

On Economic Globalization and the Citizens' Welfare State

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Abstract

In this paper are examined the desirable future course as modern Welfare States, which are challenged today by a question of which way to proceed in a swiftly globalizing economy. It contains following assertions: first, the major question today is the choice of social balance between economic growth and social welfare, second, to deal with this question the viewpoint of three socio-economic virtues will be useful; efficiency, equity and human fellowship, thirdly, the experiences of the past two decades show that the four welfare states have been more or less tilted toward economic growth than to social welfare, fourthly, the dynamic force of economic competition in the new conditions of globalization will inevitably continue to steer the way toward growth-first society, sixth, this trend has already made serious problems among the social members through unstable employment and social security, particularly among the vulnerable, seventh, what is necessary today is to correct this balance toward higher social welfare, eighth, and the only way to do this is to strengthen safety net by a heavier burden on the citizens' side, hence by making a citizens' Welfare State.

Keywords: Economic Globalization, Citizens' Welfare State, Efficiency, Equity,

Human fellowship

I Introduction

The major question is set forth as “What should welfare state be tomorrow?” To answer this question, it will be helpful to proceed with the following sub questions.

Sub questions:

- 1 Why is this question important?
- 2 How is and can a society be formed and maintained?
- 3 Why is market mechanism formed and has been reformed?
- 4 Why has the reformation of market mechanism created welfare state?
- 5 What challenge welfare state today?
- 6 What should welfare state be tomorrow?

II Argument in detail

Proposition 1 (Concerned with sub question 1: Why is this question important?)

The major question about welfare state today is the choice of social balance between economic growth and social welfare.

This proposition is derived from a survey of literature on welfare state in the 1980s and 90s. (See Tsukada, 2002, pp. 9-23.)

Major arguments about the Welfare States after the 1980s have included three topics; 1) typology of different groups of Welfare States, 2) the social and economic significance and impact of the Welfare State in society as a whole, and 3) the alternative designs of the Welfare State today. With the intensifying

globalizing movement swiftly eroding the traditional Welfare State ideas and policies, the major task at present is to clarify the possible alternatives between growth and welfare (ibid, p. 23).

Apparently this proposition also seems self-evident from numerous facts and literature concerning globalization and its effects to nation states appearing before us day by day. As to the literature for example, we need only to think of Anthony Giddens's (1998) or Daniel Yergin and Joseph Stanislaw's (1998) books. Both present the view that the world has been changing, particularly in the relation between government and market, but as Yergin and Stanislaw concludes, the future is not clear yet. It lies in the hands of the people and how they judge the changes unfolding before them. It can, for example, be observed in the political fluctuations in European countries between center right and center left government. As for the facts, we are witnessing the ever more increasing speed of locus change of firms between national borders and its impacts to the local or national economies.

Proposition 2 (Concerned with sub question 2: How is and can a society be formed and maintained?)

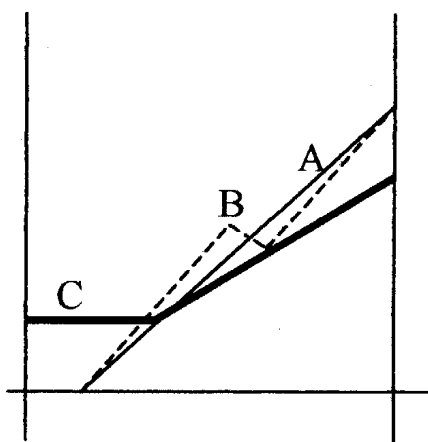
As the question inevitably deals with the question of social ideal or social balance such as equity vs. efficiency, we need to have a large enough viewpoint for such a question. In my thought, it is the viewpoint of three socio-economic virtues; namely, efficiency, equity and human fellowship that I think are necessary for dealing with such a comprehensive socio-economic question.

Economy is only a part of a society. When economy itself is questioned, we

need to have a higher criterion for judging its propriety. Such a criterion is found in philosophical dimension. I believe John Rawls's theory (*A Theory of Justice*, 1971) provides us with one of the most helpful ideas for this question. Evaluating his book critically, I would like to add one factor to his idea of social justice. In my understanding, he tries to set the analytical framework for this question as the collision between efficiency and equity. He presents equity alone as the critical human nature in dealing with this question, but human fellowship must be incorporated in the analytical framework from the very beginning. Without it the superstructure created thereafter will not coincide with the real world. Human fellowship is referred to in his theory after the main theory is established, but it is too late. (Refer Adam Smith's two human natures by the names of selfish and benevolent motives, *The Theory of Moral Sentiments*, ed. by Rafael and Macfie, 1976, p. 302.) Thus the three virtues form the criteria to judge the performance of respective societies. Next figure may help understand this idea.

Figure 1: Structure of society in relation to three virtues

Income



- real distribution (A)
- - - - equitable distribution (B)
- redistribution (C)

* The difference of A and B shows equity.
 The aggregate income shows efficiency.
 The difference of A (or B) and C shows human fellowship.

low ability ← → high ability

(Members of this society or country)

Proposition 3 (Concerned with sub question 3: Why is market mechanism formed and has been reformed?)

Why is market mechanism formed?

3-1

It is because of its efficiency in production through division of labour and commodity exchange as has been argued and accepted since Adam Smith.

This has been long accepted and needs no further discussion.

3-2

Why has it been reformed?

Reformation became necessary because it proved that market mechanism alone couldn't always provide everyone with wealth and security people had wished for at entering civil society. Market mechanism proved insufficient for creating an ideal economic condition judging from the above three virtues, efficiency, equity and human fellowship. It accompanied cyclical depressions with enormous underutilization of capital and labour and it also accompanied huge difference in income distribution. Reformation of market mechanism took the form of growing government's role in meeting these problems.

Proposition 4 (Concerned with sub question 4: Why has the reformation of market mechanism created welfare state?)

Welfare state is the most developed form of reformation of market economy. It can be understood as the most advanced form in the sense that it has collected together and institutionalized many of the past but individual human efforts such as institutions for helping the poor or the underprivileged labour class, whether based on charitable or class-conflict motives, forming a deliberate, comprehensive social fabric. This development gathered force through the 1930s and 40s in the US and Europe and was reinforced in the following postwar years in many other countries in the 1950s and 60s.

Proposition 5 (Concerned with sub question 5: What challenge welfare state today?)

5-1 The challenges

Welfare state met two challenges since the 1970s. First the two nations, the UK and the US began to implement smaller government policies, which created many other followers, too. They included such policies as decreasing labour unions' power (UK), tightening welfare spending, lowering personal income tax rate and deregularization (UK, US). In a word they aimed at transferring a part of human and natural resources from consumption and welfare spending to investment, or from consumers, welfare beneficiaries and the employed to firms. Secondly, unfolding economic globalization at the same time gave pressure to many nations to reduce firms' burden of corporate tax and security contribution. It also urged reducing restrictions so that firms could employ labour force more flexibly

and it even urged firms to move abroad to find cheaper labour force, particularly to developing countries. These two trends advanced together and worked for the contraction of welfare state since the 1980s and pose us today the question whether these trends should continue further or not.

5-2 Their by-product

This contracting trend of welfare state has reached a point to create critical problems among social members. It made employment and social security system unstable and fermented serious uneasiness, particularly among the most vulnerable of society, the low-income stratum, the dismissed, or the bankrupt smaller enterprise owners, etc. This unstableness is deepening between the trends of growing global market competition and contracting safety net in each nation state. We can observe the incidents that show the growing uneasiness of people in general in Table 5.1 and its reflection to children in Tables 5.2, 5.3, 5.4. This problem is particularly serious now in Japan, which has been plagued by another problem of enduring depression since the beginning of the 1990s (Table 5.5, Figure 5).

Table 5.1 Serious crimes (1987-88, 1995, 1996)

(Murders, violent crimes and armed robberies, per 100,000 inhabitants)

	1987-88 average	1995	1996
Sweden	55	117	124
UK	72	96	144
Japan	3	17	17
US	225	647	598

Source: IMD, *The World Competitiveness Yearbook*, 1990, 1998, and 1999.

Table 5.2 Recent school shootings in the US (1997-99)

1997 Feb	Ark.	Bethel	Age 16	2 dead 2 wounded
1997 Dec	Ken.	West Paducah	Age 14	3 dead 4 wounded
1997 Oct	Miss.	Pearl	Age 16	3 dead 7 wounded
1998 Mar	Ark.	Jonesboro	Age 11, 13	5 dead 11 wounded
1998 May	Ore.	Springfield	Age 15	4 dead 20 wounded
1998 Apr	Penn.	Edinboro	Age 14	1 dead 2 wounded
1999 Apr	Colo.	Littleton	Age 17, 18	13 dead 23 wounded
1999 Nov	Geo.	Conyers	Age 15	6 wounded

Sources: CNN. com, June 10, 1998, *USA Today*, Apr. 23, 1999, *The New York Times* on the Web, May 21, Sep. 5, 1999.

Table 5.3 Recent school murders by present or former students in Germany (1999-2002)

1999 Nov	Meissen	School	Age 15	1 dead
2000 Mar	Branneburg	School	Age 16	1 dead
2002 Feb	Freising	Technical school, Company	Former pupil	3 dead 1 wounded
2002 Apr	Erfurt	School	Former pupil	17 students dead, gunman dead

Source: http://news.bbc.co.uk/hi/english/world/newsid_1953000/1953425.stm

Table 5.4 Recent serious crimes by middle and high teens in Japan (1997-2000)

1997	Kobe	Town	Age 14	2 dead 1 wounded
1998	Kuroiso	School	Age 13	1 dead
1999	Ojiya	Town	Age 17	1 dead
1999	Hikari	Town	Age 18	2 dead
1999	Yokohama	Town	Age 13	1 dead
1999	Kyoto	School yard	Age 18	1 dead
2000	Toyokawa	Town	Age 17	1 dead
2000	Naha	Town	Age 16	1 dead
2000	Oita	Town	Age 16?	4 dead 1 wounded
2000	Hakata	Bus	Age 17	1 dead 3 wounded

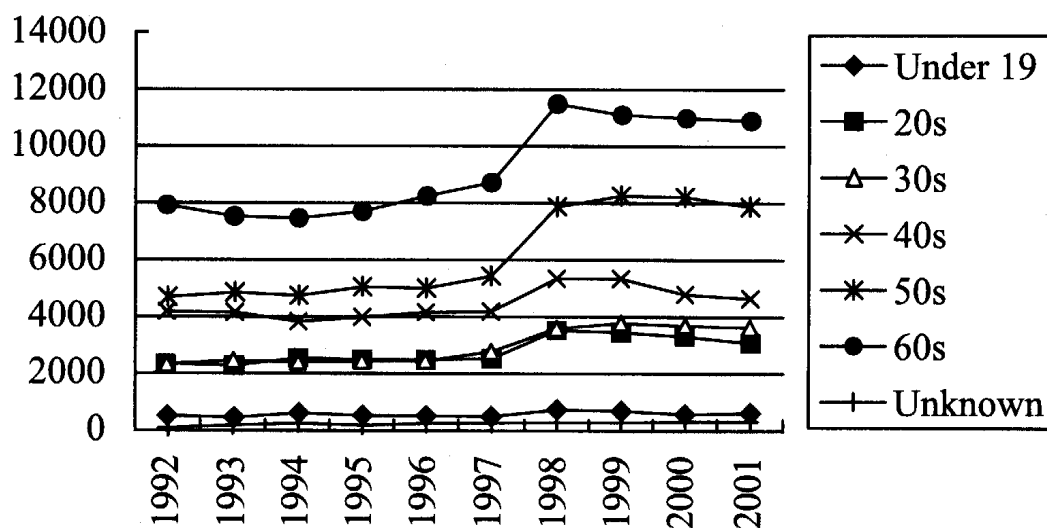
Source: Newspapers

Table 5.5 Recent suicide rates, Japan (1992-2001)

	Under 19	20s	30s	40s	50s	60s	Unknown	Total
1992y	524	2313	2391	4186	4708	7912	70	22104
1993y	446	2251	2473	4146	4846	7525	164	21851
1994y	580	2494	2410	3806	4732	7438	219	21679
1995y	515	2509	2467	3999	5031	7739	185	22445
1996y	492	2457	2501	4147	5013	8244	250	23104
1997y	469	2534	2767	4200	5422	8747	252	24391
1998y	720	3472	3614	5359	7898	11494	306	32863
1999y	674	3475	3797	5363	8288	11123	306	32863
2000y	598	3301	3685	4818	8245	10997	313	31957
2001y	586	3095	3622	4643	7883	10891	322	31042

Source: http://www.npa.go.jp/police_j.htm

Figure 5: Suicide rates, Japan (1992-2001)



Source: Table 5.5

Proposition 6 (Concerned with sub question 6: What should welfare state be tomorrow?)

Judging from the above damages among peoples in industrialized countries, welfare state today should be strengthened and the uneasiness should be ameliorated.

One possibility is catching up of the employed people's negotiating power with the firms. The superiority of the firms now come from the imbalance of supply of and demand for cheap labour force. As has been observed in history, as capital grows cheap labour will hit the bottom in a long run. Then the positions of the firms and workers will be equalized. At this point there will emerge a balanced state among management, labour and government. On this balance a society will find it easier to rebuild a welfare state, balancing efficiency (profit and investment) and equity and human fellowship (wages and welfare) on the other.

This time the balance will be reached not just inside a country but also worldwide between globalized firms and internationally united labour unions and governments. Although we can expect such a possibility in the long run, it will surely need a few decades before it comes true. We need a short-term remedy in the meanwhile. The crux of such a remedy is strengthening the safety net in the fields of old age pensions, health care insurance, employment benefit, active employment policies and social spending in kind. In a situation where firms or management are superior to labour and government as today, the necessary extra fund can only be provided by increasing people's burden, namely higher income tax and social security contribution, hence by constructing a citizens' Welfare State for the time being.

There remains one question as to if the citizens in general will accept this increase in their burden. This depends on their judgment and it can differ between countries. Here I can think of four types of countries, the US type, the UK type, the Sweden type and the Japan type. The US type and the Swedish type can be called the two extremes; the former weighing more on efficiency than security, and the latter, the opposite. The UK and Japan are in between. The UK contained its welfare since the 1980s till mid 90s, stopped its containment trend thereafter, and is proceeding carefully today to increase welfare spending, particularly in education and health care. Comparing the UK and Japan, the UK's choice was to wait carefully till the necessary fund was obtained through prosperity. Japan, however, cannot follow their way. The uneasiness prevailing in its society is too serious. It not only depresses people's mind but also it economically depresses its business through tightened household economy. As for people's preference, the opinion polls below show a popular support to a higher welfare and higher burden society in the UK, US and

Japan, and not in Sweden, Germany or France (Table 6.1, 6.2).

Table 6.1: Support for higher welfare, higher burden (1996, 1993, 1997 - see below)

UK	80-70%
US	50-40%
Sweden	30-20%
Germany	30-20%
France	30-20%
Japan*1	46% (higher welfare, higher burden) 43% (moderate welfare, moderate burden)
Japan*2	50% (maintenance of the present social welfare provision and higher burden) 15% (increased provision and a higher burden)
Japan*3	45% (higher welfare, higher burden) 26% (lower welfare, lower burden)

Sources:

UK through France: Willingness to pay higher taxes for better social services through different income quartiles. Bonoli, et al., *European Welfare Futures*, 2000, p. 88. Drawing on ISSP (International Social Service Project) survey.

Japan*1: The Japan Research General Institute, *Opinion Poll on Society and Life*, 1997, p. 9.

Japan*2: Opinion poll, the Social Security Council at the Prime Minister's Office (1993)

Japan*3: Onodera, *Broadcast Research and Public Opinion*, Nov. 1996, p. 54. Drawing on ISSP survey.

Table 6.2: Ratio in National Income (%)

	Japan	US	UK	Germany	France	Sweden
Year	2002	1997	1999	1999	1999	1999
Tax	22.9	26.2	40.0	31.0	40.6	55.8
Social contribution	15.5	9.8	10.0	25.7	25.5	19.7
Total	38.3	37.0	50.0	56.7	66.1	75.4
Budget deficit	8.6	1.1		1.9	2.2	
Total	46.9	37.0	50.0	58.6	68.3	75.4

Source: <http://www.mof.go.jp/jouhou/syukei/sy014k.htm> Modified.)

Note: Japan; FY, preliminary. Other countries; Calendar year, actual. As for budget deficit, that for Japan or the US is that of general government and does not include social security fund. Other countries are of general government.

The high support for Germany and Sweden as ideal countries by Japanese young congressmen also seems to show a growing preference for a high welfare and a high burden society (Table 6.3). So the breakthrough for Japan seems to lie here. To create a citizens' welfare state in the short run and a globalized corporatist world with other countries in the long run.

Table 6.3: Ideal countries, 101 young Congressmen, Japan

UK	13
Sweden	12
Germany	8
US	2

Source: Asahi Shimbun, Aug. 8, 2002

Conclusion

The changing balance in welfare states in general has reached a critical point in some countries and needs to be corrected by strengthening safety net by increasing citizens' contribution. Judging from the revealed preferences as shown in opinion polls, etc, this reform will be supported by the people.

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