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An Introduction to the Problem

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In the last quarter of the twentieth century, and in particular in its last decade, the global political economy has been profoundly transformed. Democratic governance has prevailed in many countries, at least in the formal sense of repeated democratic elections and accountability of the state to elected representatives. At the same time, more economies have opened themselves to international trade and capital flows, while internally they have adopted a stronger market orientation. These two developments seem closely interrelated. In fact, many see them as two sides of the same coin, as in such formulas as “democratic capitalism” or “capitalist democracy,” which have become common currency in public discourse. How do policies of social welfare relate to these twin transformations of democratization and increasing economic globalization? Can one expect a third transformation to join the first two, adding a growing social welfare component to democratization and liberalization of economies?

Such an expectation is not necessarily a Panglossian fantasy. It can point to at least three broad arguments. First, social welfare policies are indeed correlated with economic growth, so much so that some see the main explanation of their development in the “logic of industrialism”—in sustained economic growth and the attendant social transformations.¹ Second, the classic welfare states of Europe flourished in countries that were wide open to the world economy, and even the most comprehensive European welfare states, the Scandinavian social democracies, represent a qualified version of market-oriented capitalism, not its negation.² Third, welfare state policies have historically been associated with the trajectory

of democratization; it is in fact reasonable to see social democracy as a deepening of a “formal” democracy that is confined to equal rights in the political sphere.³

Yet despite these broadly plausible arguments, there are good reasons to be skeptical of the prospect of a global triple convergence toward democratization, economic globalization on liberal terms, and social welfare provision. Among the richest countries, there are large differences between comprehensive, generous, and universal welfare provisions in some countries and means-tested and rather meager provisions for the worst-off strata in others. The logic of industrialism or of modernization does not explain these differences, though it indicates a favorable and perhaps necessary condition for public welfare provisions of any kind. Democratization may similarly present only an opening for the development of strong social welfare provisions, but not lead with any regularity to that outcome.⁴ And economic globalization on liberal terms is seen by many as the major development hostile to social welfare policy. The inquiry of this project focuses on this last issue—how economic globalization affects welfare state policies.

In order to explore this question, we compare policy developments in several mid-income countries and regions against the background of developments in the comprehensive welfare states in northwestern Europe. These countries and regions include Russia, east-central Europe, Iberia, Latin America, and Korea. We look at mid-income countries and regions because they are rich enough to be able to engage in social policies aiming at social security, while their economies are at the same time plausible candidates for inclusion in the more intense international economic integration we call globalization. We chose a far-flung interregional comparison as a strategy because this maximizes variation in the conditions of interest. Exploring diverse cases in some depth is most suitable for an exploration that goes beyond the very intensively studied classic welfare states. We do not, however, dismiss cross-national statistical research. In fact, the volume opens with a cross-national statistical analysis of the impact of economic openness on mid-income political economies.⁵

Two Views of Globalization

“Globalization spells the end of social welfare states.” This is the most extreme but also quite common view in current public discussion. While many bemoan this prediction, others rejoice in the imminent triumph of the market and the downfall of state-sponsored paternalism. Both sides, however, take for granted that the ever-widening global markets for goods, services, and, especially, capital undercut social welfare provisions. This volume explores the impact of different facets of globalization on national social policy in a more complex way, and it comes to conclusions that contradict the simplistic views still prevalent in much of the current discussion.

The prevailing view portrays globalization as two-sided. On the one hand, it is seen as a marvelous opportunity to increase wealth and well-being worldwide. Using well-established arguments about the benefits of free trade, advocates of economic openness argue that globalization improves economic efficiency by increasing specialization, choice, and competition. In addition, they make a political argument. Once countries open their economies, they face salutary pressures to increase transparency in the market, reduce distortions, curtail economically costly behavior, and advance productivity-enhancing policies. In this view, globalization leads to improved government performance. It penalizes bad government by reducing growth rates. Similarly, it rewards good governments—those that provide productivity-enhancing policies and transparency in economic rules—with improved economic performance.

Yet this neoliberal conceptualization of good governance implies another side of the impact of globalization. Economic globalization strengthens the role of markets and it diminishes the chances of political interventions that are guided by criteria other than profit maximization. It constrains the range of action for states. These constraints lead to the claim upon which our inquiry focuses: economic globalization undermines existing welfare states and obstructs new developments in social policy. Generous social provisions, this view holds, become an increasing burden and a drag on national performance in international competition. Even rich countries can no longer afford the economic burden of bountiful systems of social security. This claim is not uncontested. An alternative view holds that, on the contrary, economic globalization and social welfare policy mutually support each other. And this position can point to a number of critical empirical facts. As already noted, Sweden, Denmark, and the Netherlands, to name but three of the more comprehensive welfare states, have had economies open to trade for well over fifty years. In fact, their social and economic models have long been premised on the importance of exports. Overall, the major development of the European welfare states was concurrent with the shift toward openness that followed the Second World War.⁶ In cross-national statistical research it was found—first in Europe (Cameron 1978), then across a large number of countries around the world (Garrett 1998; Rodrik 1997)—that foreign trade (measured in relation to total production) is positively related to social expenditure. This substantial and stable correlation is only a correlation, but it does stand in the way of simplistic “burden and drag” arguments. And so does the fact that year after year Germany has large export surpluses in spite of the fact that the wage-and-compensation packages of German workers are among the very highest in the world.

Explanations of the correlation found by Cameron, Rodrik, and Garrett typically rely on the concept of risk. Both Peter Katzenstein (1985) and John Ruggie (1982) use the concept of “embedded liberalism,” in which provisions of social security, along with other rules and regulations, reduce the social risk produced by a

commitment to a liberal international trading order. The churning of markets and competition in the tradables sector is made politically sustainable by a welfare and security system that reduces the social impact of risk. Domestic welfare states facilitate liberal international trading orders and reduce the potential for backlashes.

This alternative view holds, then, that the involvement in the international economy instigates social security measures because the internal dislocations created by involvement in international markets have to be compensated if continued international involvement is to be politically viable. That idea has a long history. Karl Polanyi (1957/1944) pointed to the tension between social stability and international openness of the economy in his seminal study of the “great transformation” of competitive global capitalism. Extending Polanyi through the postwar period, Rieger and Leibfried (2003) argue that globalization in advanced postwar societies was made possible by the welfare state.

Current versions of this position often go beyond the claim that social security makes economic openness sustainable. The social democratic governments of Europe embrace economic openness as a means to create the wealth that underpins generous welfare states. Participation in the global economy is valued by both sides in this debate for much the same reasons: it enhances productivity, it pressures public policy toward greater effectiveness, and it makes goods, services, and capital available at lower costs.

The discussion on globalization and the future of welfare states, then, is informed by two broad, competing hypotheses, which have been called the efficiency and the compensation hypotheses. Are these competing claims really contradictory, or could they be compatible with each other, valid under certain and not other conditions? In order to begin answering that question, it is useful to look into the causal mechanisms, the more specific hypotheses that are claimed by each of the master hypotheses.

The compensation hypothesis points to the dislocations and tensions that are created by involvement in a market that is beyond the control of most national governments. It assumes that—more often than not, but not inevitably—compensatory policies will come forth. Beyond pointing to politics as a likely response to dislocation, tension, and conflict, however, this view leaves open how problems are anticipated or made politically visible once they do occur; how strong the political forces are that respond to them; which policies will be proposed, enacted, and implemented; and even whether any responses come forth at all.

We can identify another causal mechanism, which grew in importance as modern welfare states became economically successful, when we realize that social welfare provisions are not just luxuries one can afford nor conditions that make economic openness feasible, but that they constitute conditions that enable and enhance productivity. This is obvious for education and training programs, but it

also holds for the provision of health care and for measures that enable women to work outside the house, as well as for a variety of measures that reduce inequalities by class and gender in the access to enabling institutions. Recent work on cross-class coalitions and business support of the welfare state (Swenson 2002; Mares 2001; Martin 2000) casts serious doubt on earlier views in which business was assumed to be uniformly hostile to welfare provision. Nonetheless, the question remains open of when and how different forces and parties act on the insight that social welfare can enhance productivity.

It is clear that the compensation hypothesis leaves a good deal of detailed causal issues open. To a large extent, this is the case because it points to interactions of external forces with a variety of domestic factors that favor or hinder social policy developments and that shape the particular form social welfare provisions take.

The efficiency hypothesis claims that economic globalization places strong downward pressures on social welfare policy through a variety of mechanisms. The first argument, as already mentioned, is that trade competition puts pressure on social expenditures that increase costs and leave products less competitive in international markets. The decline of transportation costs and the spread of technology have given rise to low-wage competitors in the developing world. Globalization thus unleashes downward spirals of social provision as countries compete with one another not through the upgrading of skills and infrastructure (which, after all, takes time and resources to bear fruit), but rather through the lowering of tax rates and social benefits.

Yet the claim that international trade competition inevitably favors countries with low wages and low social provisions and thus exerts severe downward pressures on social well-being cannot be sustained without heavy qualifications. Although there is some evidence for low-wage competition in the third world leading to the loss of jobs in particular sectors of the advanced industrialized economies, wage-level comparisons ignore the crucial measure, which is productivity. To put it differently, what counts are not wage costs per hour, but rather their share in the costs per unit of production. And whether the high wages are mostly individual payments or contributions to collective entitlement systems is irrelevant for the price and quality competitiveness of production. For these reasons the high-skill, high-wage, and high social welfare policies of countries like Sweden, Germany, and France remain clearly feasible in the current world economy.

However, at similar levels of productivity, countries and regions can engage in competitive underbidding, and they may not only succeed in gaining a larger share of trade but may also—in the longer run—attract more outside investment by constraining wages and public social provisions. This has long been a concern among the North American states, where union busting as well as tax breaks and other benefits are often important tools in the competition to lure large corporate

investments. The current attractiveness of the United States and Britain for international capital investments may rest on similar grounds. Such social underbidding, however, works only if it goes along with strong conditions for productivity. Targets with higher levels of productivity will remain immune to such competition. In the long run, then, success in international trade requires a continuous upgrading of productivity. This applies also to middle- and lower-income countries, as there is always a lower-wage competitor.

Increased capital mobility may have a greater impact on social welfare policies than increasing trade competition. Overall, it enlarges the power of capital vis-à-vis both labor and national governments. Because capital is now footloose, finding it easy to invest in other locations, it carries with it the power to exit. Unless labor and national governments acquiesce to its demands, investment is likely to occur elsewhere.

There are also a number of specific ways in which greater capital mobility is claimed to rein in the space for governmental action, including the room for policies of social welfare. Thus, capital mobility is said to put constraints on macroeconomic demand management in a single country;⁷ it is also likely to impose limitations on divergent levels of taxation and, consequently, on public expenditure; and it is expected to homogenize interest rates internationally, thus eliminating lowered interest rates for special purposes as a domestic policy instrument. Yet on current empirical evidence, some qualifications seem warranted: the evidence on the homogenization of global capital markets and consequently of interest rates is far from clear-cut; levels of taxation still differ dramatically across countries, though there have been major adjustments in the highest rates of income taxation, and there continue to be great differences in the patterns and amounts of public expenditures (Swank 1998; Ganghof 2001).

Many see the spread of neoliberal economic policy ideas as another causal mechanism that undercuts social welfare policies. This acquires special importance when these ideas are advanced with the leverage of creditors. Under such circumstances, changing social policy (almost always in a downward direction) becomes a condition for the restructuring of debt.

In the attempt to assess the two master hypotheses, it is important to keep in mind the whole range of factors that affect social welfare policy. Efficiency considerations in international competition and political moves to compensate for the dislocations created by international market developments do not exhaust this range of relevant conditions.

The literature on the rise of welfare states points to such other factors as the level of economic development; new needs created by changes in family and household patterns; changing age structures of the population; and the capacity of government to take on complex tasks of planning, information gathering, taxation, administration, and service provision. This research has also revealed how

welfare state policies build on inherited social patterns established in the past. Thus, state-society relations that may have established an earlier service orientation of the state will shape later social policy, and the same is true of the earlier role of the state vis-à-vis the economy and resultant patterns in the relations between state, capital, labor, and other socioeconomic groupings. Finally, one line of reasoning has acquired a special salience in the analysis of welfare state development; this assigns overwhelming importance to the balance of class power when explaining major differences in the social welfare policies of economically advanced countries.⁸

While our discussion focuses on the consequences of external economic relations for social policy, it is quite clear that these interact with the domestic factors that have been the object of most research on welfare states. The development of social policy cannot be understood in isolation from the most important domestic factors. For example, the balance of power among social and political organizations representing dominant and subordinate classes will be a major determinant of how a country responds to dislocations imposed by the workings of international markets. And the ways in which an existing system of social security is grounded in popular expectations and institutional structures will make it more or less resistant to attempts to reduce social provisions due to international pressures as well as endogenous difficulties.

Our Strategy of Inquiry

Our project explores both of the alternative conceptions about the relation between economic openness and social welfare policy. We anticipate that there is a great deal of variation in the degree to which globalization places pressures on, or provides opportunities for, the development of social policy in middle-income countries. For this set of political economies, neither the efficiency nor the compensation theory, we expect, will hold all the time. Rather, the relationship between globalization and the provision of welfare depends crucially on the strength of various domestic forces; on the ways in which state, economy, and society are interrelated; on the patterns of established social provisions; and on the particular place of a national economy in the international economic system.

Our main strategy for this exploration is a cross-regional comparison of developments over a substantial period of time. This allows us to examine a wide range of conditions along three lines of interest—the place of a country in the international economic environment, its social policy history and the underlying domestic forces and institutional patterns, and the impact of economic openness on social welfare provisions.

We open this book with a chapter that explores the two master hypotheses in

cross-national statistical fashion. We are convinced, however, that the intensive exploration of national trajectories under very different conditions can yield important insights of its own. The two methodological approaches complement each other in important ways. Causal tracing in particular case histories may throw light into the often opaque results of sheer correlational analysis, while a wide-ranging quantitative analysis prevents generalizations from one or a few cases that may be misleading even if they are based on very detailed and careful analysis.

We will look at developments in middle-income countries in five different regions of the world. We begin, however, with an examination of how globalization has affected highly developed and well-institutionalized welfare states. The well-studied features of the classic European cases—their insertion into the global economy, their institutions and political forces, and the trajectories of their social policy developments—will serve as a comparative baseline for the examination of the much less studied cases of the middle-income countries.

Overall, the experience of northwestern Europe is strongly at odds with the view that globalization undermines the welfare state. This region of the world contains both the most developed welfare states and exhibits the highest degree of integration into the world economy. The high level of social spending does not predate economic openness but rather developed during the liberal trade regime instituted after World War II, and this dramatic expansion of public social provision went together with very high rates of economic growth. On balance, then, the northwestern European welfare state is not only compatible with globalization but has even thrived because of it.

If certain forms of economic globalization, such as the increase in capital mobility, do indeed constrain social policy, social provisions, once established, tend to enjoy broad-based support in society. This puts a political premium on maintaining social welfare systems and makes retrenchment of social spending politically difficult.

The welfare states of northwestern Europe certainly face pressure for change. But, as Paul Pierson (1998), among others, has argued, the main sources of pressure are domestic, not international. Technological change, the transformation of gender roles, and, above all, the aging of the population entail far greater constraints than international openness. Even where globalization does exert downward pressure, politics generally acts as a counterweight.

The main body of our analysis focuses on middle-income countries in five regions: Latin America, southern Europe, east-central Europe, the Russian confederation, and East Asia. These countries offer particularly strong insights into the nexus between economic openness and the viability of social welfare policies. Many have levels of GDP per capita at which the older welfare states embarked on social policy development. At the same time, these countries are now—through

various pathways—candidates for inclusion in a more open global economic architecture. Unlike northwestern Europe, where economies have long been open, most of these middle-income countries have only recently opened their borders wide to the global economy. Many of the Latin American and southern European cases emerged late from policies of economic autarchy and import substitution industrialization. Trade in the formerly Communist countries of Eastern Europe was, of course, highly managed and largely restricted to the COMECON members. For the East Asian cases globalization is also new. Although these countries' dragonlike growth rates have been predicated on exports, their domestic economies remained highly protected against trade competition. And until recently capital flows were very restricted.

Although all of the middle-income countries we examine are now formally democracies, the quality of that democracy varies greatly. In particular, they differ in their internal balance of power, a feature that figures prominently in explanations of the rise of the European welfare state. The question thus arises: does the same logic that allowed the northwestern European states to develop their welfare states as they became more integrated into the international economy following World War II also apply to middle-income countries opening their economies today? Alternatively, is there something different, either about the international economy and a country's place in it, or about the domestic politics of these middle-income countries, that precludes a trajectory similar to that of northwestern Europe?

Social policy developments in these countries and regions are not only compared to the comprehensive northwestern European welfare states, though the features of welfare state development in Europe inform the theoretical framework we developed for the examination of the different cases. It is equally instructive to compare the different regions one to the other. They differ in important ways from one another and at the same time display significant internal variations. While all of them have opened up to the global economy, policies of social protection face very different problems in each of the countries involved.

A comparative analysis of these regions, then, yields results that are significant in two ways. First, it gives factual insights into and a deeper understanding of social policy developments in these countries of medium wealth located largely outside the power centers of the world. Second, and perhaps more important, interregional and intraregional variations can be exploited for inferences about the impact of different facets of globalization on national social policy as they interact with different domestic conditions.

To anticipate the broad results of this inquiry into the impact of globalization on welfare policies, it challenges the stark neoliberal view that economic openness uniformly reduces social welfare measures to a minimum or even renders welfare state policies impossible altogether. Different regions and different countries

within regions illustrate important contrasts—in the impact of globalization, in the political responses, and in the economic structures and past policies that shape the political options.

A Theoretical Framework

Before introducing the structure of the volume and the contribution of individual chapters, we will spell out the theoretical framework developed for the volume as a whole. Following a brief delineation of what we mean by social welfare policy, this framework consists of three parts: (1) a conceptual clarification of what is meant by globalization, which also includes an initial assessment of possible and likely consequences of its various aspects, (2) a preliminary identification of the characteristic features of the northwestern European welfare states that made them relatively immune to possibly corrosive effects of globalization, and (3) the specification of a counterpart list of conditions that may make other countries more vulnerable.

Social welfare policy is a concept that has been variously defined. For this largely exploratory study, we want to keep it a broad and encompassing concept. We do not, however, impose this broad meaning on all country inquiries; in certain cases it may be too wide a lens. Many narrower definitions focus on transfer programs that protect against the economic risks of illness, disability, unemployment, old age, and insufficient income for other reasons. Broader definitions include public provision of health-enhancing measures, education, and institutions that enable both men and women to join the labor force. And yet broader conceptions include government action to secure employment opportunities for all who seek employment and policies that seek to limit economic inequality.

Conceptualizing Globalization

Globalization is an overused and overly broad concept that is obviously in need of differentiation. We restrict our analysis to economic forms of globalization and distinguish among five aspects:

- Expanding international trade in goods and services
- Expanding international capital flows
- An increasing internationalization of production through transnational corporations and global commodity chains
- A growing role of international organizations such as the World Trade Organization, the World Bank, and the International Monetary Fund
- A greater transnational flow of economic ideas

By specifying these elements of globalization we give the term analytic precision. Considering them separately makes it possible to identify different causal mechanisms through which globalization may affect welfare state policies.

Current trends toward globalization have to be seen in a historical and comparative perspective. As Robert Wade (1996) and others have shown, today's economic interdependence is historically not altogether unprecedented. Furthermore, the international flows of capital and goods and services are largely concentrated in north-north exchanges, and if one neglects certain borders (for example, the national borders within the European Union), the picture of international economic interdependence becomes substantially more modest. Yet neither of these qualifications is meant to negate the existence of a powerful reality. Even for the economies of the established welfare states, cross-border trade and international capital flows have never been as large. And although trade and capital flows in middle-income countries represent only a small proportion of trade and capital flows worldwide, these often loom large for the national economies involved.

Many have seen economic globalization as a trend that marginalizes states. Yet economic interdependence—whether at the national or international level—requires the underpinnings of legal guarantees and regulations. The bulk of this required institutional infrastructure for economic globalization is still provided by national states—either directly or indirectly—through bilateral and multilateral cooperation. That means that surges in such interdependence are not simply inexorable processes immune to collective decision making, but are based on political decisions. This is important to emphasize against simplistic ideas that see globalization as an autonomous development that makes national states obsolete. Of course, national states vary dramatically in power, and there is no question that the current surge of globalization is shaped disproportionately by the United States; but other governments, including those of a number of middle- and low-income countries, did participate in advancing economic interdependence. That said, however, it is equally important to recognize that the new role of transnational corporations and the growth of multilateral institutions at the center of today's global economy are indeed changing the balance of power in the international political economy.

The international exchange of goods and services is in principle an important instrument of specialization, choice, and enhanced productivity. The ancient claim of classic economic theory is fundamentally right: If different countries and regions specialize in production in which they have a comparative advantage, consumers in all of them will be better off. An almost equally old qualification holds that this is a static view and that some insulation of “infant industries” from international competition may permit new productive capacities to be developed to the point where the comparative advantage of a country is moved to a higher level. This qualification is valid as well, though there is no guarantee that such protec-

tion will actually lead to an upgrading in efficiency rather than result in a rental haven for inefficient and wasteful production. International competition in goods and services among countries with very different systems of labor rights and social security can harm the more generous systems of social provision unless these are associated with compensating productivity advantages. Even if all things go well, the dynamics of market-driven industrial change create not only winners but losers as well. These dynamics exacerbate existing social risks and create new ones. In the classic conception of welfare state advocates, openness to international markets for goods and services increases productivity as well as risk, rendering social welfare measures both desirable and feasible.

Most economists embrace greater mobility of capital across international boundaries as another important enhancement of productivity. Other things being equal, economically worthwhile projects have a better chance to attract capital investments, even if they are located in countries or regions with a weak capacity for savings. For them, attracting capital becomes less costly. For capital owners, including pension funds, investments become more profitable. Yet there are two problematic aspects of greater capital mobility. The first is the potential volatility of capital inflows and outflows, which can leave in sudden ruin economic developments that were built up in years. The speedy recovery of many (though not all) East Asian countries from the financial crisis of 1997–1998 must not conceal the fact that these countries suffered a blow that was comparable only to the impact of the Great Depression on economic and social life in Europe and the United States.

The other problematic side of dramatic increases in capital mobility is a matter of power. As noted earlier, owners of mobile capital gain a significant power advantage over labor and governments, which can be turned against generous social welfare provisions and used as leverage against unwanted taxation. (And there is some evidence that this leverage is actually used.) True, they may prefer not to exercise their exit option because of the productivity advantages often associated with these provisions as well as with good government; but the shift in power is real nevertheless. Greater capital mobility may, in particular, constrain a political use of capital that is guided by criteria other than profit, and it may limit other tools of economic and social governance as well.

Transnational corporations and stable production chains linking locations in different countries raise some of the same issues as expanding international trade and increased capital mobility: deepening international division of labor, the spread of technology, the potential for enhanced productivity versus the charge (and often the reality) that the export of production is driven by the chance to exploit weak labor in poor countries. What sets transnational business firms and coordinated production chains apart is their corporate character and the power international companies often derive from their market position. What in the textbook of

international trade is the impersonal functioning of the market mechanism here takes on the shape of identifiable actors with considerable power of command, often enhanced by market dominance. Transnational companies may hold great power over significant parts of a country's economy and labor force as well as the government, though the residual power of even weak and inefficient states dealing with them is often too radically discounted. The relation among transnational companies and their host countries and countries of origin—and thus the impact transnational companies can have on national policy—seems highly contingent on varying economic and institutional factors.

At the multilateral level, the surge of economic interdependence after the Second World War found its institutional embodiment in the international financial and trade organizations initiated by the Bretton Woods agreements—the IMF and the World Bank, as well as the GATT, which turned later into the WTO. These are supplemented by regional organizations.

International organizations deserve special attention because they are in effect an embryonic supranational state structure without democratic control and legitimation. At the same time, they pursue a particular conception of the right economic order and back this pursuit by legal decisions as well as the granting or withholding of credit. The credit decisions of the international financial institutions (IFIs) gain further significance as many private banks take their cue from actions of these multilateral institutions. The U.S. government has a disproportionate influence on the orientation of the IFIs. Polemic against the “Washington consensus” may stereotype the content of that orientation and exaggerate its stability over time, but this rhetoric identifies the American influence quite accurately.

As the institutional embodiment of globalization, the IMF, World Bank, and the WTO have become focal points in the discussion about globalization. Many argue not against economic globalization per se, but against the particular form of globalization for which the IFIs stand. Their conception of globalization has come under attack for having a monetarist bent; for penalizing deficit spending, often at the cost of investment in skills, health and infrastructure; for not taking environmental concerns into consideration; and for exposing countries to damaging and unnecessary volatility by pressuring them to liberalize capital mobility. More immediately relevant to our inquiry is the critique that their conception of globalization pays little or no attention to labor rights and social security provisions. In contradistinction to this model of globalization, it is argued, stand other models that do pay more attention to social welfare rights. These include the development models proposed by the United Nations Development Program and the International Labor Organization.

The IMF comes under particular attack from the foes of globalization. However, the functions that the IMF plays are vital and necessary to any conception of

a working global market. International lending, a lynchpin of a global market, would collapse if nothing were done to repair balance of payment difficulties and if borrowers who find themselves overexposed were free not to repay. It is also necessary to combine bailouts with conditions lest a premium is put on further unrealistic lending and borrowing. But the content of these conditions is subject to debate. To what extent do they protect lenders more than borrowers, and in what measure are the conditions inspired by political preferences that are not required in a more neutral perspective? Furthermore, the causes of the need for assistance make a difference; mistakes and mismanagement in economic policy are different from exogenous shocks such as the contagion effects of financial crises or the temporary decline of commodity prices.

The transnational flow of economic ideas is clearly intertwined with the other features of globalization, especially with the growing importance of transnational corporations, with the relations of political, economic, and cultural dominance and subordination, and with the role of multilateral institutions, some of which—such as the OECD—focus their efforts on the production of economic knowledge and advice. Keynes may have overstated the case when he claimed that “the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly assumed”; but there is little doubt that a major component in the current surge of economic interdependence is a “triumph of neoclassical economics in the developing world,” as Biersteker puts it.⁹ Though it is possible to point to a number of conditions that favored neoliberal ideas, the genesis of their current hegemony is far less well understood than the conditions and bases of social democratic ideas that became the basis for social welfare policies during the last century.

Mature Welfare States

An analysis of northwestern Europe’s experience informs the theoretical design of our inquiry into the effects of globalization on social welfare policy. The welfare states of northwestern Europe have proved to be largely immune to the negative effects of globalization. Indeed, many have argued for a positive correlation between the degree of economic openness of this region and its high levels of social protection. It is true that this relative immunity is not guaranteed to extend into the future. But the past record is valuable as a point of reference. Previous research on northwestern Europe suggests a list of features relevant to these polities’ insulation from the negative impact of economic globalization. This list of factors follows.

A prolonged and high integration into the world market. European economies turned toward openness following the end of Second World War. In large measure an attempt to avoid future war through the creation of economic interdepen-

dence, this turn toward openness was represented politically in the creation of the European Coal and Steel Community (ECSC), the Common Market, the European Union (which grew out of it), as well as the European Free Trade Association (EFTA). But economic openness was by no means limited to Europe. As trade and economic integration rose, after the low levels imposed by the protectionist policies and embargoes of the Great Depression and the Second World War, the systems of social provisions grew and matured.

Success and “orthodoxy” in fiscal and international trade policy. Most comprehensive welfare states developed in countries that managed fiscal and trade policy well. Balance of payments deficits were rare, and, more recently, budget deficits have been reduced. This has two important consequences. First, the end of Keynesianism, which is generally seen as a consequence of globalization, has a much smaller impact on the viability of these countries' welfare states than is commonly assumed. Although the concept of the Keynesian welfare state captures important features of the postwar political economy of Europe, the concept describes two linked but fundamentally distinct sets of policies. The welfare state is not ineluctably tied to a Keynesian macroeconomic framework, as the stability and in some cases expansion of the welfare state since the adoption of a monetarist framework attests. This is not to argue that the end of Keynesianism was unproblematic for the welfare state. Certainly, many argue that the unemployment problem that has beleaguered Europe has been largely aggravated, if not caused, by an overly restrictive monetary policy.¹⁰ Nonetheless, the demise of Keynesianism has been much less inimical to the welfare state than predicted. The second consequence of orthodoxy is that it makes it unnecessary for a country to go to the IMF for conditional help and it reduces a country's vulnerability to speculative attacks on its currency.

High productivity economies supported by the welfare state. Generous social benefits are an integral part of the highly skilled and highly productive economies of northwestern Europe. These high tax regimes promote increases in productivity in two important ways. First, the high cost of labor and taxation forces employers to invest in high-productivity employment. Second, the welfare state directly provides, and is accompanied by, policies that produce a highly skilled labor supply.

A balance of class power, political constellations, and coalition opportunities favorable for social policy. The mature welfare states of Scandinavia and continental Europe have strong labor or social democratic parties, along with Christian Democratic parties that support social solidarity, even if with different emphases. By contrast, liberal or free-market parties remain weak in these countries. Left-wing parties that are pro-welfare but anticapitalist and against economic integration are weak, but have been able to keep issues of social equity high on the agenda. Strong union movements, with relatively high degrees of unionization and politically supported extensions of collective bargaining results to whole industries, provide an important underpinning for social welfare-oriented politics.

Popular expectations based on past experience—the “naturalization” of social provisions. **Once provided, social benefits are popular and hard to remove. The relative failure in the 1980s of Thatcher and Reagan in dismantling the welfare state represents clear evidence of the difficulty in ending these programs (Pierson 1996). In the 1990s the collapse of multiple French and Italian governments following popular demonstrations over social security reforms further reinforces this conclusion (Levy 1999). Because of their peculiarities, the cases of Australia and New Zealand, where serious erosion of social provisions did take place, are likely to remain exceptions (Schwartz 2000).¹¹ Where provided on a universal basis, as is often the case in northwestern Europe, social programs enjoy very broad support and are all the harder to remove or even to modify significantly. From one point of view this appears as a rigidity inherent in comprehensive systems of social security; from another it indicates that welfare states create and re-create their own very strong political foundations.**

Grounding of welfare state measures in established institutional structures. **Welfare states exhibit great continuity not only because they are popular. They are also deeply embedded in a multitude of institutional structures, ranging from public bureaucracies to private interest groups, service organizations, churches, and universities. Analytically separate from the aggregation of individual interest as measured in surveys probing the welfare state’s popularity, this grounding in institutions significantly helps to account for the welfare state’s durability. These institutions shape underlying preferences, affect interests, provide constituencies, increase the number of stakeholders, influence the policy process, and transmit values across generations.**

State capacity for policy innovation and adaptation. **The rise of a highly skilled and professionalized welfare state civil service, along with considerable monitoring by and dialogue with academic experts and nongovernmental organizations in civil society, make it possible for the state to design and implement new policy and to evaluate old ones. One of the hallmarks of the European welfare states is that they have not remained static, but have adapted to new social and economic challenges. The provision of daycare, the shift from a passive to an active labor market policy, the array of policies targeting social exclusion, and the introduction of long-term care provisions in Germany all constitute examples of the welfare state’s responsiveness to new and evolving social risks. Increasing international contact and international research allow for transnational policy learning and adoption.**

Secure political standing in interstate relations and immunity from the prescriptions of international financial institutions (IFIs). **The combination of wealth, prestige, good governance, and the successful managing of the external account provides these countries with considerable autonomy from IFIs and an influence in international relations that is frequently out of proportion to their economic and military**

power. Since they do not need to go to the IMF, these countries are not subject to the conditionality of its loans.

Overall, these countries have developed successful varieties of capitalism that represent alternatives to the dominant neoliberal thinking. Even though the latter has had considerable political appeal, the countries' politics are marked more by continuity and adaptability than by a search for radical change.

Social Welfare Development in Middle-Income Countries

The favorable conditions found in northwestern Europe can be inverted to arrive at features of a country's place in the international scene, of its domestic social forces and institutions, and its trajectory of economic and social policy, all of which create openings for a stronger impact of globalization. In the other regions under study we expected to find one or more of these features. Yet we did not assume that variation in any one of these dimensions would by itself lead to a strong negative impact of economic openness on social policy.¹² We consider both the previous and the following list as theoretically meaningful orienting devices, not as definitive hypotheses about the impact of economic globalization on the chances of social welfare policy.

New or unsuccessful integration into the world economy. The disruption produced by opening a previously protected market to world trade is obviously larger than that experienced by a country with a long history of trade. For example, wrenching change was produced in each of the following cases: abandonment of policies of import substitution industrialization, the opening of the economies of Australia and New Zealand beyond the privileged relationship with the United Kingdom, or the opening of Communist economies to both the market economy and international openness.

Past dependence on credit beyond repayment capacity; "conditionalities" for credit restructuring. Many of the middle-income countries have experienced debt and balance of payments problems, leading frequently to IMF intervention. This not only entailed a loss of policy-making autonomy, but enhanced the influence of policy inclinations that gave little weight to socially weaker interests. In Latin America, the problems of debt restructuring, which arguably strongly favored lenders over borrowers, were particularly severe, resulting in the "lost decade" of the 1980s. The severity and duration of credit problems and the degree to which IMF conditionalities are adhered to, however, vary greatly.

Competition on the basis of low skill/low wage production. Without the virtuous circle of a high-productivity and high-wage economy, many middle-income countries compete on cost. Without concomitant improvements in productivity, welfare state measures may be viewed as burdens that reduce a country's competitiveness.

Less supportive domestic balance of class power and political constellations. A smaller industrial working class, weak and competing unions, or unions tied by arrangements of patronage to conservative political parties reduce the political power of the workers' movement. In marked contrast to the rise of the European welfare state in the 1950s and 1960s, the power of organized labor in today's middle-income countries is substantially reduced by large informal sectors, high unemployment rates, divided labor movements, and neoliberal economic reform.

Problems in the functioning of new democracies and authoritarian legacies. The relationship between constitutional structure and the prospects of social policy is complex. Authoritarian governments may engage in welfare policy in order to prevent a push for democracy under left-wing auspices (as in Imperial Germany). But their legacies often constrain welfare state development.

These legacies are of two principal kinds. The first concerns the heritage of a weak civil society. Poor educational structures, impaired unions, restrictions on freedom of the press, and suspicion of reformist or pro-poor politics as leftist or proto-Communist, occur to different extents in different countries, limiting the mobilization of progressive groups and the political salience of social issues. A frequent second legacy is the economic record. Although authoritarian governments often rested their claims to legitimacy on a combination of order and economic growth, their exit from power often comes at a time of either recession or the exhaustion of their economic model. Thus, the transition to democracy often occurs at times of economic strain, providing few windows of opportunity for welfare state development. Dealing with debt or reducing inflation often become the main items on the economic agenda of new democratic governments, pushing issues of social reform and equity down the ladder.

Many of the new democratic regimes are themselves highly imperfect. Personal politics, weak legislative bodies, and overconcentration of authority in the executive branch characterize a high number of these new democracies. Deadlock between parliament and the president can lead to policy paralysis (Russia). Alternatively, an overly strong executive can overcome parliamentary reservations and implement far-reaching neoliberal reforms (Argentina). In either case, social policy development is hampered or blocked (see O'Donnell 1994; Huber, Rueschemeyer, and Stephens 1997).

Initial forms of welfare provision creating segmented beneficiary constituencies and inhibiting future developments in a low-provision environment. Previously established social benefits in many middle-income countries are not comprehensive, but limited to particular segments of the population. Typically, social protections have covered the military, civil servants, and skilled workers in critical parts of the economy or with the capacity to unionize. Especially in countries with high degrees of inequality, the extension of social benefits to the numerous poor is likely to hurt current middle- or lower-middle-class beneficiaries. These current benefi-

ciaries could then experience a combination of increased taxes and reduced benefits. Under such conditions, extending the welfare state to provide broader or universal coverage is likely to be politically difficult.

A high-provision past that cannot be sustained in a radically changed economic and political order. Virtually all of the former Communist countries inherited comprehensive and egalitarian systems of social provision. Though often modest in the individual allocations, the commitments of the system as a whole were too high to be sustained under current conditions. This is especially true given the contraction in their economies induced by the bankruptcy of the old system and the disruptions of the transition to the market. Past commitments to employment security and enterprise-based social provisions are not compatible with a market economy. Economic contraction and problems in tax collection have reduced the ability of governments to fund Western-style systems of social protection. Even aside from the problems of transition, under the new circumstances of political pluralism and a market-based economic order, these countries are now too poor to recreate a similar comprehensive system of social provision.

Popular expectations that are too low or too high. A disorganized civil society or an electorate disillusioned with political promises and the quality of government services is likely not to demand social programs. For considerable sections of the population the very existence of such programs might be unimaginable; other groups might feel that these programs are unobtainable, and that expecting these programs, or pressing for them, is futile. On the other hand, expectations based on the “naturalization” of the social provisions experienced under Communism lead to demands that cannot be fulfilled under new circumstances, and this can result in the stalemate that blocked Russian social policy development for a decade.

Absence of an established institutional welfare structure or one that ill fits with radical transformations in politics and the economy. The network of institutions that anchor the welfare state and give it permanence are often either missing or weak. Thus, public bureaucracies involved in the implementation of social policies might be poorly developed or have their strength sapped by inflation or the contracting out of services. Unions that might once have played a key role in social policy might lose members or policy relevance, either due to the rise of competing unions or to a generalized decline in membership. The party system in many cases is recent or unstable, increasing the flux in the electoral base of individual parties and their policy agendas. In former Communist countries, many of the institutions that supported social policy delivery have withered. Large firms, the vehicle for many social protections and services, have come under severe pressure, and many either live a semifictitious existence or have gone bankrupt.

Weak state capacity for implementation, innovation, and adaptation of policies. States often lack the technical expertise to evaluate and design effective policies. More critically, their ability to implement policy is weak. Tax collection is deficient,

the average educational level of government workers is wanting, productivity in the public sector is low, the territorial penetration of state institutions is uneven, and courts are slow. Poor institutions of governance thus stymie the delivery of even well-designed policy. Adequately funding and reforming the public sector to allow it to provide good schools, health care, and social services constitute serious and long-term challenges.

Weak international leverage; different forms of political-cultural “dependency.” In the wake of failed models of economic development—be they flawed import substitution industrialization or command and control economies—states search for new models. Despite a healthy variety of capitalist models, the transnational network of economic ideas and advice is today dominated by neoliberal currents of thought. The prestige and current ascendancy of the American model in the advice of influential international organizations frames the debate on the design of social policy in many middle-income countries. Other models, such as the northwestern European, fade in importance, at least outside of Europe.

With this conceptual and theoretical framework we approached the cross-regional analysis. To repeat, we consider these three sets of specifications on globalization, mature welfare states, and middle-income countries as theoretically meaningful orienting devices, not as definitive claims about the impact of economic globalization on the chances of social welfare policy. This goes especially for the last list of features that may make the political economies of middle-income countries more vulnerable to globalization. In many cases, we expected to find one or more of these features, but we did not assume that variation in any one of these dimensions would lead to a strong negative impact of economic openness on social policy.

The Chapters to Follow

Geoffrey Garrett and David Nickerson open the volume with a quantitative analysis of the relationship between globalization and social spending in middle-income countries. They show that the relationship between openness and public spending is far from uniform. Adding to the earlier findings of Cameron (1978) and Rodrik (1997), they show that in middle-income countries the positive correlation between openness and public spending holds for capital mobility as well, and that democracy mediates the relationship and is significantly associated with increases in public spending.

John Stephens discusses the overall success of the northwestern European welfare state in the face of globalization. He shows how trade has long been an integral facet of the political economies of these welfare states, but argues that the

shift toward greater capital mobility—instituted in the 1990s—holds the potential for disruption.

Evelyne Huber argues that there have been distinctly different policy reactions to globalization in Latin America. Although the adoption of neoliberal policies has received the most attention, some countries, such as Costa Rica and to a lesser extent Uruguay, have maintained a social democratic approach to globalization. Domestic politics plays a central role in explaining these different policy trajectories.

Miguel Glatzer presents Portugal and Spain as the clearest instances of the possibility for welfare state development in the face of globalization. These countries emerged from dictatorship and relative economic autarchy to embrace a triple transition to democracy, economic openness, and welfare state building. Although not yet at the level of their richer northern European counterparts, the Iberian welfare states have become an impressive institutional edifice, providing universal coverage for the full array of risks. They are well grounded in politics and society.

Mitchell Orenstein and Martine Haas discuss the impact of globalization on the social protection policies of east-central Europe. Keeping domestic causes of the downturn in social provision analytically separate from external ones, they highlight the difficulties of moving from a centrally planned to a market economy. After considerable initial variation in domestic politics they observe a partial convergence in social policies, guided by advice from international institutions.

Linda Cook examines the impact of globalization on Russia. Despite the overall calamitous state of social policy, she finds important variation across policy areas, clearly demonstrating the role played by political processes and institutions in determining the effects of international advice.

Ho Keun Song and Kyung Zoon Hong chart the trajectory of Korean social policy, paying special attention to the last ten years. Underdeveloped in comparative terms, the Korean welfare state faces conflicting pressures. On the one hand, democratization and demographic factors have led to calls for greater social spending. On the other hand, the recent Asian financial crisis had contradictory effects; it increased pressures to reduce social charges and worker protections, but it also engendered expansions of support for the unemployed and the poor. Although Korea's spectacular history of growth has been linked to its export success, the Korean domestic market remained highly protected until recently. This degree of protection, along with historically strict capital controls, may account for why globalization has until recently exerted only a muted effect in promoting welfare state growth.

The book closes with concluding reflections by the editors that return to the two competing master hypotheses. In our examination of the different causal mechanisms associated with each of these, we focus in particular on the diversity

of risks to which social welfare policies respond. The concluding essay above all seeks to integrate hypotheses about the impact of external factors on social welfare policies with the rich work on the genesis of the classic welfare states that saw them rooted primarily in domestic conditions.