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Globalization and social cohesion: Risks and responsibilities

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Introduction

The welfare state and its constituent social policies hold a somewhat paradoxical position in debates about globalisation. On the one hand, the social policies that characterise modern welfare states are perceived as luxuries which we can no longer afford in a world of intensely competitive markets. On the other, these same policies are equally claimed as the primary vehicle for governments to help people through the process of adjusting to economic change, thereby maintaining social cohesion. Across most of the OECD nations debates about the role of the welfare state in the context of the global economy oscillate between these two positions.[1]

Over the past ten to fifteen years the changed economic conditions brought about by globalisation have become increasingly apparent yet many — if not most — OECD governments have been slow to formulate any strategic social policy response to the impact of globalisation. In part, this lack of strategic attention to adapting to the global economy may be attributed to uncertainty about the precise nature of the impact of entry to the global economy, and how this would flow through to social programs. In part, it may be attributed to domestic social policy agendas that were preoccupied with internal social and demographic changes that were challenging existing policy structures and requiring more immediate attention.[2] Finally, as welfare state analysts such as Ramesh Mishra have observed, "it is not the *economic facts* about globalisation but their *political implications*" that may have prevented explicit policy debates about the costs of globalisation and the social policy adjustments that might be required to smooth the transition into the global economy.[3]

Although somewhat belated, in many OECD nations we are now witnessing a period where "*new deals*" are being struck to replace the postwar Keynesian consensus that shaped the social policy directions of these nations over the latter half of the 20th century. The aim of this paper is to set out some of the critical issues that need to be considered by governments and social policy-makers during the process of negotiating these new deals, paying particular attention to how concerns about social cohesion can be incorporated into new social policy agendas.

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[1] Alfred Pfaller; Ian Gough; Goran Therborn, *Can the Welfare State Compete?* Macmillan, London, 1991.

[2] See for example, Gosta Esping-Andersen, *Welfare States in Transition,* Sage, London, 1996.

[3] Ramesh Mishra, *Globalisation and the Welfare State*, Edward Elgar, Cheltenham, 1999, p. 6.

The paper starts with a brief account of the constraints faced by governments in managing welfare reform that have built up since the 1980s. This discussion suggests that in many countries the ability of governments to respond to the impacts of globalisation is limited by the need to take account of the perceptions of financial markets. At the same time, the active re-shaping of Keynesian welfare states to forms that reflect the new social risks arising from globalisation has been delayed by the need to deal with pre-existing social and demographic changes. A common political response to this dilemma was to “over-sell” the benefits of globalisation to an uncertain electorate. As the unequal distribution of the costs and benefits incurred by entry to the global economy became increasingly apparent, this political over-sell has been at least as damaging to social cohesion as the actual direct impacts of globalisation.

While the detailed design of social policies and programs to adapt to the changed economic environment remains an important on-going task for policy-makers, a more important step in restoring social cohesion is the development a framework or vision around which political consensus can be established. The second part of the paper examines some of these alternative visions and considers the extent to which each offers solutions to the social dislocation brought about by high levels of unemployment, widening income disparities, persistent poverty and social exclusion. After consideration of these alternatives, the second section of the paper concludes that the responsibility for social cohesion still remains with government — although there are very different views of the role of government, especially as portrayed in current North American literature.

The third section of the paper looks to an alternative vision of government that counters the influence of ‘new paternalism' in welfare reform debates. Here the work of Ulrich Beck and others on risk is presented as a starting point for the re-negotiation of the role of government in social risk management.[4] The application of the social risk management approach is then used to analyse changes in Australia's social policies to highlight what may be learned from adopting this approach.

Colliding agendas: The political management of welfare reform

In popular discussion the impact of globalisation on the welfare state has become synonymous with welfare state retrenchment. For some writers this outcome is not axiomatic. Hirst and Thompson, for example, argue that economic internationalisation is not a new phenomenon, and has been a feature of the OECD countries economies for the past 50 years in terms of liberalisation of the trade in goods and services.[5] Pfaller, Gough and Therborn take the view that government responses are largely political choices — and that increasing welfare state activity is an equally valid response as retrenchment.[6] For other writers, it is the combination of

[4] See for example, Ulrich Beck, *Risk Society*, London, Sage, 1992; Anthony Giddens, *Beyond Left and Right*, Cambridge, Polity, 1994; and Jane Franklin, *The Politics of Risk Society*, Cambridge, Polity, 1998.

[5] Paul Hirst; Grahame Thompson, *Globalisation in Question: The International Economy and the Possibilities of Governance*, Polity Press, Cambridge, 1996, pp. 8–13.

[6] Pfaller; Gough; Therborn, 1991.

economic internationalisation and the new financial openness of economies that has changed the environment within which welfare states developed. As Mishra has written:

> … before 1914 when economies were more open, there was no welfare state — no Keynesian macroeconomic management to maintain full employment, no universal social programmes and no high levels of taxation. Conversely, after WW2 when modern welfare states came into being, Western economies were relatively closed and self-contained. It is this structural dependence of the welfare state on a relatively closed economy that is the crucial issue [emphasis added].[7]

For Mishra there are a number of consequences that follow from this new financial openness: in particular, the ability of national governments "to manage their economies so as to ensure full employment and economic growth has been curtailed".[8] This view finds strong empirical support in well documented case studies, such as the failure of the reflationary policies of France in 1981, and changes in capital controls in Sweden in the mid-1980s.[9] Teeple has concluded that there is cumulative evidence that financial globalisation has effectively ended the era of high levels of public expenditure financed by progressive taxes.[10]

For other observers of the welfare state, the constraints that financial markets now place on government expenditure is not a sufficient explanation of the difficulties that many welfare states have been experiencing since the 1980s. Gosta Esping-Andersen has described a series of endogenous challenges arising from "the growing disjuncture between existing social protection schemes and evolving needs and risks".[11] He has argued that changes in family structure (for example, the growth of single parent families), changes in employment and occupational structures (for example, deindustrialisation and the growth of service industries, and increased professionalisation and differentiation), and changes in the life-course (for example, less linear and "standard"), have meant that the policies and programs designed to address the needs of a male breadwinner family became increasingly irrelevant over the 1990s.

Initially, the relative affluence of the postwar period allowed these emerging demands to be met from the dividends of economic growth, in the form of the extension of benefits and services to meet the needs of new claimants. This "Golden Age" of the welfare state — as described by Esping-Andersen — proved to be fairly short-lived as government adjustments to the changing financial environment in the 1980s set a collision course with increasing demands on social policy. Thus across the OECD nations, the process of adjustment has typically required governments to manage two reform agendas in relation to the welfare state. The first agenda

[7] For example, Mishra, 1999, p. 5.

[8] Ibid.

[9] Peter Hall, "The Evolution of Economic Policy under Mitterand", in George Ross; Stanley Hoffman; Sonja Malzacher (eds), *The Mitterand Experiment*, Polity Press, Cambridge, 1987; and for changes in capital controls in Sweden in the mid-80s, see Jonas Pontusson, "At the End of the Third Road: Swedish Social Democracy in Crisis," *Politics and Society*, 20 (3), 1992.

[10] Gary Teeple, *Globalisation and the Decline of Social Reform*, Garamond Press, Toronto, 1995.

[11] Gosta Esping-Andersen, *Welfare States in Transition,* Sage, London, 1996, pp. 6–9.

was retrenching public expenditures to levels that were deemed “acceptable” to financial markets — that is, playing to perceptions of competitiveness. To maintain political support as welfare budgets were being reduced, a second agenda was the prioritising and re-prioritising of the demands of different groups of claimants, according to political calculation.

In order to placate losers from this juggling of social policy priorities, policy changes were often accompanied by optimistic assessments of the future benefits that would flow from entry to the global economy. The extent to which these assessments secured electoral support for opening up domestic economies is reflected in the following observation by Michalski, Miller and Stevens in an overview paper for an OECD sponsored conference in 1997 on "Societal Cohesion and the Globalising Economy":

> … many of the economic policies pursued for some years now by OECD Member countries encourage the productive turmoil of relentlessly competitive markets — a constant process of creation and destruction that politicians and electorates seem to have almost universally embraced, showing a willingness to forgo tranquillity for the sake of greater prosperity …[12]

However, the view that all parts of electorates have "embraced" this turmoil is open to considerable challenge. This seems more a reflection of the views of the winners from globalisation, rather than those who are the losers. Indeed, the benefits of globalisation appear to have been oversold in most OECD nations and the lack of discussion and policy preparation to deal with the costs of globalisation have led to considerable disillusion, evidenced by the rise of ultra-nationalist parties and electoral support for regressive social agendas. It is arguable that the piece-meal reforms to social policy and the failure of the supposed benefits of globalisation to materialise in some of the hardest hit sections of national electorates, have contributed as much to the loss of social cohesion as have the direct impacts of globalisation.

Restoring social cohesion: Alternative approaches

As noted earlier, in many OECD nations the process of restructuring the welfare state is underway. Reforms are already being implemented to improve the current functioning of existing programs; efficiencies are being sought through privatisation and contracting out of social services; and a range of innovative forms of income support are being canvassed. The variation in all these reforms makes it difficult to provide a simple characterisation of how these different approaches combine to provide coherent strategies to restore social cohesion: if indeed, there is coherency in all this reform activity. Another way of approaching this issue was adopted by the OECD conference on societal cohesion and globalisation, where alternative scenarios for achieving social cohesion were developed. These were then analysed to expose two distinct pathways that are emerging among OECD countries.[13]

The first is labelled as the *individualistic scenario* and is characterised by a radical reduction in the role of government in all domains, including social programs, economic regulation and public enterprises. Here the emphasis is on individual choice and the potential to reap the rewards of

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[12] Wolfgang Michalski; Riel Miller; Barrie Stevens, “Economic Flexibility and Societal Cohesion in the Twenty-First Century.” In OECD, *Societal Cohesion and the Globalising Economy*. Paris, 1997, p. 7.

[13] Michalski; Miller; Stevens, 1997, pp. 14-18.

improved market efficiency. Social cohesion under this vision appears to depend on "all segments of society being able to share the dream of eventually being a winner — a common, unifying belief in the chance of success that cushions the reality of extreme inequality".[14]

The second pathway is labelled as the *solidaristic scenario* and is characterised by the development of decentralised public institutions and shared local values. Social cohesion in this vision comes about as:

> Faceless, distant unresponsive bureaucracies are replaced by local and familiar organisations where individuals are obliged, as the quid pro quo of being a member of the community, to participate directly.
> In return citizens are offered a range of resources and services useful for production and consumption, such as learning, health care, technology diffusion …. Local well-being that embraces and partially merges elements such as medical care, education and welfare programmes into the overarching notion of a "healthy community", becomes the responsibility of the community.[15]

While there is much merit in the OECD approach of envisaging alternative social policy paradigms for the future and then working out the steps required to get there, neither of these scenarios inspire much confidence. Nor do they represent much of breakthrough in terms of bold visions of the future — rather than progressing the political agenda these scenarios seem to be re-visiting the 1950s and 60s. It is also worth noting that in these two scenarios there appears to be little or no role for the business "community" which after all, has been a major winner from expanding global markets.

Despite the failure of the OECD conference to present us with bold alternatives for the future, the proceedings of the conference document some highly innovative approaches to income support and dealing with new working patterns. A paper by Snower, for example, provides a range of alternative forms of income support that blend proposals for opting out of public social insurance; the conversion of unemployment benefits to transferable wage subsidies; and support accounts that allow greater individual control of income smoothing over the life course.[16] In the same volume, Claus Offe sets out the policy choices that need to be confronted in dealing with the increased precariousness of employment and recasts the nature of citizenship rights at the end of the era of full employment.[17]

Overall, the OECD conference confirms that responsibility for social cohesion still rests with government — although there are very different views of the role and purpose of government in relation to social policy. One view that is in ascendancy in the Anglo-American welfare states derives from the North American literature on "new paternalism". The best known and probably

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[14] Ibid, p. 16.

[15] Ibid, p. 17.

[16] Dennis Snower, "Challenges to Social Cohesion and Approaches to Policy Reform". In OECD, *Societal Cohesion and the Globalising Economy*. Paris, 1997, pp. 47-56.

[17] Claus Offe, "Towards a New Equilibrium of Citizens' Rights and Economic Resources?" In OECD, *Societal Cohesion and the Globalising Economy*. Paris, 1997, pp. 81-108.

most influential, in terms of policy making, is Lawrence Mead's work.[18] In The *New Paternalism*: *Supervisory Approaches to Poverty*, Mead presents one view of shifting from passive to active income support policies but it is a view that focuses on one section of society — the poorest and most vulnerable. It seems reasonable to ask whether compulsion or supervision for some is likely to lead to greater social cohesion. This approach runs the considerable risk of accentuating social cleavages rather than creating cohesion.

An alternative approach to moving from passive to active income support is the shifting of the role of government from a social expenditure to a social investment perspective. This approach was also canvassed in the OECD conference but was not fleshed out in any substantive fashion.[19] The following section sets out one way in which the role of government in making social investment decisions can be envisaged. It is also an approach that allows the colliding agendas of globalisation and specific domestic concerns to be reconciled.

Achieving a coherent strategy: Social risk management

An important factor in mobilising political support for a major shift in the aim and purpose of the OECD countries welfare states will be finding common ground between those advocating strategies to deal with the impact of globalisation and those who give greater weight to specific domestic concerns. Despite the different weights attached to the underlying causes of the pressures being placed on social policy, there seems to be general agreement that various social risks have increased substantially for large segments of the population in most OECD nations. This common theme may therefore be a useful starting point for a re-negotiation of social policy to arrive at a coherent set of strategies.

An explicit discussion of social risk — irrespective of its source — has become an important theme in European debates over the welfare state, providing a counter to the new paternalism found in North American debates.[20] The work of Ulrich Beck on the *Risk Society* points to a range of new risks arising from increasingly global and complex societies — risks which the current welfare state is manifestly unable to deal with, and is constantly being stretched to accommodate.[21] Beck's observations are applicable across a wide range of countries. The increase in social security entitlements for working age people is one measure of the increasing diversity of life-course risks that the state is now required to cover. New risks associated with increasing breaks in employment continuity, dealing with the uncertainties arising from casual employment, the possibility of becoming a sole parent or a primary care provider during prime earning years, and the possibility that wage-earners may have to re-train or re-skill more than twice in their lifetime — are either addressed in an ad hoc fashion or not dealt with at all.

A second reason for a discussion of risk to be given prominence in any negotiation of a “new deal” arises from the need to clearly delineate government responsibilities flowing from:

[18] For example: Lawrence Mead (ed.), *The New Paternalism: Supervisory Approaches to Poverty,* Brookings Institution Press, Washington, D.C., 1999.

[19] Michalski, Miller and Stevens, 1997, p. 14.

[20] Mead, 1999.

[21] Ulrich Beck, *Risk Society*, London, Sage, 1992.

decisions taken to enter the global economy; other decisions which have led to many of these new risks appearing (for example, failure to invest in education); and the unintended consequences of previous welfare state activity (for example, passive income support of working age people). Taking a full account of the source and nature of different risks represents a much fairer starting position for negotiating the question of who should bear responsibility for each risk, as compared with the present situation in a number of countries where government retrenchment policies have simply shifted responsibility to the individual or family.

Translating abstract discussions of risk into a framework that takes account of the practical realities of shaping and delivering social policy is a formidable task. Therefore the discussion presented here represents a first attempt at broadly conceptualising a new social policy framework along these lines.[22] The social risk management framework shown in Table 1 starts from the assumption that the primary role of government is in the *management* of social risk. The emphasis on "management" does not mean that the state will automatically assume the role of bearer of collective risk or provider of all welfare services, goods and benefits. As the manager of social risk, the task of government is to negotiate which risks individuals and the market will bear and which risks should be borne collectively (that is, through the state). The columns in Table 1 set out the current division of risk between informal social protection, which is undertaken by individuals or families; and formal protection, which is provided either through the market or by government.

The second element of social risk management concerns different risk strategies and these are reflected in the rows shown in Table 1. Essentially, risk management can be directed towards reducing risks (prevention), mitigating the worst effects of a risk event once it occurs (especially predictable risks, such as old age and sickness), or implementing ad hoc coping strategies for unpredictable risks or in cases where prevention or mitigation has failed. In most OECD welfare states in the postwar period, governments developed a policy amoury that included all three strategies, but varied in their emphasis on reduction, mitigation and coping.

In this framework the role of government as social risk manager, implies three major tasks:

- to allocate different risks between individuals, markets and the state;
- to make the social investment decisions that lead to prevention or mitigation of social risk; and
- to maintain a balanced portfolio of these different strategies that presents a coherent response to globalisation and promotes social cohesion.

In one sense this framework appears as a continuation of existing policy directions. The main point of taking this perspective is to make the risk-and-responsibility nexus far more explicit than has been the case in the past. In particular, it brings into clearer view the role and responsibilities of the market. For example, if large corporations have benefitted from expansion into the global economy should they also bear some responsibility for their employees when they are laid off during economic downturns?

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[22] This framework owes much to the work of Holzmann and Jorgensen who have considered this issue in the context of World Bank activity in developing countries. Any weaknesses in the analysis presented here should not be imputed to their approach. Robert Holzmann and S. Jorgensen, "Social Protection as Social Risk Management." *World Bank Social Protection Discussion Paper Series* No. SP 9904. Washington, D.C.: World Bank,1999.

Table 1. *Social risk management framework*

Strategy	Informal - Families	Formal - Public	Formal - Market
Risk reduction	Diversified skills/education (life long learning)	Labour market and wages policies Education and training	Internal re-training Post-retrenchment services
Risk mitigation	Multiple jobs Home ownership	Safety net pensions Mandated insurance for certain riks Medicare	Investment in multiple financial assets Superannuation Disability/accident/ private health insurance
Risk coping	Selling of assets Charitable assistance Estended family	Income transfers Community services Public works	Borrowing from financial institutions Credit card debt Publicly-funded NGO services

Source: Adapted from Holzmann and Jorgensen, 1999.

The framework also draws attention to the relative balance both between different strategies and the responsibilities of the different actors. During the recent period of retrenchment, ad hoc adjustments and/or cuts to a range of social programs have created imbalances such as: multiple cuts falling on one group, or the neglect of risk reduction strategies and the over-emphasis of risk coping strategies. Mapping current polices and programs onto this framework would reveal the source of such disparities and potentially stimulate policy corrections that are more coherent than those we currently observe.

Finally, the framework can also provide direction for translating discussions and negotiations over social citizenship rights and obligations into concrete agreements about preferences for different strategies eg: risk reduction or mitigation over coping, as well as where the responsibility rests on a case-by-case basis.

Social risk management in Australia

To illustrate how social risk management can provide an alternative way of thinking about the role of different social actors and as a means of integrating policy responses to complex problems, the framework is applied to recent changes in Australia's social risk management strategies. A first example is the introduction of the Superannuation Guarantee Charge (SGC) in 1987 as part of the annual prices and incomes policy negotiations (the “Accord Process”). In this instance, the role of government as *social risk manager* was pre-eminent: having legislated for the compulsory creation of these retirement income provisions the government plays no formal part in the administration and determination of benefit levels, other than a minor regulatory role. The actual provision of the benefit and its administration resides with the market, through the private superannuation funds. The costs of superannuation are borne primarily by the individual employee and their employer, with some collective input via foregone taxes. This represents a major shift away from the collective risk bearing of the former public age pension system which, over time, will become a residual safety net.

A second example is the recent push by the current conservative government to revitalise private health insurance in order to reduce public assistance provided under Medicare. In this case, the government was unable to introduce the broad-based compulsory legislation that underpinned the SGC. Through a series of carrot-and-stick taxation measures, however, the government has managed to prop-up a private health insurance industry that had been in serious decline for over a decade. The cost to the public purse has been substantial (averaging some $A1.5 billion per annum over the period 1997-2000) and it is less clear that this shift of cost-bearing to the individual will be as successful as the SGC. In social risk management terms, the previous pooling of health risks under Medicare may turn out to be a better strategy than encouraging around one-third of the population into even smaller risk pools managed by the private sector.

These two examples might lead to the conclusion that the primary aim of government — in its role as risk manager — is one of off-loading public responsibility for the costs of major social programs. This does not have to be the case. As a counter example, in Australia the responsibility for post-secondary education and subsequent re-training currently resides with individuals. The transfer of this responsibility to the public domain could be negotiated on the basis that the state should be responsible for redistributing the benefits of entry to the global economy (that have accrued to corporations and some segments of the labour market) to those individuals who have been disadvantaged by this shift. In fact, a recent review of Australia's social security system moves some way towards this position in its advocacy of early intervention and preventative measures to support the unemployed.[23] Adopting a stronger risk management stance could result in the design of policies and programs that give concrete expression to the much discussed ideal of life-long learning.

Traditionally, Australia has placed a strong emphasis on risk reduction through centralised wage-fixing and, to a lesser extent, active labour market policies — the wage-earner's welfare state approach that has been described by Francis Castles.[24] This strategy was combined with a residual coping strategy of income-tested social security payments for those unable to participate in the labour market. Risk mitigation through social insurance, for example, was not actively pursued until the mid-1980s.

As discussed above, there have been major shifts in Australia's risk strategies and these are shown in Figure 1. The most notable shift has been away from publicly managed or funded risk reduction strategies. This includes, for example, the dismantling of centralised wage fixing and a retreat from full employment policies. This led to an over-emphasis on the risk coping strategies that have placed government income transfer budgets under considerable pressure. One response to the imbalance in risk strategies has been the move towards risk mitigation through the introduction of the Superannuation Guarantee Charge and more recently increasing private health insurance. This shift in strategy was also accompanied by a shift in responsibility

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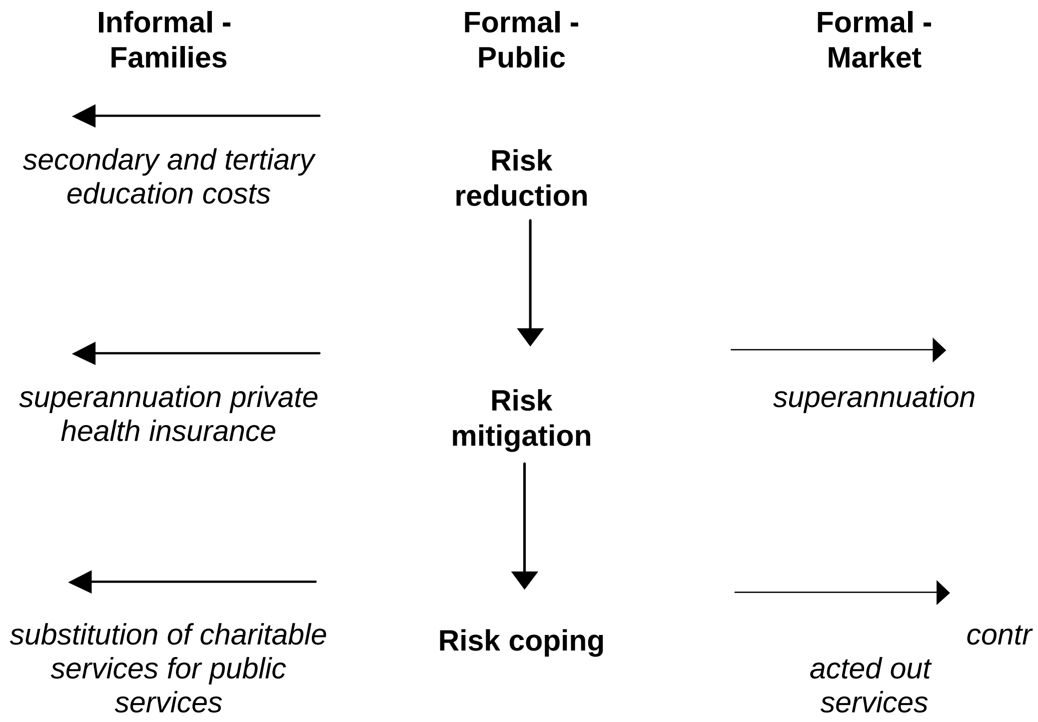
[23] Welfare Reform Reference Group, *Participation Support for a More Equitable Society*, Department of Family and Community Services, Canberra, 2000.

[24] Francis Castles, *The Working Class and Welfare: Reflections on the Political Development of the Welfare State in Australia and New Zealand, 1890-1980,* Allen and Unwin, North Sydney, 1985.

away from the public domain to the individual and the market. This is also true for changes to coping strategies, where some responsibility has been devolved to market actors through contracting out — although core funding responsibility still remains with government.

This analysis reveals that for Australia a critical element in any negotiation of a “new deal” should include a reconfiguration of the balance between reduction, mitigation and coping strategies. As a result of uncoordinated retrenchment policies combined with ad hoc shifts in risk-bearing in the health and education portfolios, Australia's social risk management portfolio has become unbalanced. Too much emphasis is currently placed on mitigation and coping strategies and there is insufficient investment in risk reduction strategies — especially for those segments of the labour force that are exposed to the global economy. Again, the recent social security review goes some way towards redressing this imbalance. Through its strong emphasis on intensive case management that focuses on risk reduction at the individual level, the review has effectively recommended the replacement of preventive strategies that have been lost at the macro level (for example, job creation programs, education, training and re-skilling). As the report's authors suggest — and the current government seems to have accepted — this strategy will require significant funding support and cannot be achieved in a budget neutral way.

Figure 1. *Shifts in Australia's risk strategies, 1980-2000*



Conclusion

In most OECD nations, the dual impact of economic globalisation and changing social structures have prompted a re-negotiation of the social contracts struck in the postwar era. In very few nations has this re-negotiation process been timely or explicit. In most, piece-meal reforms have occurred over a longer period and without much consideration of the coherency of the reforms being implemented. While successful restoration of social cohesion will be primarily a matter of introducing innovative policies and programs, it is argued here that a coherent framework that transparently allocates risks and responsibilities among individuals, markets and the state is equally critical to restoring confidence in electorates that have been subjected to a decade of social policy turbulence.

This paper has suggested one possible framework that casts the role of government as social risk manager, responsible for firstly, ensuring a fair allocation of responsibility for different risks between different social actors; secondly, making the social investment decisions that support the prevention or mitigation of social risks for different groups; and finally, designing policies and programs that achieve a balance between risk reduction, mitigation and coping strategies.