

GLOBALIZATION AND THE WELFARE STATE *

UDC 330.342.146 : 005.44

Branislav Mitrović

Faculty of Economics, University of Niš, 18000 Niš, Serbia
branslav.mitrovic@eknfak.ni.ac.rs

Abstract. *Globalization has had a devastating effect on the welfare state concept that was established in many countries after the World War II. The welfare state functioning, especially during the previous decade, provoked the increase of costs, which directly endangered competitive capabilities of particular national economies. Evident problems of the welfare state required its reformation and, therefore, many developed countries are making intensive efforts toward it. Taking into consideration high standards imposed by globalization, possible directions of the welfare state reform are analyzed in this paper.*

Key Words: *Globalization, welfare state, reform, economic efficiency, competitiveness, poverty.*

INTRODUCTION

Globalization is a dominant world phenomenon representing a technological, economic and political integration of the world. Under the influence of globalization, borders between countries lose importance and no longer stand as a barrier to the development of economy, finances and communications worldwide. The world is progressively becoming a global market in which products, services and ideas are available to everybody, everywhere and at any time.

Globalization is ideologically based on the values of the capitalist system and its essential aim is to spread to all parts of the world and to penetrate all spheres of life and work. Private property and individual freedoms represent its face, its motive powers are economic efficiency and democracy, while its basic targets reflect in profit and increase of capital. Numerous authors emphasize that the greatest threat to globalization is the globalization itself, since its protagonists believe it has attained the ultimate values that should be imposed throughout the world. The resistances to such tendencies reveal its conflicting quality and contradictory assertion. Hence Utkin was right to point out that

Received October 16, 2008

* This paper is a part of the research project titled "Developing a Competitive Advantage of Serbian Enterprises in the Conditions of European Integrations", Number 140052, financed by the Ministry of Science of the Republic of Serbia

this was the case of a contradictory phenomenon, much argued pro and contra, where both its supporters and its opponents have no clear anticipations of its further course and of its final consequences on the existence of humanity. [1, pp. 42-60].

In the disputes about the modern epoch character and essence, globalization and its effects occupy a pivotal position. Rapid changes in the contemporary world subvert many stereotypes and cause ever greater discord between the old and the new. In effect, the unavoidable issue of the correlation between economic efficiency and social justice displays an increasing favoritism toward globalization, which has a destructive effect on the welfare state concept. Consequently, the welfare state is today at a turning point. Numerous social changes exert a strong influence and threaten its existence. Further in the text, we shall try to shed light on this problem and to indicate possible directions for the welfare state reform under the conditions of globalization.

1. GLOBALIZATION AND ITS CONSEQUENCES

Globalization represents a specific mega-trend that shapes the present day developments. Its strongest influence is exerted in the economic sphere. Modern trends in the global economic development prove that globalization and courses of economic integration of countries into the world economy represent the basic processes determining the economic development rate of all the countries. [2, p. 54].

Notwithstanding its interpretation in the framework of modern social and economic theory, globalization undoubtedly produces substantial effects on modern economic flows. They are manifested in the domains of foreign trade, international investment and international finances. From the economic aspect, globalization may be defined more precisely as a process of growing economic openness, economic interconnection and economic integration in the world economy. [3, p. 137].

Trade flows expanded during the second half of the twentieth century. From 61 billion American dollars in 1950, the world export increased to 883 billion in 2000. During the same period, also, the world trade growth was significantly higher as compared to the growth of world output and it reached the share of 20.2% of the world GDP in 2000. [4, p. 461].

Foreign direct investments demonstrate similar tendencies. The total foreign direct investment amount in the world economy was 68 billion dollars in 1960, while in 2000 it increased to 6258 billion. The share of foreign direct investments in the world GDP grew to 20% during 2000. At the same time, their share in the gross fixed capital formation in 2000 amounted to 22%. [3, p. 141].

The last quarter of the twentieth century witnessed an expansion of international finances, which considerably exceeded the flows of world trade and direct investments, having been manifested in currency trade, bank loans, financial instruments and government bonds. In 1998, the currency trading in the foreign exchange market amounted to 1490 billion dollars per day and it was by hundred times greater than the world export amount. Bank loans made 13.5% of the world GDP and 62.8% of the gross fixed capital formation in 2000. In the period of 1980-1993, bond trade among the transactors of different countries grew from less than 10% of GDP in the USA, Japan and Germany to 135% of GDP in the USA, 170% in Germany and 80% in Japan. National debt is also intensively traded in the world financial market. Throughout the period of 1980-1992, the

share of government bonds held by foreigners grew from 1% to 43% in France and from 10% to 27% in Germany, while it was about 20% in the USA. [3, p. 141]. It is without any doubt that the given data bear witness of a very pronounced economic internationalization tendency. It has spread to all the sectors of economy, to the real economy, to the financial sphere and to the government as an economic actor as well.

The market integration on the global level has turned the world into a global shopping center. In such circumstances, competition could not be avoided but, moreover, it moved to the forefront. Since the essential question is not how to avoid or stop globalization but how to adapt to it as well as possible, the countries with the expensive welfare state were not able to compete with the countries that allocate less funds to social purposes. The existence of the welfare state is most certainly endangered today.

It is generally known, namely, that aggressive economism and neo-liberalism represent the economic essence of globalization, which the European welfare states can very hardly resist. In this respect, the opinion has prevailed in theoretical treatises that the welfare state is a great burden for the economy, as the potentials for economic growth and competitiveness are strained with high expenses imposed by the welfare state. Such theoretical concepts, although without sufficient argumentation, are opposed by the views and program ideas of the democratic left, labor unions and West European social democratic and socialist parties and governments.

Globalization exerts a dual influence on the welfare state. The first one resulted from the liberalized international trade regime, starting from the 1970s, while the other is related to the economic activity dematerialization as a consequence of technological changes. This dematerialization is best explained by Leadbarten: "A great majority of us make money out of thin air: we produce something that cannot be easily measured or touched. The performance of our work does not stand piled up in a port, stored in a warehouse or loaded on a freight train. Most of us make our living by rendering services or giving opinions, information and analyses and we are all doing an invisible work". [5, p. 62]. Besides, the demands in the post-industrial society are increasing for specialized and highly trained workers, while nonqualified workers with low wages and uncertain jobs are less and less required. The gap between highly qualified and well paid labor and non-qualified labor is ever greater and the latter are becoming a new burden to the welfare state. A special paradox of the welfare state reflects in the fact that the number of the poor has not decreased in spite of enormous funds having been allocated to social needs during the last two decades. Related to this, the question has been raised, completely logically, whether the welfare state is able to resolve the problems caused by globalization, reflected in a national economy competitive position decline on one hand and an increase of poverty and inequality on the other.

Due to its inability to simultaneously accomplish two contradictory objectives, one being to increase economic efficiency and the other to ensure social justice, the welfare state is rapidly losing political support. The welfare state concept has been challenged irrespective of the fact that it succeeded in the past to reduce to a certain extent the tensions between capitalist economies and the democratic political system, having achieved the society integration in economically developed countries, and without regard for it representing the highest accomplishment of West European societies.

The views indicating a long-term disagreement between the welfare state and the liberal market society also emphasize the opinion that it inflicts damages not only of an economic but of a moral character as well. The advocates of this argument believe that fiscal

and economic efficiency crises of the welfare state are influenced by a moral crisis. This view is supported by pointing out that welfare beneficiaries are unknown individuals and that the money to be given to them is raised through enormous tax burdening. At the same time, this social package does not imply any obligation or initiative, nor any energy devotion by its beneficiaries. [6, p. 218].

Evident problems of the welfare state, developed due to structural changes caused by globalization, cannot be explained either by the arguments of economic and fiscal crisis or by political arguments stressing the rise of neoconservative ideologies. At the same time, it is not possible to prevent this process by referring to justice and by moral reasoning, or by emphasizing legitimacy of the existing welfare state arrangements. New patterns have appeared on the scene, negating the welfare state and based on individualistic categories of an "economic man". This further implies that overcoming of poverty in the world shall not be based on the welfare state concept any more, but new solutions shall have to be searched for.

2. WELFARE STATE REFORM EFFORTS

The welfare state crisis opened a debate on its reform. However, there are substantial differences in the views of the globalization effects on its functioning. Some believe that globalization leads to the welfare state crisis, forcing it to introduce retrenchment measures, whereas others hold the opposing view, as they argue that globalization, on the contrary, stimulates its development. The third group suggests a possibility of the welfare state adjustment to globalization, where the adaptation level depends on the level of a concrete country development. Finally, there are the opinions that globalization has no influence whatsoever upon the welfare state.

Regardless of the different views of the relations between globalization and the welfare state, it is an undeniable and practice-proven fact that its functioning caused a rise in expenses which directly threatened the national economy competitiveness, thus endangering the capacity of further financing of social needs. Due to the obvious superiority of global economy, governments have less and less possibilities to pursue the welfare state policy and to be simultaneously more and more economical with it, treating it as a residual category.

Having resulted from efforts to eliminate the welfare state deficiencies in the countries that were developing it, three approaches became differentiated. The first approach is socio-democratic and it is applied in the Scandinavian countries. Its essence is reflected in opening new jobs in the public sector, by which not only the problem was not resolved but, on the contrary, it became aggravated as the increase of public expenditures induced a raise of the welfare state costs. The second, corporative approach tried to solve the problem by reducing labor supply through early retirement. Consequently, the pension expenditures grew in a great number of European countries where it was applied, while the problem still remained essentially unsolved. Finally, the third, neo-liberal approach, implemented in the USA, Great Britain, Australia and New Zealand, relied on the labor market liberalization, having caused that increased labor demand and flexibility of wages bring about the increase of inequality and poverty.

Germany, as a country with a very strong welfare state, also undertook reforms aimed at reducing its costs. Thus, for example, unemployment compensations, which amounted

to 67% of the previous income, were reduced to only 345 euros per month. A compensation reduction or revocation was envisaged for the unemployed who refuse offered jobs, together with a liberalization of conditions for the dismissal of workers. Since 2006, the early retirement age limit shifted from 60 to 63 years of age. [5, p. 64]. The welfare state dismantling in Germany was motivated by the aspiration after enhancing the competitiveness of economy and creating the conditions for a more significant economic growth, through which new jobs would be opened and poverty would thus be suppressed. The mentioned reforms happened in Germany only after a stern warning by German economists that the economy was stagnating for many years, that there was a markedly high unemployment rate and that the labor market demand and supply were not balanced any more due to high social appropriations. In one word, the social care of the state and the society had grown so much that it did not stimulate to work at all.

The welfare state position was not challenged only by globalization, but the justification of its functions has increasingly been questioned. Namely, by redistributing tax-collected funds, the government tries to service the obligations it created through its legislation, which are permanently increasing, thus penetrating ever greater number of social activities and, consequently, displacing the market and economic laws. The question whether the state should deal with social security is ideologically wrongly raised. Taking into consideration human immanent instincts, like solidarity, it is indisputable that there is a need to help the helpless, such as the disabled people. The right question is, however, how and to what extent the state should realize the activities related to the social security network development. The increase of public expenditure may, regardless of its humanitarian component, have an adverse impact on the economic system, as it can slow the system down and additionally burden the industry. Likewise, a widespread network of social protection may destroy the motivation for work, since individuals transfer their problems to the state instead of solving them themselves. The circle gets complete by the state collecting taxes from tax payers. In this way, the number of those expecting assistance of the state in resolving their life problems is actually constantly increasing. Therefore, the welfare state is not only blamed for inefficiency, but it is considered one of the main causes of poverty, regarding the influence of high social appropriations upon the economy.

It is obvious, then, that the campaign to suppress poverty becomes less and less realizable in the framework of that old concept of the welfare state. Traditional ways to resolve this problem express more and more weaknesses, which is best witnessed by the practice of the welfare state model reforms. Regardless of the facts that the needs for social benefits differ from country to country and that the reform results shall be different in view of specific qualities of particular nations and countries, their common goal has to be a reduction in social appropriations of the classic welfare state. It is already evident that the state shall increasingly engage in providing conditions for the education and advanced training of its citizens for work which shall improve their individual living potentials and in controlling social expenditures, while it shall deal less with redistribution of income and wealth.

CONCLUSION

The welfare state crisis has been conditioned not only by the challenges of globalization regarding the increase of efficiency and competitiveness, but also by the fact that it contributed to the society disintegration and poverty increase. All the countries are there-

fore forced to seek solutions that shall bring about a decrease in social appropriations and a redirection of state activities toward the creation of conditions for an improvement of the education quality of their citizens and the level of their training for work. This shall undoubtedly improve the economic efficiency and contribute to social justice, as individual living potentials of the population shall grow stronger. The said approach is in a complete accordance with high standards imposed by globalization.

REFERENCES

1. Utkin A. I., Glavnij proces epohi, SŠA (ekonomika, kultura), 3/2001.
2. Darbinjan A., Integracija Armenii v mirovuju ekonomiku: vyzovz vozmožnosti, Obščestvo i ekonomika, 10/2005.
3. Nayar D., Globalization, History and Development: A Tale of Two Centuries, Cambridge Journal of Economics, 30, 2006.
4. Fejgin G., Kritičeskie argumenti antiglobalistov i perspektivy razvitiya nacionalnyh bozjastvenyh sistem v uslovijah globalizacii, Obščestvo i ekonomika, 9-10/2007.
5. Šuković D., Država blagostanja i društvena izopštenost, Pojedinac i država, Institute of Social Sciences, Economic Research Center, Belgrade, 2005.
6. Klaus O., Modernost i država, Belgrade, 2000.
7. Lukšić I., Država blagostanja - tranziciona iluzija, Pojedinac i država, Institute of Social Sciences, Economic Research Center, Belgrade, 2005.

GLOBALIZACIJA I DRŽAVA BLAGOSTANJA

Branislav Mitrović

Globalizacija je razorno delovala na koncept države blagostanja koji je posle Drugog svetskog rata ustanovljen u mnogim zemljama. Funkcionisanje države blagostanja, naročito tokom poslednje decenije, izazvalo je ekspanziju troškova kojom je direktno bila ugrožena konkurentna sposobnost pojedinih nacionalnih ekonomija. Evidentne teškoće države blagostanja uslovile su potrebu za njenom reformom, pa se u mnogim razvijenim zemljama na tome intenzivno radi. S obzirom na visoke standarde koje nameće globalizacija, u radu se analiziraju mogući pravci reforme države blagostanja.

Ključne reči: *Globalizacija, država blagostanja, reforma, ekonomska efikasnost, konkurentnost, siromaštvo.*