

## Globalisation / Welfare: What’s the proposition? And, or, versus, with?

**Herman M. Schwartz**

Politics Dept.

University of Virginia

PO Box 400787

Charlottesville VA 22904-4787

[hms2f@virginia.edu](mailto:hms2f@virginia.edu)

<http://www.people.virginia.edu/~hms2f>

© 2002 Herman Schwartz

(pre-copyediting version of an article forthcoming in *Social Policy Review* #15, July 2003)

### Introduction

What, if anything, is the relationship between globalisation as a process and the welfare state as a set of institutions and political relationships? Does globalisation imply an end to the welfare state and its use as an instrument of social policy? Or is globalisation perfectly compatible with stable or expanded welfare spending? Are the major threats to the welfare state domestic, rather than global, in nature, like the aging of society? Are the politics and substance of welfare state reorganization in rich countries uniform?

Although the cottage industry devoted to answering these questions has grown into an impressive, almost industrial edifice, many of the products are marred by poor conceptualisation. Conceptual confusions abound in the equation linking globalisation to welfare. This no doubt explains the variety of causal effects on the welfare state attributed to globalisation, and the desire of many analysts to (unnecessarily) oppose “domestic” and “global” causes for welfare state change. After all, not everyone sees globalisation as ineluctably compromising the welfare state. Some analysts believe globalisation will provoke political cries for more welfare while others see welfare not only as a necessary political price to be paid for more globalisation, but one which is perfectly compatible with continued globalisation. Furthermore, this latter argument is deployed not only by Washington D.C.-based apologists for free trade like Dani Rodrik (1997), but also is explicit in the debate David Cameron (1979) started about the political exchange of welfare for trade exposure in corporatist welfare states.

This article addresses some of the usual arguments and confusions about globalisation and the welfare state by focussing on three issues. First, I will make the case for looking broadly at social protection, rather than narrowly at state tax,

transfer and service organisations. Second, I will show how the use of a broader conception of social protection allows us to make a better causal argument about the connection between “domestic” and “non-domestic” causes of changes in the supply of and demand for welfare services or transfers, and changes in the role of women in the economy. Finally I will suggest that globalisation has definitely transformed the post-war welfare state. After all, much of the economy is now exposed to market pressures, and the sizeable portion of the female population that formerly was excluded from labour markets now finds itself working for wages. So the formal welfare state of taxes, transfers, and services matters much more than it ever did.

But the welfare state’s its internal administration and its organising rationales themselves reflect market logics more than ever. Put simply, the system of social protection in which risks were socialized through the maze of cross subsidies embedded in public ownership of services and breadwinner male employment has given way to a system of social protection in which risks and cash flows are transparent, and in it is easier to individuate risks. From each according to their insurance premia, to each as they individually encounter life and market risks.

### *Globalisation or markets?*

The globalisation side of the globalisation and welfare debate contains a profusion of alleged causes for changes in the welfare state, as well as conflicting predictions about those changes. Globalisation is variously understood to encompass one or all of the spread of US cultural norms, financial integration, increased trade penetration, rising rates of immigration (and their associated trans-national communities), rising market power for multinational companies (and their associated trans-national communities), and the emergence of a trans-national community of capitalists (Hay and Marsh, 2000). These processes are held to compromise fiscal and monetary policy, the equalization of income, efforts to boost employment, public ownership of firms, efforts at setting minimum wages, and efforts to spend more on social services and transfers. And these processes are often seen as exogenous to the welfare state itself.

Much of this confusion stems from the apparent novelty of “globalisation.” If welfare states preceded globalisation, then logically it is possible that globalisation might conflict with those welfare states by undermining their economic or social preconditions. But if globalisation is an old phenomenon, the logical force of this argument dissipates. There are good reasons to believe that most of the phenomena grouped under the globalisation rubric have been around for centuries, because they represent nothing more than the market’s typical process of self-expansion (Schwartz,

2000). Even if we put Marx aside, little in today’s globalisation debate was not already present in Georg Simmel’s *Philosophy of Money* (1900), or Walter Benjamin’s “The Work of Art in the Age of Mechanical Reproduction” (1935). Globalisation is the steady expansion of market forces and market relations into more and more aspects of life. But understood this way, there can be no opposition between global and domestic markets as sources of change for the welfare state. Indeed, depending on how we understand the “welfare state,” the welfare state itself can be understood as a source of continued marketisation.

### ***Welfare or social protection?***

The welfare state side of the equation is meanwhile no less confused. Academic and popular understandings of what the “welfare state” was and is profoundly misinterpret the post-WWII period. First, most academic research has conceptualised the welfare state as a system of tax funded transfers and state provided or funded social services that ameliorated life and economic risks for workers. Naturally most “globalisation and welfare” research clusters around this conceptual lamppost, asking how globalisation has affected those programs, but ignoring areas of darkness away from the lamp. As Richard Titmuss (1958, p. 41) had already noted in 1958, important social policies that did not work through inward revenue flows, outward direct transfers, and public or publicly funded services were not recognized as inherent parts of the welfare state. Meanwhile, some tax funded social policy, like education, is also not seen as part of the welfare state. So the confusion produced by a focus on nominal categories persists, despite the revival of Karl Polanyi’s (1944) work.

Second, most welfare state research is animated by a profound normative bias that both favours social policy that protects workers and/or the poor, while also only identifying as social policy those policies that protect workers and the poor. This animation flows from T. H. Marshall’s (1963) arguments about social citizenship, and Richard Titmuss’ (1958, pp 34-55) arguments about the importance of universality. But this bias obscures the fact that not all social policy or social protection is for workers, that the welfare state was never simply an instrumental tool for advancing labour’s interests, and that “welfare” – understood much more broadly as “social protection” – was about sheltering all income streams, not simply wages, from market pressures. Similarly, much of the social policy directed at ameliorating poverty could also be understood as an effort to contain the poor.<sup>1</sup> In short, people’s

beliefs about what the welfare state *ought* to have been doing sometimes interfered with their analysis of what welfare states *were* doing.

These conceptual confusions make a proper analysis of globalisation and welfare nearly impossible, because they automatically rule out some important causes for the kinds of stresses contemporary welfare states face, while limiting our vision of the kinds of political dynamics leading to changes in the welfare state. In a narrow sense, looking only at taxes as a source of revenue to fund services and transfers, for example, obscures the size and effects of other instruments for redistribution, like tax expenditures, and the ways that regulation of product and services markets created life-time employment for male breadwinners. This matters because a look at the distribution of tax expenditures in the US shows that the US state provides substantial social protection, but that this protection is largely skewed towards the top 6 income deciles (Howard, 1997). Similarly, substantive regulation of goods and services markets shelters owners of profit streams as well as workers. This form of “decommodification” affected about one quarter of most OECD economies in the 1990s. Thinking about welfare this way highlights the importance of looking at political efforts aiming at administrative and regulatory change rather than those to reduce taxes and spending in core welfare areas.

### ***Social protection and markets***

A better entry point into the globalisation/welfare debate is thus to start with Karl Polanyi’s notion of “social protection” (Polanyi 1944). Polanyi elaborated the notion of “social protection” in 1944 to encompass states’ pervasive sheltering of workers *and* owners from the catastrophes that stretched from the international market’s apogee in 1914 through to the Depression era market collapse. Social protection after the Depression and World War II rested on three legs: the overt welfare state of the tax funded transfers and services; the sheltering of the service sector (including and especially firms, and through them, workers) from competition; and the creation of tight labour markets through policies that reinforced a male breadwinner wage and thus low labour market participation by *married* females.

Relatively speaking the overt welfare state played the smallest role in this institutionalised sheltering, even for workers. Instead, tight labour markets and

---

age pensions as a form of politically created property right, and provides an analysis of the emergence of social assistance that has nothing to do with concerns for the poor per se. Because of its origins in work by Tawny and Titmuss, British analyses of welfare tend to focus strongly on poverty alleviation.

---

<sup>1</sup> One salient exception to both biases is Abram De Swaan (1988), who defines old

regulation assured most workers of employment at breadwinner wage rates, relieving the state of the need to make good on welfare state spending except at the margin. State control over domestic and international financial markets and over domestic service sector markets limited the full impact of markets on firms and employees; both thus could safely be inserted into these cosseted markets. Paradoxically workers did not need to rely on the decommodifying effects of welfare programs because most labour markets themselves were already partly decommodified. This is evident in the fact that the ‘crisis of the welfare state’ and the coterminous ‘fiscal crisis of the state’ emerged not when program expansion occurred, but rather when substantial labour market (re-)entry by married women and the deregulation of the service sector led to massive citizen uptake of existing programs.<sup>2</sup> The removal of two of the pillars constituting post-war social protection shifted all the weight onto the remaining pillar, throwing it into a financial crisis.

Casting the dependent variable as social protection also makes it possible to sketch out the causal chains leading to stress on and thus changes to the overt welfare state, and to more precisely attribute causal force to components of the globalisation and domestic forces arguments. Progressive deregulation and marketisation of the service sector undermined the male breadwinner model, transforming what had been well paying and – perhaps more important – stable jobs into less stable and predictable forms of employment. At the same time, rising of low wage competition from Asian producers and rising inward direct foreign investment had similar effects, displacing male employees from stable breadwinner jobs in manufacturing. Both of these in turn increased the incentives for married women to re-enter labour markets. Massive labour market re-entry by married women in turn put downward pressure on service sector wages, most notably for men, reinforcing male labour and marriage market exit, and further undermining the breadwinner model. These trends created more demands on the overt welfare state, particularly in the areas of unemployment insurance, early retirement programs, childcare, and tertiary education.

However neither of the two changes noted above should be seen only as the outcome of changes exogenous to institutions for social protection. Though it is not counted as such in the OECD social expenditure database, education is a major form of social protection, because education provides generic skills that permit employability, as well as specific skills that create claims to above average rates of

pay. The post-war inclusion of women in tertiary education motivated and equipped women for employment in an economy increasingly based on services. Married women’s re-entry generated a self-sustaining process of service sector expansion because re-entering women needed to replace their own childcare and home maintenance services with purchases from the market or access to state services. These services in turn employed yet more women, and increased female demand for access to higher education. At the same time, the increasing fragility of marriage and male breadwinner employment raised the returns on education for employed married women, propelling yet more women into the market.

Similarly, Asian competition and inward Foreign Direct Investment (FDI) also had endogenous causes in the pervasive social protection offered by rich countries after the war. By raising wages to breadwinner levels and removing women from the labour market, social protection expanded the gap between relative unit labour costs in rich and poor countries. This in turn motivated some firms with labour intense production processes to shift production to cheaper “southern” locations. So just as the post-war welfare state endogenously generated a supply of women unhappy with its breadwinner model, it also generated a supply of imports that also undermined the breadwinner model.

The discussion above suggests uniform trends in rich country welfare states. But the discussion conceals substantial divergence among those welfare states. Welfare states started from different initial conditions, experienced the changes sketched above in different ways, and responded in different ways. Post-war welfare states sheltered the service sector using different kinds of property rights: some regulated prices and profits, others used state ownership, while still others used producer self-governance backed up by state control over credit or market entry. Similarly, welfare state incentives for female labour market participation ranged from outright discouragement to active facilitation by some in the 1960s. Welfare states thus created diverging incentives for firms to move offshore, and diverging rates of female labour market participation. Consequently these welfare states experienced globalisation in different ways, producing divergent outcomes.

The rest of this article thus addresses three issues that arise from looking at social protection rather than the welfare state more narrowly. First, I will flesh out the case for looking broadly at social protection, rather than narrowly at state tax, transfer and service organisations. Second, I will assess some of the usual arguments about globalisation and the welfare state, showing how the use of a broader conception of social protection allows us to make a better causal argument about the connection between “domestic” and “non-domestic” causes of changes in the supply

---

<sup>2</sup> I will signal the ambiguities of women’s labour market entry here once: the majority of unmarried women work for some time and then drop out of the labour market subsequent to marriage and, more important, childbirth. So married women are rarely entering the labour market for the first time.

of and demand for welfare services or transfers. Finally I will suggest that globalisation has definitely transformed the post-war welfare state.

### What was the post-war welfare state?

Two academic deformations of reality create problems sorting out the ways that globalisation translates into policy choices about the welfare state and then identifying the specific causal mechanisms linking changes in the international economy to actors’ interests, actors’ policy preferences and, finally, to policy outcomes. First, academic work on social protection focuses unnecessarily narrowly on the formal welfare state and typically only as an instrument of redistribution only towards workers. The conventional wisdom about the politics of the welfare state is that capital firmly opposes welfare and redistribution while workers equally tenaciously favour welfare and redistribution, and that the welfare state is the only mechanism. Second, academic work on the welfare state historically focused unnecessarily narrowly on men, or, more precisely, subsumed women’s interests into that of households headed by breadwinner males (Orloff, 1993). Both deformations blurred academic understandings of the relationship between social protection and the phenomena grouped under the concept of globalisation.

Start with the first deformation. Why should capital automatically favour market allocation and the labour movement redistribution? Why see the formal welfare state as the only mechanism for redistribution? The interesting thing about the so-called golden era of the keynesian welfare state, after all, was not widespread recourse to formal welfare by those in the labour market or even the deliberate (if only occasional) use of expansionist monetary policy. The astounding thing about the golden era was stable employment, wages and investment across all sectors, and predictable access to deferred wages after retirement. Political movements forced states to create this stability in reaction to the exposure of virtually all life chances and income streams to the logic and volatility of the market in the long 19th century (Polanyi, 1944). Workers were not the only actors who benefited from and campaigned for redistribution and stability (Baldwin, 1990).

Polanyi’s counter-movement after all was about sheltering “productive organization” from the market. The welfare state is a visible and fiscally expensive modality for providing social protection. But budget financed services and transfers are not the only modality for social protection. After the 1930s states provided social protection – and achieved redistribution – through a wide variety of instruments: trade protection, minimum wages, centralized collective bargaining, product market regulation, the allocation of investment capital, the delegated control over markets to

producer groups, and, of course, formal welfare states. All these instruments disconnect or buffer income streams from market outcomes, whether those incomes take the form of wages, employment, or profits.

Analysts of the formal welfare state have traditionally preferred to view welfare entitlements as ‘social’ rights, and there are important reasons for doing so (Klausen, 1995). But the streams of income the state created through regulation and the welfare state are also *property rights* and share important similarities as such. Welfare state socialization of various life and economic risks created property rights to streams of income from the state, as in the case of defined benefit pensions or disability pensions; by the same token tax sheltered defined contribution pensions can create a property right if the tax expenditure is linked to the contribution. Workers with varying degrees of job tenure also had a legally enforceable property right in their job.

These property rights took different forms. The service sector, the source of most post-war employment and employment growth, contained the most expensive and important property rights related to social protection, whether expressed as public ownership or regulation of the service sector. These property rights guaranteed workers stable wages and employment while guaranteeing for regulated private owners steady revenue and profit streams. State regulation dampened or eliminated competition by segmenting markets for services like telecommunications, road, rail and air transport, power and water generation and distribution, and retail distribution. These four sectors amount to a fifth of most OECD economies and a significant source of producer costs in the manufacturing sector.

Consider how investor owned power generation utilities in the US were sheltered from the market. The state offered firms territorial monopolies, access to tax privileged equity capital and bond finance, and regulated rates of return in order to induce firms to make highly asset specific investments. In turn firms offered workers stable employment at predictably rising wages linked to the utility’s equally predictable expansion of its assets in an environment in which the price of electricity was also predictable. Workers for state owned utilities in Europe often got the even greater stability of civil service status.

The degree to which this regulation sheltered services from market pressures can be seen in the relatively greater dispersion of productivity levels for services production in the OECD-19 economies in 1990, as compared with manufacturing, which faced world market competition. While the standard deviation of productivity levels in manufacturing was 16.1, it was 15.8 for telecommunications, 21.1 for retail distribution, 26.8 for electricity generation and 57.1 for air transport (Pilat, 1996, pp 107-146). The larger dispersion of productivity

levels around the mean (i.e. the larger standard deviation) indicates that historically there was much less market pressure to conform to best practice production norms. The obvious exception is telecommunications, where progressive deregulation and privatisation had already unleashed market pressures before 1990 that reduced the dispersion around the mean to a level similar to that in manufacturing. But in the other three sectors considerable divergences remained. Most productivity studies attribute this divergence to government ownership and regulation of labour and product markets (McKinsey, 1992; Pilat 1996).

Deregulation of the service began in the late 1970s in the US. Deregulation exposed substantial numbers of workers to market forces. Successive administrations deregulated transportation, telecommunications, finance, and energy transmission and generation services, producing novel ways to cause market catastrophes, as in the collapse of the savings and loan (i.e. cooperative savings banks) industry and firms like Enron. Although in many instances the total head count of jobs in a given sector increased, these jobs were characterised by weaker employment guarantees and a tighter connection between productivity and wages. In short, many breadwinner jobs disappeared.

This is where the second academic deformation comes into view. These breadwinner jobs mattered because a second unseen pillar of post-war social protection was the forced or voluntary withdrawal of many married women from the labour market. Consider the United States. There, although women’s participation in open labour markets had risen steadily, if slowly, from about 18 percent in 1890 to about 26 percent in 1930, married women’s participation had actually fallen slightly over the same period, once unpaid household workers are accounted for (Costa, 2000, p 103; Goldin, 1990, p 44). World War II brought a doubling in married women’s participation from roughly 10 to 20 percent 1940 to 1950; a second doubling occurred 1950 to 1970; and a final near doubling appears to have occurred through 1990 (Goldin, 1977, p 88; Goldin, 2002, p 38).

Yet the relative withdrawal of female workers can be seen in the decline in their share of the US civilian workforce from its 1945 high of 36.1 percent to about 29.1 percent in 1950. The female share did not recover until the late 1960s (Maret, 1983, p 8). Similarly, women’s wages relative to men actually fell roughly 10 percentage points and did not recover until roughly 1990 (Goldin, 2002, p 36). Outright expulsion from certain types of employment, marriage bars, short and dead-end career tracks, and pure gender discrimination all contributed to this drop in relative wages. The US was not an isolated example, and in fact represented in most periods a society with relatively high levels of labour force participation by married women. In Australia and New Zealand, an explicit breadwinner orientation in wage

regulation initially set women’s wages at between 40 and 75 percent of male wages in similar occupations, discouraging married women’s participation. In other societies, married women’s retreat from the labour market was seen as a positive sign of a society healthy and wealthy enough to afford non-participation (Bussemaker, 1998).

Married women’s withdrawal from labour markets made four significant contributions to the structure of social protection in the post-war period by tightening up labour market. Withdrawal directly reduced the volume of labour at a time when the market had to absorb demobilized soldiers and the men who had been unemployed in the 1930s. This directly prevented wages from falling. This effect was particularly strong at the bottom of the labour market, where women, whose education levels almost everywhere were lower than for men, competed for unskilled/low skilled jobs. So it helped extend the breadwinner effect down into the lower reaches of the income distribution. Withdrawal occurred at a time when manual farm labour was giving way to office work, which presumably should have strongly favoured increased female employment. Withdrawal also indirectly boosted male wages by contributing to tighter labour market, stronger unions and thus higher wages. And withdrawal probably boosted fertility, contributing to sustained demand for housing and consumer durables. But withdrawal would not have made sense in the absence of stable breadwinner jobs for men, and had the formal welfare state and tax system distributed benefits to individuals rather than households.

With this more complete view of the operation of social protection in the post-war period we can now understand not only the relative balance of endogenous and exogenous shocks on post-war social protection, but also how these shocks interacted to put more pressure on the formal welfare state. Essentially, three things occurred. First, male breadwinner wages priced labour at the bottom end of the manufacturing market out of world markets once firms had access to low wage labour governed by a variety of Asian military governments. Second, female access to formal welfare, education, and the birth control pill reduced fertility and created the ability to enter labour markets once dominated by men. Finally, a cross-class coalition in parts of the economy exposed to world market competition tried to maintain competitiveness by reducing costs in the non-traded part of the economy.

### **What went wrong with post-war social protection?**

#### *Asian competition*

The post-war system of social protection eventually priced low skilled male labour out of both manufacturing and service sector markets. Unionisation and tight labour

markets raised wages above the levels that prevailed in many Asian and Latin American economies characterised by overt repression of labour unions. It is important not to overstate the wage gap, because lower rates of productivity in most of newly industrialising Asia meant that the relative gap in *unit costs* is not as large as the absolute wage gap indicates. Nonetheless, even by 2000, manufacturing wage costs in the richest Asian economies only stood at about 40 percent of the US level, while wages in the poorest were less than 10 percent. This provided a huge incentive to relocate production away from OECD economies.

The gradual reduction in tariffs, telecommunications and transportation costs made this labour accessible to multinational and other firms in labour intensive, loosely coupled industries. Highly labour intense industries characterised by batch production at individual workstations, like garment assembly, shoes, toys, luggage, and cheap lighting, all gradually went offshore to Asia. In turn, the supply industries for these sectors also migrated to collocate with their sources of final demand. Thus, even capital-intensive industries like fibre production and textiles weaving eventually relocated to Asia. From 1980 to 2000 industrialising Asia more than doubled its share of total world trade from roughly 8 percent to nearly 20 percent, reflecting even larger shares (circa 40 percent) of industries like woven clothing. All this put downward pressure on wages and employment at the bottom end of the labour market.

There are different ways to measure this pressure, because it could take the form of lost jobs, falling wages, fewer hours of work, or substitution of capital for labour. Adrian Wood argues that this sort of southern competition alone accounts for a loss of at least 9 million OECD manufacturing jobs, equivalent to about two thirds of *Euroland's* total unemployment in 1998 (Wood, 1994, p 167). Similarly, William Cline argues that trade and immigration together account for between 20 and 25 percent of the observed increase in US wage inequality (Cline, 1996). In the US median weekly earnings for full time male production workers fell 13 percent, 1973 to 1995. This reflects a sharper fall in both hours and wages for the bottom decile of male wage earners (Freedman, 1999, pp 29-31). In almost every OECD economy both the number of manufacturing jobs and the number of hours in manufacturing has fallen since 1990, and in many employment has fallen by about 1 percent per year since 1979 (BLS, 2002).

This low wage competition generated two natural, market based responses. First, falling prices for increasingly commoditised manufactures increased disposable income in the economy as a whole, shifting demand towards services and better quality manufactures. Second, this shift permitted firms that had been labour-intense to respond to low wage competition by moving upmarket and substituting capital for

labour, in what Adrian Wood calls “defensive innovation.” This can be seen clearly in the US, where the share of non-production workers in manufacturing rose from 1970 to 1990 (Jensen and Troske, 1999, pp 134-136). While these shifts helped GDP to grow, they also exacerbated the wage / employment problem at the bottom of the labour market.

Any argument about the effects of capital fleeing high wage economies for low wage economies has to also account for the fact that most capital flows among rich countries. But this movement had the same effects in terms of the reduction of breadwinner male manufacturing employment, because this investment almost always involved displacement of lower productivity firms in the host (recipient) economy. Successful multinational firms uniformly had higher productivity than firms in their host economy. In the six largest OECD economies, on an unweighted basis, the ratio between assets and employment for inwardly investing manufacturing firms at the beginning of the 1990s was 1.6 (versus a nominal economy wide ratio of 1), suggesting higher capital intensity and lower than average direct employment from FDI (UNCTAD, 1993, p 5).

FDI thus carried more efficient production norms from each OECD economy into the others, causing job losses as domestic firms adapted to higher productivity levels or simply exited the market. Consider how Japanese investment reduced the number of automobile jobs in North America. Put differently, because FDI accounts for 20 percent of manufacturing capital stock, manufacturing employment is roughly 7.5 percent lower in these OECD countries, an effect similar in magnitude – 7 million breadwinner jobs – to the losses Wood identifies. While wage rates for these kinds of jobs are not affected (as in they are by low wage competition), the overall volume of manufacturing jobs is reduced. Technological change thus led to greater productivity on the one hand, but also declining breadwinner employment.

The weakening of the bottom of the labour market introduced some, but not all, of the fiscal stress felt by OECD welfare states, because active and passive unemployment expenditures rose. But absolutely these cannot account for the increase in public sector deficits in the last 10 years or the 20 years before that. From 1980 to 1996 active and passive unemployment outlays for the 18 rich OECD countries rose on average by only 1.2 percentage points to 3 percent of GDP (OECD, 1998). But fiscal deficits rose by considerably more than that, driven by an increase of 1.9 percentage points of GDP in spending for old public debt, and an increase of 4.8 percentage points for social expenditures unrelated to unemployment. Health and old age pensions thus were the major cause for increased deficits, reflecting the

fact that in most economies the cost of these deferred wages runs at roughly five times the cost of unemployment insurance and early retirement schemes.

### *Marketisation of the service sector*

The deregulation and commercialisation of the service sector introduced a second major source of stress on the post-war system of social protection. States had either regulated or owned large swathes of the service sector after the war, particularly those involving reticulation networks in power generation, transportation, and other utilities. Regulation of prices and profits in nominally privately owned utilities firms had the indirect effect of guaranteeing stable wages and employment for relatively unskilled workers. Pervasive public ownership in Europe often carried with it civil service status for these workers. And, as noted above, the absence of competitive pressures meant that large disparities in productivity could emerge. These disparities in productivity could only persist in the absence of market competition, sheltering roughly one quarter of OECD workers.

Two developments in the United States unleashed competition in the regulated service sector after the 1970s, and thus removed social protection for these workers. First, in the 1970s, an endogenous political dynamic produced internal demands for deregulation of the US service sector. Unlike most European states, the US had largely opted for substantive regulation of infrastructure and public services rather than state ownership. The absence of state monopolies and the inability to perfectly regulate any given market mean that new forms of competition were always emerging at the margin of regulated businesses.

By the 1970s a series of court decisions had considerably widened the size of this margin, permitting, for example, non-bank financial firms to take deposits and offer loans, private (non-public utility) telephone companies to offer long distance service, and courier services to offer shipment of things that formerly had travelled through the post. Regulation created costs for regulated firms that unregulated firms did not have to carry. Thus banks were hobbled with reserve requirements and the cost of deposit insurance, unlike non-bank financial firms. Public utility phone companies were forced to cross subsidise local phone service with expensive long distance charges, while private telephone firms could charge marginal cost for long distance.

Regulated firms in these sectors thus faced a dilemma. If they demanded more intrusive regulation of their own sector, they would face rising costs, yet some firms might still find ways to evade regulations and pose a competitive threat. On the other hand, if they did not get regulation of these unregulated firms, they would

have to compete while carrying all the costs of regulation. Consequently many firms in regulated sectors opted to press for deregulation, so as to level the playing field. Deregulation began under the Democratic Carter administration and continued under the Republican Reagan and Bush administrations. Deregulation permitted all the normal market processes to work. It led to market entry, mergers, bankruptcies and, most important for the globalisation part of the story, rising productivity and falling prices.

Second, by the 1980s declining US competitiveness in manufacturing provoked the US state into a variety of policy responses to restore equilibrium in its current account. The most important of these was a conscious decision to expand the market opening operations of the General Agreement on Tariffs and Trade (GATT) to encompass the service sector and agriculture. This eventually culminated in the launching of the World Trade Organization (WTO) and its General Agreement on Trade in Services (GATS). One by one finance, transportation, the post and power generation and distribution were opened to foreign and domestic competition.

The first development partly drove the emergence of the second development, because the relative competitiveness of US firms in the newly deregulated service sectors was high. By 1999 the United States was running a \$72 billion trade surplus in services that reflected equally large deficits in countries with weaker services sectors, like Japan (a \$49 billion deficit) and Germany (a \$46 billion deficit). But the second development – successful US pressure to open up public sector monopolies in Europe and elsewhere – created conditions leading to a re-run of the US deregulation dynamic in those newly opened markets. For how could a public firm with obligations to cross-subsidise various activities for social welfare purposes, with an inability to impose wage discipline on its civil service employees, let alone to fire them, and with constant political pressure to buy from local suppliers rather than seek global standard equipment ever hope to compete with private firms that had shed these various restraints?

Somewhat like regulated US firms, these state owned firms faced a trilemma: they could continue to price at a level that included their “regulatory” costs, and thus lose market share; or they could price at market levels, run at a loss and try to balance their books by seeking subsidies from the finance ministry; or they could opt for privatisation. Even when these state owned firms preferred some combination of the first two options to the third, deficit minded finance ministries and local consumers of services pushed for deregulation and if not privatisation, at least commercialisation. The European Union’s Single Integrated Market reinforced these trends. Consequently the security of breadwinner male employment in the service sector evaporated in ever-hotter competition in service sector markets.

Just as Asian competition destroyed male breadwinner employment in the bottom half of the manufacturing market, deregulation destroyed breadwinner employment in much of the service sector. But as with Asian competition, disentangling “domestic” and “global” causes for the erosion of social protection is impossible. Similarly, the collapse of the US version of service sector regulation had endogenous causes. Deregulation in the United States arose in part from the weakness or incompleteness of its form of post-war social protection – publicly regulated but privately owned utilities created a space in which unregulated competition could emerge. In this sense deregulation was a purely domestic affair. But the export of US deregulation owed much to declining US competitiveness in global manufacturing markets, and did much to bring down service sector-based social protection in other economies.

### *Bringing women back in*

The third source of stress on post-war welfare states was a once-only re-integration of married women, and especially married women with children, into formal labour markets. The re-integration of national markets through increased FDI and trade (i.e. globalisation) increased the returns to education in ways that favoured labour market re-entry by married women at the same time that married women began to desire employment. Voluntarily or involuntarily, women surrendered the social protection afforded them by breadwinner male wages and exposed themselves directly to labour markets. From 1970 to 1996, the average rate of female labour market participation in the OECD rose 15 percentage points to 63 percent.<sup>3</sup> There was of course substantial variation, with the Scandinavian and Anglo-economies seeing 20 percentage point rises off already high bases, while the continental economies saw roughly 10 percentage point rises off lower participation rates. Meanwhile the average level of male labour force participation in the OECD fell from about 90 percent to 83 percent, 1970-96.

One understanding of the effects of rising participation by married women is that it pushed men out of breadwinner occupations at the top of the income ladder, for example as families composed of two doctors replaced two families headed by male doctors. From 1970 to 1990 women’s share of enrolments in US professional schools rose from 10 percent to over 40 percent (Goldin and Katz, 2000, p 39), and from 1970 to 1993 the share of dual-income US families rose from 39 percent to 61

percent (Winkler, 1998, p 42). But this understanding clearly is wrong. First, the aggregate weight of these professions is too small to account for the prolonged and substantial fall in wages, employment, and hours for US males in the bottom two or three income deciles. Second, female penetration of manufacturing sector, particularly the unionised assembly line parts of manufacturing, was limited in relation to the more substantial contraction of manufacturing jobs that occurred in this period. Finally, most of the professions experienced substantial growth as the economy shifted away from manufacturing and agriculture and towards services.

In fact, an analysis of the American labour market shows that women in dual income marriages or relationships at the top of the income ladder typically work fewer hours per week than those at the bottom (Winkler, 1998). Coupled women at the bottom of the income distribution are not only more likely to be working full time than their counterparts at the top of the income distribution, but also more likely to be working more hours than their male partners. Thus in the United States, 57 percent of working women married to men whose wage was in the first quintile earned an hourly wage higher than their husband’s, as compared to only 7 percent of women married to men with wages in the fifth quintile, and 31 percent of the women in the first group earned 50 percent more than their husband (Winkler, 1998, p 46). On an annual basis – a necessary adjustment given how many women work part-time – the disparity is much the same, reflecting the reduction in working hours for men in the bottom quintile.

What do these trends mean? Two things are relevant to the argument about globalisation. First, the destruction of male breadwinner jobs in the bottom half of the income distribution through increased trade and increased inward FDI coincided with a shift of employment away from manufacturing and towards services. But men did not benefit much from this shift. Rather, women did. We may speculate that the higher emotional and social intensity of many service jobs favoured female job seekers, and it is also certainly true that the part-time and “flex-time” nature of much service sector employment comports better both with some women’s needs and with the gendered image of women as secondary income earners in families. Whatever the reason, the market for service sector employment favoured women, allowing the huge increase in would-be working married women to find jobs.

The second factor relevant to the discussion of globalisation concerns the returns to education. On the demand side, women had to confront the fact that they could no longer depend on men as reliable wage earners or marriage partners. But it is also true that their own increased rate of higher education not only permitted them access to a much broader range of jobs than before, but also at much better rates of pay than before. Competition with imports manufactured with low wage labour, and

<sup>3</sup> Separate data for married women only are not available. So the figures here and below understate the shift in married women’s labour market behaviour.

the increased salience of inward FDI in all OECD economies, shifted the demand for skilled and credentialed labour upwards. Women were well positioned to take advantage of this shift in demand, because women’s rates of higher education had not only equalized with those of men in most OECD countries by the 1980s, but by the 1990s substantially exceeded those for men in many countries (Jönsson, 1999, pp 4-5). In the United States at least, increased higher education for women translated into substantially higher pay. Female college graduates saw their earnings increase by 20 percent 1979-95, in contrast to the 17 percent decline for male high school graduates (Freeman, 1999, p 23). Female high school graduates meanwhile saw only a 4 percent decline in earnings.

Although there are no comparable data for European trends, I will note two conflicting trends. First, women in female dominated occupations in Europe tend to be more highly educated than men in those same occupations, and in general in Europe the proportion of university educated employed women aged 25-39 was higher at 26 percent than for men, at 22.5 percent (Jönsson, 1999, p 3). Female rates of higher education are lowest in some continental European countries with the lowest female labour market participation, and highest in the Scandinavian countries, where robust public service sectors and resistance to foreign guest workers mobilized women early. This suggests that rising returns to education caused in part by “globalisation” trends have pulled women into the market everywhere. On the other hand, during the 1990s public sector pay was stagnant or declining in real terms in most OECD countries, including some with the fastest rates of growth female labour market participation, like Australia or the Netherlands. The same politics of “globalisation” drove privatisation of public sector utilities and the effort to introduce market and wage disciplines into the rest of the public sector in the 1990s (Schwartz, 2001). So globalisation conceivably had contradictory effects on labour market re-entry by married women.

Finally, women’s labour market entry was a self-sustaining process. Not only was it assisted by one part of the welfare state – education – but it also created demands for expansion of other public and publicly subsidised parts of the welfare state like child and elder care. It created demand for more private services. And these services were typically staffed by more women. In this sense, globalisation – the expansion of labour markets into part of the female population – created demand for an expansion of the formal welfare state, and indeed could not have occurred in the absence of the formal welfare state.

## Conclusion

Thinking about the welfare state more broadly, as social protection, and thinking about globalisation as the age old process by which markets based on competition and accumulation has come to dominate more and more facets of life and more and more economic activities allows us to recast the debate about globalisation and the welfare state. Rather than seeing globalisation and welfare state change as separate phenomena that are necessarily opposed, we can see the ways in which the older round of globalisation before World War I triggered demands for social protection when markets collapsed. We can also see how dynamics endogenous to the provision of post-World War II social protection created some of the processes later perceived as a new round of globalisation.

The post war system of social protection rested on three fundamental restrictions on markets. Women were restrained from labour market entry. Markets were banished from much of the service sector, particularly infrastructure services. International trade in services was highly regulated, and trade in manufactures liberalized only gradually. All three constraints on the market created breadwinner employment for males. To this states certainly added large measures of social assistance and public health and education services. But breadwinner wages in the bottom half of the male labour market created enormous incentives to go to low wage manufacturing sites. Limits on trade in manufactures encouraged competitive OECD firms to invest in target OECD markets. And the very liberality of education provision created a new generation of women whose potential earning power was very high. The system of post-war social protection thus ironically undermined itself in various ways.

By definition, once those restraints on the market began to break down, social protection began to dissipate. States made markets in what had been regulated or publicly owned services, privatised and commercialised public firms, and permitted or encouraged female labour market entry. Breadwinner male employment thus shrank, and with it both old style social protection and its associated, historically unusual, flat distribution of income.

But none of this implies any necessary opposition between globalisation and the formal welfare state. First, and most important, the breakdown of the old system of social protection not only partly arose endogenously from the provision of higher education to women, but also created demands for new forms of social services. Female labour market participation could not have risen without an expansion of direct and indirect public financial support for childcare, as well as reductions in the gender bias of employment protections and tax laws. Second, the

startling rise in male unemployment and male employment insecurity brought with it a marked shift in funding away from passive income support and towards active labour market policies. Third, while there have been massive changes in the administration of welfare, and in the administration and organisation of public sector services, there have not been deep cuts in core social transfers or public services. Pension, health care and education spending continue to rise most places.

Some, like Jessop (2002), might read this as the emergence of some new sort of welfare state, oriented towards schumpeterian growth or the enhancement of competition, and contrasting with the competition (and innovation) stifling nature of post-war social protection. While this is partly correct, it also misreads the nature of the change. First, some of the most highly thought of and redistributive welfare states of the post war period were already schumpeterian by Jessop’s criteria. After all, the golden age Swedish welfare state made strenuous use of the *Arbetsmarknadsstyrelsen* to retrain and re-place the unemployed. Swedish firms, unions and state also cooperated to bring women into the labour market. And until the late 1970s, Swedish public sector infrastructure firms were compelled to run in business-like fashion.

All this suggests that the various levels of formal welfare state based social protection and informal social protection displayed in Europe and elsewhere are reasonably viable in the current global environment. The volume of social protection remains a political question, still largely settled at the national level, and based on local norms about the “proper” level for government budget deficits, women’s “proper” role in the household and labour market, and the “proper” degree of redistribution. The state is necessarily involved in translating these normative beliefs into real programs. Globalisation – the relentless expansion of markets – will continue as a phenomenon, but is both caused by and causes further expansion of formal welfare and the regulation of people’s lives by the state. The answer to the question posed in the title is thus globalisation with welfare.

## References

- Baldwin, P. (1990) *Politics of Social Solidarity*, Cambridge: Cambridge University Press.
- Benjamin, W. (1935) “The Work of Art in the Age of Mechanical Reproduction” in M. Bullock and M. Jennings, eds, *Walter Benjamin: Selected Writings*, Cambridge: Harvard University Press.
- BLS (Department of Labor, Bureau of Labor Statistics). (2002) *Foreign Labor Statistics Homepage*, <http://www.bls.gov/fls/home.htm>.
- Bussemaker, J. (1998) “Rationales of Care in Contemporary Welfare States: The Case of Childcare in the Netherlands,” *Social Politics*, vol 5, no 1, pp 70-96.
- Cameron, D. (1978) “The Expansion of the Public Economy: A Comparative Analysis,” *American Political Science Review* vol 72, pp 1243-1261.
- Cline, W. (1996) *Trade and Income Distribution*, Washington DC: Institute for International Economics.
- De Swaan, A. (1988) *In Care of the State*, New York: Oxford University Press.
- Freeman, R. (1999) “The New Inequality in the United States,” in A. Fishlow and K. Parker eds *Growing Apart: The Causes and Consequences of Global Wage Inequality*, New York: Council on Foreign Relations.
- Goldin, C. and Katz, L. F. (2002) “The Power of the Pill: Oral Contraceptives and Women’s Career and Marriage Decisions,” *Journal of Political Economy*, vol 110, no 4, p 730-771.
- Goldin, C. (2002) “The Rising (and then Declining) Significance of Gender,” NBER Working Paper No. 8915.
- Hay, C. and Marsh, D. eds. (2000) *Demystifying Globalization*, New York: St. Martin’s Press.
- Howard, C. (1997) *The Hidden Welfare State*, Princeton: Princeton University Press.
- Jensen, J. and Troske, K. (1999) “Increasing Wage Dispersion in U.S. Manufacturing: Plant Level Evidence on the Role of Trade and Technology,” in A. Fishlow and K. Parker eds *Growing Apart: The Causes and Consequences of Global Wage Inequality*, New York: Council on Foreign Relations.
- Jessop, B. (2002) *The Future of the Capitalist State*, Cambridge: Polity.
- Jönsson, I. (1999) “Women and Education in Europe” *International Journal of Contemporary Sociology*, vol 36, no 2, pp 145-162.
- Klausen, J. (1995) “Social rights advocacy and state building: T.H. Marshall in the hands of social reformers.” *World Politics*, vol 47, no 2, pp 244-268.
- Maret, E. (1983) *Women’s Career Patterns*, New York: University Press of America.
- Marshall, T. H. (1963) *Sociology at the Crossroads*. London: Heinemann.
- McKinsey Global Institute. 1992 *Service Sector Productivity*, Washington DC.
- OECD. (1998), *Economic Survey: Australia 1998*, Paris: OECD.
- Orloff, A. (1993) “Gender and the Social Rights of Citizenship: The Comparative Analysis of State Policies and Gender Relations,” *American Sociological Review*, vol 58 no 3, pp 303-328
- Pilat, D. (1996) “Competition, Productivity and Efficiency,” *OECD Economic Studies*, #27, vol II, pp 107-146.
- Polanyi, K. (1944) *The Great Transformation*, New York: Beacon Press.
- Rodrik, D. (1997) *Has Globalization Gone Too Far?*, Washington DC: Institute for International Economics.
- Schwartz, H. (2000) *States versus Markets: The Emergence of a Global Economy*, London: MacMillan.
- Schwartz, H. (2001) “Round up the Usual Suspects! Globalization, Domestic Politics and Welfare State Change,” in P. Pierson, ed, *New Politics of the Welfare State*, Oxford: Oxford University Press, pp 17-44.
- Simmel, G. (1900) *Philosophy of Money*, London: Routledge.
- Titmuss, R. (1958) *Essays on the ‘Welfare State’*, London: George Allen and Unwin.
- UNCTAD. (1993) *World Investment Directory 1992: Developed Countries*, New York: United Nations.
- Winkler, A. (1998) “Earnings of Husbands and Wives in Dual-Earner Families,” *Department of Labor, Monthly Labor Review*, April, pp 42-48.
- Wood, A. (1994) *North-South Trade, Employment, and Inequality*, New York: Oxford University Press.