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Globalization and the Welfare State: Towards and International Perspective

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1. Introduction

The debate on the implications of globalization for institutions of social welfare has focused mainly on western industrial societies. In doing so it has glossed over some crucial aspects of this relationship, namely a) the destabilizing effect of financial openness on national economies and its implications for social protection b) the influence of international financial institutions (IFIs), notably IMF and World Bank, on the social policy of nations and c) the erosion of 'social protection by other means' and its implications for welfare. The paper substantiates this argument by looking at the globalization and welfare nexus in four groups of countries: the less developed, newly industrializing, ex-communist, and western industrial. In conclusion it emphasizes the need for an international perspective, besides national and cross-national ones, for an adequate understanding of the relationship between globalization and welfare. Given the broad scope of the topic the paper aims at providing an overview. Thus data are used to illustrate points rather than to provide a detailed examination of the issues concerned.

But how does the paper relate to the Productive Welfare initiative of South Korea (henceforth Korea) - the main focus of this international symposium? Essentially the paper helps to locate this important initiative in the context of global developments. Thus each of the three points made above are relevant to Korean welfare. First, financial liberalization and the rapid movement of portfolio capital has had a major destabilizing effect on Korean economy resulting in a sharp rise in unemployment and social distress. It has underlined the need to develop and strengthen appropriate forms of social protection, at any rate as one of the policy options. Second, through the IMF loan conditionalities Korea has had first hand experience of supranational influence on economic and social policies affecting national autonomy in policy-making. Third, financial liberalization followed by the currency crisis of 1997 has seriously disrupted Korea's form of 'social protection by other means', namely private sector full employment and steady economic growth within a relatively insulated economy. The new departure signaled by the Productive Welfare initiative seems to be about the need to develop adequate social protection, in the context of a globalizing economy, responsive to both economic and social needs of the nation. In short, Productive Welfare is a call for new forms of system (efficiency) and social (solidarity/justice) integration in the changed context of an open, market economy and a democratic polity in Korea. By extension the model should also be relevant to other countries - in East Asia and elsewhere - faced with a similar situation. However Productive Welfare is about many other things besides economic globalization, e.g. democracy, not dealt with in this paper. Conversely this paper is concerned with other issues, e.g. the need for an international perspective in the study of social protection, whose relevance to Productive Welfare is only indirect.

2. Enter Globalization

Until recently, the welfare state has been studied almost entirely within a national framework. This is not surprising given that it has developed as, and still remains, very much a national enterprise.

The basic assumption underlying the welfare state has been that of substantial policy autonomy on the part of the nation state in respect of macroeconomic management and the determination of monetary, fiscal and social policies. True, national economies and polities, especially the former have never been closed systems. They have been implicated in international and supranational systems and processes. Nonetheless it has been possible to study the welfare state with virtually little or no reference to the supranational dimension. At any rate this seems to have been the case with the welfare states in advanced industrial societies.[1]

It is not difficult to see why the focus has been on the national level. In its heyday, spanning roughly 1950～75, the welfare state functioned in the context of an international framework of trade and financial arrangements (Bretton Woods institutions, fixed exchange rates, capital controls) which provided the nation state with a good deal of economic stability as well as autonomy. The international framework was supportive of the welfare state and could therefore be taken for granted. It could thus, in a sense, be left out of account in the studies of the determinants and influences on social policy which were seen primarily, if not entirely, as national and endogenous. Moreover the process of the dissolution of the Bretton Woods framework since the early 1970s has been piecemeal and gradual. For example it was not until the 1990s that the abolition of capital controls was completed in the developed economies (Kelly 1995:216).

More recently, however, the relative insulation or the 'national embeddedness' of welfare states has been increasingly challenged by a set of developments typically subsumed under the term 'globalization'.[2] Globalization is not so much a theoretical concept as a convenient label - a keyword - which has been employed widely to refer to a major societal trend which has gathered momentum over the last couple of decades. In broad terms it refers to a process through which the nation-state is becoming more open to influences that are supranational. These

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1) This is not to say that exogenous variables have not received some attention. Thus Cameron (1978) found a positive correlation between social expenditure and trade dependence of economies. Katzenstein (1985) advanced the thesis that international vulnerability of small trade-dependent countries leads to cooperation among social partners, in short corporatism, and results in a more developed system of social protection. Castles (1989) argued that high tariffs and restriction on immigration enabled Australia and New Zealand to develop a 'wage-earners' welfare state' as part of a system of 'social protection by other means'.

2) The literature on globalization is immense. Held et al.(1999) provide an encyclopedic overview.

may be economic, cultural, technological or political in nature. As far as the welfare state is concerned, interest has centered on economic globalization which is seen as curtailing the policy -making autonomy of nations and putting a downward pressure on social protection and social standards in advanced industrial countries (Teeple 1995; Rhodes 1996; Mishra 1999). In this paper the focus will be on economic aspects of globalization understood as i) economic liberalization, i.e. freer trade and especially financial flows across countries, and ii) the influence of global intergovernmental organizations (IGOs), notably the International Monetary Fund (IMF) and World Bank (WB), on economic liberalization and the social policy of nations.

The study of globalization from the perspective of the welfare state remains underdeveloped. Apart from the tradition of nation-centredness, a part of the difficulty is that the global dimension requires an understanding and articulation of the nature of <u>international</u> political economy whereas students of the welfare state have been concerned primarily with the <u>national</u> political economy (Rhodes 1996; Deacon 1997). In any case, since the mid-1990s there has been a growing perception that the international context of the welfare state has changed in significant ways and a literature concerned, directly with the implications of global economic developments for the welfare state has been accumulating (for example Piven 1995; Teeple 1995; Rhodes 1996; Pierson 1998; Mishra 1999).

It is generally recognized that the international context or the 'environment' in which the national welfare states operate today is different from the time when the Bretton Woods framework, with fixed exchange rates and capital controls, was firmly in place. But what exactly the new environment means for the welfare state remains contentious. Again how recent is the global influence on social policy of nations and what forms it takes remain underexplored issues. One problem here is that until recently the debate has been concerned mainly with the welfare state in advanced industrial societies and thus remained confined within somewhat narrow limits.[3] Much of the literature has focused on the impact of global markets and financial openness on the welfare state primarily in terms of curtailment of social programs or cutbacks in social benefits and expenditures. Framing the issue in this way it has been possible to argue that the consequences of globalization per se have not been particularly significant and that current trends and developments can be explained adequately in terms of the influence of endogenous variables (for example Pierson 1998; Hirst and Thompson 1999). Others have argued the case for the continuing salience of social democracy for welfare state policies despite the globalization hype (Garrett 1998). It is not intended to join that debate here (see Mishra 1999). Suffice to say that I have argued elsewhere that globalization needs to be taken seriously and that its implications are somewhat contradictory as far as state welfare is concerned (Mishra 1998; 1999). Be that as it may, this paper is concerned with one of the major limitations of this debate, namely the lack of an international perspective, and its implications.[4]

Thus one of the principal arguments of this paper is that in order to understand adequately the nature of globalization and its consequences for social protection of nations it is necessary to look beyond industrial societies. In short one needs, so to speak, to globalize the globalization and welfare debate. At present it remains compartmentalized with little or no connection between the study of globalization and social protection in different group

3) There is now a growing body of literature which explores the implications of globalization for economies outside the WICs. This is beginning to extend the parameters of the debate and to offer new insights into change and development in social protection. For example on Korea see Lee (1999); Shin (2000); Kwon (2001).

4) Deacon et al.(1997) address this issue but focus on the social policies - manifest or latent - of supranational agencies such as IMF, WB, OECD, European Union and the differences among them. This paper, on the other hand, is concerned with an international perspective which includes IGOs and other global influences and which might help us understand their implications for social protection across a range of societies.

of countries. The rest of this paper will seek to highlight the relationship between the global sphere and social welfare in the four 'worlds' comprising the less developed countries (LDCs), the newly industrializing countries (NICs), the former communist countries, and Western industrial countries (WICs). It will then consider the implications of this analysis for the globalization and welfare relationship.

3. Globalization and social protection in the LDCs

The comprehensive system of social protection which we know as the welfare state in industrialized countries does not exist in most developing countries or exists only in a rudimentary form. Full employment policies, universal health care, insurance or assistance-based programs of income security are often non-existent or only partially developed. However, modes of protection have to be seen in relation to the level of economic development and the institutional setting of nations. Thus it is more appropriate to focus on the functions of social protection rather than on specific structures or institutional arrangements through which they are met (Castles 1989).

While most developing countries share features of social protection with developed countries, e.g. the provision of education, health care and housing, there are other distinctive programs such as consumer price subsidies, price controls, food rations and the like which play a vital role in sustaining incomes and /or living standards in LDCs. These measures, which constitute 'social protection by other means' (Castles 1989), i.e. by means other than the formally-recognized policies and institutions of welfare, have been the target of drastic cutbacks and restructuring at the behest of the IMF and WB. The stabilization and structural adjustment programs, initiated by these IFIs as a condition for granting or rescheduling loans to LDCs, have been the means for implementing these policies.

As is well-known, general debt management by the IMF involves two different measures: stabilization, and structural adjustment. The former aims at correcting the balance of payments deficit and involved such action as currency devaluation and a drastic curb on imports. The latter involves a more comprehensive program of restructuring the economy of the debtor country. It includes measures such as a sharp reduction in public spending, reduction or elimination of consumer subsidies on food and other necessities, retrenchment of social programs, privatization of state enterprises and reduction in wages in order to attract foreign companies and make exports more competitive.

Between 1978～1992 more than 70 LDCs were involved in upwards of 500 programs under the auspices of the WB and IMF (McMichael 1996:132). How far the conditionalities were strictly observed and what were their precise economic and social consequences has been, not unexpectedly, a matter of contention and debate. It must be remembered too that in many countries there was a great deal of opposition to these conditionalities and adjustment programs. The draconian measures required by the IMF and their impact on living standards led to riots and disturbances in not a few countries (McMichael 1996: 203). Domestic political responses naturally varied. Moreover, circumstances differed from one country to another. Nonetheless, in broad terms conditionalities and adjustment programs meant the following. First, national autonomy in policy-making was substantially curtailed. Second, the economic medicine prescribed by the IMF led to substantial unemployment and reduction in wages. Measures of social protection, notably consumer subsidies, and social development were sharply curtailed. The result was a drop - sometimes severe - in living standards and a rise in poverty and deprivation. Third, the country's economy was opened up to foreign investors and more closely integrated into the global economy, with its attendant risks and benefits. For example, the strategy of export-led growth prescribed to these countries resulted in a glut of supply and a sharp fall in export prices (McMichael

1996:153). In any case during the 1980s there was a major reorientation in development policies. National development goals were replaced by those of participation in the world market. The reach of the global economy was extended.

The overall debt burden of LDCs rose by 61% during the1980s. And from the mid-80s the annual outflow of funds for debt servicing from the developing to the developed world exceeded the inflow. By 1997 the total debt burden of developing countries had reached almost $2.2 trillion (UNDP 1999:107). The hardest hit have been the forty or so heavily indebted poor countries, mostly in Africa. Since 1980 their debt burden has more than tripled, two-thirds of it the result of earlier loans and arrears unpaid. As the UNDP (ibid.) report sums up, this debt burden 'drains public budgets, absorbs resources needed for human development and inhibits economic growth'.

4. The NICs or the emerging markets of Asia and Latin America

The term emerging market economies generally refers to the NICs of Asia and Latin America which offer opportunities for profitable investment. These countries share with the LDCs the experience of loan conditionalities and austerity policies imposed by IFIs, notably the IMF, with broadly similar implications for the living standards of the population. However, perhaps what is distinctive about the experience of emerging economies *is the way financial openness can destabilize the national economy* precipitating serious economic crisis and delivering the country into the arms of the IMF which then proceeds to arrange a bail out with various conditionalities. This is a different situation from that of the LDCs in that here it is essentially the financial openness of national economies and problems of private sector debt, rather than balance of payment difficulties or problems of public debt, that precipitates the crisis (Singh 1999). Here the impact of globalization is direct. Moreover as recent financial crises in Mexico (1994) and Korea (1997) show, these two NICs - both recently-admitted to membership of the OECD with the latter boasting a sophisticated industrial economy- have been vulnerable to economic destabilization and the collapse of currency and stock markets (ibid.; Grabel 1999) with serious consequences for the well-being of the population.

With the opening up of many NICs to foreign investment, in particular portfolio investment, a new chapter seems to have begun in the saga of globalization. As a part of the neoliberal economic policies promoted by the 'Washington consensus' more and more countries have been under pressure - directly or indirectly - to open up their economies to foreign investment. Down to the 1980s the NICs of East Asia, e.g. Korea, Taiwan and Indonesia, have had a variety of controls and restrictions in place on foreign investment. From about the mid-1980s many of these countries were persuaded to ease or remove these restrictions and to welcome foreign investment (Singh 1999:28). The result was a huge inflow of funds, mainly in the form of portfolio investment, in search of substantial returns. Moreover many companies and businesses in these countries borrowed heavily from foreign lenders in order to finance speculative and other economic activity. Although the principal causes of the financial crisis of South East Asia in 1997 remain a matter of contention, given the nature of the financial institutions and limited foreign exchange reserve of many NICs, financial liberalization must be considered an important precipitating cause of the crisis. For unlike many of the LDCs discussed above the Asian NICs, for example, did not have a balance of payment problem, their public sector was relatively small, budgets were not in deficit, and they had been hailed as model developing economies by IFIs such as the IMF (Felix 1998; Singh 1999). What then went wrong? In 1997 the perceived weakness of one of the currencies - the Thai 'bhat' - and the possibility of its devaluation caused a run on the currency and the 'contagion effect' spread to neighbouring countries. The result was a mass exodus of short-term foreign investment out of these countries. The collapse of the currency and the stock markets led to economic contraction, massive lay offs and a sharp drop in living standards (ILR 1999; OECD 1999a; UNDP 1999). At the same time foreign banks called in their short-term loans (denominated in dollar) which the private borrowers were unable to pay. The resulting shock to the global markets and the possibility of the contagion spreading further afield, led the US and other G-7 nations to arrange a rescue package. In December 1997 Korea received a bail out of $57 bn (the biggest so far, topping the $50 bn. Mexican bail out in 1995). Indonesia received a package of $43 bn (Grabel 1999:37). The Korean rescue package, overseen by the IMF, required the restructuring of the banking system, opening of the economy immediately to foreign imports, raising the limit on foreign ownership of stock, reducing government spending and raising taxes (ibid.). In the event, the severity of the economic downturn and other factors, including widespread criticism of IMF's policy of 'One size fits all' and strong opposition from within Korea led the Fund to set aside its austerity policy.[5] However, overall the initial rescue package had a strong deflationary bias (Palley 1999:107; Singh 1999:33).

As a result of the economic crisis, production, consumption, employment and incomes - all suffered a sharp decline in, e.g. Korea, Indonesia and Thailand. The poverty population jumped another 12~20%, suicide and reported domestic violence increased sharply in, for example, Korea. In these and other Asian NICs, which virtually enjoyed conditions of full employment until then, unemployment rose sharply (ILR 1999:195; UNDP 1999; 40). In Korea, for example, registered unemployment rose from just over

5) In fact given Korea's strong fundamentals it has been possible to apply a considerable fiscal stimulus to the economy. Thus government spending rose by about 17% in 1998 and the budget, which was in surplus earlier, went into deficit as a result (OECD 1999a:10). See Lane et al.(1999) for IMF's concern with social issues in the East Asian crisis.

2% in mid-1997 to over 8% in early 1999 (OECD 1999a: 20). Whereas before the crisis unemployment was concentrated among younger age-groups, post-crisis unemployment hit the older (30～50) age groups who accounted for half of the unemployed workers. It was the relatively insulated nature of the Asian economies (their 'strategic integration' in world economy as one economist puts it), which was in no small measure responsible for their spectacular economic success and which allowed them to maintain full employment through private sector jobs. Moreover along with relative job security went some work related benefits. That is one reason why unemployment insurance and other forms of income support programs for the unemployed were virtually non-existent or in a rudimentary stage of development in these countries. Sudden and unexpected onset of unemployment therefore had 'disastrous consequences for the unemployed and their families' who 'simultaneously lost their incomes and income-related benefits, such as health insurance' (ILR 1999: 195). Indeed overall these countries have been slow to develop social programs, especially income security programs for the working age population relying instead on private sector full employment, corporate welfare and traditional family support (Goodman and Peng 1996).

One of the consequences of openness is that the system of social protection by other means has been weakened, if not undermined. Elsewhere I have made the point (with reference to Japan) that in so far as these forms of social protection are eroded the population will be far more vulnerable to economic insecurity and one of the options must be the expansion of state welfare (Mishra 1999: 85～91). How different countries and governments respond to this problem of course depends on a host of domestic factors. Thus Korea seems to have accepted economic liberalization and greater market orientation of the economy while at the same time deciding to strengthen the social safety net especially in respect of unemployment insurance and social assistance (OECD 2000; Korea 2000). Korea's response to unemployment, poverty and social inequities caused by the financial crisis has to do, in part, with the strength of trade unions and other social movements as well as recent political developments which have strengthened democracy (Cumings 1998; Gills and Gills 2000; Kim and Moon 2000). Although IMF loan conditionality has paid some attention to the need for social safety nets - a necessary corollary to the prescription for opening up these economies further - these concerns remain somewhat marginal and symbolic for the Fund. It has to be remembered too that in so far as loans demand fiscal austerity, reduction in public spending and the like it may be more difficult for these nations to develop or extend social protection measures.

In a sense the East Asian crisis was nothing new. In 1994～5 Mexico had been hit by a not dissimilar crisis and illustrates very well the perils of financial openness for emerging market economies. By 1994 Mexico had not only joined the NAFTA but also the OECD thus symbolizing its coming of age as a relatively stable and maturing economy. These developments led to a large inflow of foreign portfolio investment in the early 1990s. Rising stock market prices and high interest rates on short-term bonds made the country very attractive for higher returns. However the bubble was to burst soon. During 1994 the stock market fell by about a third in value. In December the peso was devalued by 30% but in fact fell further. Confidence in the functioning of the 'borderless' global economy as well as in the NAFTA were at stake. A bailout package of some $50 bn. (the biggest ever) was arranged hastily by the G-7 nations under US leadership to stabilize the peso and to restore investor confidence. Once again the task of setting the conditionalities and supervising the loan fell on the IMF (Grabel 1999).

The result of the economic crisis, high interest rates and the austerity policies demanded by the IMF was a massive inflation, sharp contraction in consumer demand, rising unemployment and falling wages. True, within a couple of years the economy improved, growth picked up and investor confidence had been restored. But it was a different story for the large majority of the people. During 1993～8, for example, average wages fell at a rate of 1.6% per anum while prices rose by an annual rate of 19.7% (OECD 1999b: 'Basic Statistics, International Comparisons'). In the late 1990s, four-fifths of the country's population was still worse off than in 1982 (Pieper and Taylor 1998:50).[6] Moreover membership of NAFTA and the conditionalities attached to the loan means that the economy is now more open than before to global investors and thus at a higher risk for the repetition of the 1994-5 crisis through the sudden exit of portfolio capital.

In sum, financial liberalization has introduced a serious risk of the destabilization of the economies of the NICs through sudden outflow of portfolio capital and other forms of 'hot money'. Financial bailouts are aimed primarily at protecting the investors' and creditors' interest and the associated conditionalities often add to the diswelfare of the general population resulting from the crises. Moreover, the resolution of the problem within the framework of financial openness increases the risk of recurrent crises and diswelfare for the population likely to be followed by further bailouts. Thus a vicious cycle is set in motion. The consequences for systems of social protection are contradictory. On the one hand the commodification of the economy increases insecurity, undermines existing forms of social protection and thus underlines the need for adequate social safety net in an open globalized economy. On the other hand the disruption of the economy, resource constraints and fiscal austerity, and the

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6) The Mexican case shows what can happen to industrializing nations as a result of financial liberalization. Clearly much depends on endogenous variables, e.g. the state of the economy, the nature of financial institutions and their management, the nature of the polity and the government. Thus Korea's rapid rebound after the crisis of 1997, fall in unemployment rate to below 4% by 2000, low rate of inflation and the extension of social protection and labour market policies provides a useful contrast to Mexico. It has to be remembered, however, that Korea is world's eleventh largest economy with a per capita income double that of Mexico and now with very substantial foreign exchange reserves. On Korean rebound and social policies see OECD (1999a; 2000).

ideology of privatization militate against building programs of social welfare. How to manage this contradiction is an important problem of public policy in these societies.

5. Global economy and the former communist countries

As far as transnational influence on welfare is concerned, the ex-communist countries share a number of features with the LDCs and emerging economies - economic vulnerability due to financial openness, the influence of IFIs on social policy, the erosion of 'social protection by other means' - but within a context that differs in important respects from that of the other two groups of countries. For one the former communist countries have been in a difficult process of transition from state socialism towards a market economy and open society. For another all this is taking place against the backdrop of a well-developed system of social protection. The impact of supranational forces needs to be seen in this context.

With the collapse of communism in the USSR and Eastern Europe in the late 1980s the former communist countries were faced with the task of reconstructing their economy and society. In broad terms this meant a transition from state socialism to some form of liberal economic and political order, a transition that had no historical precedents and thus no blueprints or models as a guide. At any rate it was also evident that these countries will need economic assistance to make the transition (a different model of economic transition is being followed by China and Viet Nam), an assistance that could only come from the West. It came packaged with the dominant Western economic ideology of neoliberalism. These countries were advised to go for an all out radical reform and to integrate their economies within the world economy. This meant moving away from a relatively closed economy and society to one completely open to global capitalism in terms of trade and financial flows. This approach to transition, which came to be known as 'shock therapy' (ST) involved such things as trade and financial liberalization, currency convertibility and the unleashing of market forces in the domestic economy (Gowan 1995; Standing 1996).

The transition was expected to create some economic dislocation and problems of adjustment in the short run. In fact the policy of ST, combined with weaknesses inherited from state socialism, proved disastrous for many of these countries resulting in a huge drop in production, large scale unemployment, sharp decline in wages, large increases in poverty and deprivation and in economic inequality. This was accompanied with massive inflation, balance of payments problems and a serious lack of revenue for governments (Gowan 1995;Standing 1996).

The system of social protection these countries inherited was a part of the old order of state socialism with its ideological commitment to economic security and collective consumption. Its three major bases were: full employment for both men and women; a system of consumer price subsidies which held down the cost of living very substantially (these two comprised' social protection by other means'); a set of universal, if low quality, services such as health, education and child care, and a range of income transfer programs, e.g. pensions and child allowances, again at a low level of benefits. Employment related benefits were also important and in fact overlapped with state programs.

The decollectivisation of the economy and its marketization under the ST approach meant the end of full employment and a drastic reduction, if not elimination, of subsidies. Each of these had considerable negative impact on living standards and the sense of economic security of the population. The third base of social protection - the social programs - has also been restructured resulting, in broad terms, in greater selectivity and residualism. Some income transfer programs, e.g. pensions, have seen a good deal of privatization. Given the policy of compulsory full employment (an aspect of state socialism), these countries did not have unemployment insurance or similar measures. These had to be put in place as a part of the transition (Standing 1996).

With balance of payments and other economic problems resulting from the transition these countries needed financial aid. This involved IFIs such as IMF and WB and, as in the case of the LDCs, the task of arranging and supervising loans provided these IFIs with the leverage for influencing economic and social policy. In general, fiscal austerity, the reduction of public expenditure and greater use of selectivity in social programmes have been the guiding policy principles of the IMF for these countries. With the ST approach and associated adjustment policies the social costs of transition - varying in degree from one country to another - have been heavy in terms of impoverishment and destitution, inequality, falling life expectations and other quality of life indicators (Standing 1996; Truscott 1997; Ferge 2001).

Although the economies of some of the former communist countries, e.g. Poland and Hungary, have recovered well since the mid-90s the legacy of the transition and adjustment policies for social protection would appear to be more long lasting. Meanwhile the burden of foreign debt continues to weigh heavily on many of these countries (Strange 1998:94). In sum, supranational influences - working through global investors as well as IFIs - have been prominent in shaping economic and social policies with serious consequences for the living standards of the people. Moreover forms of social protection specific to state socialism - notably compulsory full employment and consumer subsidies - have been substantially dismantled making for a marked convergence towards the western welfare state model.

6. Western industrial countries

At first sight the situation of the WICs seems to be very different from that of the other countries discussed above. First, as we have seen, in all three groups of countries the role of the IFIs - primarily IMF but also WB - in curtailing policy autonomy of nations and in restructuring social policy in a neoliberal direction has been quite prominent. In the WICs, by contrast, IFIs have played no such role and these countries have not had their policy-making autonomy impaired in this way. Second, in emerging market economies financial liberalization has brought a large measure of volatility through the ebb and flow of short-term foreign investment resulting in the destabilization of the economy, fall in output, rise in unemployment, drop in living standards and rise in poverty. The loans and conditionalities that have usually followed under the auspices of the IMF contain a bias towards a deflationary policy and fiscal austerity. The 'social protection by other means' that has characterized the emerging Asian economies, in conditions where state welfare remains less developed, has been weakened as a result. In the WICs, by contrast, financial liberalization and the free flow of investment across borders has not meant the destabilization of economies or serious currency crises - problems that a country's own economic and financial resources (including borrowing on the market) cannot cope with. In short, the kind of impact of globalization on economic and social welfare of nations seen in East Asia and elsewhere recently has no counterpart as far as WICs are concerned. These differences are not unimportant. Does it mean, then, that the WICs are immune to the destabilization of their economies and free from the influence of IGOs?

Let us begin with the influence of IGOs. The WB has little to do with WICs while the IMF has not been involved in bailing out any WICs for over two decades. Thus it has not had a direct say in the fiscal and social policy of these countries. On the other hand the indirect influence of the IMF on WICs - by way of the surveillance of monetary and fiscal management, offer of expert advice, regular meetings and consultations with finance ministers and other government officials of member countries - is not to be underestimated (O'Brien et al. 2000:161～2; IMF 1999;Gerster 1994). And by and large, this influence has been strongly monetarist and liberal in orientation. The OECD, which acts more as a think tank for the WICs, also seeks to influence the economic and social policy of member countries. Although more eclectic and less orthodox in its approach than the IMF, the OECD also appears to favour financial liberalization, greater market-orientation of the economy and a smaller role for the social state.(Deacon 1997: 70～3; Mishra 1999:8～11).[7)]

In sum, although IGOs such as the IMF and OECD do not exercise direct control over social policy of the WICs indirectly they influence policy options and choices of these countries. True, the pro-market liberal policies generally favoured by these institutions is not an easy sell within member states. WICs are democracies and therefore government policies are subject to challenge by interest groups and opposition parties. In short democracy acts as a counterweight to global neoliberalism. Here again the WICs may be in a somewhat different position than the LDCs, the NICs and ex-communist countries where democracy and civil society are not so well developed and institutionalized. Moreover the European Union appears to be playing a progressive role by way of developing minimum social standards, albeit mainly concerned with the workplace, for member countries.

Although the WICs have not so far experienced any destabilization of the economy it would be wrong to conclude that they are immune to such a development. Thus the Asian crisis of 1997 which was followed by financial crises in Brazil and Russia in 1998 did pose a threat to the stability of the global economy as a whole. The bailouts organized by the G-7

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7) The OECD's attitude to social expenditure and social protection seems to vary between the 'European' and the 'American' approaches. Since the mid-1990s the European approach seems to have gained ground somewhat.

governments (led by the US) during the 1990s were, in part, meant to contain and defuse the crises and stop the contagion from spreading more widely. An example of a direct threat to Western financial institutions is provided by Long Term Capital Management, a leading American hedge fund which was highly leveraged and which faced almost certain collapse in the fall of 1998. The domino effect on stock markets and other financial institutions and through them on the US economy could apparently have been serious. A rescue package for the fund was put together hastily by Western banks at the initiative of the Chairman of the Federal Reserve and the President of the Federal Reserve Bank of New York. (Warde 1998). Clearly the increased integration of the global economy itself together with financial openness means that the WICs are also potentially at risk.

Compared to the stable financial regime under the Bretton Woods dispensation the current regime of financial openness and flexible exchange rates increases the risk of large scale economic destabilization, hardly a sound basis for sustaining national welfare states. Indeed as the experience of Sweden in 1992 shows, the currencies of WICs have at times come under severe pressure leading to significant shifts in social policy (Crotty et al. 1998:137～40).

Despite these commonalties between the WICs and other countries the impact of globalization on WICs takes a somewhat different form. It is more indirect and diffuse in nature although broadly in the same neoliberal direction. We shall look briefly at three broad areas of social concern: full employment, social security, and taxation and inequality. Keeping in mind that conditions vary from one country to another and that global pressures are mediated through the political economy of the nation-state the following generalizations seek to capture the broad trend. First, financial openness and mobility of capital together with flexible exchange rates means that Keynesian macroeconomic management in order to create full employment and stable economic growth is not feasible - or at least not effective - in an open economy. Second, heightened international competition and associated changes in market conditions demand greater labour market flexibility and the acceptance of low wage employment. Governments are under pressure to cut back unemployment benefits and social assistance to the able-bodied. Third, conditions of openness and capital mobility are exerting a downward pressure on taxation and social spending as nations are placed in a competitive situation in order to attract or retain private investment and create a business-friendly environment. Bond markets are influencing the fiscal policy of nations through the credit rating of governments. Progressive taxation is becoming a thing of the past as top income tax rates plummet and there is a marked shift from income and corporate taxation to the more regressive consumption taxes. Both pre-tax and post-tax inequality of incomes has increased markedly. In sum global capitalism, with the support of IGOs such as the IMF and others, has been exerting a good deal of pressure, directly or indirectly, to scale down the comprehensive systems of social protection developed within the context of a more stable international framework of finance and relatively closed national economies (Mishra 1999).

However counterpressures in the form of democratic opposition, long-standing national commitment to social partnership and social market approach, e.g. in Continental Europe, are moderating the neoliberal thrust of global capitalism. Moreover the idea that social programs could make a positive contribution to productive efficiency and social cohesion seems to be finding greater acceptance. Hence, overall, we find that WICs have not as yet traveled far down the road of shrinking the social state and reducing social protection.

7. Summary and Conclusions

Evidence from the world outside of the WICs suggests that an exclusive focus on the latter in terms of the effect of globalization is limiting in a number of ways. For one it ignores almost entirely the role of IGOs in curtailing the policy-making autonomy of nations, one of the key issues in the relationship between globalization and social protection. This role has been direct and pronounced in the case of a large number of countries around the world and needs to be brought into focus. This is important for a number of reasons. First, it draws attention to the fact that globalization involves more than just pressure from markets and private enterprises; IGOs are also involved. Second, it highlights the fact that IGOs are also influencing the social policy of WICs and that the nature of this influence has yet to be examined systematically. And although these IGOs, especially the World Bank, are now far more aware of the social consequences of their economic policies as well as the fact that directly or indirectly they are involved in making social policy this social dimension needs to be made more explicit. Third, a focus on the IGOs, notably the IMF, OECD but also the World Trade Organization, underlines the fact that globalization is a process - rather than a finished state. This is important in that a good deal of complacency in the literature about the durability of the welfare state stems from treating globalization as though it was a finished state. A related point is that these IGOs are closely involved in the process of extending the reach of globalization. The Multilateral Agreement on Investment (MAI), a measure which was piloted through the OECD in near secrecy for about three years before being shelved, is a case in point (Clarke and Barlow 1997; Braunstein and Epstein 1999). Fourth, a focus on the role of these IGOs raises the issue of legitimate governance in the area of global policy-making. For IFIs such as IMF and WB are not democratic bodies but reflect the economic power of donor nations.Yet their decisions have direct implications for welfare policies of nations. Other IGOs, e.g. OECD, also suffer from lack of transparency and accountability (witness, for example, the secrecy surrounding the MAI).

We turn next to the implications of financial openness and cross-border flow of capital for nations. Here again an exclusive focus on WICs tends to miss out almost entirely on the role of financial openness in destabilizing economies. In Mexico (1994~5), in Korea and other Asian countries (1997~8), and in Brazil and Russia (1998) the sudden exodus of foreign capital has had a major impact on the economy resulting in loss of output, bankruptcies, unemployment, fall in living standards and poverty. Moreover these crises required bailout loans which generally involve further belt-tightening and public expenditure cuts. In the case of East Asian countries economic destabilization has disrupted, if not substantially weakened, the bases of their economic success and 'social protection by other means', i.e. rapid economic growth and private sector full employment. One response to this, notably in Korea, has been to expand the scope of state welfare and strengthen social protection (Kwon 2001). Systems of social protection have also been undergoing a transformation in former communist countries bringing them closer to the Western welfare state model. Thus globalization appears to be resulting in a convergence in systems of social protection across different types of societies, a development that is missed out if the focus is exclusively on WICs. Moreover the transition from the old forms of social protection to the new ones needs to be examined systematically as a problem of social policy development in its own right, a problem to which Korea under the presidency of Kim Dae-Jung seems to be devoting a good deal of attention.[8)]

No doubt, financial openness and the flow of foreign investment has also brought economic benefits for countries

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8) See Korea (2000). An example of recent initiatives in this respect is the International Symposium on the development of Productive Welfare organized in Seoul in September 2001. It would be of considerable interest to see how Japan handles the problem of transition from its highly institutionalized system of social protection by other means, i.e. private sector full employment and enterprise welfare, to a form of social protection commensurate with an open globalized economy. In light of the combined weight of endogenous and exogenous factors it seems likely that Japan will expand state programmes of welfare substantially.

outside the WICs. However the question must be asked at what cost? And what kind of benefits and for whom ? For as the case of Mexico, for example, shows economic growth can resume within a short time following the crisis, stock markets surge and foreign investors return. But it is a different story as far as the majority of people are concerned. They may have to pay for the cost of adjustment in terms of fall in living standards and retarded social development for a long time. Whereas the bailouts protect the interests of foreign and domestic investors there may not be any kind of bailout for the people of the country concerned. Hence the importance of national responses to globalization and social protection. These responses will vary depending on a host of economic and political factors and determine whether and how the need for adequate social protection and labour market policies to help people to adjust to new conditions is met. The contrast between Mexican and Korean responses to financial crisis of the 1990s shows this quite clearly.

In any case, the drastic effect of financial openness raises the question of the need to regulate financial flows in order to prevent economic destabilization. Recent studies by UNCTAD show that the rising frequency of financial crises is associated with the growth of international capital flows in the 1990s (UNDP 1999: 40). A look at countries outside the WICs underlines the serious consequences that can result from financial openness. Thus far the WICs have been spared the kind of dramatic destabilization we have seen elsewhere. But this does not mean that Western economies are immune to the virus of instability - they too seem to be potentially at risk in a global economy.

In sum, there is a case for bringing an international and global perspective to bear on the study of the relationship between globalization and social welfare. At present it tends to be compartmentalized in terms of different groups of countries due to academic specialization and the important differences that exist among countries. This paper has argued that such a specialized approach needs to be complemented by a wider and more unifying international perspective. In such a perspective the consequences of i) economic liberalization and ii) the policies of economic IGOs, for social protection (including 'social protection by other means') and social standards would have to be centre stage. That could provide the common ground for the study of globalization and welfare relationship across major types of society, namely developed, developing, and transitional (ex-communist), and offer a more adequate database for understanding this relationship. Within such a framework the Productive Welfare paradigm can be examined as a significant response to problems of national welfare precipitated by globalization.

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