The Welfare State and Globalization: Market-Driven State or State Policy Choice?

Michelle Arevalo-Carpenter

Abstract

In light of rhetoric about globalization being an overpowering force that will render the welfare state extinct, this paper seeks to clarify what leading scholars on this matter have revealed through their empirical studies in developed countries. The findings determine that hypotheses about an imminent erosion of the state's autonomy are rather narrow and that good economic performance is positively related to increased public spending. The paper then examines the conditions under which the welfare state and globalization have been successfully coupled, proposing a model which combines institutional capabilities of labor market organizations and political will within governments. The paper concludes that the welfare state does not necessarily have to be in tension with economic globalization. Under certain conditions, a generous welfare state can perform well economically. This indicates that states, as political entities, remain the ultimate authority to choose which economic policies to enact. This choice is more limited for the global south – particularly where democratic institutions are lacking.

The purpose of this research paper is to analyze the different perspectives regarding the relationship between the welfare state and globalization in developed states, and determine what this relationship entails. Common knowledge of this relationship maintains that globalization and the welfare state are in tension. Most of the literature putting this premise forward has adopted a purely economic explanation for this tension. Meanwhile, some authors, such as Dani Rodrik and John G. Ruggie, have incorporated a more societal approach, but have failed to account for the power of the choice of states. This lack of choice, purport the authors, renders globalization ultimately inevitable. In contrast to these views, authors like Geoffrey Garrett, Debrah Mitchell, Cynthia Kite and Nita Rudra have proven that the relationship between the welfare state and globalization does not necessarily have to be conflictive - that possibilities exist for their peaceful coexistence. The number of options a country has, however, is subjected to its democratic and institutional capabilities.

By encompassing a broader perspective of globalization and defining it in political terms, Garrett and the others have generated a series of answers to the questions of globalization and the amount of choice the state has over its own policy. Considering the different perspectives, the welfare state and globalization do not necessarily need to be in tension. Under certain conditions, a generous welfare state can perform well economically.

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Globalization Defined

In order to understand the relationship between welfare and globalization, one must first come to an accurate definition of globalization. Competing perspectives of globalization exist, and their examination is crucial to understanding its effects. Globalization, as used in everyday talk and in the media, is a complex combination of advances in telecommunication technology and increased interdependence between peoples. It is understood as a process through which the world is becoming smaller due to an intensified interaction between markets, cultures, businesses and governments. Globalization described like this, however, is not a new phenomenon.[1] Authors wrote on interdependence and transnationalism as long ago as 1912. Norman Angell wrote in *The Great Illusion* about "a financial interdependence of the capitals of the world, so complex that disturbances in New York involve financial and commercial disturbances in London, and, if sufficiently grave, compels financiers of London to cooperate with those of New York to put an end to the crises, not as a matter of altruism, but as a matter of commercial self-protection."[2]

Even though the trend Angell wrote about has increased, the assumptions made about the increase in interdependence are disputable.[3] If it is not clear that current interdependence is relatively new, then what is the innovative, defining factor of globalization? There are many perspectives that answer this question. Due to their relevance to this paper, I will present two perspectives, which Woods describes as state-centered and market-centered perspectives.[4] Helleiner, who also examines globalization in a framework of two perspectives, accounts for what he calls 'technology-driven' globalization. He expands on human policy choice as another way of looking at what globalization constitutes.[5]

The Market-Centered, Technology Driven Globalization

Globalization is most often described as an advanced interdependence that makes the world a smaller place due to the increase in speed of international transportation and telecommunication. Advancements in technology and information processing have resulted in a global financial market that operates twenty-four hours a day. Even though access to information technology has not reached most of the developing world with such intensity, there is a wider sense of interdependence for most of the population. This is a growing trend, which Helleiner describes as a "new, technology driven globalization" and is the "new reality to which we all are trying to adapt. And there is truly no escape from it."[6]

Under this definition of globalization, many assumptions have been made about its consequences on the state and the future of the international order. The market-centered perspective emphasizes the increase in global transactions, the power of the markets, and the pressures to maximize efficiency to attract capital. As a result, authors like Thomas Friedman

[1] Ngaire Woods. "Globalization: Definitions, Debates and Implications." *Oxford Development Studies*. 26, no.1 (February 1998).
[2] Norman Angell, 1912, p. 50 in Woods, 1998
[3] Robert Wade, "Globalization and its Limits: Reports of the Death of the National Economy are Greatly Exaggerated." Ed. By Berger, Suzanne in *National Diversity and Global Capitalism*. New York: Cornell University Press: 1996
[4] Woods (1998)
[5] Gerald K Helleiner. "Market, Politics, and Globalization: Can the Global Economy be Civilized?" *Global Governance*. 7 (2001) : 243-263.
[6] Helleiner, (2001),243

follow this perspective when referring to the "golden straitjacket" states must fit into if they wish to attract capital in order to survive in a globalized world run by market forces.[7] This idea often leads to the presumption that this price mechanism, in which capital will go where efficiency is highest, will benefit investors, producers and consumers, since it guarantees the efficiency of the markets in the long term.

In theory, this globalized system would give states new roles as sustainers of the global economic order, enforcing mechanisms of international standards for efficiency and, most importantly, would ensure its comparative advantage is introduced into the global market.[8] Friedman summarizes this perspective in his work *The Lexus and the Olive Tree*: "Globalization isn't a choice. It's a reality. There is just one global market today, and the only way you can grow at the speed your people want to grow is by tapping into the global stock and bond markets, by seeking out multinationals to invest in your country and by selling into the global trading system what your factories produce."[9]

This market-centered hypothesis holds a rather narrow view of globalization, which assumes that states will continue to lose autonomy to market forces and become subject to market trends. This perspective fails to recognize that state policies must initiate economic integration. Various kinds of integration must be in place for market coadunation to occur. Woods comments that "once global communications and networks are put in place, they will not be used solely for economic exchange. Political and social movements will also use this new technology: and not necessarily to facilitate the smooth functioning of the market."[10] Even though markets do imply some domestic constrains, this does not mean that policies are wholly dictated by the markets. Rejecting a narrow, market-based perspective of globalization, Helleiner concludes that "while globalization in the first [technology driven] meaning is a fact, and may constrain some choices, it does not totally foreclose them in the way that many imply."[11]

Globalization as human policy choice

The market-centered, technology-driven definition accounts for much of what is commonly understood as globalization. Helleiner points out, however, that there is another side to globalization; one that incorporates the choices of individuals, firms, governments and NGO's regarding the degree to which they submit to technology-driven globalization.[12] This different face of globalization emphasizes the role of government policies and choices with regards to the extent to which the state is open to the impact of technology and market forces. This approach is far more complex, since it involves the careful study of the social, political and economic circumstances of each country in order to assess how much the global markets affect it and the amount of choice that country has regarding its national economic policies on openness.

[7] Freidman, Thomas. *The Lexus and the Olive Tree.* 1999 New York: Anchor Books, 2000.
[8] Helleiner (2001); Woods, (1998)
[9] Friedman (1999), 112.
[10] Woods (1998), 7
[11] Helleiner, (2001), 244
[12] Helleiner, (2001)

In contrast to the market-centered hypothesis of an erosion of the state, a more state-centered approach suggests first that in many instances globalization will in fact reinforce the role of the state;[13] second, that increased global interaction has been driven by state policies and choices; and third, that the amount of choice and influence states have vary with their different degrees of political and economic development.

In different ways, it could be argued that globalization is in fact reinforcing the role of the state. Ruggie demonstrates how increased openness affects the vulnerable inefficient sectors of the country; which puts increased pressure on governments for compensation.[14] If a government wants to keep its open market policies, it will have to compensate the affected sectors of society in order to avert political reaction. This results in an enhanced role of the state as responding to society's demands. Furthermore, Woods mentions that globalization of markets will necessarily require institutions to enforce global rules and regulations – even if these rules and regulations are enforced by one powerful state (the United States being an example).[15] Others will react by trying to limit or influence the rule-making state. These interactions still happen between states, and market forces have little to do with their outcome. Moreover, increased global interaction has resulted in new channels for illegal immigration, transnational crime, global terrorism, environmental degradation and the loss of natural resources. These global problems have also put the state in the spotlight, with demands for global, inter-state solutions.

Additionally, one must not forget that increased interaction in globalization has been driven by state policies and choices. The increased interaction of global finance which took place during the 1970s happened after states chose to liberalize their markets and remove the controls on capital movements. Even interactions due to technology and telecommunications have their roots in state policies that facilitated and encouraged technological advancement. In this sense, states have a much more important role as the driving force of globalization. It is true that technology has its own driving force in the present, but it does not necessarily overwhelm the role of the state.

Finally, even though globalization is not eroding the state to the degree many are proposing, it must be recognized that globalization offers states a wide range of possibilities for cultural, social and economic interaction and interdependence. This raises the issue of which states have the power to choose how, when, and in what way they enter into the global system. For some states, entering globalization can become a slippery slope in which globalizing some sectors of their economy will result in the increased strengthening of markets, having consequences on their society and culture. In most developing countries, this has been the case. There are other states which are stronger in that they can choose how, and to what degree they want their markets to be open. Among these states or regions are not only the United States, Western Europe, Japan and the Nordic countries, but also Malaysia and Singapore, which have made use of protectionist and isolationist policies to protect their national economy.[16]

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[13] Wade (1996), 1996

[14] John G. Ruggie, "The North-South Dimension" in *The Antinomies of Interdependence*, 1983

[15] Helleiner(1994) in Woods (1998)

[16] Woods (1998)

Globalization as state policy choice is a more comprehensive view of the current global system which complements the much more recognized view of a globalization driven by technology and global markets. The challenge for most of the literature on this subject has been to decipher the relation between these two faces of globalization and establish the circumstances needed for a peaceful coexistence between market forces and state autonomy. The relation between the welfare state and market-driven globalization is an excellent case in which the differing views of globalization have been applied. The nature of this relationship could help to understand globalization and its effects more accurately.

Globalization and Welfare State in Tension?

The claim that the welfare state will become extinct as a result of globalization has been a myth perpetuated under the efficiency hypothesis. Many authors, journalists and scholars have proposed what is known as the efficiency hypothesis as the explanation for the diminishing of the welfare state. Underlying this position is the belief that the globalization of markets has substantially decreased the autonomy of the nation-state. Proponents of this popular claim predict that governments competing for mobile economic resources will race to dismantle their welfare states."[17] Others, like Ruggie and Rodrik, have provided a more political, in-depth analysis of this relationship based on the 'compensation hypothesis' and have concluded that even though this tension did not exist in previous years, it will become inevitable in the future.

At first glance, these claims seem generally accurate and plausible; however, they fail to account for the flexibility of state policy choice in developed countries and the internal dynamics of governments and advocacy groups. The efficiency and compensation hypotheses that present globalization and the welfare state in tension will be presented in the following sections and then examined in light of a more complete understanding of the variables present in state policy choice.

The Efficiency Hypothesis

Considering that the globalization of markets results in a much more competitive world, efficiency of production has become an important indicator in the global system. According to this 'efficiency' perspective, increasing competitiveness pressures in markets have made welfare retrenchment inevitable.[18] In this context, three different facets of globalization of markets could be considered as constraining to national state autonomy. First, the provision of public and welfare services by the state is seen as an artificial meddling with the market. This puts constraints on government spending in states which seek efficiency, resulting in the 'race to the bottom' of public spending. Second, the multi-nationalization of production provides multi national corporations (MNCs) with the power of exit threats in order to maintain low taxation rates. Finally, the international integration of financial capital makes it possible for markets to threaten states with massive capital flights in the face of any distortion of the free market.[19] An

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[17] Geoffrey Garret, "Shrinking States? Globalization and National Autonomy in the *OECD" Oxford Development Studies*, Feb 1998, Vol. 26 Issue I , p.72

[18] Geoffrey Garrett and Deborah Mitchell. "Globalization, Government spending and taxation in the OECD." *European Journal of Political Research*, 2001: 39, p.145

[19] Garrett, 1998b, 792

appropriate example of this view can be found in Thomas Friedman's *Lexus and the Olive Tree*, where the author explains in plain terms how states will have to adopt a 'golden straitjacket' in order to survive in a world of globalized markets. The golden straitjacket is depicted as a set of strict rules and structural adjustment programs that every state must go through in order to fit into the economic globalization system. Friedman explains optimistically that these policies of austerity will ultimately result in greater development if combined with adequate technological support. If this perspective is accurate, governments will have more difficulty in protecting vulnerable citizens from the consequences of market efficiency and inequalities.

The efficiency hypothesis is supported by basic economic rationale. First, according to the efficiency hypothesis concerning trade, the welfare state is commonly regarded as uncompetitive. The argument is that if a welfare state wants to establish a policy on trade openness, it will have to roll back the public economy sector because it interferes with the efficiency of the market. For a state to provide welfare, it needs high taxation rates and occasional short-term borrowing. High taxation rates will harm business by adding to its cost. Short-term borrowing results in higher inflation and higher interest rates. This increases the real exchange rate, which makes national business even less competitive in an increasingly open world economy. Moreover, competition from low wage economies has been an important part of this argument. Therefore, the assumption is that governments will necessarily have to reduce their taxation, spending and welfare policies to procure a competitive market environment in order to enhance its participation in trade.[20]

Second, the multi-nationalization of production may constrain policy choices under the assumption that MNCs will shift locations of production to the places where they will get the highest returns. In this sense, the markets would punish producers and countries operating under generous welfare regimes, thus fleeing higher tax burdens, more regulatory impediment, labour market rigidities, and more active labor movements.[21] The welfare states affected would most likely be developed countries, where taxation is more likely to be high, and labour regulations are more strict. Under the same assumption, production would relocate in countries that have comparative advantage in low-wage labour. A classic example illustrates how the common public perceives this phenomena: if Levis can produce jeans in Malaysia at comparable quality to those in Illinois, but at one-tenth the cost, jobs in Illinois will be lost unless state-provided wages and benefits are cut. Some authors have gone as far as proposing competing pension options, foreign run pension programs and mutual funds as an alternative to the seemingly detrimental evil of state-provided benefits and wages.

Finally, the effects of international financial market integration at the domestic level are seen as determinants of government policy under the efficiency hypothesis. The common fear is that financial markets, operating twenty-four hours a day and moving great amounts of capital across locations to maximize profits, will trample a country's economy if its markets are distorted by government policies. Welfare policies are widely seen as a distortion of the market, because

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[20] Garrett, 1998 feb

[21] Burgoon, Brian. "Globalization and Welfare State Compensation: Disentangling the Ties that Bind." *International Organization*. 55, no. 3 (Summer 2001) : 509-551

they necessitate the incurrence of large debts, which discourage external investment. Friedman, for instance, explains that countries that deviate too much from the core rules, including the maintenance of a stable, distortion-free financial market, "will see their investors stampede away, interest rates rise and stock market valuations fall."[22] For many commentators, the global trend of privatization has become so pervasive that governments' autonomy on economic policy making is determined mainly by the fear of massive capital flights.

The conventional belief that MNCs are undermining sovereignty and eroding the welfare state is sustained by a rather narrow perspective of MNCs and capital behavior. The assumption is that capital will go where the lowest production cost is. Garret challenges this argument by introducing alternative factors that influence MNC behavior in addition to low cost production. He notes that, when choosing a location, MNCs observe the metric of cost controls for productivity, the location's accessibility to new technology, the presence of distribution channels, and the maintenance of local stability.[23] Countries with successful welfare programs and large public economies can offer this environment by reducing the social risks accompanying economic inequalities, because governments are better equipped than private markets to provide collective goods such as human capital accumulation, infrastructure, research and development.[24]

A nations' fear of massive capital flights follows the same rationale with weak assumptions: deficits will always lead to fiscal recklessness and consequently be punished by the imposition of high interest rates, resulting in decreased investment. Garrett also points out, however, that with globalization, a larger pool of lenders are willing to fund government spending and that there is little evidence credits to industrial democracies will be reduced in the near future.[25] This means that large public economies do not necessarily incur fiscal imbalances and that welfare states are much more stable financially than is commonly thought. Capital also tends to flow more to locations that can ensure stability rather than high returns.

Conventional assumptions about the power of efficiency pressures on national autonomy are theoretically weak. The three mechanisms of globalization that may be in tension with the welfare state do not constrain policy choice as is commonly perceived. However, there are stronger theoretical arguments that take into account the importance of societal pressure on the state and the state's consequent responses.

Compensation Hypothesis

The efficiency view focuses solely on one aspect of the global redistribution debate – the economic costs of large and progressive welfare economies. This view neglects the assertion made by Polanyi that there are also clear political incentives to expand welfare efforts in response to the internationalization of the markets.[26] Among these political considerations, Ruggie and Rodrik have put forward the compensation hypothesis. Following Polanyi's

[22] Friedman (2000), pg. 106
[23] Garrett (1998a)
[24] Garrett and Mitchell (2001)
[25] Garrett (1998a)
[26] Garret & Mitchell (2001), pg. 151

theoretical framework, Ruggie stresses the tension between the market forces and society, which demands protection for the sectors most vulnerable to market forces. Rodrik conducted an extensive empirical study in which to test this hypothesis and expand on Ruggie's thesis.[27] These two authors have concluded that societies' pressure on states to be compensated for market faults are becoming stronger and eliciting an active responses in states' policies. However, both authors agree that dramatic increase in exit threats by foreign investors may overwhelm states' political will to become more assertive in enacting welfare program economic policies.

Ruggie is influenced by Polanyi when explaining the terms of the compromise of embedded liberalism. The terms follow what Polanyi distinguished as the embedded economic order[28]; an order where regimes would balance internal and external stability in a compromise, instead of sacrificing one for the sake to the other.[29] Ruggie explains that embedded liberalism involves multilateral compromise, in which "governments ask their publics to embrace the change and dislocation that comes with liberalization in return for the promise of help in containing and socializing the adjustment costs"[30]. However, in his later publications, Ruggie foresees an ominous future for embedded liberalism. He explains that the main threat to the idea of embeddedness is the deterioration of social safety nets in the capitalist world due the declining domestic productivity and increased competition from low-labor-cost countries.[31]

Expanding the compensation hypothesis further, Rodrik contributed an extensive empirical study and analysis of the relationship between openness and public expenditure in twenty-three OECD countries. The numbers show the positive relation between these two variables, contrary to efficiency hypothesis presumptions. Rodrik concludes that "societies that expose themselves to greater amounts of external risk demand (and receive) a larger government role as shelter from the vicissitudes of global markets."[32] Rodrik believes this compensation points to a tension between the consequences of globalization and the requirements of maintaining social legitimacy of free trade.

The assumption that heavy taxation on capital to fund government programs will scare away mobile firms makes it more difficult for governments to tax capital. Rodrik contends that with globalization governments are responding to exit threats by shifting the tax burden from mobile to immobile asset holders, in other words, from international and transnational asset holders to domestic ones.[33] If this trend continues, the burden for the funding of large public spending programs will shift to labour and consumption taxation. According to this thesis, welfare spending would not suffer in the short term, since the funding will still be there, just the sources of this funding would change. However, if the state proceeds in shifting its tax load to

[27] Rodrik (1997)

[28] Polanyi, *The Great Transformation* (Boston :Beacon Press, 1944) in Ruggie, *The Antinomies of Interdependence*, (New York: Columbia U Press, 1983)

[29] Ruggie (1983)

[30] Ruggie, John Gerard. "Trade, Protectionism and the Future of Welfare Capitalism." *Journal of International Affairs*. 48, no. 1 (Summer 1994) : 1-p.3

[31] Ruggie (1994), 6

[32] Rodrik, Dani. *Has Globalization Gone Too Far?* Washington: Institute for International Economics, 1997, 53

[33] Rodrik (1997)

immobile asset holders as a way to appease market pressures, then state autonomy would be largely undermined. Rodrik states that this system of welfare-funding is not sustainable once governments lose their autonomy in generating tax revenues and shaping social policies;[34] therefore, this system would degenerate the welfare state in the long term.

Empirical evidence may prove Rodrik's contention wrong. Garrett and Mitchell's study[35] on a sample from OECD countries proves that there is a trend to shift towards capital taxation – a mobile asset. The results of this empirical study show that foreign direct investment was positively associated with higher rates of capital taxation. Moreover, capital mobility was not related to lower rates of capital taxation, nor with lower ratios of capital to labour and consumption taxation.[36] Moreover, this study revealed that there is no evidence that trade with low-wage economies is particularly damaging to the developed welfare state.[37] Therefore, in OECD countries globalization of markets is not wholly dictating government policies on taxation and funding for welfare programs.

The arguments presented by Ruggie and Rodrik are superior to those based solely on market efficiency. These authors put into perspective the role of the state, society's demands for compensation and national policy choice. Both predict, however, that market efficiency will ultimately erode the state's autonomy in economic policy-making. This is a pessimist forecast for the role of the developed state in globalization and has the underlying assumption that the state will have to sacrifice its autonomy on taxation policies if welfare is to be sustained in the short term. Garrett and Mitchell embrace the claim that greater openness creates insecurities that result in demands for welfare compensation;[38] however, they contest the predictions of market-driven taxation policies by testing them with different empirical formulations. Assuming this contestation is accurate, Garrett and his collaborators' contribution narrows down the debate to the question of which variables actually influence the persistence of the welfare state in the face of globalization.

Globalization and welfare state in harmony

In contrast to the views expressed above, abundant literature based on Garrett's works has proposed that peaceful coexistence between an active government and international markets can still exist, even in the face of globalization. This section will examine the arguments of three authors who propose that the welfare state and globalization can live in harmony under certain conditions and, furthermore, that states have a greater choice over their welfare policies than is initially thought. Kite and Garrett argue that states do not necessarily have to sacrifice good economic performance in order to keep a big public economy.[39] Moreover, Rudra and Garrett claim that the determinants of a state's policy on welfare are not found in the international

[34] Rodrik, (1997), 67

[35] Garrett and Mitchell (2001)

[36] Ibid., 147.

[37] Ibid.

[38] Garrett, *Partisan Politics in the Global Economy* (New York: Cambridge U Press, 1998). In Burgoon (2002), 514

[39] Garrett (1998 book) (1998a) (1998b), Garret and Mitchell (2001) and Kite (2002)

markets; rather, it depends largely on the internal politics and actors of each country.[40]

The purpose of examining political institutions and showing that the welfare state and globalization can harmoniously coexist is to prove that conventional knowledge on the subject is not mandatory and that there is actual choice for states to enact policies of their own. The question here is what are the conditions under which the welfare state and globalization can coexist in harmony? What follows will provide one example of a model of conditions which could maintain this harmony.

Kite and Garrett agree in their claims about the condition of the welfare state. Garret concludes that under certain institutional circumstances, both public welfare generosity and good economic performance are entirely compatible with globalization.[41] Kite also mentions that "there is reason to believe that choice still exists and that particular national-level characteristics might make it possible for states to choose generous public welfare schemes without sacrificing good macroeconomic performance."[42]

The institutional conditions these authors refer to are measured in the model Garret presents in *Partisan Politics in the Global Economy*, which shows that social spending under globalization depends on liberal democratic organizations and their derivative institutions.[43] His model of interest links economic performance to the coherence of a national political economy; this coherence depends on two key variables: the organization of labour and the strength of right and left parties. Thus, a coherent political economy will be present if the country has a combination of a strong inclination to the political right with a weak organization of labour or a left-inclined government with an encompassing organization of labour.[44] Upon examining this model, Kite recognizes that the partisan identity of the government is an important factor in determining its social spending; "however, what is decisive at the national level is the organizational strength of labour. It determines whether or not generous spending is compatible with low unemployment and inflation and good economic growth."[45] Kite's study tests this model by using empirical information to place different OECD countries in the matrix that these two variables form and comparing Garrett's model to studies based on other models. The author finds Garrett's model is more accurate and encompassing in determining the likelihood of generous social spending than other existent models.[46] Thus, under certain conditions (a left inclined government and strength in labour organization), the welfare state can live in harmonious coexistence with good economic performance. In accordance, Garrett concludes that "the coupling of openness with domestic compensation remains a robust and desirable

[40] Garrett (1998a, 1998b, 2001) and Rudra, Nita. "Globalization and the Decline of the Welfare State in Less Developed Countries." *International Organization*. 56 : 2 (Spring 2002) : 411-445.

[41] Garrett (1998) in Kite, (2002) pg. 309

[42] Kite, Cynthia. "The Globalized, Generous Welfare State." *European Journal of Political Research*. 41(2002) : 308

[43] Garrett (1998) in Rudra (2002)

[44] Garrett (1998) in Kite (2002), pg 310

[45] Kite, (2002), pg 313

[46] See Iversen (1999) in Kite (2002)

solution to the problem of reaping the efficiency benefits of capitalism while mitigating costs in terms of social dislocations and inequality."[47]

Since labour market institutions are more likely to have greater bargaining power under liberal democratic conditions, Garret focuses on OECD countries in his study. His examination of the conditions in these countries reveals that "interventionist economic policies are better suited to countries where socio-economic institutions facilitate the coordination of economic activity among business, labor, and government...these political economies are based on the notion that cooperation in managing market forces will benefit all segments of society."[48] In a sample taken from OECD countries, Garrett shows that increased trade openness will not necessarily undermine the social and political forces that keep the welfare state in place.[49]
In contrast, this is not the case in the rest of the world. Embracing Garrett's model, Rudra asserts that there are political factors such as strong labour power and democratic development that can positively affect welfare spending in this era of globalization. "By recognizing that politics do matter [she demonstrates] that welfare state retrenchment is a consequence of the failure of politics to intervene in the economy."[50] Rudra points out that if the success of the welfare state depends on a well-organized labour movement, then the nature of labour organiztions in less-developed countries (LDCs) will have to be assessed in order to understand this relation.

Rudra claims that workers in the more developed countries are politically more strong minded than their counterparts in LDCs. The author makes this comparison by contrasting the differences between the two sets of countries through adopting Garrett's globalization-welfare model for OECD nations and substituting the PLP [Potential Labour Power] variable for his labor variable.[51] The author suggests that the organizational problems of labor in LDCs have their roots in the combination of large surplus labor populations and ratio of low-skilled workers to skilled workers. "Large numbers of surplus workers alter the cost-benefit ratio of organizing and ... reduce the incentives for low-skilled labor to mobilize."[52] Moreover, in LDCs, the sectors of society that are marginalized by globalization do not have access to the democratic negotiation process by which they could demand compensation.

Garrett and Rudra focus their analyses on the power of individual and social choices in the face of the power of globalized markets. The two authors use similar variables, concentrating on the centrality of the labor market institutions in the countries. Their studies, however, unveil that individuals and societies may have different ranges of choices when it comes to submitting themselves to market forces. While OECD countries found their options regarding welfare policies broadened through democratic institutions and cooperation between the sectors, LDCs found their choices diminished due to the high rates of unskilled labour, unemployment and weak institutional capabilities. Therefore, there is a contrast between the ability of workers to protect their welfare in LDC and OECD countries.[53]

[47] Garrett (1998b) pg 824
[48] Garrett (1998a)
[49] Garrett (1998b)
[50] Rudra (2002) , pg 436
[51] Rudra, (2002) , pg 433
[52] Rudra, (2002), pg 19
[53] Rudra (2002) pg 435

Conclusion

Through this comparison, I have examined the different perspectives regarding the relationship between globalization and the welfare state. I recognized perspectives concerning two possible relationships: the welfare state and globalization could be in tension or could coexist in harmony.

The proposition that the welfare state and globalization are in tension is advanced by two hypotheses: one based on the assumption that states are driven by the efficiency sought by markets, and the other that claims states will be able to compensate for dislocations through welfare only in the short run. First, the conventional 'efficiency' understanding of the relationship between social spending and globalization, advanced by authors like Friedman, was too narrow since it did not consider globalization as a state policy choice. Furthermore, rebuttals from several authors prove that it may even be desirable for the productivity and stability of a country to have a large public economy. Second, the 'compensation' analysis, proposed by Ruggie and Rodrik, suggests that, even though globalization may put pressure on governments to compensate its citizens through welfare, market efficiency will overwhelm state policies. This understanding of the relationship in question did take policy choice into account, but suggested a pessimist future for state autonomy, especially in taxation policies. Empirical studies that test these assertions, however, show that in fact the trend is the reassertion of state autonomy over welfare and taxation policies.

Scholars like Garret, Kite and Rudra advance the possibility of the welfare state and globalization coexisting in harmony with good economic performance. The first scholar to expand on this possibility was Garrett, who linked economic performance to the coherence of a country's political economy. The model proposed to measure this relationship used two variables: left/right party strength and the organizational power of labour. In assessing the veracity of this and alternative models, Kite affirms that Garrett's model is accurate and that left wing party strength, combined with encompassing labour institutions will result in a welfare state that performs well economically. In addition, Rudra brings LDCs into perspective and evaluates developing countries in terms of Garrett's model. The results show that labour market institutions in LDCs do not have the strength to pressure governments for welfare. Combining the contributions of Kite and Rudra on Garrett's model, one can come to three deductions: first, that developed states continue to have the autonomous choice to have welfare policies in the face of capital globalization, and second, that under certain circumstances, the welfare state signifies good economic performance. Finally, in the case of LDCs, the degree of choice a state has may vary depending on its political and institutional development.

It is important to note that these three authors accounted for the domestic actors that may influence the welfare state in a globalized world. One cannot forget, however, that the international markets do influence domestic policy to a certain extent and have done so throughout history. In the present global system, it is especially important that the influence of markets over states is not exaggerated or regarded as omnipotent. Rather, international markets must be looked at as an influential factor among many others. One could reply that most countries in the world have to make decisions on policies recommended by the international financial institutions like the IMF, which follow the efficiency hypothesis. Regardless, governments decide their own policies and these decisions depend mainly on political and social factors, not merely economic ones. Ultimately, the welfare state and globalization are not necessarily incompatible. With sufficient political and institutional will to force their coupling, they are capable of coexisting harmoniously and providing good economic and social performance.

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