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Informal Institutions and Global Inequalities in the Service Industry

JEAN-CHRISTOPHE GRAZ

The extent to which the era of globalization differs from growing political and economic convergence has prompted contentious debates over the last two decades. From a global and long-term perspective, the conventional understanding is that although formal political inequalities have significantly diminished, substantial economic inequalities have been on the rise for most of the same time. Yet, greater formal political equality tends to be of minor importance in a context of liberalization, privatization, and internationalization. Diminishing state power and its devolution to non-state actors and global markets plays down formal political equality gained through years of independence movements and successive waves of democratization. Moreover, responses to the current global economic crisis have shown huge inequalities in the ability of states to pump money into the economy by massive deficit spending and unconventional monetary policies. This suggests that political inequalities not only remain substantial, but also tend to reinforce economic inequalities.

At the same time, however, some recent developments have mitigated global economic inequalities. The rise of China, India, Brazil, and the likes is so significant that it clearly questions our understanding of domination patterns in contemporary capitalism. The resilience of those emerging powers to the current crisis provides further insight in this regard. Moreover, cheap labor, quality education for a growing skilled workforce in the service economy, as well as investments in avant-garde technologies such as information and communication, and bio- and agro-industries, have contributed each on their own way to a decrease in economic inequalities between a number of countries. While the world has certainly not become “flat,” long-term global economic inequalities may possibly decrease on the condition that macro-economic policies, enabling states, progressive social forces, and supporting institutions exist to drive the process.

In order to probe this contrasting view on global political and economic inequalities, this essay explores the role of standards as a distinct institutional

form framing worldwide economic integration. It examines the extent to which unequal power configurations pervade the informal institutional mechanisms prevailing in standard setting and recognition procedures. Studies on economic development have highlighted in various ways the role of institutions in economic transitions and their effect on inequality both within and between national economies. Since the early 2000s, both the World Bank and the International Monetary Fund have acknowledged the importance of institutions in their official publications. Focusing exclusively on states, formal political and economic institutions, and the enabling or constraining environment of inter-governmental organizations, these approaches either explicitly or implicitly assume that informal institutional mechanisms remain largely insignificant in the processes affecting global political and economic inequalities.

The essay argues that informal institutional practices at the international and transnational stage exert important influence on the power configuration affecting global inequalities. As Murphy emphasizes in addressing the political consequences of the new inequality, formal political institutions have partially lost their significance when many states, despite greater formal political equality, become too weak to impact economic inequalities: "In a world in which we let the market do much of our collective business, increasingly unequal market power means increasingly less democracy." We are witnessing instead a surge of informal institutions that differentiate sectors in growth processes and shape the distribution of gains and losses. This phenomenon has prompted a growing number of studies in international relations, international law, and organizational studies on the rising power of non-state actors, private authority, and other forms of transnational governance. The literature frequently refers to heterogeneous, entangled, multilayered, mobile, and porous arrangements of authority forming global assemblages. The ambiguity on which public and private, national and international, and political and economic spheres are redrawn deserves better attention in order to understand how it contributes to shape unequal power configuration in contemporary capitalism.

In this essay, I use the concept of global hybrids in an attempt to clarify this outstanding shift in the institutional arrangements likely to accentuate or diminish the constant drive of capitalism towards inequality. A core contention of the paper is that it is precisely the ambiguity at the core of hybrid types of informal institutional coordination that confers greater authority on non-state actors previously deprived of such attributes. This emphasizes the political implications of issues usually identified as merely technical and economic incentives or hindrances to the contemporary dynamic of global capitalism. Since ambiguity, as such, offers to powerful market actors the largest opportunities to capture the growing importance of informal institutional mechanisms, global hybrids are likely to reinforce economic and political inequalities. But the ambiguity can also provide maneuvering space for subordinate

actors considering institutions outside the state and formal intergovernmental arenas as important tools for their emancipatory project.

The analysis focuses on the significance of standards underpinning the internationalization of service industries. The service sector is at the core of changes reinforcing the crucial role of knowledge, information, and communication technology (ICT) in the advent of a post-industrial society substituting the delivery of services for the production of goods on a worldwide basis. Services now account for more than 70 percent of Gross Domestic Product (GDP) and employment in the advanced economies of the Organisation for Economic Co-Operation and Development (OECD), and for more than 50 percent in developing countries. After providing some background on service internationalization and standardization, the analysis introduces the concept of global hybrid in its relation to new forms of institutional mechanisms undertaken by non-state actors across borders. It then presents, in more details, three defining issues of the informal institutional setting underpinning power and inequality in service standardization.

International standards in the service sector epitomize the interplay between such new forms of transnational hybrid authority and global political and economic inequalities. Entwined between domestic voluntary market specifications and global rules, they codify measurement, design, performances, or side effects of services in a way that can virtually affect every aspect of our daily lives. It is not difficult to imagine that nuts and bolts should match up or that credit cards be as interoperable as telecommunications service providers. Yet fewer people are familiar with the political implications of international standards in domains as diverse as data storage in health services, network services billing, brand valuation, personnel training, and skills development assessments—all of them being discussed within the International Organization for Standardization (ISO). International standards affecting the exchange of a wide range of services are rapidly growing in parallel to the importance of services in the economy and society at large, greater reliance on standards in a context of regulatory reform, and a more intense internationalization of the sector.

The ability to develop a global market of services is not just a matter of technology or economic logic. It also supposes an ability to define the gradual decomposition of complex work into sequences of more simple work. The more fragmented the nature of the labor and consumption processes, the more requirements to codify them. Yet, services are often described as intrinsically resisting relocation precisely because intangible and interpersonal services, such as teaching, consulting, health, and personal services, are difficult to codify. International service standards are seen as crucial tools in this regard: they help to alleviate the difficulties resulting from the fact that users and providers are closely interrelated and dealing with intangible matters. To

which extent, however, do they reflect a distinct form of power affecting patterns of inequality in the rising global service economy?

The distinct practices of standardization call to mind the *nébuleuse* that Cox portrayed in the mixture of official and unofficial transnational and international networks, with representatives of business, the state, and academia working towards the formulation of a consensual policy for global capitalism. Even if standards are only voluntary requirements, they often take on a quasi-legal status when they are referred to in technical regulations or insurance policies. Moreover, their scope pertains to the whole range of conflicts emanating from the capitalist system. The relationship between standard-setting agencies and society as a whole is therefore bound to be controversial. Workers may look to standards to ensure a safer workplace (for instance, standards on scaffoldings' width or maximum noise pollution) or obtain quality guarantees on the goods they purchase. In contrast, entrepreneurs, merchants, and financiers will equate standards with risk reduction, technological progress, strategic competitive behavior, and profit. Technical specifications are also instrumental in the separation between the economy and the state. The voluntary market-oriented dimension of standards may reinforce free market claims to keep economic constraints and appropriation separated from politico-legal coercion. At the same time, however, the authority conferred to standard-setters by state agencies and intergovernmental agreements may narrow down the conventional Weberian view of state autonomy. Identifying the ambiguity upon which hinges the ability of non-state actors to implement, on a transnational basis, rules that are not initiated or set by states is critical for understanding the importance of informal institutional mechanisms that are likely to reinforce economic and political inequalities. This prompts us to elaborate further on global hybrids as a form of authority based on a high level of ambiguity conferring power to a wide range of non-state actors.

The idea of a hybrid world, which transcends our dichotomized analytical categories, has been explored by post-structuralist scholars interested in the fate of the recent erosion of the modern divide between science and society. Post-colonial studies often draw on the same notion to conceptualize intertwined structures of rules, overlapping sovereignties and complex identities that define state/society relations in former colonized countries and their articulation to the world economy. Hybrids epitomize a symbolic representation of societies that echoes ancestral and key figures of human imaginary representation common to most mythologies across time and space. Contrary to the ideal of unity and simplicity found in classicism, the word gains its persuasive power through fabulous and multifaceted dimensions. Hybrid creatures form legendary wholes, yet each of the parts they are made of comes from real and well-defined origins. The aggregate can include two elements or many more. The Egyptian Sphinx, for instance, is made up of a woman's head and a

winged lion's body; the Greek Chimera has a lion's head, a goat's body and a serpent's tail; in China, a phoenix is a complex amalgam of a cock, a swallow, a snake, a dragon and a fish.

Contemporary hybrids descend from a long and rich mythological tradition. Far from picturesque characters of the old time, they remain figures rich in meaning, disclosing something fundamental to the organization of collective life. Their ontological ambiguity, wavering between reality and the imaginary, is particularly significant for understanding the role of informal institutional mechanisms affecting inequalities in contemporary global political economy. While it might appear self-evident today that hybrid creatures belong to an unreal world, such was not the case in ancient times, when there was a shared belief in ontological ambiguity, emanating from the infinite creative power of nature to give birth to all sorts of creatures. Similarly, contemporary hybrids sanction new objects and agents, yet they are aggregated in such a way that they entail much ambiguity with regard to their defining criteria.

Why claim that the attributes of ambiguity, at the core of the notion of hybrid, should be considered as relevant for engaging much misunderstanding about globalization? One may consider that it is precisely such ambiguity that gives license to a host of undefined non-state bodies to mediate between global markets and national politics. A critical factor is the increasingly symbiotic relationships between states and non-state actors. A wide range of actors has gained authority in an international context that traditionally denied them such a privilege. As Cutler reminds us, the rise of private authority in international affairs "supports the private sphere of capital accumulation [but] neutralizes and renders invisible the instruments serving those ends."

The concept of global hybrids seeks to cast the nature and the implications of the rising ambiguity in the development of informal institutional arrangements across borders in a broader context. To this end, it aggregates three distinct categories: the subjects defining authority, the objects concerned, and the space of their deployment. These three categories at best only capture some aspects of a complex and multifaceted process evolving extremely rapidly. Nonetheless, they try to point toward the significance of new forms of devolution of power in our societies. The concept refers to any form of non-state authority on any significant issue transcending national borders. Here global hybrid, however, can be defined more precisely as a form of authority that blurs the subjects legitimately involved in it, pertains to objects undermining the distinction between science and society, and pursues a fragmentation of the space where the endogenous logic of territorial sovereignty gives way to an exogenous logic reinforcing the transnational underpinning of capitalism. This entails numerous agents who play, or claim to play, a role in mediating the opposition between the exclusive dimension of private property, national sovereignty, and capitalism on the one hand, and the inclusive potential of material progress, citizenship, and democracy on the other. Global hybrids

change the properties of these categories and alter the hierarchy of their relation. We now turn to those three defining issues of the hybrid authority used for the internationalization of the service industry.

First, actors defining international standards operate in both the private and public spheres. Market mechanisms and policy choices both affect agents involved in the field, but they do so in various ways, which may be seen as located on an institutional continuum defining who can standardize. Technical specifications belong to the private sphere of economic activities governed by market constraints, and affect social and technological change from that angle. They nonetheless remain related to the public sphere of political action directed to the general interest of society—by determining a certain level of risk or by setting principles of liability, for instance. Hence, even in the circumscribed field of technical specification, norms relate as much to capital accumulation and technical progress as to social improvement or various instruments of the welfare state. When mandatory, enforceable, and general, technical specifications are thus a matter of public law and enjoy the status of government regulation. They often refer, however, to criteria set within the hybrid universe of standards-setting bodies. Around 160 nongovernmental national bodies “most representative of standardization in their country” are members of the ISO and the International Electrotechnical Commission (IEC). As only one body in each country is eligible to membership and their statute varies considerably across the world, a mixture of private and public bodies participate to official international standard organizations.

While technical specifications bring in standard-setting organizations into the regulatory arena, a complex web of more strictly private bodies resembling industry and trade associations, as well as industrial consortia, also develops standards. Standards set by industrial consortia clearly lie at the private end of such an institutional continuum, notwithstanding their tight imbrications with government industrial policy on certain strategic issues (the triumph of the Groupe Spécial Mobile (GSM) standard for mobile phones is a notorious case in point).

Second, what is the scope of the objects covered by technical specifications? Whereas the private/public nexus of the actors involved in defining standards can be located on an institutional continuum, this second dimension maps out a material continuum delineating what can be standardized. This dimension aggregates the relation between human beings and nature, for so-called technical specifications range from natural and invariable physical measures to constructed and historically bound societal values. While large-scale industries of the twentieth century led to a whole range of standards defining the performance and interoperability of industrial goods in domains such as steel plates or electrical units, international standardization is now bound to make headways into the broad societal concerns related to the

intangible and relational features of the service sector at the core of the so-called global knowledge-based economy. The set of issues concerned links societal stakes of collective life with its material, natural and, more generally, physical dimensions.

The two different types of service standards developed within the ISO setting are a case in point. First, there are those set on a so-called horizontal basis targeting generic requirements likely to be widely used across sectors. They potentially affect the whole material continuum delineating what can be standardized by combining physical specifications with more societal issues. Most of those standards focus on quality and security issues, such as customer satisfaction in quality management (ISO10000 series) and information security management systems massively used in service-oriented companies (ISO/IEC 27000 series). ISO flagship generic system management standards such as ISO 9000 series on quality and ISO 14000 series on environment are also widely used by service providers, particularly in the bottom end segment of the chain unable to comply to more complex and distinctive specifications used by the larger players. Second, there are areas in which physical and material requirements often prevail over societal choices and values. Such domains remain far from the ideal type of inter-subjective, intangible, and labor-intensive consumer services. Numerous service standards in the field of information and communication technologies are, for instance, developed in the ISO/IEC Joint Technical Committee 1. Similarly, crucial ICT standards dedicated to enforce technologically driven solutions to contemporary transportation problems are developed in the ISO Technical Committee 204 on Intelligent Transport Systems.

The third dimension on which situating international standardization is the extent of the space on which technical specifications can be defined and recognized among sovereign states. It refers to the spatial competence for conformity assessment procedures and the standards used for them. Standardization occupies the cracks between the principle of exclusiveness of territorial sovereignty and the inclusiveness of rules governing the global economy. In order to understand this issue, we need to distinguish between endogenous and exogenous principles of standards recognition. The endogenous principle is related to a process of standard diffusion that is linked with the principle of territorial sovereignty (what makes a standard international is a deliberative and recognition procedure based on the principle of the national representation). Conversely, the exogenous principle is related to the diffusion of standards through market mechanisms (what makes an international standard is its use and recognition by market actors across the globe). As Nicolaïdis and Egan observe, “domestic regulators accept unprecedented transfers of regulatory sovereignty by recognizing non-domestic standards as valid under their jurisdiction, whether they have taken part in their

development (standardization) or not (recognition).” In a context of technological convergence, desegregation of productive processes, privatization, and growing foreign competition triggered by the internationalization of services, the spatial competence along which recognizing standards reproduces the hierarchy of the North–South divide. While some degree of endogeneity could clearly remain in sight for core countries, a largely exogenous recognition of standards has dramatic implications for developing countries.

To sum up, the growing significance of services in the global economy involves new patterns and agents of change through formal and informal regulatory practices of a wide range of non-state actors. Among them, service standards are likely to play a crucial role as they reflect a form of transnational hybrid authority that blurs the distinction between private and public actors, whose scope spreads all along from physical measures to societal values, and reinforces the deterritorialization of regulatory practices in contemporary capitalism. The power of such informal institutional practices in the political economy of global inequalities relies upon the ambiguous authority of largely undefined non-states bodies to specify significant issues in the articulation of global markets and national politics. Standardized technical specifications external to formal political institutions impinge on the internationalization of services considered at the core of ongoing transformations of global capitalism toward a dematerialized knowledge-based economy. It is from this perspective that this essay sheds light on the puzzle outlined in the introduction.

Service standards are likely to reinforce inequalities in the global political economy, as long as actors setting them can take advantage of their ambivalent status to intermingle physical measures with societal values recognized on a largely deterritorialized scope. The ambiguity in the transfer of authority to the informal institutional bodies in charge of standardization suggests that diminishing formal political inequalities may have a relatively weak impact in the current context. On the contrary, the effect of rising economic inequalities is all the more important outside formal political institutions when ambiguous transfers of authority tend to duplicate uneven market power and income distribution. Moreover, market power and prior control of informal institutional mechanisms tend to mitigate the outcome likely to be expected from shifting and, arguably, partly diminishing global economic inequalities. It should be noted, however, that in order to respond to pressing critiques regarding such a tendency of standards to support global economic and political inequalities, the ISO has recently embarked on a pioneering attempt to democratize its procedure. The ISO 26000 negotiations aiming to set a generic standard on corporate responsibility included, for the first time, procedural innovations directed toward improving the inclusion, the representation, and the influence of stakeholders traditionally kept out of standardization practices. Initial analysis has raised deep concerns on the experience, yet at the same time, highlighted its progressive transformation potential. As transfers

of authority conferred to service standards cannot keep public actors, societal concerns, and their potential global reach at bay, future developments in this domain are likely to draw progressive lessons from the experience.

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