

Democracy Beyond the State?
The European Dilemma and the Emerging Global Order

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by

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The theme of these Carnegie seminars is timely. "Justice and the World Economy" is today a rising concern everywhere. "Economic globalization" has come to be associated with perceptions of growing threats to justice, whether conceived in terms of procedural fairness or social equity. For countries enjoying democratic systems of governance, the phrase also now calls up images of declining opportunities for participation in processes through which justice is itself defined in a given context.

In truth, democracy and capitalism have always been in tension, and the social solidarity required to prevent that tension from reaching the breaking point has always had to be created, nurtured, and recreated on the ground, in the rough and tumble of politics. Contradiction, compromise, and inconclusive contests over the ultimate prize of unquestioned authority have long defined the terrain.

The project I would like to introduce to you today explores that terrain. The participants in the project are scholars steeped in the history of actual democracies, in the theory behind them, and in the study of modern economies.¹ The project is soon to culminate in a book, bearing the same title as this paper, published jointly by Rowman & Littlefield and the University of Toronto Press.

At the center of the project lies a deepening dilemma for the citizens of advanced industrial democracies and for their leaders. The sense of legitimacy that underpins their political systems, and undergirds the actual exercise of political authority, rests on the common belief that government is responsible to a given people, accountable to that people, and obliged to serve the best interests of that people. The actual form of government in place across most of the developed world goes by the name of representative democracy, wherein the people rule themselves by delegating authority to their leaders and then hold those leaders to account through periodic elections characterized by universal suffrage. In principle, such a system

¹ In addition to the author, the participants include Michael Th. Greven, Claus Offe, Michael Zürn, Edgar Grande, Stephen Newman, and Stephen Clarkson.

depends on being able to define "the people" comprising a given society and on treating each individual capable of self-governance as the legal and political equal of all others in that society.

Since the dawn of the industrial age, however, democratic governments have presided over economic systems that function on the basis of an unequal distribution of resources and claims on future resources. To a certain point, the success of market economies in generating prosperity has fruitfully reinforced the development of representative democracy. But as modern capitalism has deepened, as corporate and financial power has become more salient, as regulation has become more technical, and as economic rewards have become more tightly correlated with specialized skills--political equality becomes more and more theoretical. The dean of contemporary studies of democracy, Robert Dahl, puts the core of the issue succinctly:

When authoritarian governments in less modernized countries undertake to develop a dynamic market economy, they are likely to sow the seeds of their own ultimate destruction. But once society and politics are transformed by market-capitalism and democratic institutions are in place, the outlook fundamentally changes. Now the inequalities in resources that market-capitalism churns out produce serious political inequalities among citizens.²

Further complicating the problem is the fact that this economic system in its latest phase seems necessarily to erode the political boundaries separating the citizens of different democracies. In now-common parlance, the borders around the nation, defining a discrete set of citizens who happen also to be the dominant consumers and producers in a discrete economy, begin to blur. And the democratic claims mooring a discrete state in that nation begin to attenuate. In extremis, rule of, by, and for the people becomes a sham, and a legitimation crisis threatens. The effort of actual governments to continue governing opens up "democratic deficits," which may be masked for a time by economic prosperity. In less forgiving times, however, citizens seek those responsible for their problems, and find no one accountable to them and no one obligated to serve them. They have, in practice, become subjects.

² Robert Dahl, *On Democracy*, New Haven: Yale University Press, 1998, p. 178.

The participants in this project were motivated by the desire to understand the nature of this tendency in the contemporary history of democratic systems of governance. At root, however, their hope was that understanding can help mitigate it. They were led, therefore, to look most closely at the empirical case where the dilemma is now most obvious, and where its threat is most widely perceived--the case of the European Union. States and citizens within the Union are now far along in a vast experiment involving an attempt to use the dynamism of market-capitalism to secure fundamental social and political objectives. Those states began that experiment as democracies. A key question for the imminent future is whether their citizens will find themselves still in democratic systems if that experiment succeeds. Such a question also faces the citizens of democratic states outside of Europe as they are now embarked on their own not dissimilar attempts to reap the economic gains associated with the world-wide spread of a decentralized form of capitalism, a form now conventionally evinced by the word "globalization." We therefore set out consciously to place the European case into a broader theoretical and empirical context. In particular, we compare the contemporary European dilemma with an incipient democratic dilemma in North America.

Resurgent Economic Liberalism and its Political Implications

Among other shifts in the tectonic plates of world politics, the tumultuous era that began with World War I witnessed the rise of the modern democratic nation-state, whose citizens expected it to ensure their military security and, increasingly, their economic security.³ Following the catastrophe of the Great Depression, those national expectations defined the terrain upon

³ This paper draws on three of my recent works, where this theme and its implications are explored more fully: *Who Elected the Bankers? Surveillance and Control in the World Economy*, Ithaca, NY: Cornell University Press, 1997; "Capital Mobility and the New Global Order," in Richard Stubbs and Geoffrey Underhill, eds., *Political Economy and the Changing World Order*, second edition, Oxford/New York: Oxford University Press, 1999; and "Good Governance and Bad Policy: The Perils of International Organizational Overextension," *Review of International Political Economy*, vol. 6, no. 4, Winter 1999/2000, pp. 401-424.

which the post-World War II inter-governmental consensus on international monetary and trade issues and, more fundamentally, upon which that consensus evolved in subsequent years.

The contemporary reconstruction of the most obvious face of globalization--"global" capital markets--is intimately linked to the disruption of that consensus in the 1970s and the dawn of a new era of flexible exchange rates. As the twentieth century came to a close, however, it was not yet evident that the expectations of citizens concerning the responsibilities of democratic nation-states had substantively changed. Much rhetoric to the contrary notwithstanding, national welfare states continued to exist. Their financing, however, now confronted the reality of open capital markets. Although, again, such markets were not unprecedented in modern history, it was unprecedented to combine the policy preferences supporting them with the acceptance of political responsibility by states for the broadly-defined security of their citizens.

Often abstracting from the fact that governments can let their exchange rates float, as the twentieth century came to a close economic commentators, prominent bankers, and conservative politicians frequently underscored the internal "discipline" on autonomous state action implied by international capital mobility. If that discipline implied cutting back the welfare states of the post-World War II era, they asserted, then so be it. Many of their opponents on the left may have disliked such a conclusion, but they intuitively understood its logic. A mounting body of popular literature written both by conservatives and radicals in the 1990s, indeed, envisaged the consolidation of a new global order, the borderless order of advanced capitalism.

Whether they embraced it or loathed it, such a vision tended to be evoked in the language of inevitability. Enjoining governments to yield to signals emanating from the "global market," this language implied that a profound shift in policy-making authority was necessarily taking place, a shift away from the national level. Proponents typically extolled the surrender of the retrograde idea of "sovereignty" to the rational economic logic of markets beyond national control. Opponents might not have liked such a conclusion, but their own research bolstered

the notion that transnational coalitions beyond the nation-state increasingly exercised determinative influence over a widening range of economic policies.

"Sovereignty" has, in fact, always been a contested concept. But conflating it with the notion of policy autonomy is needlessly confusing. As turning away from deeper financial integration by individual states or by the collectivity of states remained entirely conceivable, indeed, some did turn away as severe debt crises confronted them in the 1980s and 1990s. In this sense, states remained as "sovereign" as they had ever been. In practical terms, however, there was no doubt late in the twentieth century that most states confronted tighter economic constraints--or clearer policy trade-offs--as a consequence of a freer potential flow of capital, goods, and services across their borders. This is the flip-side of the opportunities for accelerated growth (beyond that capable of being financed by domestic savings) that can be presented by that same flow. The phenomenon itself is not new. What is new is the widespread perception that all states, all societies, and all social groups are now affected. In light of the historical record, such a perception is ironic. Most importantly, it blurs important distinctions between and within states. Underneath the overt discourse on "sovereignty" and efficient markets, there lay a covert discourse on power, legitimacy, and hierarchy.

The global trajectory of capitalism is, again, not a new discovery. The last time the world experienced rapidly accelerating economic integration, however, there existed few states self-consciously organized around democratic principles. In none of those states, moreover, were formal decision-making norms tied firmly to principles of solidarity, equity, fairness, and social justice--principles that would later come to be associated with the modern democratic welfare state.

Most democratic states surviving into the modern era did not come by their particular systems of collective decision-making easily. Democracy usually had to be fought for, and it had to win out over competing systems of authority. Most democracies were grounded in a sense of nation, what Benedict Anderson famously termed "an imagined community." And most nations had to be forged--by states themselves--in cauldrons of social conflict. The growth and

development of industrial capitalism occurred simultaneously, and simultaneously began to reshape state at its very core.

In the years before World War I, trade flows, capital flows, information flows, and human migration across national borders grew by leaps and bounds. "Globalization," as the phenomenon is commonly now called, was a clear trend--in economics, in communications, in travel, and in culture. Alas, this liberal moment ended during the turbulent early decades of the twentieth century. World War I, the Great Depression of the 1930s, and World War II were hardly unrelated events. Out of the ashes of the political structures associated with those events arose the national welfare states of the post-World War II period. Also coming out of the war years was a renewed commitment to recovering the economic prosperity promised by the earlier experiment with globalization.

The relationship between these two partly contradictory and partly complementary trends has been much studied in recent decades. From Karl Polanyi to John Ruggie, Robert Dahl to Michael Sandel, Jürgen Habermas to David Held, many scholars have assessed the tenuous equilibrium in the modern era between the forces of international economic liberalism and the endurance of nationally distinctive structures of governance.⁴ They have also highlighted the delicate connection between the legitimacy of structures meaningfully described as representative democracies and the policies emanating from them to regulate markets, temper concentrations of private power, finance social safety nets, and protect the natural environment.

From the 1950s to the 1970s, a relatively stable equilibrium emerged between formally democratic polities and a renewal of international economic intercourse. It rested on four pillars: responsible national governments, viable national policies providing citizens with varying degrees

⁴ Karl Polanyi, *The Great Transformation*, New York: Farrar and Rinehart, 1944; Jürgen Habermas, *Legitimationsprobleme im Spätkapitalismus*, Frankfurt: Suhrkamp Verlag, 1973, published in English as *Legitimation Crisis*, London: Heinemann, 1976; Robert Dahl, *Democracy and its Critics*, New Haven: Yale University Press, 1989; John Gerard Ruggie, *Constructing the World Polity*, London: Routledge, 1998; Michael Sandel, *Democracy's Discontents*, Cambridge: Harvard University Press, 1996; David Held, *Democracy and the Global Order*, Stanford: Stanford University Press, 1995.

of insurance against economic catastrophe, increasingly open markets, and nascent international, and sometimes regional, political institutions designed to manage the collective action problems posed by deepening economic interdependence.

Since the mid-1970s, it appeared to many observers that those pillars were breaking down. Ever more open and competitive markets--for goods and services, for financial capital, for long-term investment, and for skilled people--put new pressure on national welfare states and drew attention to the weaknesses of the trans-national governing institutions thus far established. Indeed, as national governments become inefficient regulators of markets that cross their borders, questions regarding the requirements of social welfare and social justice are increasingly being addressed not only to national governments lacking the tools to deal with them, but ever more frequently to international institutions lacking any clear mandate to build new tools.

While the vast majority of the world struggles to catch up, leading countries are now characterized by the restructuring of welfare states, the building of new trans-national institutions, and a rising clamor for global forms of economic management and oversight at least potentially capable of re-stabilizing global capitalism. As it did earlier in the twentieth century, such an impetus meets resistance from the principal beneficiaries of globalization, who claim faith in self-regulating markets. But among the advanced industrial states, the ideology of universal liberalism and the countervailing impetus toward stability and efficient economic management on a global scale both fundamentally challenge the democratic norms and practices through which the power actually to govern has been legitimated throughout the past century. Let me briefly probe the dimensions of that challenge in practical terms within contemporary Europe.

The European Dilemma

At the dawn of the twenty-first century, when brutal civil wars, environmental disasters, and wrenching social change afflicted many developing countries, advanced industrial societies were at peace with one another. In one guise or another, much of the substance of their internal

politics dealt with the exigencies and implications of their capitalist economic systems, systems increasingly and seemingly inexorably conjoined with one another. The managed economic interdependence of the post-war period verged on a web of economic, social, and cultural inter-relationships that seemed to signify the beginnings of a truly global economic system. Even if that global destiny remained arguable, it was certainly clear that regional economic systems--all of quite different character--had begun to supplant the local and national systems of the past.

What does such economic integration mean for local political structures, especially the structures of formal democracy? Did responsible government have a future? If it is true that democratic practice at the national level was becoming dysfunctional, can it actually be reinvigorated at either sub-national or supra-national levels? Beyond further stimulating the impetus toward economic liberalism--ever freer markets and attendant social choices emphasizing efficiency over distributive justice--could the implications of past choices actually be meaningfully understood, debated, and reconciled by citizens and their elected representatives? To whom do those citizens actually now owe their most fundamental loyalties? To the extent the norms and practices informing their understanding of democracy have varied along national and regional lines, is it possible to envisage political convergence as economic and cultural integration continue apace?

Nowhere were such questions being more directly addressed than in western Europe, where several generations of leaders in advanced democratic systems had deliberately sought to use the tools of economic liberalization to build a new regional system. As their economies approached the long-standing objective of a seamless market from the Baltic to the Mediterranean and the Atlantic to the still-unclear borders of Mitteleuropa, their democratic governing systems faced severe stresses. Indeed, insofar as those systems had combined both formal democratic decision-making practices with specific distributive policies establishing social democracy, economic logic and political reality seemed to many observers to embody a deep contradiction. In North America, similar tensions were coming into clearer view in the wake of negotiated arrangements to advance the cause of more open markets for trade and investment,

first between Canada and the United States and then among Canada, the United States, and Mexico.

At the heart of our project is a debate on European democracy between Michael Th. Greven and Claus Offe, on the one hand, and Edgar Grande and Michael Zürn, on the other. Greven and Offe, in short, see in Europe an emerging system of regional government-in-practice. The process by which this evolution has occurred, however, they find extremely troubling from the vantage point of democracy. The actual practice of problem-solving within the European Union, erodes the standard of democracy achieved within its member-states over many centuries and with much pain. That standard is defined by a normative body of rights that, according to Greven, ought not to be abandoned unthinkingly as the logic of economic integration spills over from one area of life to another.

Greven and Offe contend quite forcefully that there has never existed a European "people." In no sense has there even been in theory a political community competent or capable of claiming the right to constitute political power at the European level. Adopting a contractarian approach to democracy, they see right up until the present day no collectivity able to vest sovereign authority beyond the nation. They are, of course, fully aware of the momentous and usually bloody historical struggles that resulted in what Bendix termed the transfer of such authority "from kings to people." They also acknowledge that in the course of those struggles within Europe, the builders of states often also had to build bounded and distinct nations capable of asserting the right to self-governance. The establishment of the rule of law, and the construction of national political communities were surely two sides of the same historical coin.⁵

⁵ As one of the reviewers of our book manuscript helpfully drew this complex relationship out in the following terms: "Historically in European polities the relationship between the "people" and the rule of law was complex and bi-directional. That is to say, the existence of the "people" was both an outcome and a condition of the rule of law exercised in a given territory. As late as 1870, most of the "French" who fought at Sedan could not readily understand each other. Their conception of being French was mediated by their common citizenship. Being "British" was as much an outcome of common citizenship and membership of the British polity than it was a prior requisite for the development of that polity. That is why being "British" is so deeply threatened

Nevertheless, having completed that bi-directional process and created representative democracies, neither national political communities nor their states have even begun to craft a true European constitution. There simply exists, in this view, no constituting power capable of doing so. And without a constitution, there can be no competent and accountable parliament, no effective constraint on executive power, and no definitively binding judicial power. This central constructional defect in mainly inter-governmental project of European Union evinces itself today in the absence of pan-European political parties, in the highly limited and idiosyncratic nature of elections for the European Parliament, and in the operations of EU institutions of governance ultimately accountable to no one. As a result, the effective priority is increasingly being given, by default, to the liberties of the Common Market over at least potentially countervailing rights of citizens to more than just economic opportunity.

Greven and Offe see contemporary European democracies as extending not just rights to participate in politics, but also rights to basic social benefits, including the right to a decent standard of living. The extension of citizenship, then, becomes a vehicle for effectively empowering individuals or groups in a given society who were disadvantaged in the past, including most prominently, women and immigrants. Citizenship so conceived, however, depends fundamentally upon a willingness to share real resources, in effect to engage in redistributive politics. That willingness, in turn, depends upon a sense of togetherness, of social solidarity--a "we-feeling." In the EU today, argue Greven and Offe, such a sense is altogether lacking.

In this light, they see the project of economic integration in among the states of the EU as mainly contractual and limited. They consider alternative visions for Europe, and concludes that the currently operative one is guided mainly by the negative dynamic of breaking down barriers than by the positive dynamic of creating community. As a result, every solution to a specific problem of collective action across the member-states inevitably violates a key

by devolution. Suddenly, people raise the (old) possibility of an English identity! But there is the problem that there is, as yet, no "English" state."

reference value in social democracy: the protection of social welfare systems and/or the securing of democratic legitimation. In short, the historical bearers of democratic legitimacy cannot transfer to another level of governance, while every move toward pan-European economic integration constrains their effective governing authority. The consequence of this core dilemma is not simply a democratic deficit in Europe, but a mounting social welfare deficit.

Acknowledging the profound challenges diagnosed by Greven and Offe, Michael Zürn and Edgar Grande attempt to reframe the central issue. They see the denationalization of European societies in the modern era as the underlying contemporary condition, a condition increasingly shared with all other advanced industrial societies. They take seriously the cultural and social break noted by Newman and associated with the evolution of the global economy. Regional institution-building inside Europe, then, becomes a secondary phenomenon. The inexorable development of trans-national social space dominates. In such a context, the fundamental challenge for democratic theory and practice is to reconsider and redesign decisional mechanisms that can combine majority procedures with well-adapted structures for continuous negotiation among citizens and interest groups. European democracy may be in a muddle, but it could do worse than to adopt a pragmatic approach to muddling-through the complex problems of modernity. We may be in the early stages of the emergence of a truly transnational *demos*, one that could provide solid ground for global democracy. In the meantime, pragmatic adjustments on forms of territorial representation, the promotion of carefully considered referenda, and enhancing the representative nature of policy networks (associative democracy, as Zürn call it, or post-national democracy, as Grande labels it) could attenuate the mounting legitimacy crisis diagnosed by Greven and Offe.

Convinced that a key part of the problem of conceiving solutions for Europe is the idealization of majoritarian models of representative democracy, Grande and Zürn review non-majoritarian and non-parliamentary models of democracy. This leads to the recovery of insights from research on consociational and corporatist decision-making processes, both of which give pride of place to consensual over majoritarian techniques in profoundly divided societies. In this

way, they seek to address the constitutional flaw in the European project, the transfer of decision-making competency to the supranational level and the retention of democratic authority at the national level. The net result of this flaw was to transfer real political power within the Union to the executive branches of member-states and to their delegates in Brussels. Here is the concrete challenge facing the proponents of a constitution capable of grounding a multi-level polity. And here is the clear reason for adapting the practice of representation from consociational systems and for building a set of institutional checks and balances akin to those at the heart of the American constitution.

The Broader Challenge of Democratic Legitimation

The issues addressed above look set to be with not just Europeans in the years ahead. At the dawn of a new century, the technological, financial, and informational forces driving global and regional economic integration show little sign of dissipating. Even major environmental crises and episodes of turmoil in now-deeply interlinked capital markets provide no clear harbingers of a counter-trend.

Despite the inequities, unfairness, and injustices global capitalism brings in its wake, intentionally dis-integrating the world economy offers a low probability of leading to better outcomes. Despite its incompleteness, the experiment in European economic integration looks like an historic success, especially if we can remember the way the Europe looked in 1945. Despite its uneven effects, NAFTA was not imposed on unwilling publics by unelected governments. In short, it is not implausible to argue that the citizens of advanced industrial states live in a world they themselves collectively created in the years since 1945. It remains true that the vast majority of humanity finding itself outside that gilded group, and even important segments of the populations within it, bear little personal responsibility for the character of a system that now constrains them. Barring systemic catastrophe on the scale of the 1930s, however, the prospect of rolling back global capitalism lacks a compelling rationale, an

attractive alternative vision, and a powerful constituency. We are left to deal, therefore, with the unintended consequences of prior strategic choices.

The participants in the project I have outlined today address one of those consequences. Underneath each of their contributions lies the concern that lack of attention to it could well lead to a much less attractive world. Global capitalism requires solid political foundations, and citizens grown used to democratic foundations in an era of national capitalism cannot be counted upon supinely to abandon them. Even if, democracy-in-practice remains far from the ideal, it remains difficult to envisage a more stable replacement. Even if, as Offe and Greven fear, the advances associated with social democratic regimes seem increasingly tenuous, a reversion to authoritarian systems of governance offers no self-evidently effective mechanism for defending them.

There seems, in short, no easy resolution to the key dilemma. The bolstering of governing authority beyond the nation-state is implied by the exigencies of economic integration, but ultimate political authority today remains grounded in the nation-state. In the absence of a transnational *demos*, coercive power can flow to the global level but the legitimacy of its exercise will remain profoundly questionable. And in the absence of a shared sense of legitimate governance, even the obvious winners in the global capitalist experiment will have cause to worry about the endurance of their gains. At a minimum, the willing deference of the losers would seem required, especially if they comprise more than small minorities.

The political challenges associated with the project of European Union may not be easily generalizable. The project of stabilizing global capitalism and rendering its outcomes more just seems immensely more complicated. But the terrain explored in this project provides an important template for beginning to understand the larger challenge. At the very least it provides a basis for contrasting and comparing the political implications of integrative projects underway in North America and elsewhere.

The resurgence of global capitalism is already creating a world where rising tensions surround basic issues of political identity, social obligation, and governmental efficiency. The

need to find new ways of rendering decision-making authority both effective and legitimate is already pressing. In advanced industrial countries, as well as in a widening array of countries aspiring to that status, democratic theory has been crucial to addressing such tensions in the past. Democracy-in-practice has rarely lived up to the expectations of romantics or perfectionists, but neither has it been as hollow as cynics often suggest.

There are two key dimensions to the challenge posed by globalizing capitalism to the structures in which the world's leading states have, both in theory and in fact, grounded political authority, arguably rendering it relatively more stable, effective, and just than antecedent structures. One dimension of the challenge centers on the apparently rising power of corporations and certain skilled people capable of spanning national boundaries. Economic globalization seems necessarily to increase the influence of those firms and individuals capable of mobility. It gives them both greater voice in actual policy-making processes and provides them with new options for credibly threatening to exit from defined political jurisdictions. By reshaping their own identities and giving them new ideological tools, it gives them new responsibilities in principle but releases them from old obligations in fact. In short, it chips away at the solidarity of existing political communities without surely providing a replacement. This is the essence of the democratic deficit diagnosed by Greven and Offe in the European Union, a situation likely to be exacerbated as the Union is enlarged. It is also the essence of the democratic deficits seen by my colleague, Stephen Clarkson, as most directly confronting Canada and Mexico as long as NAFTA remains without an adequate political infrastructure.

The other dimension of the challenge is directly related. In order to construct the technical capacity to govern increasingly integrated markets for labor, capital, and technology, political authority of a larger-than-national scale seems logically to be required. But any decisive movement in such a direction seems to depend upon the prior existence of a political community capable of reconstituting that authority. Such a community does not exist, certainly not at the international level, the obfuscating and somewhat maddening invocations of foreign ministers to the contrary notwithstanding. Both dimensions of the challenge translate into an

insidious chipping away at the formal procedures of democracy as they have heretofore developed across much of the industrial world.

There are two basic lines of response, both on the part of scholars and practitioners. In the short run, democratic practice may be adapted in ways precluded only by an unrealistically strict approach to popular representation and deliberation. Combining carefully conceived referenda with new experiments in consensual decision-making procedures is highly suggestive. Of course, it is all too easy to imagine such measures as degenerating into plebiscitary rule that simply makes opaque a system of rule by special interests. At the same time, such measures could easily translate into new kinds of barriers to effective participation by individuals and groups disadvantaged in the past and only now beginning to find a voice in various local contexts. But such difficulties do not obviate the hard work of thinking such ideas through and experimenting with them.

Democratic theorists would seem to have an obligation to follow that effort, to criticize its results, and to open the space for improvements. Students of the phenomenon of globalization, in turn, have an opportunity therein to probe their potential applicability both within specific regional contexts and beyond. As Dahl recently pointed out, the challenge is "to make sure that the costs to democracy are fully taken into account when decisions are shifted to international levels, and to strengthen the means for holding political and bureaucratic elites accountable for their decisions."⁶ Theory and practice must develop together, even if their subject is at present muddled.

In the end, our book suggests the need to reconceptualize democratic citizenship, effective representation, and political community. Political identity is not fixed but malleable. Again, it was only through a bi-directional process that leading nations and states were actually created in history. In this context, there are evident limitations from extrapolating a constitutional model drawn too closely from the unusual experience of the United States, where by the

⁶ Dahl, p. 183.

dominant historical reading, the nation preceded the state. The pressing need now is to combine history and theory in imagining what global democracy could look like. In the twenty-first century, even the self-confident architects of a world economy will not be able to avoid that task.

Let me conclude with a word on the international dimension of that task.

The Emerging Global Order

During the waning years of the twentieth century, we witnessed the reluctance of states unambiguously to embrace norms of truly "free" trade, labor mobility, or complete capital mobility. We observed the handling of periodic emergencies in international markets by those states in an 'ad hoc' manner. Finally, we saw those states demonstrate a distinct preference not clearly to designate an international organizational overseer for truly integrated capital markets. All of this suggested deeper concerns.

Continuing controversies on issues of global economic governance revolve around traditional issues of power and authority. The legitimacy of a new order tending in the direction of global financial integration remains in question. More fundamentally, the struggle suggests that the architects of such an order cannot easily calibrate emergent market facts with persistent political realities. In short, they cannot lodge ultimate political authority over "global finance" at the level where it logically belongs. Like sub-national governments in a confederation trying to establish a fully integrated national market while retaining all substantive economic powers themselves, contemporary states have a problem.

One doesn't need to be an extremist to sense the full dimensions of the problem. One only needs to observe market and governmental reactions to the financial crises that characterize any order that relies on private markets. Such markets may be 'efficient' in the long run, but they have always been prone to "manias, crashes, and panics" in the short run. Since 1945, prompted by periodic emergencies, advanced industrial states regularly engaged in efforts to

manage that proclivity. In a global financial order, crises with potentially devastating systemic effects can begin in all but the poorest countries.

From Mexico in 1982 and 1995 to Russia, East Asia, and Latin America in the late 1990s, many national disasters threatened to become catastrophes for the international experiment in financial integration. But who was truly responsible for the necessary bailouts and for their sometimes perverse effects? Who would actually be held responsible if the panicked reaction to financial turbulence in one country actually began to bring down large commercial and investment banks and bank-managed investment funds around the world? "No one," a number of practitioners and analysts now say, for the authority to manage global finance has dispersed into the supranational ether. I disagree. Despite the obfuscation of accountability always implied in private market regimes, the actual crises of the late-twentieth century continued to suggest that national governments would be blamed and that they would respond.

The desire to avoid such an end-game in the new world economy provides the driving force behind the latest round of multilateral and regional efforts to clarify, strengthen, and rationalize the mandates of international financial institutions. The same dynamic reinforces internal pressures within many states to move toward "independent" central banks. In the best case, technocratic agencies promise to promote common standards of financial regulation and supervision around the world, design functional programs for crisis avoidance and crisis management, and provide mechanisms for states to collaborate with one another to mutual benefit. In the worst case, such agencies can take on the role of scapegoats, thus serving as a buffer in the political crises that would inevitably follow any systemic financial catastrophe.

What technocratic agencies cannot fundamentally address, however, are basic questions of social justice necessarily implied in any system where the mobility of capital is not matched by the mobility of people. This is another way of saying that the governments of states cannot yet shift ultimate regulatory power, or legitimate political authority, to the level of governance suggested by the term "global finance." Perhaps they do not yet need to do so, because the

term exaggerates the reality of international financial integration at the dawn of a new century. But surely the vast majority of their citizens do not yet want them to do so.

The debate about the future of social democracy in Europe is testing this latter assertion. But, as our project and book demonstrate, even there, within the restricted context of a regional economic experiment still shaped by the legacy of the most catastrophic war in world history, such a shift in the locus of political authority remains profoundly problematic. Elsewhere, intensifying interdependence remained the order of the day as the citizens of still-national states sought the benefits of an international economy without paying the ultimate political costs implied by true integration. The core of the European debate is just now coming to the fore in Canada. On present trend, perhaps sooner especially than most Americans can now imagine, the debate looks set to become a truly global one.

In practice, this means that we will have to wrestle quite explicitly with the conflicting emotions evinced by Senator Helms at the UN last week. Even if they might express them differently, many Americans--of both left and right political persuasions-- likely share his concerns. The point is that international institutions may have to be adapted in ways that may contradict certain American values in order to defend others. The battleground is over the fundamental legitimacy of a global economy. Since no modern markets exist except on the basis of fundamental rules that must necessarily be political constructions, the question is whether Americans can truly accept as legitimate new fora for creating such rules. In this regard, we will be sorely tested. And no one can predict the outcome.

On the basis of my work as editor of this new book, however, my inclination is that if we cannot really grasp the nettle until a transnational *demos* arises, then we will never grasp it. The urgent task now is to accelerate a series of experiments with existing international organizations and to begin the more difficult work of creating new organizations for new tasks--not virtual organizations, like the G-7 or the Financial Stability Forum, but real organizations with explicit mandates ratified by legitimate organs of democratic governance. If this is truly

impossible to imagine, then we had better begin preparations for the dismantling of the global economy. I prefer the optimist's path.