The importance of the Welfare State under globalisation

By Vittorio Trevitt

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Part 1: Background to the Welfare State

For decades, attempts by national governments to temper the worst excesses of the free-market and reduce socio-economic inequalities have long manifested themselves in the form of the Welfare State. Welfare states comprise all-encompassing systems of state support that includes not only cash benefits such as public pensions, unemployment benefits, and child allowances, but also state provision of such essential human services like healthcare, housing, and education. For most of the post-war period (until the world recession of the Seventies) the maintenance of the welfare state was the accepted consensus within developed countries, and to this day remains the most important policy instrument for wealth redistribution.

Globalists argue that the ability of firms and investors to move production and capital around the world has made it virtually impossible for governments to intervene in national economies as they did during the days of the post-war Keynesian consensus. Therefore, any attempt to do so is doomed to fail if such intervention extends beyond minimal “market friendly” measures. Therefore, under economic globalisation, the only viable government is “market friendly” government, which means that most of the “welfare state” policies carried out by successive governments during the “golden age of capitalism” are no longer feasible. As Manuel Castells puts it:

the nation-state is increasingly powerless in controlling monetary policy, deciding its budget, organizing production and trade, collecting its corporate taxes, and fulfilling its commitments to provide social benefits. From the Great Depression up until the Seventies, there was a widely held belief that governments could (and should) intervene in the workings of national economies to redistribute wealth and reduce socio-economic inequalities, a kind of socially just intervention that manifested itself in the form of the Keynesian welfare state.

Globalists believe that in this age of global markets, it is foolhardy for governments to try and pursue equitable social policies within the confines of economic globalisation, as they have no choice but to bow to the demands of the market. As purported by Fritz Scharpf, unlike the “golden age of capitalism” that lasted from the Forties up until the Seventies,

there is now no economically plausible Keynesian strategy that would permit the full realization of social democratic goals within a national context without violating the functional imperatives of the capitalist economy.

According to Kenichi Ohmae, national governments have effectively become the enemies of their own citizens by preventing them from achieving an even greater quality of life. This is because governments have remained committed to maintaining a strong central role in the social sphere, as exemplified by social welfare programmes and subsidies from richer regions to poorer ones, even though this social contract (or the “civil minimum” as Ohmae calls it) mainly benefits a minority of the population while placing a heavier burden on the average consumer through higher taxes and contributions, as well as on the economy itself. In fact, as argued by Ohmae, it is difficult to think of any region or industry that, once addicted to the civil minimum, has returned to fiscal health.

The growing alignment of government power with domestic special interests and disadvantaged regions’ has made it practically impossible for those at the centre to implement policies to benefit the nation as a whole, much less enable it to participate within the wider borderless economy, at a time when national prosperity depends on outside influences. Ohmae draws on analyses carried out by the World Bank to back up his argument, which reveal that free trade and a free flow of economic activity, supposedly, work to increase living standards. The current alignments of government power, however, ignore such sentiments. By maintaining the civil minimum, therefore, national governments are preventing their citizens from fully reaping the benefits of economic globalisation, and their failure to do so has resulted in the nation-state losing much of its credibility as an effective economic unit.

Part 2: Social security: contract with the people

According to Geoffrey Garrett, the views put forward by individuals like Ohmae and Scharpf underestimate the role of domestic political conditions in shaping how governments respond to globalisation and their impact on the national economy. For Garrett, there remains a viable leftist alternative to free-market capitalism in the contemporary era of economic globalisation based on principles of “big government” and corporatist principles that can itself deliver positive macroeconomic results.

Although proponents of globalisation argue against the feasibility of interventionist (and socially just) alternatives to the free market, drawing on the increased “exit” threats of mobile asset holders, there remains in spite of, or because of, this phenomenon, growing levels of public support for government intervention to combat the inequities and insecurities that market integration has brought in its wake.

The emergence of casual employment has created fertile ground for left-wing parties and economic policies that seek to challenge the inequalities generated by the free market. One country that has witnessed a remarkable shift to the left in public opinion in recent years, with rising
levels of support for social welfare provision and protectionist economic policies that safeguard local industrial jobs from foreign competition, is that of the United States. According to “The Economist” magazine, falling real wages and increased fears over outsourcing has led to public opinion shifting dramatically to the left, a situation that has badly shaken the confidence of the conservative movement, which has dominated American politics for the past two decades.11

The Democratic resurgence that has taken place over the past two years, with the Democratic Party regaining control of Congress and opinion polls suggesting a Democratic presidential win, is exemplary of the public’s fears over the perceived threat that economic globalisation poses to their livelihoods. This is because the Democrats have espoused protectionist economic policies and denounced free trade while supporting Keynesian policies such as increasing both unemployment benefits and the minimum wage to stimulate the ailing economy, which correlate with high levels of public support for such measures.

A poll taken by the Pew Research Centre in March 2007 found that there existed growing fears over income inequality together with rising support for the maintenance of federal welfare programmes,12 with 54% of Americans supporting the statement that “the government should help the needy even if it means greater debt.”13 This stands in direct contrast to 1994, the year that the Republican Party regained control of both Houses of Representatives for the first time in forty years, when only 41% of Americans agreed with this statement.14

Across the globe, as social inequality and fears over globalisation has increased, so too has support for governments to intervene to safeguard the livelihoods of working people and their families.

Part 3: Mainstream support for the Welfare State

In spite of the sharp cutbacks made to a number of social welfare programmes in recent decades, and concerns over the financial sustainability of generous old-age pension schemes (particularly in Italy, where most welfare spending is directed towards pensions14), the welfare state is still widely cherished by millions of people the world over as their birthright. Although some have argued that just as the manufacturing working class (the traditional base of support for the political left) has gradually disappeared, so too has the electoral appeal of the welfare state, popular support for the welfare state actually increased as the traditional working class fell into decline. The popularity of social welfare provision within the confines of the global economy can be attributed to the initial effects of globalisation, such as economic insecurity and social dislocation, as the distribution of incomes and jobs across firms and industries becomes increasingly unstable.15

As argued by Garrett, even if market dislocations only affect a certain proportion of the labour force, perceptions of economic insecurity will always be felt amongst a larger proportion of the population, and under contemporary economic globalisation, even amongst those who are not members of the traditional manufacturing working class.16 As a result of the economic insecurities generated by globalisation, therefore, public support for government policies that mitigate the inequalities generated by the free-market economy remain as high as ever.

This contradicts the globalist argument that politicians and ideologies no longer have any meaning under economic globalisation, as most people still look upon the state to provide for them both in their old-age and during their working life, as demonstrated by high levels of public support for government welfare programmes. Ideology has also proven to an important determining factor in the maintenance of this social contract, as left-wing parties, who believe in utilising the power of the state to combat social injustice, have been guided by these ideals while in office, to ensure that ordinary people can reap the benefits of the global economy. In fact, the relationship between the political power of the left and economic policies that reduce the worst excesses of free-market capitalism has not actually been strengthened in a number of ways.17

Ohmae is mistaken in suggesting that governments have become the enemy of consumers by preventing them from reaching an even higher quality of life through maintaining generous welfare programmes that consumers have to pay for in high taxes. This is because consumers in developed countries, not just the less well-off, but the relatively well-off majority as well, have come to rely on these systems of government support throughout their lives at one time or another.

This is demonstrated by unemployment insurance and universal family allowances, which have benefited both the affluent and less-affluent segments of society by boosting household income levels, and also by universal health care systems, which cater to the health needs of all sections of the population. Any attempt, therefore, to significantly reduce or even remove such benefits will be met with strong opposition from the bulk of the population.

Although consumers might grumble about having to pay taxes to maintain these social support systems, the fact that almost all consumers benefit from these systems has meant that they are unwilling to allow draconian cuts to them, even if it leads to higher rates of economic growth. An example of this kind of hostility by consumers to cuts in long-established welfare systems can be found in the level of prostests that have occurred over the
past two decades in a number of developed countries. Such protests have taken place in opposition towards attempts by national governments to tighten eligibility for certain benefits and raise the age of retirement.

This demonstrates that while consumers may be concerned about opportunities in their own countries and want them to return to a state of fiscal health, they do not want this to involve cuts to welfare benefits as they still regard these programmes as a basic right. This also contradicts Ohmae’s claim that governments have become the enemy of consumers by maintaining the civil minimum, as consumers still look upon national governments to provide for them from the cradle to the grave.

It is also important to note that even with the liberalisation of national economies, government budgets have not been reduced under globalisation, and government spending has actually risen rather than fallen in most highly integrated countries. In fact, in many contemporary developed countries, government spending takes up at least half of their national income.

According to the globalist school, capital is supposed to move to places that not only offer cheaper labour but less generous social programmes as well, the costs of which businesses help to cover. Therefore, even if overall government expenditures rise or stay the same, nation-states should be cutting back on such programmes in order to prevent capital flight and attract investment. In fact, social transfers in the OECD increased considerably from 1960 to 1993, comprising 18.1% of total GDP in 1993, compared to 10% in the 1960-73 period.

There exist wide differentials between nation-states in terms of the share of GDP devoted to public spending, from a low of 20% in conservative Singapore to a high of 68% in social-democratic Sweden. These differences between nation-states in levels of social spending have not been altered by global economic pressures and have, in fact, become more pronounced under globalisation. As noted by Hirst and Thompson, as long as any national economy remains competitive in the goods and services it trades internationally, it’s population can choose high levels of social welfare spending if it so wishes, and the country does not have to be “competitive” or drive down wages in the non-internationally-traded sectors.

Denmark, with its strong social ethos and long history of egalitarianism, is a shining example of a nation-state that has been able to successfully combine high internationalisation with a generous welfare system and strong economic performance. Social welfare programmes and high levels of public spending have gone hand-in-hand to cushion domestic economies from “internationally-induced shocks,” and retain the competitiveness of domestic economic actors by providing them with assistance and giving them time to adapt.

In fact, as more countries have opened up their economies and exposed them to international economic fluctuations, there has been an increase, rather than a reduction, in welfare and public intervention, thereby demonstrating how such a progressive social contract as the welfare state has endured under globalisation. As argued by Goran Therborn, not only are government receipts and levels of public spending still fairly generous, but few welfare or East Asian “development states” have opened themselves up fully to the global economy.

These findings undermine Ohmae’s claim that governments have become the enemy of consumers, as people still look upon a strong government to provide for them both in their working lives and in their old-age, and are unwilling to allow such a contract to be broken. Because there is still strong support for such systems of social support under globalisation, there is little likelihood of nation-states becoming a dying breed, as a strong state is required to maintain such a comprehensive social contract, something that free markets could never accomplish on their own.

Part 4: The pursuit of social equity and economic efficiency: the balancing act of the centre-left

In the face of increasing socio-economic inequalities generated by globalisation, I believe that the primary aim of national governments today is to maintain a steady balancing act between these two opposing forces. It is worth noting that in those countries where there exists a strong alliance between labour movements and left-wing parties (a pact Garrett terms “social democratic corporatism”), economies have performed just as well, if not better; as those where trade unions are less powerful, and are clear examples of how social equality and economic efficiency can go hand-in-hand under globalisation.

A notable example of this can be found in the “Plural Left” government of French socialist Lionel Jospin, which governed France from 1997 to 2002. For most of the period that Jospin was in office, France enjoyed one of the highest economic growth rates in the European Union, as demonstrated by a 3% growth in GDP in 1999. While the economy started to weaken in 2001, the government was able to successfully match economic efficiency with social justice.

The government reduced unemployment (standing at around 13% by the time Jospin entered office) through the use of interventionist measures such as state-subsidised jobs and, in the face of massive opposition from business, by the creation of a 35-hour workweek, which remains in force to this day. The government also significantly expanded the welfare state through steady improvements in social benefits, the creation of new social welfare programmes (such as home care assistance for the elderly and tax credits for workers on low incomes), and the introduction of a universal health care system, while carrying out far more
privatisations than its conservative predecessor.\textsuperscript{34}

The experience of the Jospin government demonstrates that, contrary to the views aired by free-market advocates like Margaret Thatcher (who famously claimed “there is no alternative”), there does exist alternative paths for countries to take in order to compete successfully in the global economy. The experience of the Jospin government is a clear example of how social equality and economic efficiency can go hand-in-hand under globalisation, as the nation-state can be utilised as an instrument promoting social justice within the confines of an increasingly interlinked global economy, thus ensuring that ordinary citizens reap the fruits of economic globalisation.

The fact that France under Jospin enjoyed high levels of economic growth while the government’s role in the field of social welfare was greatly expanded also undermines Ohmae’s assertion that maintaining what he terms “the civil minimum” is a burden on a nation’s economy, judging by the government’s success in creating a balancing act between expanding social welfare while maintaining a high degree of economic growth.

Part 5: The promotion of social solidarity under globalisation

Growing flexibilisation within the workforce (a by-product of globalisation), referring to the spread of part-time and casual workers and the decline of guaranteed employment, a hallmark of the Keynesian era, has resulted in a new role for national governments to play in reconciling the citizen with the state. While national governments have accepted the realities of the global economy, they have taken measures that not only offer greater social protection for those in part-time and casual employment, but also encourage more people to enter the labour market and take on flexible work, thereby boosting economic productivity.

In Britain under New Labour, the introduction of Sure Start childcare centres and working and child tax credits demonstrates a commitment by government to tackle social exclusion within the confines of the global economy. Steps have also been taken to promote greater fairness within the labour market, as exemplified by the introduction of the national minimum wage, the Employment Rights Act, which has “made it easier for workers to gain union representation.”\textsuperscript{35} and the Age Discrimination Act, which aims to stamp out ageism in the workplace.\textsuperscript{36} Altogether such measures re-enforce the role of the state as a defender of social justice under globalisation.

Other countries in Europe have adopted similar policies, quite possibly the most famous of which is that of “flexicurity,” a form of secured flexible employment.\textsuperscript{37} “Flexicurity” first originated in Holland in 1995 as part of an agreement with trade unions to make it easier to hire and fire “core” workers while improving the rights of temporary workers, and compensating workers on low incomes through targeted tax breaks.\textsuperscript{38} Unions accepted this deal, and championed the rights of temporary and part-time workers, thus bridging the divide between “insider” and “outsider” sections of the workforce, by ensuring that hourly wages for temporary and part-time workers could be bargained to the levels enjoyed by full-time workers. This has meant that employers can recruit such workers to bolster flexibility, but not as a means of following a low-price production strategy.\textsuperscript{39}

Flexicurity has also enabled workers to have the same social security rights as full-time workers, thereby preventing the creation of a stratified workforce in which full-time workers enjoy far greater rights than those in temporary and part-time employment. The flexicurity model also stands out as a shining example of how both the marginalisation of vulnerable groups within the workplace (as evident in Anglo-Saxon countries) and the exclusion of large sections of the workforce from the workplace (a prevalent problem in southern European states) can be prevented,\textsuperscript{40} and clearly demonstrates, in my opinion, how the nation-state has remained a key player under globalisation.

Part 6: The contribution of the “civil minimum” to national and global economic prosperity

The argument put forward by globalists like Ohmae that the persistence of the “civil minimum” places a severe burden on national economies and thus prevents consumers from reaching new heights of personal affluence can be directly challenged in a number of ways. One such way is through the application of the “new growth theory.”\textsuperscript{41} Adherents to this theory argue that the scope of “market-friendly” government should be extended to produce growth-enhancing collective goods that are not provided by the market, such as employment training, public education, and physical infrastructure.\textsuperscript{42}

Both capital and labour alike benefit from such collective goods, in that while citizens gain in terms of jobs and improved life chances, capital can also benefit from such goods in terms of increasing investment returns. Therefore, non-wage investments and high wage levels do not hinder economic competitiveness, but instead increase the productivity of flexible, motivated, and well-trained workers.\textsuperscript{43}

Also, the existence of generous state welfare provision (as evident in cash benefits like unemployment insurance and in noncash benefits like public housing and medical care) does not deter private investment. In fact, strong social safety nets that provide relief and security to millions of people provide a suitable investment climate and the social stability that attracts companies and brings benefits to the economy.\textsuperscript{44}

Germany is an outstanding example of a country that has retained a highly advanced social welfare system while...
enjoying high levels of productivity and remaining highly competitive against states with less generous welfare provision.40 All this has taken place in spite of the economic downturn Germany experienced following reunification, and puts the lie to Ohmae’s claim that it is difficult to think of any region or industry that has returned to fiscal health after becoming “addicted” to what he terms the “civil minimum.”

There are limits to the kinds of government policies endorsed by the “new growth theory,” however; with most government spending considered by adherents to this theory to be unproductive, for instance.41 Nevertheless, the fact that government investments in infrastructure (from roads and bridges to research and development to education and training) pays handsome dividends to the economy42 not only reveals the integral role that the nation-state plays within the framework of economic globalisation, but it also shows that the redistributive economic policies associated with the left are compatible with strong economic performance.

The nation-state has also played an integral part in creating the conditions that have enabled the global economy to flourish through conciliatory dialogue with both business and trade unions to reach a consensus in which the free market and the left are compatible with strong economic performance.

Concluding the examples of Holland and Italy not only reveal how government intervention in the workings of an economy (as shown by conciliatory dialogue with business and trade unions) is a prerequisite factor in achieving high levels of economic growth, but how it is also essential in maintaining social cohesion in the face of rapid economic change.

Conclusion to my analysis

All in all, by examining the dynamics of the welfare state under globalisation, I have demonstrated how the nation-state continues to play a key role under globalisation, not only in maintaining social stability through improvements in worker’s rights and the creation of generous welfare schemes, but also in creating the conditions that have enabled the global economy to prosper in the first place.

The maintenance of strong social welfare systems, for instance, has helped foster stable societies and thus create a favourable environment for companies to invest in, while left-leaning governments across the world have pursued policies of expanding welfare provision and improving employment rights to ensure that workers reap the benefits of the new global economy. In fact, as globalisation continues to generate greater disparities between rich and poor and foster a more “flexible” working environment, national populations will continue to look upon governments to care for them both during their working lives and in retirement.

It is a progressive social contract such as this that only nation-states can provide, thus guaranteeing the continued survival of the nation-state under globalisation. In fact, according to Dani Rodrik, as economies become more open, there is a greater need for there to be greater state intervention to help those affected by the worst excesses of the free market.43 Most importantly of all, it further undermines the globalist argument that the nation-state has been rendered defunct by the emergence of globalisation when, in reality, human beings need the nation-state far more than ever before, not only in ensuring economic prosperity, but social stability as well.
Also, even though my main focus in this chapter has been the operation of welfare states in developed countries, welfare state policies have long been established within developing nation-states as well. In Middle Eastern countries such as Egypt and Jordan, for instance, food subsidy programmes have provided poor families with cheap food and a guaranteed diet, while in Botswana and Namibia, non-contributory social assistance pensions have been introduced, thus providing a guaranteed income for all elderly citizens.

Even in South Africa, whose centre-left government has pursued policies of privatization and deregulation since the late nineties, there have been significant developments in the field of social welfare. This is exemplified not only by the introduction of child support grants (to provide millions of poor children with income support), but also by the introduction of free health care for certain categories of people. Under globalisation, therefore, welfare state policies not only remain significant in the developed world, but in the developing world as well.

In fact, it can be argued that, owing to the comfort and security it has provided for millions of people the globe, and its pivotal role in maintaining a critical balance between social solidarity and economic expediency, the welfare state stands out as the ultimate expression of the nation-state under globalisation. As long as there remain stark inequalities across the world in terms of wealth distribution and life chances, the necessity for there to be a strong social safety net will be greater than ever before, and progresses the world over must rise to the challenge not only to maintain and expand the welfare states of their respective countries, but to play vital role in ensuring that the benefits of the Welfare State, arguably the ultimate expression of democratic socialism, reaches a greater proportion of the world’s population.

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