

The Politics of Risk Allocation
Why is Socialization of Risks Difficult in a Risk
Society?

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Abstract:

Provision against risk can be a good reason to champion equality in modern times. No one is free from such risks as disease, aging, caring for old parents, and raising children. Since human beings are vulnerable by nature, they fall victim to various risks regardless of their wealth or social status. If one considers others' hardships as one's own, one would naturally support policies that socialize risks. The socialization of risk is closely related therefore to the idea of equality because it compensates those who fall victim to risk.

Today risks are growing due to the fierce competition brought about by globalization. People have come to realize their lives are at risk. Even diligent and honest people are dismissed from their jobs for reasons beyond their control when their employers try to cut wages. Many ordinary students have great difficulty finding a job. As advanced societies age, the people are more concerned about their lives after retirement, especially in terms of pensions and medical insurance. In the United States, where there is no public health insurance system, more people suffer the risk of sickness.

This short paper aims to consider why neo-liberals are still popular among people in such a risk-filled society. In other words, why don't the people elect the Left or Social Democrats in Western Europe and the Liberals in the United States, whose traditional agenda is the enhancement of equality, and thereby relieve themselves of these concerns? This article attempts to answer this question by looking at the variety and gradation of risks.

Keywords: Risk, Socialization, Social Democracy, Globalisation

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1. The United States: Why Didn't the Liberals Win?

George W. Bush's victory in the 2004 US presidential election was shocking news for those who value equality. As Robert Reich says in his recent book *Reason: Why Liberals Will Win the Battle for America*, rational people would have chosen the liberal candidate if they took hardship in their lives more seriously. Kevin Phillips points out that while wealth is concentrated on the top 1 percent of the entire people, the income of the bottom three-fifth of the population has been declining since the 1990s. Forty million people out of a population of about 280 million cannot afford medical insurance. American society is the most unequal of the advanced countries and is full of risks for the average citizen. Robert Reich and Michael Moore point out that, according to recent opinion polls, the American people prefer better social services even if it means an increase in tax and social insurance contributions. It was evident that John Kerry was the better choice for the average citizen because of his policies on employment, healthcare, and education. It was also obvious that the tax cut proposed by Bush would benefit only the richest in society. However, Bush won the presidency. It seems to me that this outcome cannot be understood without recognizing the multilayer structure of risk for Americans.

Bush won because Americans placed more emphasis on fundamental risks, such as terrorism or weapons of mass destruction, than on socioeconomic risks, such as unemployment and the shortage of healthcare and education. The former threatens our very survival and the latter threatens our enjoyment of decent human lives. To be sure, stability of economic life is important to everyone. But the American people felt more threatened by the risk of terrorism or violence which can terminate their lives entirely. It did not matter for them how likely the terrorist attack was. The important thing was that they felt fear no matter how unlikely the terrorism was. This fear was the biggest motivation behind their vote. Therefore, Bush's victory depended on his ability to make Americans fearful enough about their survival that they would overlook socioeconomic risks. It is said that the sudden appearance of Osama Bin Laden on television just four days before the election was a crucial determinant of the election outcome. Although we have no evidence that the Bush administration manipulated the video of Bin Laden, Bush did succeed in making people fearful.

While the American government leaves socioeconomic risks up to the individual, it exaggerates the risk to military security and public safety. The US is a combination of small

government concerning social and economic ills and big government with a strong military and police force. The experience of 9/11 still makes Americans accept such a gradation of risks.

2. Japan: The Collapse of the Postwar Welfare Regime

(1) Japan's Socioeconomic System

In Japan, postwar economic growth brought about an egalitarian society where 90 percent of the people considered themselves as middle class in the mid-1980s. However, postwar equality has eroded since the 1990s. Before analyzing this erosion, it is necessary to describe the postwar welfare regime in Japan.

The postwar socio-economic system formed in Japan by the Liberal Democratic Party (LDP) and the bureaucracy is often called a "successful social democracy," especially by economists and business leaders keen to point out the limits and defects of the Japanese system from a neo-liberal point of view.

It seems odd to label Japan as a social democratic nation, as it has been ruled almost continually by the LDP, a conservative party that is largely dependent on business for funding and votes. There are some basic features of the postwar Japanese economy that make it look similar to a socialist or social democratic regime: (1) the economy developed at a rapid pace even after the two oil shocks of the 1970s; (2) the economy is subject to much government intervention in the form of regulations, public investment, etc.; and (3) the economy created a society with relatively small economic disparities among individuals and regions—a society, in effect, in which everyone felt that they belonged to the middle class. Almost all media discussions of economic policy in Japan are predicated on these shared perceptions.

It is usually the second point that receives the strongest emphasis, as commentators stress the role of Japan's regulatory regime in creating an industrial order that ensures the survival of the weakest, thus minimizing the role of competition. They note as well the tendency to concentrate public investment in poorer rural prefectures, a policy reflecting the importance of the farm sector in the LDP support base. These two factors are thought to have contributed greatly to the leveling of Japanese society.

We can gain a better grasp of the distinctive features of the Japanese socioeconomic system by analyzing the government's mode of involvement in the society and economy. A good

way to do this is to plot a position relative to two axes—one representing the continuum from discretionary to universal policy; the other, the continuum from the socialization to the individualization of risk.

The socialized-versus-individualized-risk axis gauges the degree to which society as a whole shares in and assumes an individual's responsibility with respect to possible loss, injury, disaster, and so forth. At the same time, it gauges the degree to which the principles of individual responsibility and free competition prevail.

Market purists place the greatest emphasis on individual responsibility and thus individual risk, insisting that each person should assume the risk of losing his or her job, going bankrupt, falling ill, and so forth. Policies associated with this orientation include tax cuts, deregulation, and other measures that call on each individual to take on the competition and accept responsibility for the outcome. In opposition to this thinking, there are those who insist that individuals may find themselves sick or unemployed through no fault of their own and that society as a whole should assume the risk and come to the aid of people who happen to meet such misfortune. They also believe that regulations governing the behavior of individuals and corporations are necessary to prevent environmental destruction and ensure consumer safety. With respect to the distribution of risk, policies associated with this orientation emphasize the use of tax revenues or social insurance premiums to pay for things like universal pensions and healthcare. Where regulation is concerned, policies reflecting this school of thought strive to minimize the risk to the consumer or environment through a regulatory regime, even if it means higher prices or fees than would result from free competition in a deregulated environment.

The discretionary/universal policy axis measures the fairness and uniformity of the government's policies pertaining to industrial regulation and benefit distribution. By the same token, it measures the degree of discretion exercised by the government agencies responsible for implementing those policies.

As mentioned above, the Japanese bureaucracy has enjoyed relatively large discretionary power in policy implementation. In terms of the distribution of benefits, a universal policy is one that aims for uniformity in the implementation or expansion of such comprehensive systems as long-term health insurance, and pensions and aims to increase the budget for systems like public education. In respect to the regulation of industry, a universal policy applies the rules strictly and uniformly to ensure fair competition and consumer safety.

Discretionary policies, on the other hand, confer benefits selectively on certain groups at the discretion of the policymakers, such as subsidies or tax breaks for specific regions or industries. Discretionary regulatory policies, meanwhile, are policies that call for ad hoc decisions whenever an issue arises between the regulated and the regulators, instead of applying the same rules to each situation; the classic example is the “administrative guidance” so common in Japan. Here the bureaucracy wields tremendous discretion in deciding whether to apply the official rules, how strictly to apply them, or even whether to invent ad hoc regulations for the situation at hand.

Using both axes, we can categorize policies according to the scheme shown in Figure 1. This process will aid us as we explore the reasons why Japan’s socioeconomic system has been termed “social democratic.”

The first reason why the Japanese system looks like a quasi-social democracy is that the system has functioned to socialize risk through public works projects in rural prefectures and through a regulated, uncompetitive business environment, as exemplified by the finance industry’s “convoy system.” As Table 1 show, Japan’s outlay for social programs is relatively low as a percentage of tax and social insurance premiums, while its outlay for public capital formation relative to GDP is three times that seen in Western industrial nations. This reflects the government’s generosity toward rural prefectures through public works which have helped create jobs in those regions. In addition, by curbing competition through regulatory policies, the government has coddled such uncompetitive industries as agriculture and distribution, making them lucrative. The government has indirectly maintained a minimum living standard through public works projects and regulations that allow companies to operate without regard for profitability or efficiency. This is what has led some commentators to describe the system as social democratic.

The second basis for the label “social democracy” is the tremendous power wielded by the state bureaucracy by virtue of its discretion in the implementation of government policy.

In short, the LDP has constructed a strong safety net beneath the weaker elements of the economy—be they individuals, companies, or prefectures—by socializing risk with subsidies and through such regulatory practices as the convoy system. At the same time, it has distributed profits at its own discretion through patronage and bid-rigging.

(2) The Erosion of the Postwar Welfare Regime

The pitfalls of such a politico-economic system became painfully apparent in the 1990s with the advance of globalization. One problem is the strain on government finances. Since the collapse of the bubble economy of the 1980s, stimulus measures centered on public works helped prevent serious unemployment problems in the rural prefectures, but as a result, Japan has accumulated a national debt of almost ¥700 trillion (US\$6 trillion or 5 trillion euros), the largest of any industrial nation. This puts the entire economy at risk. The second problem is that the competition-curbing regulation of industry has served to buoy up prices, creating a “high-cost society.” The economic inefficiency resulting from this state of affairs can be regarded as the upshot of pseudo-social democracy in Japan. The third problem is that the lack of transparency in this type of system breeds corruption, as many Japanese came to realize in the 1990s through the series of financial scandals involving bureaucrats as well as politicians. According to the neoliberal critics of “Japanese-style social democracy,” the problem was that the big corporations and wealthy individuals that drive the economy were forced to pay the price for the redistribution of assets in the form of high taxes, costs, and fees, and the bureaucrats and politicians used that money wastefully, resulting in inefficiency and corruption.

In the midst of all this, Prime Minister Koizumi made his entrance, calling for “structural reform.” If we can take the prime minister’s advisors at their word, the Koizumi administration’s structural reforms are aimed at instituting universal policies based on clear criteria, such as efficiency and profitability, and eliminating intervention by bureaucrats and politicians. This is the argument behind Koizumi’s drive to privatize Japan’s quasi-governmental organizations. The administration and its advisors also stress policies that will provide incentives for more individual and corporate risk-taking in a competitive environment. Koizumi also calls for more individual responsibility in such areas of risk as healthcare and pensions. The reform of the healthcare system is designed to shift more of the cost to patients. Together with recent proposals for tax reform, this is all in line with the administration’s emphasis on individual risk. The principle of individual responsibility is also being applied to the disposal of nonperforming assets; creditors are calling in their loans to small businesses, and bankruptcies are mounting.

The Japanese people are fed up with privileges that high-ranking bureaucrats have enjoyed. Therefore, it is quite natural that they support Koizumi’s initiative for cutting inefficient and ineffective public sectors. However, the question now is whether this kind of structural

reform, designed to root out the old “social democracy,” will put Japan in a position to solve its current economic woes, including continuing deflation, increasing unemployment, and financial jitters. Thus far, there is no indication that it will.

(3) The Essence of Koizumi’s Structural Reform

In Japan, social scientists have become more and more interested in risk, and many books have appeared on the market on such broad issues as crime, natural disasters, unemployment, education, and pensions. This is because people are realizing that the foundations of our lifestyles, such as permanent jobs, stable communities, and education, are collapsing. In addition, the Japanese archipelago was struck by repeated natural disasters in 2004 which made people more aware of risk. As Table 2 shows, life has become harder for the average person under the Koizumi cabinet. People are now confronting the hard fact that their lives are fragile. Those who already face big risks try to avoid greater risk. For instance, young people who do not have stable jobs tend to avoid marriage or having children. That is why the birthrate has been on a steady decline in Japan. As a result, society is less sustainable. These risks cannot be covered by the efforts of individuals. In this sense, risk management is the key issue in Japanese politics.

We can find parallels between the United States and Japan regarding the gradational structure of risk. Prime Minister Koizumi is handling risk just like his close friend Bush did in the United States. September 11 is to the American people what the North Korean threat is to the Japanese. The abduction incidents and missile issue have given rise to Japanese hostility toward North Korea. The Japanese government decided a new mid-term defense plan in December 2004 which designated North Korea as a threat and China as a potential threat. Japan is beginning to view more leniently the restraint imposed by Article 9 of the Constitution, and to take a more active role in military cooperation with the United States. The news media in Japan emphasizes the decline in law and order, and public opinion is being formed that human rights should be restricted for the sake of public safety. The government has promulgated several laws to give the police more power to intervene in civil society.

In contrast with this positive policy toward the risk of war and crime, the government is indifferent to risks in the nation’s socio-economic life. For example, over 9,000 people commit suicide every year in Japan because of economic-related distress. However, no government ministry takes note. The national unemployment rate has exceeded 5 percent since 2001, with a

more serious unemployment crisis in rural areas like Hokkaido and Okinawa. The young generation has serious difficulties finding a job. Slashing the public sector means reductions in public services, such as education and housing. The increase of patient's payments under health insurance was first decided in Koizumi's structural reform. And, the Diet approved a new pension bill in June 2004 that will increase contributions and decrease the benefits of public pensions. The Ministry of Finance and the LDP have also started to mention an upcoming increase in the consumption tax.

In addition to the reduction of social services, ordinary people will be forced to "take risks" under Koizumi's scheme of deregulation and privatization. The "pay off" or deposit insurance system will come into effect as of April 1, 2005 and will cover loss of deposits up to 10 million yen in the case of bank failure. That means ordinary people will have to choose safe banks for their deposits. If the privatization of postal services, Koizumi's pet project, is approved by the Diet, people will no longer be able to use risk-free savings and insurance guaranteed by the government. Even citizens who have no ambition to make a lot of money through investment will be obliged to become "investors." In general, hardships will come to be borne by individuals under the catchphrase of "at your own risk." The problem is that most people lack the information and knowledge needed to take the risks.

Then comes a new question: Why do the people support the disadvantageous policies that the Koizumi Cabinet is proposing? Although his approval rate has decreased to 33 percent according to the latest poll by the Asahi Shimbun, Koizumi has been exceptionally popular since his inauguration. In fact, however, people are far from being satisfied with Koizumi's reform. In general, people do not expect any improvement in the economy or society. According to an opinion poll conducted by the Cabinet Office in June 2003, 67 percent of the people feel anxious about the future. They are worried about their lives after retirement, especially regarding pensions and healthcare, and the younger generation is anxious about the education of their children. One could easily understand that corporate liberalism like that being advocated by Koizumi will never ease their anxiety or would not be backed by the public if an effective opposition party were to propose a clear-cut alternative.

There are several reasons why the public backs Koizumi. The first is the people's emphasis on the perceived fundamental risk to survival. As I mentioned above, the Japanese people feel that law and order is in a state of crisis. This primary risk blurs risk in their socio-

economic lives. The second is Koizumi's political tactics. The socialization of risk has often led to vested interests. Closed policy communities composed of politicians, bureaucrats, and interest groups have benefited from this policy. Koizumi successfully connects the idea of the socialization of risk with the negative image of selfish bureaucrats and corrupt politicians. People appear to accept the idea of small government as a tool to clean up the political world. Koizumi is very good at presenting a political spectacle in which he deals the death blow to the corrupt bad guys.

The third reason is misunderstanding about welfare in Japan. Traditionally, welfare was thought to be mercy to the weak and was truly exceptional in postwar Japan. During the era of high economic growth, Japanese society was young and vital and enjoyed high social mobility. These fortunate conditions made welfare a gift to a small minority. What is happening now is that more and more people are becoming weak and at the same time turning against the other underdog amidst fierce competition. Instead of establishing a reliable welfare regime based on popular contributions, people resent the beneficiaries of risk-socialization policy. Urban dwellers complain about the misuse of public money in rural development, and workers in companies criticize protection for farmers and self-employed people. Although everyone comes at some point to realize his/her vulnerability, a sense of solidarity is not shared yet among the Japanese people.

3. Prospects for Japanese-Style Social Democracy

(1) Gradation of Risks

To restore the value of equality, we should understand the risk that we are now facing. We can divide risk into three categories. Primary risk is risk to survival. As mentioned earlier, people come to be more sensitive to this kind of risk after a period of peace and prosperity. News media often present the stereotype that immigrants, minorities, rogue states, and so on exacerbate this type of risk. Secondary risk is risk to the enjoyment of a decent human life. Most people in advanced countries take for granted that they will enjoy a decent life with a stable job. However, risk in employment, education, medical care, and pension is increasing rapidly. Tertiary risk is remote or incidental risk. Like global warming or a big earthquake, this kind of risk is not imminent; however, it will cause unthinkable damage to human life if it happens. Although there

is a worldwide consensus that we should start to prepare for such risks immediately, we do not agree on who should pay the cost.

This gradation of risks corresponds to policy ideas (Figure 2). Emphasis on primary risk justifies small government. If people make much of secondary risk, they will choose a social democratic government which would provide social policies to cover various risks. Those who appreciate tertiary risk would be interested in new social movements based on post-materialistic values.

If the social democratic agenda for risk management were to become popular, we would need to clarify the entire structure of risks and break the stereotypical discourse about the primary risk. At the same time, we would need to convince people that neglecting secondary risk would surely enhance primary risk. For instance, a rise in the number of jobless people and the deterioration of public education will result in an increase in crimes and anti-social behavior. People do have serious interest in secondary risk. If they shared a view on real risk, they would be able to retain the sense of solidarity which is essential for the socialization of risk.

(2) The Twofold Problem Facing Japanese Social Democracy

I would like to conclude by considering the kind of political party needed to fill the present vacuum in Japanese party politics. What the country needs now is a political force that combines the ideals of universal policy and socialized risk. The goals of such a party would be to clean up the bureaucracy and put an end to political patronage, while at the same time laying the foundations for universal policies to protect and sustain the people—especially those buffeted by misfortune—instead of leaving their fate to market forces. For example, instead of abandoning those displaced by shifts in the economic structure or devising ad hoc stopgaps one industry at a time, this party would seek to bolster unemployment insurance and strive for universal policies designed to get people back on their feet, such as government-subsidized education and training.

If the tide of bankruptcies and unemployment continues to rise as the Koizumi administration pursues its blind quest for small government, it will be necessary above all to forge a policy to stabilize business and employment. This should be a strategic program centered on undertakings that simultaneously respond to other challenges facing Japan in the 21st century, such as the environment and an aging society—not the arbitrary doling out of funds or the

anachronistic development and public works projects that were carried out under Prime Minister Keizo Obuchi and that the old factions of the LDP today promise to continue.

At the same time, Japan desperately needs universal policies based on principles and rules. The rules for maintaining the economic system must be strict and unbending to ensure justice, while those aimed at assisting people in need should be fair and caring. As I mentioned earlier, the Koizumi administration seems to be pursuing reforms based solely on the principles of efficiency and profitability. Yet when it comes time to apply these rules to the actual economy, Koizumi reverts to the LDP's old discretionary approach. For example, regarding the disposal of nonperforming loans, the administration refuses to address the basic problem with a rational and consistent policy, instead it merely applies band-aids here and there as the occasion demands—as in the bailout of a failed bank and supermarket chain. According to the rules, the administration should be calling for the full disclosure of bad loans, prompting the shoring-up of write-off reserves, using public funds to make up the shortfall, and putting the failing banks under government control. The government needs to apply these rules strictly across-the-board in order to make a clean sweep of the moral hazard looming over Japan. Eliminating administrative discretion and political interference and applying the rules of capitalism consistently are crucial prerequisites of true reform in Japan.

The other rules—the caring rules aimed at socializing risk—must also be fair and transparent. That means putting an end to the traditional LDP manner of socializing risk, as by keeping small businesses afloat and constituents employed with the special subsidies finagled through political clout. It means first seeing to it that unemployment compensations, pensions, and key social services like education and daycare are reliably provided and then reforming the entire social welfare system to ensure that benefits are distributed equitably to those in need.

The policies I have just described are also those of the social democratic parties of Europe, where they are referred to as the “third way.” This appellation suggests an alternative to both the welfare state built by the old social democrats (the “first way”) and the cold-blooded capitalism of Thatcherism (the “second way”)—that is, an economy in which market vitality coexists with a respect for humanity.

As a viable alternative to the LDP, the Japanese people need a party that can offer a “third way” tailored to the nation's realities. Problems that Japanese social democracy must tackle are twofold. In Japan, we would have to call the “first way” LDP-style government for

vested interests, and the “second way” American-inspired Koizumi reform. The next phase, then, should be a system that rests on the two pillars of a transparent, fair market and socialized risk to protect the health and welfare of the people—a Japanese “third way.”

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Table 1. Social Welfare Contributions and Benefits (US\$, per capita)

	Income	Tax and Social Insurance (A)	Social Security Benefit (B)	A/B (%)
Japan	26919	9825	4092	41.6
US	21351	7793	4142	53.2
UK	14444	6673	3929	58.9
Germany	20448	11492	6830	59.4
France	18668	11638	7038	60.5
Sweden	17453	12287	9320	75.9

Source: Cabinet Office of Japan, *Yearbook of Social Security Statistics, 1997*.

Table 2. Social Indexes in Japan since 2000

Item	2000	2002	2004
Average Household Income (1,000 yen/year)	7,210	6,830	6,600
Average Household Consumption (1,000 yen/month)	31.7	30.6	30.2
Average Worker Income (1,000 yen/year)	7,690	7,480	7,210
Average Worker Debt (1,000 yen/year)	5,790	6,070	6,050
No. of Unemployed (million)	320	359	350
Unemployment Rate (%)	4.7	5.4	5.3
No. of Corporate Bankruptcies	18,769	19,807	16,255
No. of Individual Bankruptcies	145,207	223,570	250,983
No. of Juvenile Workers without a Permanent Job (million)	384	417	450
No. of Suicides	30,957	32,143	34,427
No. of Homeless People	20,451	24,090	25,296
No. of People on Public Assistance	1,072,7	1,242,7	1,344,3

	241	23	27
No. of Workers with a Permanent Job (million)	369.5	348.9	344.4
Birthrate	1.36	1.32	1.29
Crime (thousand)	2,443	2,853	2,790
Reported Cases of Domestic Violence	1,096	1,528	1,574
Reported Cases of Child Abuse	18,804	24,254	26,569

Figure 1. Relationship between Policy Ideas and the Constellation of Political Forces

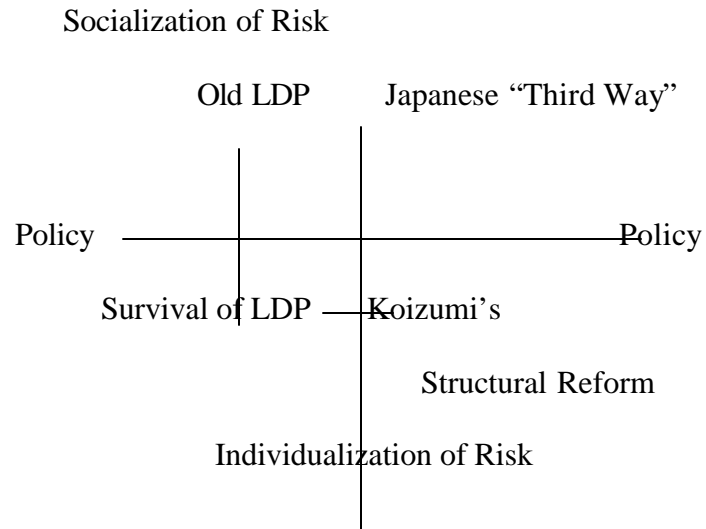
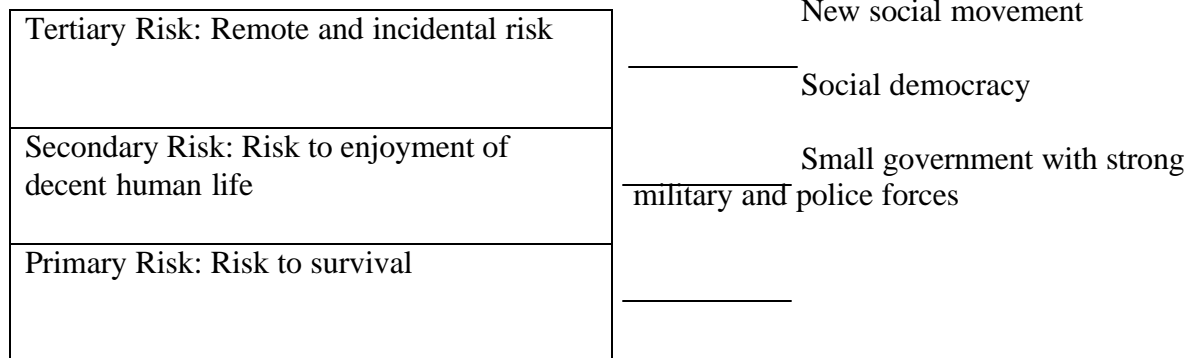


Figure 2. Gradation of Risks and Policy Ideas



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'The Politics of Risk Allocation Why is Socialization of Risks Difficult in a Risk Society?'

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