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Does globalisation explain the crisis in European Welfare states?

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Abstract
The paper intends to argue that although globalisation has catalysed the process of shrinking of welfare state, it is not an adequate explanation for the grand scale reduction in spending on social security. For the purpose, it would examine the major turning points in the history welfare state in Europe such as the oil crisis, the abandoning of gold standard, erosion of post war consensus on welfare and so on. It concludes that globalisation does not actually lead to any specific set of economic policies which requires large scale spending cuts. Certainly, disciplining the welfare system in Europe was a real need sprouted out by the spread of globalised economic forces. But, the scale of spending cuts pint fingers at the underlying neoliberal consensus in the West than the actual forces of globalisation.

Keywords: globalization, Europe, welfare state, oil crisis, neo-liberalism

Introduction

The welfare state was essentially the product of twentieth century. It played a historically important role in the post war reconstruction of Britain, France and Germany while the United States played a crucial in realising the European welfare states. In the post war Europe, the state assumed the central role meeting the needs of the society from cradle to tomb, including health and employment.

The European welfare state model is much praised sametime criticised from round the corners. But, the nature of welfare state changes from country to country. There is nothing much in common between the welfare regimes of major nations in the Western Europe as they function under varieties of capitalism. Of course, globalisation has certain effects on the welfare states in Europe, especially Britain and France. The increasingly intense economic competition from the new economic giants such as India and China has undermined the capabilities of the European states in retaining their economically less viable welfare measures. However, the extent of spending cuts and reduction in welfare provisions in the United Kingdom and France shows that it is the erosion of political consensus than economic necessities driving the current ‘rolling back of the welfare state’. The paper intends to argue that although globalisation has catalysed the process of shrinking of welfare state, it is not an adequate explanation for the grand scale reduction in spending on social security. For the purpose, it would examine the major turning points in the history welfare state in Europe such as the oil crisis, the abandoning of gold standard, erosion of post war consensus on welfare and so on.

Spending Cuts Going Ideological

Globalisation is not simply about economic changes. The very beginning of globalisation was marked by the collapse of Soviet Union and the consequent rise of neoliberal orthodoxy and market fundamentalism. More than the economic crisis, it is the collapse of an ideologically coherent leftist politics that helps the neoliberal governments to go on with their anti-people politics of cuts. It is especially true in the case of Britain and France as the economic policies of these countries increasingly subsidise the super-rich at the expense of ordinary tax payers. One could bear in mind that how eagerly the government in Britain bailed out big banks at the time of recession. It is ironical the same governments do not find funds for conserving vital community services such as schools and hospitals. In France and Britain, it is not difficult to see that economic policies are predominantly favouring the finance capital and speculators. The increasing homogenisation of political parties in terms of economic polices too is a reason for the rolling back of welfare regimes. For instance, in Britain, both the Labour party and the Conservative party prefer the same course correction measure to ‘recover’ the economy. Needless to say, such economic policies are derived from neoliberalism and Washington Consensus which ideologically opposes any kind of subsides to the poor and the weaker sections of the society. Globalisation has helped the transnational consolidation of elites who want to divert the economic resources for the welfare of the rich. Once could call it socialism for the rich and capitalism for the poor. This consolidation is especially facilitated by the rise of far right groups in the United States, Britain and France.

The Floating Currencies

The invention of floating currencies was the beginning of the making economic globalisation. On August 15, 1971, the United States withdraw from the Bretton Woods system and it marked the end of Gold Exchange Standard. Here, the US dollar achieved the status of the exchange standard and became a floating currency. Britain also had to switch to floating system. Then, most of the countries of the West had followed the same. The difference is that in the new system each currency has to constantly fix its value against other currencies. As the oil was priced against dollar, it led to a decline the real income of the oil price which made the OPEC to set the oil price against gold. The foreign exchange market has become the sole determinant of the value of a currency. The floating currencies although have helped to create a level playing field at the global level, it has undermined the capacity of nation states in Europe to 'divert' funds for social security measures.

The 1973 Oil Shock

The 1973 oil crisis was a truly a globalised event. The oil embargo established by the organization of Arab Petroleum Exporting Countries (OAPEC) was felt in the Western Europe and took a decisive toll from the welfare measures. The industrialised economies of the Western Europe were predominantly based on crude oil and the OPEC was the major supplier. The oil price was raised to $ 5.11, the increase was of 70%. The embargo was mainly meant to defeat the US dominance, it substantially affected Western Europe. Later, the embargo was particularly directed against the United Kingdom too. The oil crisis badly affected the motor industry in the Western Europe. It was also caused by the fact that there was shift from economic cars to expensive cars which are not fuel efficient in the Western Europe. More and more consumers shifted to expensive cars and contributed to the rise in the oil use.

The Vicissitudes of Welfare State in Western Europe

The welfare policies in the developed countries are in decline and constant threat from market-friendly governments from 1970s onwards. The encounter with globalisation has irrevocably transformed most of the European welfare states. But, the changes with welfare in the Europe are not in uniform or equal. The welfare policies in the Europe itself differ from country to country. In the Western Europe, many of the problems of the welfare state were not product of globalisation but national issues. For instance, as the society expected more from the state, it was unable to deliver. Genschel is of the view that "it was not the global market, by placing external limits on the welfare state's ability to act, that was to blame for the discrepancy between social demands and welfare state performance; the welfare state itself was the problem. It systematically encouraged attitudes and expectations that it was not in a position to satisfy. The institutional guarantee that social needs would be taken care of worked as an incentive for people to invent new needs" (2004, p.614) [4]. The contradictions of welfare state were pointed out by theorists of both left and right by the end of 1960s itself.

It has been observed by many theorists that the security provided by most of the European countries differ considerably from the welfare states in other regions. The European states are considered to be meta-welfare regimes wherein the state plays the key role in the provision of welfare. It is contrast with many other welfare nations wherein family and kinship play a vital role in providing welfare. It is a matter of fact that the welfare state is multifaceted as "it is at one and the same time a manifestation of a political community, an expression of solidarity, and an attempt to eliminate destitution, reduce class differences and forge cohesive and stable communities. It has served as a defining element in national identity and citizenship. Now that the welfare state is under threat from powerful forces and interests, it is important to recall its encompassing mission and solid achievements in promoting economic security and well-being, human dignity and social solidarity, political participation and empowerment" (Esping-Anderson, 1996, p. vii) [3].

Industrialisation and its pace have strong relation to the making of welfare state. Historically, the countries in the Europe have developed sophisticated welfare regimes as they advanced the process of industrialisation. However, deindustrialisation started from 1970s onward in many parts of the Europe has contributed to the decline in the crisis of welfare regimes in Europe. The convergence hypothesis proposed by Adeltado and Cuevas proposes that welfare state with high levels of income redistribution will be have to face more cuts and the welfare regimes with a less spending have to raise their level of welfare spending in respond to globalisation (2006, p. 378) [1]. The middle ground is where the welfare polices are moving to, not bottom or the top.

In other words, the European social policy in general is directly linked to the corresponding economic polices and industrial polices. On the other hand, the Marxist tradition sees the decline in welfare policies as a result of the weakening of class struggle in general and the decline of working class power in particular. Along with globalisation, a number of radical changes have occurred with economic, social and political structure of the western European society. Esping-Anderson has sought to assert that "the welfare state is the culmination of a centuries-old struggle for social protection and security in the industrialised countries. It may justly be regarded as one of their proudest achievements in the post-war period. It set a model and a standard for aspiration for the newly industrializing and transitional countries as also for the poorer countries. All too often the welfare state is treated as a homogenous entity and as an economic project" (1996, p. vii) [3].

International forces are increasingly playing an important role in the shaping of national polices. No longer the national polices are developed with exclusive reference to the national discourses. Therefore, welfare policy now is less a product of national polices than international market trends. In brief, the international context of welfare policy is coming to the forefront of policy discourse. There were also many political reasons for the decline of welfare state in Europe. According to Genschel, "competitive party democracy stagnated because global competition left no room for leftist economic policy alternatives. The corporatist foundation of the welfare state was at risk because (mobile) capital, thanks to its new international exit options, no longer needed state support to force wage restraint and discipline on (immobile) labour. The welfare state looked doomed" Genschel (2004, p. 614) [4]. Until 1970s national economies of the Western Europe were effectively controlled.

Fiscal competition among the states for capital attraction is one of the major reasons for spending cuts. Expenditure on social benefits is being seen as detriment to the competitiveness of the national economy. "Many of the difficulties facing the Western welfare states are linked to the new competition from East Asia, East Europe, and Latin America; in turn, as the latter become successful industrializers, their traditional forms of social protection become untenable if not outright incompatible with sustained growth and democracy" asserts Esping- Anderson (1996, p. x) [3]. Globalisation also causes reduction in public expenditure on the infrastructure development as well.

The welfare state has been actively used in the Western Europe as agent of crisis management. The oil shock of the 1970s, the recession and other capitalist crises in 1990s and the present one are the best examples of welfare state's management of crisis. Social policy is essentially a tool of the welfare State in managing economic crisis. As the crisis retrenches, the welfare measures also shrink. "Gloablization was the Western European crisis of the 1990s. The red menace had disappeared with the implosion of the Soviet empire and public attention turned to the dangers connected with the final triumph of capitalism" ruminates Genschel (2004, p. 613) [4]. Here, good governance is considered to be a matter of being friendly enough to the market, especially in the Britain and Germany along the lines of the United States of America.

Adelantado and Cuevas have argued that the globalisation has resulted in a kind of pressurisation of the economies of Europe and thereby caused a 'relative reduction' on welfare spending and social protection policies. It has led to widening gap between the poor and the rich and has affected the marginalised sections' ability cope up with vulnerabilities and risks. The most important point raised by them is that it is the countries have previously spend most on welfare measures are the ones at the forefront of welfare cuts.

Consequently, such countries have also seen rise in inequality and income distribution. On the other hand, the countries that have previously spending less on the social welfare have presently increased the spending. Competition has become the buzzword in the global capitalist economy. It directly affects the national policy environment as well. The national economic are counterposed to the economies from other regions in terms of competitiveness. International agencies such as IMF and World Bank too have played a critical role in shaping the welfare policies of many European nations. The European Union has especially intervened in many ways to change the welfare measure provided by the individual member countries. The international influences on national economies are not simply enforced by global agencies, it is actively sought by many governments.

Castles has proposed the 'shared social and economic development thesis' with relations to social security policies of OECD nations. According to him, the second half of twentieth century was crucial in redefining the notion of economic growth and planning in Europe. However, such changes were country specific and had remarkable differences from one country to another. Here, the welfare growth is not seen in linear terms. Similar trends are of course to be found but not similarities in scale and direction. The OECD figures shows that there is both convergence and divergence in gross expenditure and net expenditure by the European state in welfare provision. However, by the beginning of the new millennium, the spending patterns of the European states mostly in huge decline and theory are equally found to be racing to the bottom. Therefore, contraction is observed to be the universal principle of welfare regimes in Europe. The globalisation has caused too much pressure from market forces on nation states. But, different states tend to respond to such pressures in drastically different ways. Here, it is possible to take account of the development of varieties of capitalism in the European countries.

There is no overarching welfare policy for the Europe. Welfare policies differ from English speaking nations, Scandinavian countries, western continental Europe to southern Europe. The future of the welfare state is important in defining the social policy in the Western Europe. But there is no consensus on the future direction of the welfare state. The welfare policies in Britain, France and Germany could only be understood in concrete historical context of their developments. According to Schwartz, "globalization and the erosion of the welfare state really should be understood as the erosion of politically based property rights and their related streams of income, and as reactions to that erosion. Actors with different kinds of property rights put forward policy prescriptions derived from those different property rights in fights over social protection, the public sector and the welfare state" (2001, 44) [7]. The changed property relations have paved for structural adjustments in the economy once the right political balance is found.

The recasting of welfare state has been along process especially in Britain, France and Germany. Some of the factors which were the positive products of welfare society itself now challenge the survival of welfare as longevity. Such forces include "ageing of the population, changes in family structures, slowdown in economic growth, high levels of unemployment, soaring budget deficits, growing resistance to high taxes, ascendancy of market forces, privatization of economic and social activities, increasing national and international competition, accelerated globalization and technological change" (Esping-Anderson, 1996, p. vii) [3]. Britain has from 1970s onwards clearly favoured policies of deregulation and market driven growth. The continental Europe is nearly frozen in terms of social security provisions. In the Western Europe, welfare is primarily a question of social citizenship.

Conclusion

Globalisation has substantially affected the economic sovereignty of nation states in the Europe. The invention of floating currencies marked the beginning of the undermining of the economic sovereignty of welfare regimes in Europe. However, the loss of economic sovereignty further accelerated by deep economic globalisation does not automatically lead to the reduction in welfare spending. The actual reason for the rolling back of welfare state in Europe is the result of the emergence of the neoliberal consensus among the ruling classes from across the world, especially the ruling classes of America, Britain and France. The de-legitimation of the traditional left and the rise of far right (riding on anti-immigrant and islamophobic rhetoric) have contributed much to the free run of neoliberal policy regime. Schwartz affirms that welfare state did not disappear rather "most states chose to reformat the welfare state around market forms of regulation. But the survival of most formal welfare state programmes did not obscure the essential disappearance of social protection in the broad service sector as deregulation and privatization thrust millions of workers and thousands of firms into the market. So the broad welfare state was murdered, even though the narrow, formal welfare state survived" (2001, 44) [7]. In the Britain, Thatcher used the spending cuts to save the market from collapse. The labour government also notoriously followed the suit. The changes in the interests of many national groups were one of the reasons for the rolling back of the welfare state. The changing property rights and relations which themselves were the product of the welfare too state had been contributed to the creation of a political force which could surpass the post war consensus on welfarism. To conclude, globalisation does not actually lead to any specific set of economic policies which requires large scale spending cuts. Certainly, disciplining the welfare system in Europe was a real need sprouted out by the spread of globalised economic forces. But, the scale of spending cuts pint fingers at the underlying neoliberal consensus in the West than the actual forces of globalisation.

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