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COMMENTARY

This section is designed for the discussion and debate of current economic problems. Contributions which raise new issues or comment on issues already raised are welcome.

Is globalisation undermining the welfare state?

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This paper analyses the evolution of the welfare states in the majority of OECD countries during the pre-globalisation (1946–80) and globalisation (1980–2000) periods. Our purpose is to find out whether globalisation has produced a convergence towards a smaller welfare state, funded increasingly by non-mobile factors such as labour, property and consumption rather than by mobile factors such as capital. The data presented here challenge the claims about such a convergence, showing that social public expenditures and public employment have continued to expand during the globalisation period in most OECD countries. We also show that the welfare states remain rooted in the political traditions that have governed them.

Key words: Economic globalisation, Welfare states, Labour markets, Political economy
JEL classifications: F0, G0, H0, I0

1. Introduction: the terms of the debate

A major subject of debate in important academic, political and economic circles in the 1980s, 1990s and into the new century has been the impact of the globalisation of economic activities (whether commercial, productive or financial) on the ability of the world's developed capitalist countries to sustain their welfare states. A prevalent position in these circles is that the deregulation of international capital flows and trade has considerably narrowed the scope of governments to pursue expansionist and redistributive policies, forcing all governments to cut social public expenditures and deregulate labour markets in order to make their countries more competitive.[1] Accordingly, the political colour of governing parties loses its importance, since left- and right-wing parties, once in government, are compelled to follow the same or similar policies, moving towards a more diminished welfare state. This argument assumes that the deregulation of capital markets and of trade forces governments to reduce their total levels of taxation, as well as shifting taxation away from mobile factors such as capital and towards less mobile factors such as labour. This fiscal

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[1] There is an extensive list of publications to support this position. For representative views, see Gray (1998), Greider (1997) and Mann (2001).

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reality, the argument goes, makes it harder for governments to finance their welfare states and ultimately leads, whatever the governing party's political leanings, to a convergence towards considerably smaller welfare states financed much more than previously by labour rather than capital.

This position, however, has not gone unchallenged. Pierson (1996) and Castles (2001), for example, have questioned the existence of a retrenchment of the welfare state in developed capitalist countries; Scharpf and Schmidt (2000) and others have questioned the existence of a convergence of welfare state policies in these countries; and Huber and Stephens (2001A) have raised questions about the dwindling importance of political parties in governments as an explanation of the evolution of welfare states.

This paper is a contribution to that debate. We use the most recent data available to test these two competing hypotheses: one ('convergence' theory) holding to the position that globalisation is the great equaliser of welfare states, forcing cutbacks to cope better with the economic realities of the 1980s, 1990s and beyond; the other ('politics still matter') holding to the position that the internal political forces within each country are the principal determinants of the evolution of welfare states. In this second position, the level and type of welfare state, as well as the share of total taxation, the sources of tax revenues, the size of social public expenditures on health, education and social services, and the size of public sector employment, all vary systematically, depending primarily on political forces and particularly on the political partnership of governments.

In order to test these hypotheses, we have analysed the evolution of some of the most important indicators of a country's level of welfare (such as social public expenditures, public employment, workers' compensation, household income inequalities, annual hours of work per worker and levels of poverty) in most of the OECD countries over the period 1980–2000 (the period of deregulation of capital flows and of trade; we have not included the years 2000–02 owing to problems with the accessibility of data for this period). Also, the period of globalisation, 1980–2000, is on occasion modified to conform with the dates for which comparable data are available. Regarding countries, we focus on the European countries of the OECD, North America and Japan, since they are the countries we know best. Countries have been grouped according to the political colour of their governments, defined by the parties that governed them (either in a majority or as major partners in a coalition with other parties) for the greatest number of years during the entire pre-globalisation period, 1946–80.

According to the first, 'convergence' hypothesis, we should see during the period of globalisation, 1980–2000, a convergence of all welfare states towards a reduced level of welfare, funded increasingly by taxes on fixed factors such as labour rather than on mobile factors such as capital. According to the second hypothesis, that 'politics still matter', we should see no such convergence during this period, but rather a continuing divergence of welfare states, each keeping the characteristics of the pre-globalisation era, 1946–80, rooted in the distinct political traditions governing those countries for most years in this period. Moreover, in this second scenario, if changes in welfare state characteristics *have* occurred during the globalisation period, these shifts are due to political changes in the governing parties rather than the process of globalisation.

2. Assessing the impact of politics on the welfare state before and during globalisation

In order to address this question, we have included in our study the four major political traditions that have governed in most OECD countries for the period 1946–80: the social

democratic tradition; the Christian democratic tradition or conservative traditions influenced by the Christian churches or Judeo-Christian culture and/or values; the liberal tradition; and the ultra-right-wing dictatorial tradition. We have grouped the OECD countries into these four major groups, based on the parties that governed them for longer periods of time during the pre-globalisation period, 1946–80. The criteria for assigning a country to a political tradition are similar to the well-established criteria developed by Huber and Stephens (2001B). The grouping is basically determined by the number of years each party has governed, either in the majority or as the dominant party in a coalition, with different scores depending on the degree of influence of the party within the coalition.[1]

During the pre-globalisation period, the *social democratic tradition* was dominant in Sweden (34 years in government), Norway (30), Denmark (29), Finland (18) and Austria (22), although the degree of dominance varied among the countries. In Sweden, the dominance was quite impressive, the social democratic party governing alone for the majority of those years (and with the support of other, minority parties in some years). In Austria, in contrast, the social democrats governed for long periods with the Christian democrats, which affected the configuration of the country's welfare state. Austria's welfare state was, in some of its characteristics, somewhat atypical of the social democratic model; for example, the low percentage of family-oriented public services, such as childcare and homecare services, that facilitate the integration of women into the labour force—a major characteristic of the social democratic model. In this group of countries, referred to hereafter as SDCs, the social democratic parties have also been the dominant political forces during the period of globalisation, 1980–2000 (see Verdu, 2002). They have continued to have a high percentage of unionisation of the labour force (70% as a group average); an even higher share of the workforce covered by collective bargaining agreements (85%) (OECD, 1997); and a large percentage of electoral share won by social democratic parties in general nationwide elections, although smaller than in the pre-globalisation period.

The *Christian democratic or conservative tradition* has dominated in the countries of central Europe; it includes two subgroups. The first consists of Belgium, the Netherlands and Germany, which, while having a very strong Christian democratic tradition in government for most years in the pre-globalisation period (20 years in Belgium, 22 in the Netherlands, 18 in Germany), also had strong social democratic parties that governed either alone or in coalition with the Christian democrats for some time during the period. Switzerland could also be included in this group, although the conservative tradition has been somewhat weaker than in the other three countries. The other subgroup includes France and Italy, where conservative parties (in the case of France) and the Christian Democratic Party (in the case of Italy) governed for most of the pre-globalisation period. Both countries had weak social democratic traditions, with the opposition primarily led by communist parties, which, as a result of the Cold War, were not allowed into government—with the short-term exception of the post-World War II coalitions. In this group of countries, hereafter the CDCs, the Christian democrats have continued to be the dominant political parties during the globalisation period, except in France, where social democrats governed for the majority (12 years) of 1980–2000. In all these countries, the Christian democrats have experienced decreased electoral support, being replaced in the case of Italy by large conservative coalitions (Verdu, 2002). In the CDCs, the percentage of the labour force in unions

[1] The data on political coalitions are derived from Müller and Strøm (2000). The data on the parliamentarian strengths of political parties are extracted from Caramani (2000) and www.parties-and-elections.de. See also Bartolini (2000).

declined to 31% (less than half that in the SDCs), while the percentage in collective bargaining agreements remained very large (82%) (OECD, 1997).

The *liberal tradition* was particularly strong in Canada, Ireland, the UK and the US during the 1946–80 period. We have included the UK in this group (as do Huber and Stephens), despite its being governed by the Labour Party for 16 years, because it was governed for most of the period by a conservative party of liberal persuasion—which explains its low level of social public expenditures and the residual nature of the welfare state (except the National Health Service), typical of the liberal welfare states. The Beveridge model provided a minimal level of welfare state, as noted by the liberal economist John Maynard Keynes. He referred to the Beveridge proposals (which became the basis for the British welfare state) as 'the cheapest alternative open to us and there is no doubt that Beveridge's definition of subsistence conformed to a very basic Spartan minimum' (Keynes quoted in Harris, 1975). And the data prove his point. By the time Keynes made this comment, the UK was spending less on social security than any other European democracy (Kohl, 1981). In these liberal countries, hereafter the LCs, the parties of liberal persuasion have continued to be dominant in the globalisation period, although social democratic parties have governed for some periods (such as the Labour Party in the UK during 1997–2000). In the LCs, unions have remained very weak (28% of the labour force unionised) and the coverage of the labour force by collective bargaining agreements has remained very low (31%) (OECD, 1997).

The *dictatorial, conservative tradition* was dominant in southern European countries (Spain, Portugal and Greece) during the pre-globalisation period. These countries, hereafter the EDCs (ex-dictatorship countries), were governed by ultra-right-wing dictatorships or authoritarian regimes for most of these years. Labour was very weak during these years, with unions being illegal and/or very weak for the majority of the period. These countries, however, saw major changes during the globalisation period as they underwent democratisation; all of them were governed for most of this period, 1980–2000, by social democratic parties (Verdu, 2002). With the institution of democracy, the percentage of the labour force in unions increased considerably (to 26%), as did the percentage covered by collective bargaining agreements (to 75%).

3. Justification for the methodology and objective of the study

The assignment of a country to a political tradition, of course, does not take into account changes that may have occurred within each political tradition, nor does it consider the possible nuances of a governing coalition in the configuration of social and economic policies. But, despite these limitations, our previous research has confirmed the studies of others, providing robust evidence that, at least for the pre-globalisation period, each political tradition configured a specific type of welfare state that differs from those configured by the other political traditions (Navarro, 2002B; also see Huber and Stephens, 2001B).

The *social democratic welfare states*, for example, were characterised in this period by very large social transfers of a universal character (benefits provided as citizens' rights), with large social public expenditures and large public employment in the services of the welfare state, such as health, education and 'women-friendly' and 'family-friendly' services (e.g., homecare and childcare services) that facilitate the integration of women into the labour force. (The exception here is Austria, owing to the influence of the Christian Democratic Party, with which the social democrats have governed for long periods of time.) Also characteristic of the social democratic welfare state are low household income inequalities, relatively low annual hours of work per worker, high labour compensation and low poverty in all age groups.

The *Christian democratic welfare states* were characterised during the pre-globalisation period by large social transfers related primarily to social contributions from the labour market and relatively low public employment, high labour compensation, higher household inequalities than in the SDCs, low annual hours of work per worker and relatively low poverty.

The *liberal welfare states* were characterised in the same period by low social transfers, low public services employment, very high household income differentials, high annual hours of work per worker, low labour compensation and high levels of poverty for all age groups.

The *ultra-right-wing dictatorship welfare states* were characterised in the pre-globalisation years by very low social public expenditures (the lowest of all groups), very low public employment (the lowest), very high inequalities, very high annual hours of work per worker and very high poverty for all groups (the highest).

The purpose of this study (besides looking for evidence for reductions in the welfare states and shifts in the patterns of funding) is, precisely, to look at whether or not the characteristics of the welfare states, based on political traditions, have been maintained during the globalisation period and, if they have changed, whether the change resulted from the deregulation of capital markets and trade or from political changes.

4. What happened to social public expenditures and public employment during the globalisation period?

The evolution of social public expenditures during the globalisation period shows that (a) there has been no decline of social public expenditures, (b) there has been no convergence towards diminished welfare states, and (c) the level and type of social public expenditures continue the patterns established in the pre-globalisation period, with some exceptions that cannot be attributed to globalisation.

Regarding the first point, social public expenditures, Table 1 shows that in all but two countries (Belgium and the Netherlands), these expenditures continued to increase during the period of globalisation. The same table also shows that the countries with the longest-governing social democratic parties (in both the pre-globalisation and the globalisation periods) remain during this period the ones with the largest social public expenditures (Sweden, 33·7% of GDP; Denmark, 30·8%; Finland, 29·5%; Norway, 26·5%; Austria, 26·2%); the SDCs also had, during this period, a high growth of these expenditures, on average (5·2 percentage points), second only to that of the EDCs (7·6 percentage points). The EDCs had the lowest social public expenditures during the pre-globalisation period, in which ultra-right-wing parties governed for the majority of the years in dictatorial or authoritarian undemocratic regimes. The considerable growth of these expenditures in the EDCs during 1980–2000 was primarily due to the social democratic parties governing for the majority of these democratic years; the level of social public expenditures, by the end of this period, even surpassed that in the LCs: the EDCs' average social public expenditure, 20·7% of GDP, was larger than the average in the LCs, 17·6%.

The CDCs continued to have large social public expenditures (27·1%) during the globalisation period, with a notable growth (4·0 percentage points) during these years. The largest growth of social public expenditures in the CDCs over these years was in France and Switzerland, the result in both cases of social democratic parties becoming the dominant political force. This dominance was particularly accentuated in France, where, by the end of the period, the level of social public expenditures (29·6%) was comparable to the average for the SDCs (29·3%). A similar situation occurred in Italy, although in this case, the political change during the period reflected more a weakening of the conservative coalition than dominance of social democratic forces. As for the other countries, only in Belgium and

Table 1. *Social public expenditures and employment*

	Social public exps. (% GDP)			Government employment (% total employment)		
	1980	1997	Change	1974	1997	Change
Social democratic						
Austria	23·9	26·2	2·3	9·6	15·4	5·8
Denmark	29·4	30·8	1·4	16·4	23·4	7·0
Finland	18·9	29·5	10·6	9·9	16·1	6·2
Norway	18·8	26·5	7·7	12·8	23·6	10·8
Sweden	29·8	33·7	3·9	18·7	21·3	2·6
Average	24·2	29·3	5·2	13·5	20·0	6·5
Christ./conserv.						
Belgium	25·6	25·1	–0·5	9·5	10·6	1·1
France	23·5	29·6	6·1	11·5	14·8	3·3
Germany	25·4	27·7	2·3	8·8	9·9	1·1
Italy	18·4	26·9	8·5	7·5	8·3	0·8
Netherlands	28·9	25·9	–3·0	7·0	8·3	1·3
Switzerland	16·7	27·2	10·5	6·9	11·1	4·2
Average	23·1	27·1	4·0	8·5	10·5	2·0
Liberal						
Canada	13·3	16·9	3·6	12·4	12·9	0·5
United Kingdom	18·4	21·9	3·5	14·0	10·1	–3·9
Ireland	17·6	17·9	0·3	7·5	7·0	–0·5
Japan	10·5	14·8	4·3	4·4	4·4	0·0
US	13·9	16·5	2·6	10·5	9·8	–0·7
Average	14·7	17·6	2·9	9·8	8·8	–0·9
Ex-dictatorships						
Greece	11·5	22·2	10·7	–	–	–
Portugal	11·6	19·1	7·5	6·2	11·4	5·2
Spain	16·3	20·9	4·6	5·6	7·3	1·7
Average	13·1	20·7	7·6	5·9	9·4	3·5

Notes: Data for Austria, Norway, the Netherlands, Great Britain, Spain and Portugal in column for 1997 refer to 1995.

Sources: Public and mandatory private social expenditures as a share of GDP from OECD, *OECD Social Expenditure Database 1980–1997*, Paris, OECD, 2000. Government employment as a percentage of total employment from OECD, *OECD Historical Statistics 1960–1997*, Paris, OECD, 1999, Table 2.13, multiplied by employment-to-population rate from OECD, *OECD Historical Statistics 1970–1999*, Paris, OECD, 2000, Table 2.13.

the Netherlands, governed for most of the period by coalitions with Christian democratic dominance, did social public expenditures decline. Even the LCs saw an increase in such expenditures, although the rate of growth was much smaller than in the other groups. By the end of the period, the LCs had become the laggards in the social public expenditure field.

Some authors, for example Clayton and Pontusson (1998), have questioned the value of regarding social public expenditures as an indicator of commitment to the welfare state, since increases in universal social transfers such as pensions may be a result more of the ageing of the population, for example, than of a greater generosity of pensions. Castles (2001), however, has shown that the growth of social public expenditure in these countries is, in general, above that required to cover the increased number of older persons.

Moreover, we have also looked at the growth of public employment (most of which is employment in the public services of the welfare state, such as health care, education and social services) and have found, as Table 1 shows, that public employment also increased in the majority of OECD countries. Only the UK and Ireland experienced a decline in public employment. All other countries had an increase, which was particularly large among the SDCs—the countries that continued to have greater public employment, largely in the services of the welfare state. By the end of the period, the level of public employment in the SDCs (as a percentage of overall employment) was 20%, almost double the average of the CDCs (10·5%) and more than double that of the LCs (8·8%) and the EDCs (9·4%). The EDCs experienced the second largest growth of public employment, surpassing the LCs, for the same reasons given above for the growth of social public expenditures. The differences in public employment between the SDCs and the other groups are due primarily to the SDCs' heavy reliance on the public sector for the provision of welfare state services—that is, most public services are provided by public employees—while the CDCs and other countries supply these services primarily through private providers. Moreover, the extent and coverage of welfare state services is larger in the SDCs than in the other groups of countries. Family-friendly and women-friendly services, such as childcare and homecare services, for example, are far more extensive in the SDCs than in the other groups. The SDCs, during the globalisation period, have remained not only public transfer rich but also public services rich. This latter characteristic explains why the SDCs have also continued to be public employment rich. The data presented in Table 1 show that the SDCs, for most of the globalisation period, continued to have the largest social public transfers and largest social services (provided primarily in the public sector).

The large size of the public sector services in the SDCs also helps explain why overall employment in services also remains very high in the SDCs—in 1999, an average of 68·7% of all workers were in the services sector—about the same as in the CDCs (69·0%) and the LCs (69·3%), and well above that in the EDCs (55·4%). These differences in services employment, particularly public sector employment, are strongly related to differences in women's participation in the labour force, which continues to be much higher in the SDCs (72·4%) than in the CDCs (60·7%), LCs (64·5%) and EDCs (54·2%) (OECD, 2000C). The reasons for this relationship are (a) services are the major suppliers of jobs for women (especially the personal and social services); (b) family-friendly and women-friendly services (e.g., childcare and homecare) enable women to combine their family and professional responsibilities; and (c) as Esping-Andersen (1999) has noted, participation of women in the labour market stimulates the demand for jobs in the personal services sector (cleaning work, restaurant work and so forth). Moreover, the public nature of much services employment in the SDCs appears to be associated with even higher rates of women's labour-force participation than in the CDCs or the LCs, which have comparable levels of total services sector employment but lower female participation rates than the SDCs.

The percentage of women in the labour force remained very high in the SDCs during the globalisation period, even though it declined somewhat in Finland and Sweden. Still, in 1999, women's employment rates in the SDCs (67·3%) remained higher, on average, than in the LDCs (61·8%), CDCs (54·1%) and EDCs (46·1%) (OECD, 1997). Women's employment rates were particularly low in Spain (37·7%), among the EDCs, and in Italy (38·8%), among the CDCs—the two countries with the lowest fertility rates. This situation, in which Spain and Italy have both very low fertility and low female participation in the labour force, challenges the widely held assumption in conservative religious circles,

Table 2. *Characteristics of the labour market: earnings, income, hours worked and poverty*

	Annualised growth in real compensation (%)		Relative hourly compensation in manufacturing, at market exchange rates (US=100)			Household income ineq. (90–10 ratio) early to mid	Average annual hours of work		Relative poverty rate (% of population, 1990s)		
	1979–89	1989–98	1980	1990	1999	1990s	1979	1999	Total	Elderly	Children
Social democratic											
Austria	1·9	1·4	90	119	114	2·89	–	–	2·8	6·8	2·6
Denmark	0·2	1·6	110	121	120	2·84	–	–	3·6	3·7	2·1
Finland	3·0	2·3	83	141	110	2·68	1,837	1,730	–	–	–
Norway	0·4	1·7	117	144	125	2·82	1,514	1,395	3·0	0·7	2·2
Sweden	1·3	1·3	127	140	112	2·59	1,516	1,635	4·6	0·7	1·3
Average	1·4	1·7	105	133	116	2·76	1,622	1,587	3·5	3·0	2·1
Christ./conserv.											
Belgium	0·9	1·5	133	129	119	2·76	–	–	1·9	4·2	1·6
France	1·0	1·0	91	104	94	3·32	1,806	1,562	3·2	3·6	2·6
Germany	1·2	1·2	124	147	140	3·18	1,633	1,399	4·2	4·0	6·0
Italy	1·4	0·5	83	117	86	4·68	1,722	1,634	8·9	4·7	14·1
Netherlands	0·0	0·4	122	121	109	3·08	1,591	1,343	4·7	3·1	4·6
Switzerland	1·5	0·0	112	140	123	3·39	–	1,588	4·0	3·1	4·4
Average	1·0	0·8	111	126	112	3·40	1,688	1,505	4·5	3·8	5·6
Liberal											
Canada	0·5	0·8	88	107	81	3·90	1,832	1,785	6·6	1·2	8·5
United Kingdom	2·1	1·3	77	85	86	4·52	1,815	1,719	5·7	4·0	8·3
Ireland	1·6	1·7	60	78	71	4·20	–	–	–	–	–
Japan	1·4	0·4	56	86	109	4·17	2,126	1,840	6·9	–	–
US	–0·3	0·6	100	100	100	5·64	1,845	1,877	10·7	12·0	14·7
Average	1·1	1·0	76	91	89	4·49	1,905	1,805	7·5	5·7	10·5
Ex-dictatorships											
Greece	–	–	38	45	48	–	–	–	–	–	–
Portugal	0·1	3·2	21	25	29	–	–	–	–	–	–

Spain	0·1	1·5	60	76	63	3·96	2,022	1,812	5·1	3·9	7·0
Average	0·1	2·4	40	49	47	3·96	2,022	1,812	5·1	3·9	7·0

Notes: Relative hourly compensation data for Germany refer to western Germany only; data for Greece and Portugal in column for 1999 refer to 1998. Earnings inequality is defined as the ratio of the 90th percentile to the 10th percentile of the earnings distribution. Average annual hours worked data are for all workers, except in the Netherlands and Germany, where they refer to dependent employment; German data refer to western Germany. Poverty measured as adjusted disposable personal income below 40% of the median.

Sources: Real compensation from analysis of OECD data in Mishel, Bernstein and Schmitt, *The State of Working America*, Economic Policy Institute, 2001, Table 7.5. Relative hourly compensation from US BLS, ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/ind2000.txt, page 6. Household earnings inequality from Smeeding, T. M. 'Changing Income Inequality in OECD Countries', Luxembourg Income Study Working Paper 252, March 2000, Figure 1. Poverty rates from Smeeding, T., Rainwater, L. and Burtless, G. 'United States Poverty in a Cross-National Context', paper prepared for the IRP conference volume Understanding Poverty in America: Progress and Problems, 28 September, 2000, Table 2.

including the Spanish and Italian churches, that women's participation in the labour force is the cause of the 'deterioration' of the family and decline in fertility rates.

In conclusion, the data presented here strengthen the position that 'politics matter' and that globalisation has not forced a convergence towards a smaller welfare state. Quite the contrary: the welfare states (measured by social public expenditures and by public employment) have, for the most part, continued to expand and have maintained the characteristics established in the pre-globalisation period. And when these characteristics have changed, this has been in response to political changes, not the process of globalisation.

5. Labour market conditions during the globalisation period

The available data, as shown in Table 2, confirm that, for the most part, labour compensation and growth of compensation were not adversely affected during the period 1980–2000. By the end of the period, the SDCs, as a group, had the highest hourly compensation in manufacturing (at market exchange rates) (116 compared with 100 for the US) and the second highest annual growth in real compensation (1·7%)—after the EDCs (2·4%), which had the lowest compensation during the pre-globalisation period. The SDCs were also the countries, along with the CDCs, with the lowest annual hours of work per worker (1,587 and 1,505, respectively). The LCs (the least 'worker-friendly' countries), in contrast, had the lowest rate of growth of real compensation (0·4%) and the highest annual hours of work per worker (1,805). Similarly, an analysis of household income inequalities and poverty shows that the SDCs had low household inequalities and low poverty in all age groups. The CDCs also have low levels of inequality and poverty, but not without exhibiting substantial differences across countries. Belgium, for example, had the lowest overall poverty rate in the OECD, while Italy had a very high child poverty rate (14·1%), comparable with that of the US (14·7%), the OECD country with the highest child poverty rate. This high level of child poverty is a consequence of the increased number of single mothers with very poor support from infrastructural services (such as childcare and homecare) and a very low minimum wage, among other factors. The LCs, to the contrary, had higher household inequalities and higher poverty rates for all age groups—although Canada had a very low poverty rate among the elderly (1·2%), one of the lowest among all OECD countries. The EDCs, which once had the worst labour market conditions, did improve significantly during 1980–2000, for the reasons mentioned previously; they surpassed the LCs in lowering poverty rates, approaching the levels of the CDCs.

As these data clearly show, political variables, especially the type of political party in government, continue to play the most important role in defining the conditions of the labour market and of the welfare state during the period of globalisation. For the most part, globalisation seems not to have left a mark.

6. The funding of the welfare state: how has it been affected by globalisation?

As indicated earlier, 'convergence' theorists assume that with the deregulation of capital flows and trade, states' ability to collect revenues must decline, forcing them to reduce their welfare states. These theorists also assume that with the increased mobility of capital over labour, taxation must depend more on fixed factors such as labour than on mobile factors such as capital. The available data challenge both assumptions.

As shown in Table 3, taxes (measured as share of GDP, three-year moving averages) increased for all countries during the period of globalisation. All countries (except the US)

Table 3. *Tax revenue as a share of GDP (% of GDP, three-year moving average)*

	1969	1979	1989	1998
Social democratic				
Austria	34·8	39·9	40·5	44·3
Denmark	37·4	44·0	49·0	50·1
Finland	32·2	37·0	43·2	46·3
Norway	34·4	41·7	42·1	42·6
Sweden	39·5	48·8	53·4	51·8
Average	35·7	42·3	45·6	47·0
Christ./conserv.				
Belgium	35·1	44·3	43·4	45·7
France	35·3	39·8	43·0	45·5
Germany	33·0	36·3	32·9	37·2
Italy	26·5	28·2	37·8	43·3
Netherlands	36·4	44·0	43·9	41·1
Switzerland	22·1	29·3	31·3	34·7
Average	31·4	37·0	38·7	41·3
Liberal				
Canada	30·4	31·4	35·1	37·2
United Kingdom	35·8	33·5	36·5	36·4
Ireland	28·8	30·5	35·0	32·3
Japan	19·0	24·6	30·6	28·3
US	27·0	26·8	26·9	25·7
Average	28·2	29·4	32·8	32·0
Ex-dictatorships				
Greece	21·1	24·2	27·9	33·5
Portugal	18·2	23·2	29·3	34·0
Spain	16·5	23·0	32·5	34·4
Average	18·6	23·5	29·9	34·0

Source: OECD, *Revenue Statistics 1965–1999* CD, Paris, OECD, 2000.

had higher taxes in 1998 than in 1979. Only during the 1990s was there a small decline in Sweden (which, until the end of the period, continued to have the highest taxes [51·8%]), among the SDCs, and in the Netherlands (from 43·9% in 1989 to 41·1% in 1998), among the CDCs. All other SDCs and CDCs, and all the EDCs, saw an increase in taxes as a percentage of GDP. All the LCs saw their taxes diminish in the 1990s, except Canada. By the end of the period, taxes as share of GDP were highest in the SDCs (47·0%, on average) followed by the CDCs (41·3%), with the LCs (32·0%) and EDCs (34·0%) having much lower rates. Taxes increased most in the EDCs, owing in part to the very low level of taxation in place during their dictatorship periods. Democracy—and social democratic governments—meant a larger level of taxation in the EDCs, surpassing that of the LCs. These data, incidentally, challenge the widely held assumption that countries seem to have exhausted their capacity to raise public revenues.[1]

[1] An example of that perception appears in Scharpf's statement that 'the share of taxes and social security contributions in GDP has risen steeply until the mid-1980s, but stagnated thereafter' (Scharpf and Schmitt, 2000, p. 73). Our Table 3 does not show that stagnation. Actually, Scharpf and Schmitt's own data—in their Table A.23: total taxation as a percentageof GDP (*ibid.*, p. 360)—do not support their thesis of stagnation either.

The source of tax revenues changed significantly over the period, and, generally, not along the lines predicted by 'convergence' theorists. The share of revenue from taxes on capital actually *increased* during 1980–2000 in most of the advanced capitalist countries, including the SDCs (which are among the most 'globalised' as a group, i.e., they have the highest exports and imports as a percentage of GDP). The only general exception was the LCs (see Table 4), where (except Canada) taxes on capital diminished. The decline in the contribution of taxes on capital to total tax revenue in the LCs might be consistent with the globalisation view, but not in the absence of similar trends in the rest of the developed economies. The rise in taxes on capital elsewhere suggests that it was national politics, not globalisation, that explained the fall in taxes on capital in the LCs. Needless to say, the composition of the taxes on capital may have changed. The tax per unit of corporate profits, for example, may have declined. But many governments have compensated for reductions in the top corporate tax rates by reducing capital tax shelters, intensifying the enforcement of tax laws and increasing the tax base (Genschel, 2002; see also Garret, 1998; Webb, 1998). In this paper, however, we are focusing on overall taxes on capital, without discrimi-

Table 4. *Taxes on corporate profits and capital gains as a share of total tax revenue (%)*

	1969	1979	1989	1998
Social democratic				
Austria	4·4	3·5	3·9	4·8
Denmark	2·9	3·1	4·2	5·6
Finland	4·8	3·7	3·6	9·0
Norway	3·3	6·7	5·4	9·7
Sweden	4·9	3·1	3·8	5·7
Average	4·1	4·0	4·2	7·0
Christ./conserv.				
Belgium	6·5	6·2	6·5	8·4
France	4·9	4·8	5·5	6·0
Germany	7·9	6·0	5·5	4·4
Italy	7·2	8·3	10·0	7·0
Netherlands	8·1	5·8	7·2	10·6
Switzerland	7·2	5·9	6·4	6·0
Average	7·0	6·2	6·9	7·1
Liberal				
Canada	14·0	11·5	8·4	9·9
United Kingdom	8·0	7·7	12·6	10·9
Ireland	7·9	5·7	3·4	10·7
Japan	25·1	20·8	24·3	13·3
US	15·2	11·9	8·9	9·0
Average	14·0	11·5	11·5	10·8
Ex-dictatorships				
Greece	1·6	3·5	4·6	6·3
Portugal	–	–	4·5	11·6
Spain	8·5	4·9	8·6	7·3
Average	5·1	4·2	5·9	8·4

Note: Data for Greece in column for 1998 refer to 1997.
Source: OECD, *Revenue Statistics 1965–1999* CD, Paris, OECD, 2000.

nating between types of capital. And, as Table 4 shows, taxes on capital as percentage of all taxes increased rather than declined in most OECD countries. Meanwhile, revenue from social security and payroll taxes (less mobile than capital and therefore supposedly better targets for taxation in the globalised economy) increased during the period of globalisation in most OECD countries, except in the EDCs. On average, for each group of countries, social security and payroll taxes as a percentage of all taxes increased between 1979 and 1998, from 22·3% to 25·2% in the SDCs, from 35·7% to 35·9% in the CDCs, and from 19·6% to 21·9% in the LCs, but declined in the EDCs over the same years, from 38·1% to 31% (see Table 5). The only exceptions to the increases in these types of tax during the whole period of globalisation were France and Italy, among the CDCs (which had a decline in these taxes, particularly during the 1990s, coinciding with the political changes referred to earlier); the UK and Ireland, among the LCs; and Spain in the EDCs. It is worth noting that the countries that saw major changes in their social security and payroll taxes were the ones that depended very heavily on these taxes for the funding of their welfare states—that is, the CDCs. In all these countries (except Germany), there was a decline in these types of

Table 5. *Social security and payroll taxes as a share of total tax revenue (%)*

	1969	1979	1989	1998
Social democratic				
Austria	33·5	37·4	39·3	40·3
Denmark	4·4	1·5	3·3	3·9
Finland	12·9	19·2	19·8	25·2
Norway	16·1	23·6	27·4	23·3
Sweden	16·4	29·7	29·2	33·5
Average	16·7	22·3	23·8	25·2
Christ./conserv.				
Belgium	29·1	29·5	32·3	31·6
France	37·3	44·5	45·7	38·5
Germany	28·4	34·5	36·3	40·4
Italy	35·4	37·0	33·6	29·5
Netherlands	34·8	38·1	41·2	39·9
Switzerland	23·7	30·5	32·1	35·7
Average	31·5	35·7	36·9	35·9
Liberal				
Canada	9·3	10·8	13·4	15·9
United Kingdom	17·7	22·3	17·4	17·6
Ireland	8·0	14·2	15·8	13·8
Japan	21·9	29·2	28·1	38·4
US	15·1	21·3	25·6	23·7
Average	14·4	19·6	20·1	21·9
Ex-dictatorships				
Greece	30·6	32·6	33·8	32·3
Portugal	24·0	31·6	26·3	25·5
Spain	38·1	50·2	34·6	35·2
Average	30·9	38·1	31·6	31·0

Note: Data for Greece in column for 1998 refer to 1997.
Source: OECD, *Revenue Statistics 1965–1999* CD, Paris, OECD, 2000.

taxes in the second part of the globalisation period, in 1990–2000, which could be explained by the need to reduce production costs imposed by the process of international competitiveness. But, when we look at the entire period 1980–2000, these types of taxes increased. Also, and against expectations, the contribution of income taxes (the most important taxes on labour) to total tax revenue declined in most countries (though not in Austria, France, the UK, the US, Greece and Portugal). Between 1979 and 1998, income taxes declined in the SDCs (on average) from 37·2% of total tax revenues to 33·7%; in the CDCs, from 26·7% to 24·2%; and in the LCs, from 31·7% to 31·1%. Only in the EDCs did they increase in this period—from 15·7% to 17·0% (see Table 6). It is worth stressing, incidentally, that the changes in taxation of property—even less mobile than labour—also give little support to the 'convergence' view. The tax share from property taxes did increase in 11 countries, but it fell in eight, including four of the five SDCs (OECD, 2000B). Consumption taxes as a percentage of all taxes also declined in the majority of countries. The only exceptions were Germany, the Netherlands, the UK, Japan and Spain (*ibid.)*

All these data challenge the assumptions that globalisation requires reductions in taxes

Table 6. *Taxes on individual incomes and capital gains as a share of total tax revenue (%)*

	1969	1979	1989	1998
Social democratic				
Austria	19·9	23·0	19·8	22·5
Denmark	42·7	50·6	51·8	51·5
Finland	38·5	38·8	38·4	32·3
Norway	38·8	31·1	27·8	27·3
Sweden	47·5	42·4	39·3	35·0
Average	37·5	37·2	35·4	33·7
Christ./conserv.				
Belgium	23·9	35·4	31·4	30·7
France	11·7	11·2	10·5	17·4
Germany	26·5	28·9	29·5	25·0
Italy	11·8	22·7	26·7	25·0
Netherlands	27·2	26·5	21·3	15·2
Switzerland	32·6	35·7	33·8	31·8
Average	22·3	26·7	25·5	24·2
Liberal				
Canada	29·2	33·6	38·3	37·8
United Kingdom	31·4	32·8	26·0	27·5
Ireland	17·3	29·9	31·7	30·9
Japan	21·4	23·7	24·7	18·8
US	36·8	38·4	37·5	40·5
Average	27·2	31·7	31·6	31·1
Ex-dictatorships				
Greece	9·1	12·9	13·1	13·2
Portugal	–	–	13·9	17·1
Spain	10·6	18·5	22·8	20·8
Average	9·9	15·7	16·6	17·0

Note: Data for Greece in column for 1998 refer to 1997.
Source: OECD, *Revenue Statistics 1965–1999* CD, Paris, OECD, 2000.

and shifts in the tax base towards less mobile factors. The data show that taxes increased during the 1980–2000 period in the majority of SDCs, CDCs, EDCs and LCs. Only in Sweden, the Netherlands, the UK, Ireland, Japan and the US did taxes decrease in the second part of the globalisation period, 1990–2000—a decrease, incidentally, that was unrelated to any obvious component of globalisation. Also, taxes on capital (as a percentage of all taxes) increased during the globalisation period in all the countries except Italy, Switzerland, the UK, Japan and Spain. Again, none of these increases can be explained by the needs of globalisation.

We conclude from these data that the expansion of welfare state expenditures required an expansion of tax revenues, which most governments of the OECD were willing to undertake. In this context, we note that it has not been common practice to support expansions of the welfare state by sustaining large deficits. The countries with the largest social public expenditures, the SDCs, have also been, during both the pre-globalisation and globalisation periods, those with the lowest public deficits, contrary to what Giddens has claimed. Giddens has erroneously accused the social democratic tradition of relying on public deficits for the expansion of public expenditures.[1] But the reverse is true: during the post-World War II period, the SDCs have consistently had the largest public surpluses or lowest public deficits in the developed world. In the 1990s, for example, the average public deficit for the SDCs was –1·4% of GDP, much lower than in the CDCs (–4·4%), LCs (–2·9%) and EDCs (–6·1%) (OECD, 2000A).

7. Is the welfare state responsible for the slowdown of economies?

Another argument of the 'convergence' theorists is that countries must reduce their welfare states so as to remain competitive, since welfare services excessively burden their economies, hindering economic growth. Indeed, it is widely known that economic growth slowed during the period 1980–90, a slowdown assumed to be caused by expansion of the welfare states. Table 7 shows a deceleration of growth during the whole period 1960–2000, a decline that, in general, was more accentuated in the globalisation period. This table also shows that the LCs, as a group, had the greatest economic growth during that period—a situation attributed to the LCs being the least encumbered with welfare states. Similarly, the low economic growth in the SDCs is attributed to their extensive welfare states. Per capita GDP growth over the period was particularly low in Sweden, averaging 1·1% per year during the 1990s, and some critics of the SDC model have attributed the relatively poor performance of the SDCs, especially Sweden, to 'excessive' welfare states, with too much government intervention and regulation of the economies. Lindbeck and Henrekson, in particular, have argued that Sweden's decelerated economic growth in the 1990s is a sign of the 'exhaustion' of the Swedish welfare state and an indication of the failure of the social democratic model.[2]

The unweighted average growth rate in the SDCs during the 1990s was, indeed, lower than the corresponding unweighted average for the LCs; however, this finding for the LCs depends entirely on the rapid growth in Ireland, where real per capita GDP rose at an

[1] Giddens (1998). For a critique of Giddens's economic assumptions, see Navarro, V., Is there a third way? A response to Giddens's *The Third Way*, in Navarro, V. (2002A, pp. 419–29). For Giddens's reply to Navarro's criticisms, see Giddens (2000).

[2] Lindbeck (1997). For a full discussion of Lindbeck's thesis and its critiques, see Korpi (2000), Henrekson (2000), Agell (2000) and Domrick (2000). Also see Henrekson (2001, pp. 38–58) and Korpi (2001, pp. 104–12).

Table 7. *Economic growth: annualised growth in real GDP per capita (%)*

	1960–73	1973–79	1979–89	1989–99
Social democratic				
Austria	4·3	3·0	2·0	1·8
Denmark	3·6	1·2	1·4	1·7
Finland	4·5	1·9	3·2	1·2
Norway	3·5	4·3	2·3	2·7
Sweden	3·4	1·5	1·8	1·1
Average	3·9	2·4	2·1	1·7
Christ./conserv.				
Belgium	4·4	2·2	2·1	1·7
France	4·3	2·3	1·8	1·3
Germany	3·7	2·5	1·9	1·3
Italy	4·6	3·0	2·3	1·2
Netherlands	3·6	1·9	1·3	2·2
Switzerland	3·0	–0·1	1·7	0·2
Average	3·9	2·0	1·9	1·3
Liberal				
Canada	3·6	2·6	1·7	1·1
United Kingdom	2·6	1·5	2·2	1·6
Ireland	3·7	3·3	2·7	6·1
Japan	8·3	2·4	3·1	1·4
US	2·6	2·0	2·0	2·0
Average	4·2	2·4	2·3	2·4
Ex-dictatorships				
Greece	7·1	2·6	1·2	1·4
Portugal	6·9	1·0	2·9	2·7
Spain	6·2	1·2	2·3	2·3
Average	6·7	1·6	2·1	2·1

Sources: Data for 1960–73 from OECD, *OECD Historical Statistics 1960–1994*, Paris, OECD, 1996, Table 3·2; rest of data from OECD, *OECD Historical Statistics 1970–1999*, Paris, OECD, 2000, Table 3·2.

average annual rate of 6·1% in the 1990s (see Table 7). Excluding Ireland, the LCs actually grew more slowly (1·5% per year) than the SDCs (1·7%). In fact, during the 1990s, Austria, Denmark and Norway all grew faster than Canada, Japan and the UK. The fastest-growing SDC economy, Norway (2·7%), grew faster than the US (2·0%); and Austria (1·8%) and Denmark (1·7%) were not far behind. Both groups of countries also had laggards: just as Finland (1·2%) and Sweden (1·1%) put in disappointing performances in the 1990s, so too did Canada (1·1%) and Japan (1·4%). As such, the evidence from national growth rates suggests that the SDCs fared no worse than the LCs in the 1990s. The suggestion that the deceleration in economic growth in the 1990s was a response to 'exhaustion' under the weight of the welfare state is not supported by the available data. Real GDP growth rates declined in the 1990s in almost every OECD economy, regardless of the type and extent of their welfare states. Even in the US (a laggard in the welfare state league), real per capita GDP growth was no greater in the 1990s than in the 1973–79 and 1979–89 periods, and was well below what it had been in 1960–73. The case for exhaustion in Sweden is particularly

problematic, because the low real GDP growth rate in the 1990s was the product of a sharp and sudden recession in the early 1990s (–1·1% change in real GDP in 1991, –1·7% in 1992, and –1·8% in 1993) and a sustained and energetic boom at the end of the 1990s (2·1% real growth in 1997, 3·6% in 1998, 4·1% in 1999, and 3·6% in 2000). If the Swedish model was exhausted by the end of the 1980s, it somehow managed to revive at some point in the mid-1990s and did so without a significant restructuring of its labour market or its welfare state.[1]

The thesis that the welfare state has hindered economic performance also conflicts with data on the employment performance of the SDCs. As a group, the SDCs, for most of the period since 1960, including the 1990s, have had high employment levels, low unemployment rates (except Finland) and rapid, widely shared, compensation growth (see Table 2). The institutional structures that have helped generate these egalitarian outcomes may also have contributed to—and certainly have not hindered—the SDCs' strong participation in nearly all aspects of the 'new economy'.[2]

8. If not the welfare state, what did cause the economic slowdown in the period of globalisation, 1980–2000?

The expansion of social public expenditures occurring in all the SDCs (and in most other countries, except the US, Ireland and UK) was not the reason for the generally slowed economic growth and increased unemployment in the European Union in the 1980s and 1990s. The actual reasons include high continent-wide interest rates following German reunification; the creation of a European Central Bank with a mandate to focus exclusively on inflation; the fiscal austerity required by the Maastricht Treaty; the collapse of the Soviet Union (which particularly affected countries, such as Finland, that had substantial trade with the Soviet bloc); the late transition out of agriculture (especially in the EDCs); and the deregulation of financial markets. In that respect, deregulation of capital markets has led to higher interest rates in deregulated markets (making it more difficult for investors to borrow) as well as higher levels of instability in capital markets, which has reinforced the negative effects of higher interest rates. As Table 8 shows, gross fixed capital formation (as a percentage of GDP) declined (except in Germany) in the globalisation period, 1980–2000, in the overwhelming majority of developed capitalist countries considered in this study, consistent with the thesis that recent financial market developments have been detrimental to real investment. The countries with the greatest declines in investment were the SDCs, where gross fixed capital formation fell from an average of 26·4% of GDP in 1974–79 to 20·1% of GDP in 1990–99; between the same two periods, gross fixed capital formation fell from 23·7% to 20·9% in the CDCs, from 23·9% to 20·3% in the LCs, and from 27% to 22·4% in the EDCs. The liberalisation of capital markets had a greater negative impact in the SDCs than it did elsewhere, because the SDCs had historically relied on public credit policies—a major component of what is usually referred to as 'supply-side socialism'—which were particularly adversely affected by the deregulation of financial markets. Moreover, liberalisation of capital markets weakened the relationship between banking and industry that had been a characteristic of the SDCs, as well as of the CDCs (Huber and Stephens, 2001A).

[1] Moreover, the largest employment growth took place primarily in the export-oriented sectors, maintaining a percentage of the adult population working in such sectors above the OECD-18 average; see Scharpf and Schmitt (2000, pp. 89, 345).

[2] According to a recent OECD review of the 'new economy,' for example, in the 1990s, Sweden (a) trailed only Japan (first) and the US (second) in the number of patents granted relative to GDP; (b) led the OECD in business spending on research and development (R&D) as a share of GDP; and (c) was second, after the US, in government-financed R&D as a share of GDP; see OECD (2001, esp. ch. III).

Table 8. *Gross fixed capital formation (% of GDP)*

	1960–73	1974–79	1980–89	1990–99
Social democratic				
Austria	26·7	25·3	22·9	23·6
Denmark	23·8	23·2	19·7	18·8
Finland	26·4	28·6	26·5	19·4
Norway	27·5	32·7	27·0	21·5
Sweden	23·3	22·1	20·9	17·2
Average	25·5	26·4	23·4	20·1
Christ./conserv.				
Belgium	21·6	24·6	19·4	21·0
France	23·8	24·2	21·7	19·6
Germany	24·6	21·2	20·8	22·5
Italy	24·6	25·5	22·6	19·2
Netherlands	25·6	23·0	21·5	21·3
Switzerland	27·9	23·5	25·1	22·0
Average	24·7	23·7	21·9	20·9
Liberal				
Canada	21·8	23·5	21·7	18·9
United Kingdom	22·4	20·1	18·5	17·1
Ireland	20·0	24·9	21·0	18·6
Japan	32·6	31·8	29·1	29·1
US	18·4	19·4	19·2	17·7
Average	23·0	23·9	21·9	20·3
Ex-dictatorships				
Greece	27·8	28·3	24·2	20·8
Portugal	26·5	26·7	26·7	23·4
Spain	24·1	26·0	22·3	22·9
Average	26·1	27·0	24·4	22·4

Sources: Data for 1960–73 from OECD, *OECD Historical Statistics 1960–1994*, Paris, OECD, 1996, Table 6·8. Other periods from OECD, *OECD Historical Statistics 1970–1999*, Paris, OECD, 2000, Table 6·8.

Even though the SDCs have lagged behind the CDCs, LCs and EDCs in investment, employment in the SDCs continues to be among the highest in the developed capitalist countries. One important reason for the strong employment performance of the SDCs in the face of low investment is their large services sectors, especially public services. Even though financial market deregulation has forced the SDCs to abandon key components of 'supply-side socialism', such as credit policies, financial deregulation has not caused reductions in the level of social public expenditures and public employment. As shown earlier, the SDCs still have the highest levels and growth rates of social public expenditures, which have been sustained primarily by social democratic tax policies. Although the deregulation of financial markets, usually referred to as the globalisation of finance, has adversely affected the continuation of major elements of 'supply-side socialism' in the SDCs (though not affecting their welfare states), other dimensions of globalisation, such as the globalisation of trade in goods and services, have not had any obvious adverse effects on the development of social democratic policies in these countries.

9. Summary and conclusions

The data presented in this paper show that, for the most part, the welfare states of most developed capitalist countries have not converged during the globalisation period towards a reduced welfare state. On the contrary, over the globalisation period, whether measured as a share of GDP or by public employment, welfare states have grown across the large majority of the world's richest economies. Also, during this period welfare states have continued to be different, retaining their individual characteristics, shaped primarily by the dominant political tradition that governed each country during the pre-globalisation period. However, in countries where welfare states did undergo some change during the globalisation period, these changes resulted largely from changes in the governing parties. The most significant changes occurred in countries that had suffered under ultra-right-wing dictatorial or authoritarian regimes for most of the pre-globalisation years and had then, in the period of globalisation, made the transition to democracy governed primarily by social democratic parties.

The data presented here also challenge another assumption of the 'convergence' theory, which assumes that the globalisation process has forced a shift of welfare state funding towards a greater reliance on taxes on fixed factors of production such as labour or consumption and lesser reliance on taxes on mobile factors such as capital. In fact, taxes on capital have increased and taxes on labour, property and consumption have declined in the majority of OECD countries. Some aspects of the globalisation process, however, have affected the composition of the revenues through which states fund their welfare states, as well as affecting their economic and social policies. The deregulation of capital markets, for example, has changed considerably the ability of social democratic governing parties to follow a key component of supply-side socialism—their credit policies. Also, in the 1990s, the globalization of trade might have provided the rationale or the justification for the decline in the social security and payroll taxes in the countries that have traditionally relied heavily on this type of taxation to fund their welfare states, as in the CDCs. In both cases, however, the political colour of their governments has played the major role in the states' responses to these situations, to ensure that the welfare state is not reduced. Politics do indeed matter.

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