

## **GLOBALIZATION AND PRESSURE ON SOCIAL POLICY DEVELOPMENT**

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### **GLOBALIZATION AND ECONOMIC GLOBALIZATION**

'**Globalization**' in a broad, neutral sense denotes the phenomenon of increasingly swift, substantial and global flows of goods, information, people, services, cultures/sub-cultures, diseases, pollutants etc. It is accompanied by 'deterritorialization', the emergence of 'supranational social spaces' (Scholte, 2000: 3) which are institutionalized in transnational forms of governance – the EU, UN, World Bank etc.

Confusingly the word 'globalization' is very often used more narrowly to mean '**economic globalization**' denoting the recent economic and cultural advances of transnational capital and corporations across the globe particularly in the last three decades. Hence 'economic globalization' describes the phenomenon of growing international economic integration over the last three decades, particularly in the 1990s - the increasing extent and speed of global flows of money, goods, technology and services, which governments have often sought to facilitate in the drive for economic growth.

The '**strong globalization**' or '**globalist**' thesis applied to social policy implies that economic globalization is undermining the welfare states of the west, fuelling a competitive 'race to the bottom' (see Yeates, 2001: 24-6) in which social welfare becomes increasingly less extensive, generous and redistributive. Teeple (2000) and Mishra (1999) suggest that this is a permanent, possibly irreversible process – the 'logic of globalization' which is undermining the distinctiveness and the progressive politics underpinning national welfare systems. Mishra (1999: 15-16) elements of the 'logic of globalization' which are corroding the welfare state, and it is worth considering a number of these in turn:

1. "Globalization undermines the ability of national governments to pursue the objectives of full employment and economic growth through reflationary policies. Keynesianism in one country' ceases to be a viable option." One of the principles of Keynesianism is to use the control of interest rates and, hence, of the movement of capital in order to manage inflation. Certainly in recent decades governments have largely abandoned such efforts, freeing up the movement of capital and giving control of interest rates to central bankers. The old controls simply did not work very well in reducing inflation and facilitating economic growth, though arguments still rage over this (Genschel, 2004: 618-623). So governments chose to abandon these Keynesian policy tools rather than having it forced on them by economic globalization, leaving them with 'ample room for action in [other] key policy areas such as social welfare, trade and industrial development (Weiss: 2005: 345).
2. "Globalization results in an increasing inequality in wages and working conditions through greater labour market flexibility, a differentiated 'post-Fordist' work-force and decentralized collective bargaining." The dispersion of wages and salaries and the weakening of labour movements is certainly a feature of the last three decades associated with the 'unleashing' of capitalism, particularly the rise in unemployment and structural change in the labour market. Comparing 1980 and 2000 income inequality has increased substantially in the US, UK and Sweden but has hardly changed in France, Germany and Denmark (Glyn, 2006: 169). However there has been a distinct redistribution of income towards the relatively few top earners and also growing income inequality between those in the rich states of the west and in the rest of the world.
3. "Globalization exerts a downward pressure on systems of social protection and social expenditure by prioritizing the reduction of deficits and debt and the lowering of taxation as key objectives of state policy." Downward pressure on taxation social expenditure has always been exerted by business, and the strengthening of capital in recent decades has intensified the pressure, but company taxation constitutes a relatively small proportion of tax revenue in all

Western economies. Public social expenditure as a % of GDP increased significantly between 1980 and 2001 in ALL OECD countries. The OECD mean in 1980 was 18.3% rising to 22.5% by 2001 (Glyn, 2006: 166). Inevitably there is therefore no evidence for a decline in the overall 'tax take'. The internationalization of national economies has had an impact on tax structures, shifting the burden away from corporate and direct personal taxation towards indirect forms, but 'capital mobility has not led – and is not likely to lead – to a 'race to the bottom' or the evisceration of the revenue-raising capacity of the state' (Swank, 2002: 651). Castles (2004:111) surveyed the relationship between the openness of national economies and social expenditure change across the OECD nations, concluding that 'we must reject even the most modest of the variants of the globalization hypothesis... expenditure change in recent decades is not proportionately and negatively related to changes in the international economy, but rather is very substantially a function of developments in the domestic sphere'.

4. "Globalization weakens the ideological underpinnings of social protection, especially that of a national minimum, by undermining national solidarity and legitimating inequality of rewards." Economic globalization arguments have been deployed by governments in their efforts to use supply side measures in the labour market to reduce unemployment, including reductions in benefit periods. Major restrictive reform of social protection and public pensions in the UK in the 1980s was the outcome of a national, neoliberal political ideology, which certainly undermined the political solidarity of the left, but not 'national solidarity'. The linkage with economic globalization was and is loose.

5. "Globalization weakens the basis of social partnership and tripartism by shifting the balance of power away from labour and the state and towards capital." The labour movement has been in retreat since the failure of major political challenges to capital in the 1970s and early 1980s which sought to move social partnership more decisively in favour of labour. Capitalism has been turned around, but this has been a political process which has taken very different forms in different countries. Arguably social partnership and tripartism remain strong in the so-called coordinated market economies (Germany, France, the Nordics).

6. "Globalization constrains the policy options of nations by virtually excluding left-of-centre approaches. In this sense it spells the 'end of ideology' as far as welfare state policies are concerned." Left-of-centre approaches were decisively rejected in the 1980s for a number of political and economic reasons; arguably the 'new social democracy' retains the notion of managed partnership between labour and capital, between the public and private sectors in order to pursue social justice and undermine socioeconomic inequalities. In the contemporary world, these aims are certainly pursued more at transnational (and regional) levels of governance, as well as at the national level. There are some convergence features, but national differences between social policy regimes remain prominent, much of them reflective of ideological differences associated with their historical development (Castles, 2004).

The notion of a 'logic' of economic globalization is too deterministic, underestimating the continued diversity of national and sub-national welfare systems as well as undervaluing positive effects of globalization, especially when conceived less narrowly and less economically eg. mixing of cultures, flow of information, movement of people.

Beside the 'strong globalization'/'globalist' thesis there are two other prominent perspectives on economic globalization's effect on the welfare state (Genschler, 2004). The 'sceptical' perspective suggests that the freedom of national governments to shape social policy has not decreased significantly as a result of economic globalization, though governments are prone to cite 'exogenous' (outside) forces as a legitimation for unpopular measures. The 'revisionist' perspective which is close to the 'new social democracy' suggests that economic globalization effects can strengthen the welfare state by forcing it to become more efficient and effective, for example, with labour activation measures and 'in work' benefits/tax credits.

## **NEOLIBERALISM, THE 'WASHINGTON CONSENSUS'**

A more explicitly ideological approach to understanding the global pressure on welfare states is to consider the role of 'neoliberalism' as a body of socio-economic thought which has swept through governments across the world, not just in the West, over the past twenty five years or so. Neoliberal economic thinking derives from the classical economics of the early capitalist era, but came to prominence in the 1970s and early 1980s as Keynesianism faltered and governments sought 'new' ideas to bolster capitalism. The Washington Consensus emerged in the early 1990s from the US Treasury, the World Bank and the IMF as a movement to impose liberal market reform, privatization, de-collectivism, tax cuts etc on the post-communist transition states as well as developing countries. Neoliberalism and economic globalization are in some respects used synonymously by elements of both the anti-globalization movements and the pro-globalists, but the distinction is important because neoliberalism is a movement of ideas within political economy while economic globalization suggests an unfolding process of change. The power of neoliberal thinking lies in its claim to represent the true interests of capital and its critique of the alleged bureaucratism, inefficiency and expense of collectivist social policy as an unnecessary interference with individual liberty.

Neoliberalism has unquestionably had a profound impact on social policy across the globe, not least in Chile in the 1970s under Pinochet or in China under Deng, as Harvey (2005) has demonstrated, but also closer to home within the economic policy thinking of the European Commission and the European Central Bank.

### **Key elements of neoliberal political economy:**

- 'negative freedom' or the absence of coercion over the private actions of individuals is a paramount principle
- order arises from spontaneous formation of self-regulating structures, rather than from government
- the state and the individual can only have a tiny fraction of knowledge, especially of markets and economic actions
- history is directionless; it does not follow national paths
- prices and wages mechanisms coordinate and regulate economic activity, driven by competition; macro-economic policy is counter productive.
- competitiveness of firms and of 'national economies' is essential to survival
- state intervention distorts the 'natural path of social development'; hence protectionism is opposed, and free trade advocated
- western capitalism has abolished **absolute** poverty so that a low social minimum threshold of welfare is acceptable
- wealth accumulation tackles **relative** poverty through the 'trickle down' effect, the impact of investment and consumption by the wealthy in generating economic activity, particularly employment opportunities
- pressure and interest groups, especially trade unions require a bureaucratic, state apparatus to operate on, which undermines individual freedom

### **Aspects of neoliberal thinking which have been shaping social policy:**

- efforts to reduce taxation, particularly on wealth and high earners in order to incentivize
- efforts to cut back public social expenditure and to encourage private social expenditure, particularly in health care, pension, higher education
- permanent mass unemployment – the notion of the Non Accelerating Inflation Rate of Unemployment (NAIRU) which suggests that a reasonably high level of unemployment is necessary to prevent excessive inflation
- marketisation, privatization in the restructuring of benefits, pensions and public services, providing opportunities for private 'for profit' finance and investment

## **REFLECTIONS ON ECONOMIC GLOBALIZATION/NEOLIBERALISM EFFECTS**

The 'global' institutions of economic governance, the World Bank and the IMF, were particularly active in trying to shape the restructuring of social policy in the post-communist states of Central and Eastern Europe in the early/mid 1990s (Deacon, 1997). The reform of pensions has taken centre stage with the Washington Consensus advocating a multi-tiered 'public' pensions regime in which the first tier is a limited pay-as-you-go insurance pension, the second tier is a funded scheme linked to stock market investment, and the third tier is a voluntary personal pension also linked to private investment. Variants of this model have been adopted in several CEE states, but the partial privatization of pensions in CEE has not been popular and has encountered political resistance (Müller, 2002; Chandler, 2001). Deacon (2005) identifies a turning of the tide even within the World Bank towards support for universal social protection.

The EU's economic policy discourse certainly reflected strong traces of neoliberalism in the 1990s. This is particularly evident in the 1993 White Paper on Competitiveness (EC, 1993) which acknowledged a need for reduced budget deficits, stable monetary policies, flexible labour markets and privatization of utilities and communications. A recurring theme has been the need to reduce social security expenditures which reflect 'a passive solidarity' between claimant and taxpayer, in favour of a 'more active solidarity' which pushes the claimant into economic activity.

A number of authoritative commentators have reviewed the impact on the West European welfare states of economic globalization and linked governmental and EU concerns about economic competitiveness. Taylor-Gooby (2001:181) covered Finland, Sweden, Germany, Spain, Switzerland and the UK in the 1990s. He concluded: 'The widespread acceptance of the competitiveness imperative as providing the overall framework for policy development does not lead directly to 'roll back the state' neo-liberalism.' However it does reinforce 'activation and cost containment everywhere and ensures that no government can respond to extra pressures on pensions, health care and unemployment provision simply by increasing taxes, social contributions and spending'

Prior and Sykes' (2001: 197) overviewed a wider range of European states concluding that the economic pressures on social policy have been experienced, filtered and responded to in very different ways in different welfare states:

*There is no evidence in the material presented here of a direct and essentially similar impact by globalization on European welfare states. Changes which have occurred, though they may have been indirectly related to globalization, have been mediated through national governmental policies and institutions, a process that has led to quite different outcomes. Even in Central and Eastern European countries, where the situation seemed ripe for the neo-liberal characteristics of globalization to make the strongest impact, the argument is not supported... the policies for change came not from the unfettered forces of the global economy as these countries re-entered the capitalist fold. Rather, they came from the ideological and practical policy prescriptions of the major actors promoting the 'Washington Consensus' - international organizations, such as the World Bank, backed by the dominant world governments. Though the rhetoric of globalization was often used by national governments to legitimate the introduction of sometimes harsh social policies, their own role was crucial in terms of the interpretation of the policy changes to be made and the decision to accept the general ideological thrust of the international organizations.*

My study of the impact of globalization on social policy in Ireland and the UK (Ginsburg 2001) suggested that in Ireland state-managed high exposure to economic globalization appeared to have paid great dividends for the Irish economy. However it has also sustained its comparatively low levels of social expenditure alongside comparatively high levels of poverty and income inequality, an extreme unemployment cycle, a predominantly male breadwinner approach to family policies and a UK style deregulated labour market. The impact of neoliberalism on the British

welfare state has been widely documented, though sometimes exaggerated. The 1980s under Mrs Thatcher witnessed quite severe social expenditure restraint and reductions in corporate and individual taxation, much increased income inequality and poverty, increasing labour market flexibility and deregulation and some quasi privatization of welfare consumption and services. The situation stabilised in the 1990s and 00s, with exception of a continued enthusiasm of the Blair government for quasi and not-so-quasi privatization. The social policy changes in Britain are generally considered to be the outcome of political shifts, specifically the hegemonic influence of neoliberalism in the power elite, rather than being blamed on economic globalization.

Scharpf (2000: 18-19) differentiated the experiences of different regime types, suggesting that both the liberal and social democratic regimes have been able to adapt to the pressures of economic globalization, but for the 'Continental' conservative regimes (France, Germany, Italy) this has proved more problematic: *Under conditions of the Monetary Union, their traditional revenue base will become vulnerable to new competitive pressures, while a shift to — economically feasible — higher income taxes would violate the Zeitgeist of current tax reforms. Moreover, it is more difficult for them to compensate employment losses in the exposed sectors by an expansion of sheltered-sector services. There are no strong political demands for “Scandinavian” levels of publicly financed social services, and if there were, it would be hard to accommodate them under present fiscal constraints. At the same time, there is strong political opposition against an “Anglo-Saxon” deregulation of private-sector services, even if incomes from low-wage jobs were publicly supplemented. As a consequence, overall employment rates and female participation rates remain lowest in the Continental group of countries.*

### **COMMON 'ENDOGENOUS' PEOPLE PRESSURES WITHIN THE EU AND BEYOND**

Some very obvious 'people pressures' are arguably having a stronger impact on social policy in Western Europe at least. There is of course important linkage between these eg. migrants caring for elders and children (of dual breadwinners) in the west. Migration is obviously a very important feature of globalization in the wider sense, perhaps even of economic globalization!

#### ***Ageing/Declining Working Age Population***

The proportion of older people in the EU15 population has been rising dramatically, from 12 per cent in 1980 to 16 per cent by 2001 and projected to reach 25 per cent by 2030

#### ***Less Familial Carers***

The percentage of women joining the labour force has also been increasing, from 55 to 60 per cent between 1991 and 2000, with further increases expected.

#### ***Individualization***

diversity and instability of household structures – lone parent, dual breadwinner, no breadwinner, lone elders, absent fatherhood ,,,,

#### ***Migration***

Economic pressure to fill labour shortages; xeno racism/communitarian pressures against immigrants. Impact of remittances and loss of educated professionals and trained workers from the sending states in CEE.

## CONCLUSIONS

There is a remarkable consistency among academic social policy specialists that direct linkage between economic globalization and social policy pressures cannot be sustained. The 'strong globalization thesis' does not appear to hold up to empirical scrutiny. Here are three examples from Denmark, Britain and the US respectively.

### **Jæger & Kvist (2003: 568):**

*...the impact of the alleged exogenous challenges of globalization and Europeanization on welfare states has yet to be demonstrated and must be considered as controversial. Globalization remains little more than a "buzz" concept, mainly because its existence and impact on welfare states has not so far been established convincingly in the literature. European integration may in the longer run affect national welfare states, but not in the short- or medium-term perspective. National institutions and interests tend to prevail over the diffusion of ideas and the establishment of supranational institutions.*

*National endogenous pressures seem more important and less ambiguous...the relative decline in the working-aged population forces governments to seek new ways to increase employment, not least among the oldest segments of the labour force, women, ethnic minorities and groups on the margins of the labour market. In many of these instances extensions of welfare programmes and labour market policies, rather than curtailments, may be an appropriate solution, especially provision of childcare services, family benefits, and active labour market programmes. Activating labour "reservoirs" may be an important counterbalance to demographic and labour market challenges... Much of societal change seems to call for more rather than less state welfare; new types of welfare states may be needed in a post-industrial society.*

### **Taylor-Gooby (2001: 171, 174, 180, 181):**

*'There is at present no strong evidence of overall convergence in the face of broadly similar pressures, and the different varieties of welfare state regime retain their distinctive characteristics'. 'However ... changes in the organization of welfare now open the way to more radical reform. Different welfare states start from different positions defined by political configurations and welfare regime. All are experiencing continuing and in most cases increasing tensions from the factors [above] and all have introduced changes which will weaken political and institutional obstacles to the redirection of welfare.'*

Hence

1. *'European welfare systems are surprisingly resilient, at least so far as recent reform goes ... the different welfare regimes remain broadly distinct.'*
2. *'national variations cannot simply be read off from regime type. ...national patterns of welfare policy making can only be understood in the context of national politics, history and culture.'*
3. *'while convergence ... is so far limited, there are indications that radical changes are now probable in a number of states' eg. 'growth of private pensions, the expansion of means testing and similar targeting policies and new measures designed to activate dependent populations of working age'.*

### **Swank (2005: 192)**

*Continuing international integration of markets – both through conscious regionalisation and broader processes of economic globalization – continues to place pressures on governments to reduce the costs and inefficiencies associated with state intervention in domestic markets. Extension of the European Union to several Central European nations is just one example of potentially significant regionalisation pressures on mature welfare states. These pressures are dramatically reinforced by the ageing of the advanced nations' populations...the increase in the size of elderly population and its fiscal implications is one of the strongest predictors of episodes of welfare retrenchment over the last couple of decades in the advanced democracies. In addition, further liberalisation of domestic markets in heretofore sector coordinated economies, and continued pressures for decentralisation and flexibility of labour and industrial relations*

*systems in nationally coordinated economies, raises the prospect of a weakened institutional bedrock of the welfare state.*

While there is no 'logic' of economic globalization bearing down on social policy, there is equally no 'logic' which says that the welfare states of western Europe or reformed welfare states in CEE are insulated from the pressures generated by economic globalization. Neo liberal fundamentalism is certainly continuing to make its mark on public policy making. Arguments that the development of successful open economies actually requires good social protection and public services, as well as effective measures against social exclusion have to be renewed and promoted. The welfare state is sustained not by 'logic' but by social movements – the labour movement, the women's movement, the anti-racist movements as well as consumer and user mobilisation within and upon the welfare state. This is why it is so important to facilitate and support the development of such movements in CEE.

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