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The Challenges Posed to Welfare States by Globalization

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When the debate on globalization started in the early 1990s, the dominant assumption was that globalization was a shocking new phenomenon. Moreover, this new development was seen as an attempt to undermine the sovereignty and economic functions of the nation state, hence undermining the fundamental basis of the welfare state. According to this perspective, the welfare state was expected to collapse as a result of economic constraints. Some influential publications promoted the idea that countries would find themselves captured in a global trap. At least in the field of social sciences, this thesis was interpreted differently: the weakening of the nation state by globalization was considered a myth that served as an excuse for cutting government budgets. Since then, the social sciences have developed an approach to globalization as a long-term trend within the capitalistic framework, driven by economic and political developments and dependent on pre-existing social conditions.

The Welfare States, Globalization and their Links to Industrialized Western States

Globalization and the Welfare State

The modern welfare state is characterized by a large public sector and extensive government intervention in the private economy. Its aim is to achieve a wide range of social objectives, such as equalization of incomes and equal access to certain services (health care, education, etc.). Welfare-state programmes are manifest in all the industrialized Western states, although they may be found in their most extreme form in the smaller Northern European countries, namely Sweden, Norway, Denmark, Finland and the Netherlands.

Since the Second World War, the prosperity of the industrial nations has been largely due to global specialization and interdependence. No single country can afford to perform every task: products are designed in one country, produced in another and assembled in a third. But the increased standard of living that has resulted from this global specialization, based on comparative advantage and liberal international exchange has led to the growth of the modern welfare state. This includes an increased demand for economic security and social measures, which guarantee politically determined minimum consumption standards for citizens, the improving of the environment and consumer rights. Even in Denmark and Norway, by the end of the 1990s, right-wing populist parties that had initially opposed high taxes, bureaucracy and social services had become strong defenders of the welfare state.

The Western welfare states reached their apogee in a post-Second World War era characterized by strong, centralized labour movements and widespread traditional class-based voting by members of a relatively large working class supporting left-wing political parties. The ability of left-wing governments to achieve redistribution, economic efficiency and economic growth helped institutionalize a Keynesian capital-labour compromise,[1] according to which workers achieved full employment and generous and universal social wages. Capital achieved wage restraints, labour productivity, economic growth and high levels of control over investment and production. However, this compromise proved to be temporary. From the late 1970s and throughout the early 1990s, industrialized Western states experienced economic recession and stagnation. Prior welfare state expansion combined with high unemployment and demographically aging populations began to place fiscal pressure on government welfare programs. At the same time, the economic and political strength of organized labour eroded and the political strength of capital increased, while changes in class-based political partnerships undermined the possibility of leftist electoral success through redistributive politics.

'Globalization' is a widely-used term that can be defined in a number of different ways. When used in an economic context, it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour. As Marx and Engels wrote in 1848:

> The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. … The bourgeoisie has, through its exploitation of the world market, given a cosmopolitan character to production and consumption in every country. … All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe.[2]

Scholte presents five approaches when describing globalization:

(1) *Internationalization.* From this perspective, 'global' is simply another adjective to describe cross-border relations between countries, and 'globalization' designates a growth of international exchange and interdependence.

(2) *Liberalization.* Here 'globalization' refers to a process of removing government-imposed restrictions on movements between countries in order to create an 'open', 'borderless' global economy.

(3) *Universalization.* 'Globalization' is the process of spreading various objects and experiences to people at all corners of the earth.

(4) *Westernization* or *modernization*, especially in an 'Americanized' form. Following this idea, globalization is a dynamic whereby the social structures

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of modernity (capitalism, rationalism, industrialism, bureaucracy, etc) are spread the world over, normally destroying pre-existent cultures and local self-determination in the process.

(5) *De-territorialisation.* Globalization entails a reconfiguration of geography, so that social space is no longer wholly mapped in terms of territorial places, territorial distances and territorial borders.[3]

The Links between Economic Globalization and the Welfare State

Four main theories have emerged regarding the connection between globalization and the welfare state. (1) Globalization might cause expansion. (2) Globalization might generate crises and retrenchment. (3) Globalization might have curvilinear effects and contribute to welfare state convergence. (4) Globalization might not affect the welfare state.

(1) *Globalization as expansion.* Historically, the smaller Western European countries have been very outwardly oriented, engaging in high levels of international economic exchange. The view that the welfare state emerges with the development of industrial society also finds support in Marxist structuralist literature. Here it is argued that capitalist industrial society requires both a well-educated and relatively healthy workforce and a legitimacy that can only be achieved by social spending. The result is that the state acts to provide the needs of the capitalist system as a whole through welfare spending.

(2) *Globalization as a generator of crisis and retrenchment.* In recent years, social scientists, humanistic scholars, and journalists have claimed that globalization is causing a crisis and a reduction of the welfare state. The welfare state's decline is a result of the state's loss of autonomy over welfare policy in the face of an overwhelmingly global economy. States undergo neoliberal restructuring in order to foster flexibility and competiveness in a new, ever more global economy. Studies have generally shown that in an environment of increasing globalization, munificent welfare states are rendered uncompetitive. Globalization triggers a downward slope by which workers are becoming a commodity and citizens receive less social security and the economy is driven by capital. Globalization forces states and political actors to reduce the welfare state because of the need to be internationally competitive by means of a flexible labour force and an austere fiscal policy.

Economic globalization shapes social welfare policy in advanced capitalist democracies by promoting trans-national economic and political institutions and national and trans-national ideologies that in turn promotes the reduction of nationwide social expenditures, so that some nationwide programmes end up being retrenched. By strengthening the economic and political resources of capital, especially regarding finance capital and export-oriented sectors, diminishing the economic and political resources of organized labour, providing real and perceived positive incentives for national governments that engage in social welfare retrenchment and providing real and perceived negative incentives for national governments that refuse to retrench, economic globalization puts pressure on demands for welfare expenditures.

(3) *Globalization as a curvilinear effect and convergence.* A recent theory unites the first two views of globalization's effects on the welfare state. At lower levels, by encouraging economic development, globalization initially triggers an expanding welfare state. But at higher levels, globalization causes contradictions in mature, open-handed, already developed states. Curvilinear effects suggest a link between globalization and welfare state convergence. According to this interpretation, globalization forces both liberal and limited spenders toward mean levels of welfare investments. Thus, a convergence interpretation is based on the empirical reality that more globalized economies tend to have more generous welfare states.

(4) *Globalization might not affect the welfare state*. For the most part, welfare states in most developed capitalist countries have not tended towards reduction. Welfare states in various nations have retaining their individual characteristics, determined primarily by the dominant political tradition that was prevalent in each country during the pre-globalization period. However, in countries where welfare states did undergo some change during the globalization period, these changes resulted largely from shifts in governmental power and domestic factors (demography, technology, changes in family structures, new threats, etc). Brady, Beckfield, and Seeleib-Kaiser analyse pooled time series data for 17 affluent democracies between 1975 and 2001. Their focus was on three dimensions of the welfare state: the first, in which thanks to pensions and services provided by the authorities, the population is less dependent on participation in the workforce in order to ensure a minimal standard of living, the next was social welfare expenditure and the last, social security transfers. Their study suggests several conclusions. (1) Welfare state models call for revision in the globalization era. (2) Most indicators of economic globalization do not have a significant effect, but a few affect the welfare state and improve models of welfare state variation. (3) The few globalization effects that are significant may manifest themselves in different ways that are often inconsistent with extant theories. (4) The effects of globalization are far less significant than domestic and political factors. (5) The effects of globalization are not significantly different between European and non-European countries or liberal and non-liberal welfare regimes. Ultimately, their study is sceptical regarding sweeping statements regarding globalization's effect on the welfare state.[4]

How Globalization is Challenging the Welfare State

Challenging Nation States' Economic and Cultural Independence

The progressive de-regulation of both internal and external financial markets in the leading countries fully illustrates the inability of governments to regulate their national economy; competition for capital and markets increases the pressure to adopt a strategy

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of low wages, including cuts in welfare state spending; and the goals of preserving acceptable levels of employment and protection of the principles of equality and solidarity are no longer compatible with one other. The impact and consequences of capital mobility are similar in the multinational's country of origin, where again governments and workers are coerced into accepting less tax revenue and lower wages or risking investment and job loss. Globalization has dramatically increased the ease and availability of the 'exit' option for those with large incomes and capital resources. Fearing the flight of capital from their countries (and conversely wishing to attract mobile capital to their countries), governments are being forced to redesign their tax systems irrespective of the well-being of the majority of the population. The ability of capital to move easily across national boundaries has diminished the efficacy of domestic policy safeguards, making it difficult for countries to determine and shape their own future.

In the late 1980s, survey after survey indicated that citizens claimed that their tax system was 'unfair', indicating that corporations and the upper income brackets paid too little in taxes, while the lower and middle classes paid too much. Three out of four people surveyed believed that 'the present tax system benefits the rich', and four out of five felt that corporations paid too little in taxes. Held wrote:

> Hollywood, Microsoft, and AT&T are in the business of making money – not founding alternative centres of political identity and legitimacy. Yet the huge flow of information, people and imagery that circulates around the globe, crossing borders with impunity, has changed the context in which national projects of any kind must develop. The real threat to nationalist projects of all kinds is perhaps more likely to come from an incipient cultural cosmopolitanism that would change the idea of the nation as the primary political and cultural community and demand the relocation of power in institutions other than the nation state.[5]

Education

The forces associated with globalization have affected the context in which educators operate, and profoundly altered people's experience of both formal and informal education. Schools and colleges have become targets of corporate expansion as policymakers increasingly take market 'solutions' into consideration. The impact and pervasiveness of these forces of globalization also makes it a fundamental focus of education and learning, subverting honest educational efforts. Subverting education and exploiting students should be a matter of profound concern, since learning is increasingly viewed as a commodity or investment rather than a means of achieving a good life. Market ideologies, teachers and educators have assimilated the direction of the curricula they are required to 'deliver'. Colleges, schools and agencies in which they operate are likely to embrace corporate sponsorship and intervention. These developments have combined to degrade the academic world to the extent that one may question if its endeavours can rightfully be called education.

Employment

Full employment is an essential condition for a viable welfare state. Full employment means that virtually every able-bodied citizen can find a job. Consequently, people can rely on their personal incomes and are thus less dependent on welfare services and programs provided by the state. Many argue that the labour markets in some capitalist democracies are relatively inflexible due to their strong welfare commitment. If a minimum wage is guaranteed by legislation, global competition can cause rising unemployment rates. On the other hand, flexible work arrangements in other democratic capitalist countries can prevent an increase in unemployment. Unemployment and low wages demand higher welfare expenditures; simultaneously, welfare states have at their disposal a smaller population base from which to collect taxes that finance their welfare programmes.

The adoption of a capitalist agenda of 'free trade,' 'free markets' and 'flexibility' regarding labour, in addition to reduced social welfare assistance, has been of great benefit to one sector of the population, namely the owners and managers of transnational corporations. They have more freedom to transfer production lines to countries where labour and overheads are cheaper. In Europe, the trend toward privatization and policies calculated to curb the power of the unions has adversely affected the once-powerful British labour movement. In Germany, in an attempt to increase capital profit, the government and the big corporations have removed labour from the privileged position it has held since the Second World War.

Capitalists take good care of their premises (factories, offices and stores) and they carefully service machinery and equipment, regardless of market conditions. Workers, on the other hand, are disposable. Capital makes every effort to hire a labour force and use it as necessary, then lay off workers when they are no longer needed. The situation of a large pool of workers living in harsh conditions is nothing new. In China, labourers from the interior live in inadequate and overcrowded dormitories, work long hours for little pay, are not organized into unions and have few, if any, rights. More than any other attribute of capitalism is the reserve army that helps to keep costs at a minimum. Multinational firms control an increasing percentage of production worldwide. These firms employ workers and control facilities in many different regions and nations. Across these local communities, workers and their organization have vastly different living conditions and varying opportunities of defending their rights.

Companies and consumers operate on a global scale in accordance with the standards required for goods and services. The pressure to meet these standards is having an ever greater effect on the workforce. In some contexts, this pressure can intensify processes such as separation between groups of employees, causing social exclusion. This applies not only to blue-collar and white-collar workers (meaning non-skilled and highly-skilled workers) but also between those whose point of view is local and those who are more cosmopolitan. According to Giddens, processes of globalization not only harm the solidarity of workers, but also reduce their ability to withstand the power of capital. Globalization harms the welfare state by attacking labour laws, professional organizations, unemployment insurance and other protective measures of the employees. The income gap between high-wage employees and low-wage workers is constantly widening. Whereas the economic situation of a majority of workers is improving, the situation of the poorest 10% is simultaneously going downhill.[6]

Health Systems

Liberalizing health services facilitates the infiltration of private health insurance, thus weakening or curtailing government health services. Governments are cutting back public health expenditures as a response to pressures from financial markets who are seeking to broaden their interests. In Britain, which after the Second World War was one of the most advanced welfare states, doctors' clinics are budgeted by the government according to the number of patients listed. Medical treatment is free of charge and every clinic operates independently under the supervision of the Ministry of Health. However, the clinics operate according to a budget, thus attempting to cut down to a minimum the services they provide to the public. In order to lessen the waiting time needed to get an appointment with a specialist or to undergo surgery, 12% of UK residents hold private insurance. This is a direct result of the globalization that began in the Thatcher era.

Social Insurance

The main objectives of the welfare state are reducing poverty, ensuring a more equal distribution of wealth, ensuring risk protection not covered by private insurance, and financing the social services that compensate for the inequalities resulting from a free market economy. Globalization threatens the ability of states to provide the economic needs and social welfare of their citizens. According to Schulz:

> The convergence criteria for monetary union[7] established in Maastricht amounted to a massive attack on the welfare state in all of the countries involved. They forced reduction in social spending, pushed the privatization of property, and generally created a climate more favourable to corporate interests. What the convergence criteria have produced, in effect, is the inability of any country to pursue independent Keynesian polices in support of traditional welfare measures.[8]

The privatization of social security benefits is a result of a successful industry's desire to increase its profits through commissions. In Germany today, as a result of privatization or partial privatization, there is no guarantee of a steady income that can cover the essential needs of workers with low incomes. Many of them will degenerate into poverty as social security is privatized. Instead of benefits defined and guaranteed by the state, social security is being managed in individual accounts by private companies, which are less efficient and professional. In addition, workers' benefits are dependent upon the success or failure of investments on the part of insurance companies.

The Americanization of the Middle Classes

As a result of globalization, the European middle classes, especially in Western Europe, are becoming weakened. This situation is exacerbated by certain political tendencies and especially by the standardization of space and time resulting from Europeanization. The middle classes are caught in a crisis of confidence as traditional local definitions of time and space traditionally grounded in individuals and regions are reoriented in favour of national and European criteria. Identifying with public spaces and local time has become increasingly difficult, weakening a sense of belonging and generating resentment toward political institutions responsible for this development.

Control of Non-profit Organizations

According to the 'partnership' model, non-profit or civil society stands at the centre of corporatist relations between state and capital. Optimally, all partners have equal power and solve problems together despite their differences; in practice, non-profit organizations are often no more than junior partners. Thus, crisis results when the government cuts back spending on social programs run by voluntary organisations, revealing this sector's vulnerability as a non-equal partner. Such partnerships are weakened further by economic globalization, which involves integration of financial and currency markets, and worldwide production, trade and capital investment. In addition, it is accompanied by the rise of supra-national bodies that have a hand in formulating economic, environmental and social policy. The partnership model is based on national autonomy, but globalization undermines this, as certain powers and authority are ceded not only to international agencies and governing bodies, but also to multi-national corporations.

The Problem of Immigration

Immigration has become a crucial problem for European welfare states. The process of economic integration has loosened border controls among most European Union member states, generating a large influx of immigrants seeking employment. Not surprisingly, a substantial body of literature on labour immigration and Western welfare states argues that while immigration tends to reap benefits for the immigrants themselves, it tends to place recipient states at a disadvantage. While immigrants are able to find employment, a strain is placed on existing labour markets by the burden of additional workers, adding to the pressure of welfare budgets. In literature dealing with both comparative welfare policy and globalization, researchers have overlooked the effect of this movement of workers on governments' unemployment policies. Unemployment policies continue to be determined by immigration, integration and domestic politics. In fact, EU labour market integration mechanisms have had less of an impact on welfare than on domestic political institutions.

In a panel on the issue of immigration organized by WTO, the international trade organisation, in September 2006, the Saudi ambassador Taufiq Ali stated that in Saudi Arabia there are one-and-a-half million Bangladeshi employees who have already transferred four billion dollars to their country of origin. Undoubtedly, the labour of these employees in Saudi Arabia has not increased the distribution of wealth and we might also assume that when returning to their country, they do not bring with them new skills that can help in developing the local economy. Nevertheless, we cannot ignore the economic benefits migrant workers are bringing to their countries.

In fact, the phenomenon of globalization not only expresses itself through the international mobility of firms and capital; it also leads to a strong parallel mobility of labour resources, as entire populations in conflict with their nation states are pushed to search for new nationalities.

In Summary

It can be determined that economic globalization has promoted the unravelling of the Keynesian welfare state in several ways. One must distinguish between 'programmatic retrenchment' and 'systematic retrenchment'. Programmatic retrenchment includes cuts in specific social welfare programmes or their restructuring, so that they move away from the institutional welfare state model and toward the residual welfare state model.

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Systematic retrenchment includes all the alterations of the political environment in ways that enhance the probability of these outcomes in the future. With this distinction in mind, is easy to recognize how particular aspects of globalization may contribute both directly and indirectly to particular aspects of welfare state retrenchment.

How Welfare States are Coping with Globalization

Keynesian social policies are often viewed in Western industrialized states as comprising an element of rigidity and as a source of high labour costs and state budget deficits for companies who are attempting to compete in a globalized market. In this context, costly welfare programmes are denounced as impeding the competitiveness of nations and corporations. In response to these issues, a radical adaptation of welfare states is called for. This adaptation implies not only a retrenchment in social policy, but also general changes that will render it more market- and employment-friendly. This shift has sometimes been theorized as a global shift from the typical Keynesian welfare state, where social policy is seen as favouring consumption and growth. Indeed, welfare states can create their own inequalities and rigidities. Internal challenges such as demographic changes, as well as changes in labour markets, gender relationships and the organization of family life call for reform in the various welfare states. However, social policies often represent barriers that hinder adaptive responses to structural economic change.

Changes in the Employment Structure

The transformation of labour markets in recent decades is revealed by a dramatic shift in employment structure. In the early 1960s, an average of 60% of total employment was in agriculture and industry. In the next three decades this figure dropped by nearly half. Those thrown out of a job found that the skills they acquired were not easily transferred to the other part of the economy where employment was expanding, namely, the service sector. For many, loss of employment in the traditional sector entailed a total removal from the active labour force.

Governments have responded to transformations of employment structure in three distinct ways. First, some have promoted employment in private services, often by deregulating product and labour markets and allowing greater wage dispersion. At the same time, governments have used various forms of public insurance to compensate workers for the risk of having to find new jobs in services. The US is the archetypal example of this strategy, but Canada, the UK, and more recently the Netherlands, share similar characteristics. The second strategy is for the state to maintain extensive regulation of private services as well as a relatively compressed wage structure, while simultaneously expanding employment in public services. Denmark, Norway, and Sweden have engaged in this sort of strategy, and have generally managed to elevate the labour force participation rate. On the spending side, government consumption has risen substantially in order to compensate for the risks associated with large employment losses in the traditional sector. Finally, there are economies where heavy regulation of labour and product markets has hampered major expansion of employment in the private service sector. Simultaneously, the public sector has not been allowed to grow. This has

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led to a tremendous reduction in employment possibilities for former members of the workforce. Examples of states that have taken this route include Germany and France, where much of the welfare effort has been geared toward ensuring a relatively orderly and secure exit from the labour market.

V. Navarro, J. Schmitt and J. Astuillo have tested two competing hypotheses:[9] one they called 'convergence' theory, which claims that globalization forced cutbacks in welfare states in order to cope better with the economic realities of the 1990s and later; the second hypothesis claims that 'politics still matter'. According to the first hypothesis, the internal political forces of any country are the main determinants of welfare state evolution. According to the second position, the level and type of welfare state, the sources of tax revenues, the size of social public expenditure on health, education and social services and the size of public sector employment all depend primarily on political forces, in particular the political parties that are currently in power. In order to test these hypotheses, the researchers analysed the evolution of a country's welfare level in most of the OECD (Organisation for Economic Cooperation and Development) countries over the period 1980–2000. Countries were grouped according to the political shade of their governments, as defined by the parties that were in power for the greatest number of years during the entire pre-globalization period (1946–1980).

They concluded that according to the 'convergence' hypothesis, during the globalization period (1980–2000), a convergence should appear of all welfare states toward a reduced welfare level that was increasingly funded by taxes according to fixed factors such as labour, rather than on mobile factors such as capital. According to the second hypothesis, that 'politics still matter', no such convergence should be observed during this period, but rather a continuing divergence of welfare states, each retaining the characteristics of the pre-globalization era (1946–1980). Moreover, in this second scenario, changes that occurred during the globalization period were due to changes in the ruling political parties.

These ideas are supported by other researchers. According to Paul Person, the welfare state policy in the globalization period was no different from that in the pre-globalization period:

> For the past half century, expanding social benefits was generally a process of political credit claiming. … Not surprisingly, the expansion of social programs had been a favoured political activity. … Conservative governments have generally advocated major social policy reforms, often receiving significant external support in their effort, especially from the business community. Yet that policy agenda stands in sharp contrast to the credit-claiming initiatives pursued during long period of welfare state expansion.[10]

Cecilia Benoit, in her review of Duane Swank's book *Global Capital, Political Institutions and Policy Change in Developed Welfare States*, writes:

> …empirical evidence on the corporatist conservative welfare states of continental Europe and, even more convincingly, on the social democratic Nordic welfare states shows that these countries' particular political institutions and electoral systems tend to foster cooperation and consensus-building among constituency groups and at the same time widespread support among citizens for welfare state politics.[11]

At that time, growing attention was paid to the welfare role played by the market, the family and voluntary organizations among the political and bureaucratic elites, the mass media, social science researchers and voters. Paradoxically, this new attention was based on sharp criticism of the welfare state originating with political leaders of the less advanced Western welfare states: Thatcher in Britain and Reagan in the United States. However, this paradox served to emphasize the importance of political rather than economic factors for policy change. Nevertheless, the sustainability of the welfare state is given high priority among the electorate, a fact that sets European voters apart from those in other parts of the world, particularly the United States: less than one third of all Americans were in favour of government responsibility for a basic income for all and less than half of the population favoured the government being responsible for creating jobs for all, whereas more than two-thirds of all Europeans support these forms of state intervention.

Today, in the 2010s, many European Union states are struggling with an extensive public debt. (Greece, Italy, and Spain are particularly badly off in this regard.) In addition, as detailed in recent reports from both the OECD and the International Labour Organization (ILO), poverty and income inequality are on the rise in many EU countries. Indeed, since the early 1970s the welfare state has been characterized as experiencing crisis or heading for crisis.

Changes in Labour Market Policies

In Europe, welfare state reform has a prominent place on the political agenda. Given the challenges of extensive unemployment, economic internationalization and socio-demographic change, more and more governments are seeking to adapt social welfare and employment policies. The pressures for reform are relatively similar in most continental European states, since they all suffer from the same ills of the 'welfare without work' syndrome.[12] Yet while some governments have unilaterally pushed for reforms against vested interests, others have sought to perform actions in order to co-ordinate change and achieve a broad social consensus in its favour.

Changes in Education

Sweden has introduced a voucher reform in the secondary education system, which implements the principle 'money follows students'. New types of private schools have emerged, forcing public education to improve; no negative effects have resulted from this reform. Even when the Swedish Social Democratic Party – who originally opposed the reform – took power, the voucher reform was not rescinded.

The discourse regarding higher education reform that has emerged over the past decades all over Europe, as well as in many Asian, and Latin American countries, has been strongly influenced by higher education in the United States. Privatizing higher education, creating entrepreneurial universities and fostering competition both within and between institutions: all of these have served as guidelines for the reform discourse in many countries. As a result of this process, a number of private institutions of higher education have emerged and continue to emerge in European countries, notably in the form of private business schools. The dynamic of reform has clearly centred on the public system of higher education; one result of this has been the introduction of private elements into the overall fabric of public institutions. The outcome has been a significant increase in institutional flexibility and autonomy, without seriously jeopardizing the basic fiscal responsibility of the state for sustaining the cost of higher education.

Changes in Health Care

All the OECD countries have witnessed a steady increase in health care expenditure over the last decades, not only in absolute terms but also relative to the growth of the gross domestic production (GDP). The United States, a country where state ownership and regulation of health care is minimal, started at 5.1% in 1960 and ended with 12.9% in 1999, a 250% increase over 40 years. Great Britain (with its national health service – NHS) doubled its health care share of GDP from 3.4% to 6.9% over the same period. The increase in health care spending in Germany and Switzerland has been similar, again showing a steady increase as a percentage of GDP. A general growth in health care expenditure of 1.5% per annum is shared by all other OECD countries. In countries with a large increase in income (as measured by their GDP), the growth rate is higher: a GDP rise of 1% increases health care expenditure by 1.2%. The relationship between the demand for health care and income has been evident for many years.

Pension Reform

Since old-age pension schemes account for the largest share of social expenditure, they constitute a crucial area for welfare state reform. Four welfare states – the Netherlands, Italy, France and Germany – have been known for granting very generous pension benefits relative to former earnings, with public sector employees in particular being given especially favourable conditions. Early retirement was used by employers to adapt to the economic changes and by governments to reduce the labour force. Although cost pressures led to increased welfare spending, efforts at reform in the realm of old age and disability pensions met widespread resistance, particularly on the part of the labour unions. But European welfare states have not remained static: both minor and major reforms are taking place continuously. These include general trends toward stronger privatization of pension schemes, requiring people to take greater responsibility for their future pensions; increased government demands for individual participation in public health care; and the growth of private health insurance and private providers as an alternative or a supplement to public health care provision.

In recent years, a contentious political debate has taken place in the United States regarding Social Security reform, both on the right and on the left. Many on the right argue that the projected funding gap should be seen as an opportunity to make what they consider long overdue structural changes. They want a more modest program that is consistent with conservative values and emphasizes self-reliance, personal freedom and minimal government participation (particularly in the social welfare sector). Their goal is to restructure the program so that it will reduce government spending, reward individual work efforts and reduce redistribution that favours low-wage workers. In their view, this sector is rewarded by pensions that exceed what can be justified on the basis of what they have contributed over the years. Nevertheless, while some on the right have as their eventual goal the full privatization of social security, the most frequently mentioned goal is its restructuring, so that it includes both an unfunded social insurance component (a pay-as-you-go defined benefit[13]) and a funded component (based on the individual's account).

The European Union is attempting to build a framework to guide the development and adaptation of national systems of social protection. Three main principles were approved in 2001 by the Goteborg Summit whose goal was to modernize pension schemes: the ability of pension systems to achieve their social goals; financial sustainability; and their ability to evolve in light of social needs. In accordance with these three main principles, 11 common objectives were adopted and the member states were required to draw up national strategy plans regarding pensions by September 2002.

The common objectives were:

(1) Preventing social exclusion.
(2) Enabling people to maintain living standards.
(3) Promoting solidarity.
(4) Raising employment levels.
(5) Extending working levels.
(6) Making pension systems sustainable in a context of sound public finances.
(7) Adjusting benefits and contributions in a balanced way.
(8) Ensuring that private pension provisions were adequate and financially sound.
(9) Adapting to more flexible employment and career patterns.
(10) Meeting the aspirations for greater equality of women and men.
(11) Demonstrating the ability of pension systems to meet new challenges.[14]

All these trends can be understood as a general attempt to adapt social policies to supply-side economic policies. Nowadays, all national European governments appear to recognize that welfare states should be compatible with international competition. They should become 'employment-friendly' by reducing costs and offering benefits that do not lower incentives. Welfare should rely not only on public intervention, but also involve other actors engaging in welfare activities, including family, private firms and non-government organizations (NGO).

An important impetus for social policy reforms and adjustments is the demographic change occurring in Europe and elsewhere. Challenges are presented by the aging of society, low birth rates, a declining population, rising pension expenditures, changing dependency ratios, decreasing tax bases and an anticipated increase in the need for health care and social services.

Large and small reforms have continuously been on the agenda, some with the aim of limiting future social expenditures or at least their growth. But other reforms have aimed at further expansion of social rights and entitlements. The proportion of GDP spent on social policies of all kinds has generally risen across the European continent since the trumpet of crisis was first sounded more than 35 years ago. It seems that the form of the welfare state may change, but the European nation-states will continue to place great importance on public responsibility for citizen welfare.

Conclusion

In summary, according to the arguments presented in this paper, the effect of globalization on the welfare state is indirect: as a result of social changes and technological developments, the political systems of the Western industrialized countries have needed to make certain adjustments. These have not necessarily led to a diminishing of welfare resources, but rather have required a shift in the goals of welfare systems and their allocation mechanisms. Political activists who once stood at the forefront of protecting national economies against external pressures are currently encouraging wider globalization. This situation is evident in the increasing independence of central banking institutions, as well as a shift in the interests of export companies. The globalization of capital has placed the capital accumulation structure of each country in jeopardy. The enormous volume of international capital flow is increasingly exposing local institutions and traditional decision-making methods to criticism. Furthermore, it is serving to erode interclass alliances that supported the demand side for welfare transfer payments and services. Although welfare systems have not been totally destroyed, they have apparently been undergoing certain changes.

Ultimately this discussion reveals a certain confusion concerning the relationship between globalization and the national welfare state, whether positive or negative. Thus, globalization should be considered a challenge to the welfare state rather than a phenomenon leading to its ultimate demise.

References and Notes

1. In the 1930s, Keynes spearheaded a revolution in economic thinking, overturning the neo-classical economic paradigm claiming that free markets would, in the short to medium term, automatically provide full employment, as long as workers were flexible in their wage demands. Keynes argued instead that aggregate demand determined the overall level of economic activity and that inadequate aggregate demand could lead to prolonged periods of high unemployment.
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