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Globalization and Social Policy

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Abstract:

Responses to globalization are not uniform. The impact of globalization on social policies differs according to the political and social institutions. The way in which the idea of globalization is interpreted at the political discourse level is also quite relevant for future policies. On the other hand, globalization can also reflect a politically convenient rationale for implementing unpopular neo-liberal economic strategies. The social and political impact of globalization is mediated by domestic institutional structures, state strategies and the state's location in the global order.

Key words: globalization, policy, divergence, convergence, institutions

Introduction

Although (or maybe because) the concept of globalization is quite vague, it has been widely “overused” (Soros, 2002). There are numerous views on globalization and quite a variety of definitions of the term. In a sense, ‘globalization is in danger of becoming the cliché of our times: the idea which encompasses everything, but which delivers little substantive insight into the contemporary human condition’ (Held, 1999). However, no matter how vague or overused this concept may be, it still conveys very important ideas about the world we are currently living in: a world of mobility, interconnectedness, of advanced technology and high-speed communications and transport. Our world is being moulded into a “shared social space” (Held, 1999:1) by economic, political and technological forces.

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Theories on Globalization

According to Held, there are mainly three major types of theories on globalization (Held, 1999). The “hyperglobalizers” emphasize the idea that globalization is an entirely new phenomenon, as well as the idea of a global market to which people everywhere are subjected. For the “hyperglobalizers” it is obvious that nation-states are losing a lot of their power to multinational companies, political international organizations and other global factors. This account of globalization puts a lot of weight on the economic aspect of the phenomenon and, more precisely, on the increasingly integrated global economy that exists today (Held, 1999; Yeates, 2002). This theory tends to see the needs of global capital as being the main factor that determines the way in which nation-states act. These needs (as it is expected) are likely to impose a neo-liberal discipline on all governments. This theory implies some form of global convergence between different types of welfare states (all states will converge towards the neo-liberal policies that will enable them to remain competitive on the global market).

While the theory mentioned above regards globalization as a completely new phenomenon, other theories entirely deny its novelty.

The so-called sceptics of globalization consider that the economic interdependence that we witness today is by no means historically unprecedented (Hirst and Thomson, 1996; Held, 1999). This theory claims that the power of national governments to regulate international trade is highly underestimated by “hyperglobalizers”. However, although the nation-state still remains the most important political actor on the international scene, regional organizations (major financial and trading blocs) also start playing a very important role in shaping the world. This theory, of course, implies a rejection of the idea of convergence at the global level, but is perfectly compatible with the idea of regional convergence.

Held identifies a third type of theories on globalization, a type mainly advocated by what he calls the “transformationalists” (Held, 1999). These theories embrace a more dynamic and open-ended conception of globalization, as being full of contradictions and significantly shaped by conjectural factors (Held, 1999). Globalization is restructuring power: the state still matters, but so do international organizations and international law. This theory seems to be compatible both with the idea of divergence and with the idea of regional upward or downward convergence within types of welfare states. Transformationalists perceive the changes in the power of nation-states more in terms of a reconstruction, than in terms of a diminution.

Six Hypotheses on The Impact of Globalization on Welfare States

As a consequence of globalization, welfare states may diverge even more or they may converge. Convergence, on the other hand, can have a lot of different meanings.

In his discussion on the impact of globalization on welfare states, Kitschelt raises some very interesting questions on the different ways in which the term of “convergence” may be used. Convergence can exhibit a downward or an upward trend; it can be global convergence or it can be convergence at the regional level (Kitschelt et al, 1999). Some authors have argued that regional affiliation may matter even more than the type of welfare state a country has. Hirst and Thomson (1996), for example, expect countries to converge within convergence clubs (like NAFTA or the EU).

On the other hand, convergence can be convergence between different types of welfare state or convergence within those types.

Convergence can be towards the same point (the idea of convergence to the mean) or it can be a convergence in movement (states going through a similar trend).

And last, convergence may mean that all policies change to some new configuration, but it may also mean that they are more alike by becoming more like policies already existing in a certain country (Kitschelt et al, 1999).

Having already presented Held’s classification of theories on globalization and Kitschelt’s classification of possible interactions between welfare states, I will further lay out six hypotheses on the impact of globalization on the welfare states and I will try to assess which hypothesis is compatible with which theory on globalization AND which hypothesis and theory on globalization are compatible with which of the types of interaction between welfare states (upward or downward convergence, divergence).

The “Retrenchment Thesis”

The hypothesis that globalization determines the retrenchment of the welfare state relies on the neo-liberal idea that states have to become more flexible in order to be more competitive on the global market; however, the quest for more flexibility in many cases leads to a decrease in social expenditure and a retrenchment of the welfare state (Brady, Beckfield and Seeleib-Kaiser, 2005).

An extensive welfare state cannot be created without increasing the size of government. Welfare programmes require increasing the amount of revenue to be raised, which, in its turn, requires higher taxes. On the other hand, capital

will try to avoid taxes, which means (in a context of capital mobility) that it will tend to move where taxes are lower.

Welfare spending is expected to fall to competitors' level, converging at the level of the lowest spender; globalization leading to a "race to the bottom" (Bowles and Wagman, 1997; Yeates, 2002).

This hypothesis is perfectly compatible with the hyperglobalizing theory, since both rely on a neo-liberal argument. Were this hypothesis valid, there would be a tendency among states to converge towards the same neo-liberal policy. Using Kitschelt's terminology, the validity of this hypothesis would probably lead to a global downward convergence between different types of welfare states (because all types of states will converge towards the same neo-liberal policies, in order to remain competitive on the global market).

However, the neo-liberal theory is simplistic, seemingly ignoring the diversity of production regimes and the distribution of power among socio-economic and political actors in different states (certain changes may be too costly even if they are beneficial on the long term) (Kitschelt et al, 1999).

On the other hand, no systematic evidence was found that shows tax rates to be a major factor in firm's decisions (Bowles and Wagman, 1997) or that welfare provision harms trade performance (Pfaller as cited in Held, 1999).

Besides, capital is not necessarily opposed to the state, it also needs the state. High and redistributive social spending will contribute to economic stability because social programmes, as unemployment benefits, are counter-cyclical in their effects (Gough, 2000).

The "Expansion Thesis"

Globalization also increases the need for welfare provision; in the context of a global market, people become more vulnerable, they are facing more risks; the nation-state is needed as a buffer from the world economy.

On the other hand, in a more integrated international system, it is likely that standards set in the leading countries will become reference models. Supranational organizations make it possible for innovative models from developed countries to be transferred to other countries through the advice of experts, on the one hand, and on the other through the dispersion of global culture. Modernization theories show that the ideas and institutions of advanced capitalist countries become gradually part of the global culture, which in turn partially shapes local institutions (O'Riain and Evans, 2000).

The idea of welfare expansion is only compatible with a transformationalist view of globalization, because it presupposes more change than the sceptics would accept and it actually runs counter to the neo-liberal basis of the hyperglobalizing view. But how would welfare states interact, if this

hypothesis was valid? There would probably be an upward convergence (either regional or global; either within *or* between different types of welfare state)².

The “Curvilinear Relationship Thesis”

At lower initial levels, globalization triggers an expansion of the welfare state and at higher levels, can cause contradictions in mature, developed welfare states (Brady, et al, 2005).

This kind of relationship between globalization and welfare state would lead to some sort of convergence among states; high spenders will retrench their welfare states, while low spenders will further develop their social policies and welfare systems.

The “Welfare State Type Thesis”

The effects of globalization on social policies are likely to depend on the type of welfare state.

Some authors have found that globalization does not threaten the corporatist states, but that it has an effect on the uncoordinated liberal states (Swank as cited in Brady, et al, 2005).

One argument for this convergence of corporatist systems is that countries with a high level of corporatism adjust more rapidly and efficiently to changes in external conditions (Bowles and Wagman, 1997).

Kitschelt argues that the reason why non-corporatist states diverge (while corporatist states converge) is that international competition remains imperfect and that the effects of economic internationalization will differ because of different production systems (Kitschelt et al, 1999).

The idea that globalization may have a different effect depending on the type of welfare is again only compatible with the transformationalist view of globalization (since the hyperglobalizers presuppose a uniform impact).

Kitschelt’s findings suggest that there is convergence *within* types of welfare systems, but not between types (Kitschelt et al, 1999). Studies of income distribution have found growing divergence between liberal and corporatist economies since the 1970s (Gough, 2000). In a way, there is even

² After joining the EU, social convergence with Europe became the main national policy goal both in Greece and Spain (Alber and Standing, 2000). In these countries (as in Romania) there was a need to legitimize the new regimes (after years of dictatorial repression) and to stabilize the democratic order (Alber and Standing, 2000), which led to a primacy of politics over competitiveness in the global market, but also to a clientelistic provision of benefits which segmented the population into privileged insiders and neglected outsiders (Alber and Standing, 2000).

more divergence *between* types (organized market economies become more organized and liberal market economies become more liberal still). Convergence *within* types can probably be both regional and global in this case. It is not yet clear if this convergence would be of an upward or downward trend, although it would probably be a regional upward/within type convergence.

The “Contradiction Thesis”

Different aspects of globalization have different impacts on social policies (Brady, et al, 2005). Some globalization indicators cause an expansion of the welfare state (liberalization and migration); several globalization indicators have negative effects on the welfare state.

The “No Impact Thesis”

Some authors argue that it is quite debatable in the first place whether globalization is a new phenomenon (although economies are more open as a result of tariffs reduction, there is an increase in non-tariff barriers). And even in cases in which non-pecuniary barriers are also meant to be eliminated, it has proved quite difficult to spot and eliminate them.

It is sometimes argued that deindustrialization actually drives welfare state expansion (the decline in manufacturing and agriculture employment generates a decline of long-term stable employment for the working class) (Iversen as cited in Brady, et al, 2005); this decline in employment boosts the need for government services.

Globalization *per se* may not influence welfare states, but what does influence states is the way in which the political will translates the idea of globalization: globalization influences social policy only if recognized by political actors as a relevant issue.

Globalization may operate as a socially constructed political tool facilitating changes in the welfare state. Research found that pressures of globalization are decisively mediated by domestic actors (Alber and Standing, 2000; Seeleib-Kaiser, 2005). Yeates also emphasizes the fact that the domestic balance of political power has an impact on how globalization affects social policy (Yeates, 2002).

Institutions also matter because they are a critical component of the environment in which actors shape their strategies of adaptation (Kitschelt, 1999). Existing institutional conditions and their interaction with actors' preferences are likely to produce divergence (Kitschelt, 1999; Seeleib-Kaiser, 2005). Constitutional structures may limit the expansion of the welfare state as well (the greater the number of veto points, the harder it will be to implement social policy changes) (Alber and Standing, 2000; Rhodes, 2001; Yeates, 2002).

Other factors that might matter in this respect are: an authoritarian legacy, unemployment, different resources endowments, military spending and the emergence of regional defensive and offensive alliances. Formal political rules also determine divergence (unique structures of party competition can prove very significant).

Alber and Standing found that there is more of a growing dispersion of spending levels, than convergence. Yeates also notes that there actually is more divergence rather than convergence (she emphasizes the importance of the domestic sphere in explaining the relation between globalization and social policy) (Yeates, 2002).

Conclusions

1. The retrenchment of the welfare state thesis is compatible with the hyperglobalizing view on globalization; this kind of retrenchment would lead to a downward global convergence of all welfare states.
2. The expansion thesis is compatible with the transformationalist view on globalization; expansion would lead to upward convergence, either at the regional or global level.
3. The “no impact thesis” is most compatible with the sceptic account of globalization and it presupposes, of course, a lot of divergence.
4. The “curvilinear relationship” thesis, as well as the “contradiction thesis” and the “welfare state type thesis” are most compatible with the transformationalist account of globalization. The “curvilinear relationship” will probably determine a “convergence towards the mean”, while the “welfare state type” thesis will probably determine convergence within types of welfare state and divergence between types.

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