

Social Welfare and Globalization

Social Insurance logic of Welfare State

- Social insurance:
 - Career insurance, public goods, tax and transfer, redistribution.
- Benefits:
 - Encourages risk, entrepreneurialism, personal investments in education.
 - Insurance brings efficiency, willingness to change, invest.
- Disadvantage:
 - moral hazard, pre-tax inequality.

Insurance contract

- We start life behind a 'veil of ignorance.' (more or less).
 - Rational to accept redistribution from lucky to unlucky.
- Social insurance is universal – all are included.
- Better, more approp. than private insurance.
 - Why? Private insurance contracts must 'wait' until we already know our 'chances' (veil is lifted).
 - Hence: Adverse selection problem. (self-sorting of 'good' vs. 'bad' risks)

Hence: advantages of Welfare State Insurance contract

- Requires taxes, which can efficiently pay for public goods, infrastructure as well.
- Expansion of economic activities that require bearable risk.
- Avoids more adverse selection problems than private insurance.
 - Unless 'good risks' can self-identify as majority voting blocks.

Threats

- Old model of a closed economy and society
 - less mobility of capital and labour
 - mutual interest in social and income protections (redistributive policies, unemployment insurance, etc)
- Open Societies, mobility
 - Systems competition. Tax competition
 - Net contributors (good risks) leave high-redistribution states.

Increased Integration of Global and Regional Economies

- European Union (EU), NAFTA, Int'l trade agreements, etc.
- capital and traded goods and services across borders
- more and cheaper communication and transportation
- internationalized organizations, corporations (TNC's), culture, etc.

Trends and Policy Pressures

- Post WWII: Wars, political conflicts, protectionism (economic nationalism) and colonial policies
- Re-emergence of Japan & Europe: competitiveness
- De-colonization and development.
- Since '70's: erosion of welfare state policies, labour's bargaining power, etc..

More trends

- Decline of economic nationalism
- Trade and investment liberalization
- Int'l agreements (WTO, NAFTA, etc) mean less:
 - trade barriers, tariffs,
 - discriminatory subsidies,
 - screening of foreign investment,
 - protection of 'strategic resources'

Comparative advantage (neo-classical theory)

- Free trade = specializing on your strengths.
- role for LDC's – cheap labour, raw materials
- role for rich countries – high skill workers
- Liberalization: efficient allocation of world's productive resources etc..

Critical Political Economy Approach

- Race to the bottom.
- Mobile Capital
- polarization problem
 - (a) between countries
 - (b) within countries
- competitiveness based on low costs, reduced bargaining power of labour
- Role of low wage countries
- Govt's lose economic sovereignty

NAFTA Example

- migration of low-skilled jobs to Mexico: Is this bad?
- Problem of "social dumping".
- Low or high Canadian dollar?
- Impact on mfg, productivity, economic sovereignty.

Low road vs. High road Policy approaches

- A. Low Road: cost competition, low investment in social side of economic development.

Int'l agreements concern free trade only

- B. High Road: invest in 'human capital', high-skill, high wage goals.
 - Int'l agreements link economic and social/environmental goals
 - These investments – incl. infrastructure and education – are not mobile.

Reasons for Pessimism

- Countries playing zero-sum games.
- Global'tion strips state's power.
- Today low wage countries compete for high-value, high-tech industries
 - India's software industry,
 - Brazil's aircrafts,
 - Mexico's auto plants)
- Why rich countries like labour standards agreements? Protectionism in disguise.

Possible solutions

- Broaden int'l cooperation beyond trade (development contracts).
- Global environmental & security cooperation.
 - Share technology.
 - Values beyond economic growth.