the remaining concepts of the other neologisms mentioned.

The competition state grasps the specific characteristic of the contemporary nation-state. Being conditioned and constrained by each position in the global political economy and each domestic structure, each nation-state has deployed strategically foreign and domestic policy, and has transformed from a

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42 Yeates (2001: 24)

43 The enabling state is a concept defined by "the tenet of public support for private responsibility" that includes individuals, the market, and voluntary organizations. It designs social welfare institutions " to enable people to work and to enable the market and the voluntary sector to assume an expanded role in providing social protection." See Gilbert (2002: 10-11, 15-17).

welfare state to a competition state. Moreover, the transformation, which the United States and the United Kingdom took the lead, drove globalization and redefined it. On the other hand, it also limited welfare state policy and generated policy globalization. Thus, a new world movement that gropes for an equilibrium or a landing point has been reproduced since the 1980s.

We would like to conclude with some examinations of significance and limits of the concept of the competition state. First, while the majority of previous studies dealing with changes of the nation-state in developed countries since the 1980s have argued, for example, that the welfare state has been maintained and retained through measures to increase its efficiency, that "the welfare state in crisis" has continued, or that it has transformed into a post-welfare state, the conceptualization of the competition state is an attempt to give the changes of the nation-state a positive defintion. By using the lens of the competition state, issues previously undiscussed come into view.

Although it is an afterthought, in the background that the hegemonic United State was able to manage the decline of the Pax American, drive globalization, and generate a situation called the second Americanization, there ought to have been a competition state policy. As we have seen, the United States had implemented the hegemonic competition strategy including burden-sharing and international policy coordination, and moreover since the end of the Cold War, strengthened it through reducing maintenance costs of the world order and investing the savings and international money attracted by financial globalization in the finance-and-IT-led New Economy. Provoked by the move of the United States, the EU has also deployed competition strategies such as An Industrial Competitiveness Policy for the EU in 1998, eEurope 2000, etc., accelerating the unification of Europe. East Asian countries, too, each have had their own competition state policy, which was, needless to say, conditioned by their position in the world economy, as China, for example, has carried out the "downward mobility strategy" and South Korea and Taiwan the "developmental state" policy. In addition, Japan has become a competition state in recent years, a relative latecomer. In order to seize such a competitive and transitional world economic situation, the concept of the competition state is useful and effective.

Second, we should position the competition state as a concept of defining nation-states in a transition period. It emerged in response to the decline of the Pax Americana and the crisis of the welfare state. And the overall movement of competition states generated globalization, which forced nation-states to respond and adapt it in turn. Globalization expanded a cleavage between rich and poor domestically and internationally, leading to an increase in new maintenance costs of the world order such as counter-terrorism and the Iraqi War costs, and to a revival of the "twin deficits" in the United States that have once again brought the world economy into instability. Thus, the world in which the competition states compete strategically represents an unstable and uncertain process that gropes for an equilibrium or a landing point. In this sense, the competition state seems to be a transitional state.

Third, although, as mentioned above, the concept of the competition state is significant for globalization studies, there is a crucial question of how it differs from past nation-states, since it can also be said that they were always the competition state inasmuch as they are capitalist states, the first version of which emerged as the mercantilist state in the seventeenth century. Likewise, this question can be applicable to the concept of globalization. Although we have used the concept without giving it a positive definition, some people argue that globalization originated with the emergence of the world market in the sixteenth century; others argue that the first wave of globalization occurred between the 1870s and the First World War, the second wave from after the Second World War to the 1970s, and the third wave from the 1980s to the present time.[44] If so, how does the present third wave differ from those in the past? Based on the fact that usage of the term "globalization" was not academically significant until the mid-1980s and has exploded since the 1990s,[45] we have to say that globalization is a term to reflect the present wave that the World Bank refers to. In general, the past two waves were called internationalization in those days. With this in mind, what is the difference between globalization and internationalization? We may say that the term globalization signifies the world becoming "nation-stateless" or borderless; internationalization means the world retaining nation-states and borders, but expanding the relationship between them. It is, as we have seen, not necessarily reasonable to suppose that the nation-state has been in decline. Answering the questions above becomes problematic. We must go deeper and synthesize three approaches to the relationship between globalization and the nation-state, noting the agent-structure problem,[46] and grasp the essence of globalization.

Consequently, for further research, the points upon which we must strive to focus our attention are the following. First, the transformation of the welfare state to the competition state, often called the neo-liberal state, should not be regarded as a pure return to the original model, i.e. the liberal state, which is supposed to have emerged in the mid-nineteenth century. Whereas the liberal state emerged in response to the limit of the mercantilist state and the rise of the Pax Britannica, the competition state emerged in response to the limit of the welfare state and the decline of the Pax Americana. Differences and similarities between them must be clarified. Second, globalization differentiated from internationalization should be regarded as a world movement. The movement originated from the transformation of the United States as the declining hegemonic country and the United Kingdom as the former hegemonic country to the competition state, both of which were forced to cope with heavy stagflation and the decline of their positions in the world economy. In particular, competition strategies of the United States, such as the strategy to absorb "foreign capital (foreign savings)" that accelerated financial globalization and the strategy to pressure other countries to assimilate to American systems, had a critical impact. Third, it should be noted that American-led financial globalization and industrial globalization stimulated export-oriented industrialization in developing countries and provoked their "developmental state" strategy. In particular,

44 World Bank (2002: 23-24)
45 Waters (2001: 2)
46 Wendt (1987).

marketization of the Chinese economy and other old socialist countries after the collapse of the Berlin Wall generated the so-called mega-competition. Forth, we should not overlook the impact of the Cold War collapse, which increased pace of globalization and the IT revolution. The United States led the IT revolution and generated an American model based on it, which became a world standard for competition states after the mid-1990s. Fifth, the American model termed finance-led and IT-led represents a configuration sustained by financial globalization including unstable factors such as the hard-landing scenario and international financial crises.

Globalization is characterized particularly by financial liberation, mega-competition, the IT revolution and the second American model, and is distinguished by them from previous internationalization. As such, it is a unique world movement[47] as a structure configured by competition states as agents as well as global capitals. This movement, which includes multiple other dimensions such as international policy coordination, regionalism, localization, etc., is a transitional one and has not yet found an equilibrium or a landing point.

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47 For further research on globalization as a world movement, we should note studies based on Karl Polanyi's concept of the "double movement." According to Blyth (2002: 4), "The contemporary neoliberal order can be seen as merely the latest iteration of Polanyi's double movement. It is an attempt once again to disembed the market from society, to roll back the institutions of social protection, and replace them with a more market-conforming institutional order." It is the "great transformation," though "a reversal." Lacher (1999: 343-344) describes it as "a second double movement" and Clark (2001: 237) as "another double movement."

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