GLOBALIZATION AND THE WELFARE STATE

Jasper Glitzenhirn and Gabriel Mairhofer

Economics of Globalization

Professor Thomas Moutos

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Abstract

This essay dives into the complex relationship between globalization and welfare states, examining the effect of an increasingly connected world on different types of welfare systems. Our analysis considers both opportunities and challenges posed by globalization, combining a theoretical perspective with a practical one through case studies of the three main types of welfare states. Additionally, this essay looks at the correlation between countries trade openness and the strength of their welfare system based on recent data.

Our findings suggest that while globalization has helped reduce poverty and improve living standards in many developing countries, its effects within countries depend largely on the structure of their welfare system. Furthermore, this essay emphasizes the importance of an inclusive welfare system that balances the opportunities and risks arising from globalization. Above all, welfare systems need to be capable of adjusting to labor market dynamics and fiscal challenges, while taking advantage of free trade and productivity boosts at the same time.

Table of contents

1 Introduction

Globalization is the defining force of our time, reshaping economies, our way of life and the way we connect with each other within and across national borders. From the goods we buy to the production technologies we rely on, the world is more interconnect than ever before. At first glance, globalization appears to be a win situation for everybody, bringing free trade, better technologies and seemingly unlimited opportunities. However, in reality, it is a lot more complicated. Every benefit comes with a challenge, so as for the social safety net of countries, their welfare systems.

The welfare state is a crucial institution, ensuring citizens access to essential services such as healthcare, education and social security. As countries open their economics to global trade and prioritize international cooperation in general, their welfare states get reshaped and face significant challenges. How countries deal with these global challenges depends heavily on their approach to welfare. Some nations put more trust in the market to address problems, others tie welfare benefits closely to citizens employment status, and some focus on universal benefits and equality.

This essay examines the intersection of globalization and welfare systems. It starts with an explanation of different concepts of globalization and a classification of the welfare states in their three main types. Afterwards, chapter 2 and 3 analyzes the relationship between globalization and the welfare state from a theoretical perspective, considering key challenge such as fiscal pressure, labor market disruption or rising inequality as well as opportunities like boosts in innovation or increased productivity. In chapter 5, this theoretical approach is complemented by practical case studies, with one example for each type of welfare state. Furthermore, chapter 6 explores the linkage between trade openness and welfare systems, using recent data from various countries with different approaches to their welfare state. Finally, the conclusion summarizes our main findings, critically reflects on the ways globalization impacts welfare states and emphasizes necessary changes in welfare system to cope with the downsides of globalization, while maximizing the advantages of an interconnected global economy.

2 Concepts of globalization and types of welfare states

Globalization in general refers to the growing linkage of economies, cultures and political systems, driven by modern technology and economic integration. Therefore, globalization can be divided into three dimensions: economic, political and cultural globalization. Economic globalization describes the integration of capital markets, emphasizing the importance of global capital flows, free trade, foreign direct investment (FDI) and labor market dynamics. Political Globalization focuses on the influence of supranational organizations – such as the International Monetary Fund or the European Union - on domestic policies. These organizations shape fiscal policies, human rights standards, trade regulations and labor rights obligations across national borders. Meanwhile, cultural globalization refers to the diffusion of values traditions as well as social and cultural norms, leading to cultural homogenization across borders[1].

The welfare state is a societal institution designed to protect national citizens from market risks by ensuring (universal) access to essential services such as education, healthcare and social security. Hence its primary goal is to secure the economic and social well-being of its citizens. Welfare states are typically categorized into three types[2]: liberal, conservative-corporatist and social-democratic. Liberal welfare states (e.g. the USA or the UK) keep government intervention and social benefits to an absolute minimum, relying on market mechanisms to come up with solutions for societal problems. Conservative-corporatist regimes (e.g. France or Germany) connect social insurance with the citizens status in the labor market, thereby reinforcing conservative family roles and traditions. Social-democratic welfare states (e.g. Sweden or Denmark) are characterized by universal social benefit, emphasizing equality through the redistribution of primary income and equal opportunities for all citizens. Furthermore, the government has a major role in economic activity, frequently using government interventions as a tool to address market failures and reduce inequality[3].

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[1] Mendes (2000)
[2] As established by Gøsta Esping-Andersen in 1990
[3] Arts and Gelissen (2002)

3 Globalization’s economic challenges for the welfare state

3.1 Fiscal challenges

Globalization has had, and continues to have, major implications on how governments collect and allocate resources for social spending. One of the key challenges of globalization is international tax competition. As capital mobility increases, businesses and wealthy individuals are intrigued to move to countries with more favorable tax rates. This leads to a phenomenon socio-economists call the “race to the bottom”, in which countries compete by trying to offer the most appealing tax rates to attract companies and rich individuals. By this competition, jurisdictions reduce their general ability to collect tax revenue and hence, limit their own ability to fund expensive welfare programs. Furthermore, multinational corporations increase this race exploiting differences in national tax laws to shift profits between countries[4].

To address this decline in tax revenues, the OECD and the G20 have implemented the “Base erosion and profit shifting” framework. Together with the global minimum corporate tax agreement, these initiative aim to minimize tax avoidance and secure sufficient tax revenue streams to sustain their current welfare system. These efforts are crucial steps in mitigating fiscal challenges of globalization on the funding of welfare states[5].

Another consequence of globalization is the increasing internationalization of financial markets, making global comparison though credit rating agencies easier accessible. As a result, governments are pressured to reduce public debt to avoid bad ratings and the more expensive credit conditions coming with them. To maintain the trust of domestic and foreign investors, countries have implemented austerity measures, often cutting social spending – especially in the areas of healthcare and unemployment benefits - to reduce their budget deficit. Those cuts to social welfare programs disproportionately affect the

[4] The OECD estimates that this type of tax avoidance amounts up to 10% of global tax revenue
[5] OECD (2014)

lower income part of the population, who are most reliant on social benefits and social security programs, further amplifying social inequality. For instance, the UK began to reduce the funding for their national health service and social care in 2010 as a reaction to rising public debt and poor credit ratings[6]. These reductions highlight a bigger trend of declining government activity, which can also be seen in the shrinkage of public wealth as a share of total wealth in the biggest global economies (see figure 1)[7].

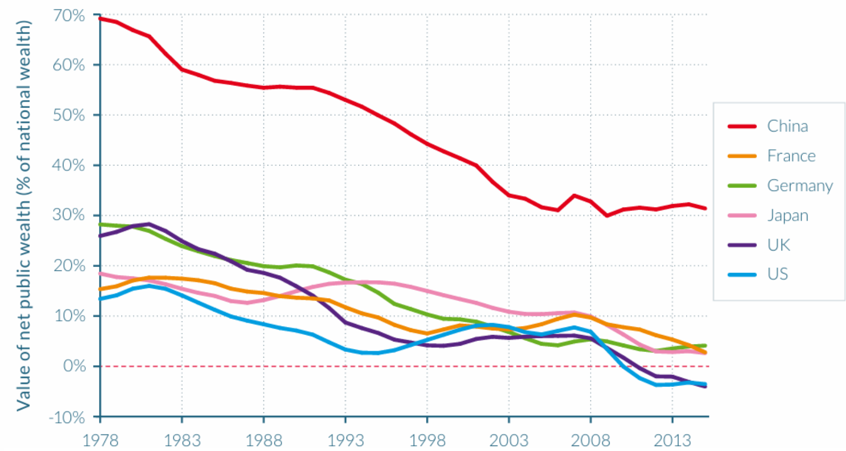

Figure 1: Public wealth as a share of total wealth in the biggest global economies (Chancel, 2018)

3.2 Labor market disruptions

Globalization has profoundly impacted labor markets across the globe, creating opportunities and challenges at the same time. In developed countries, globalization led to a rapid acceleration in deindustrialization (e.g. the decline of manufacturing jobs) due to rising competition from countries with lower production costs. This shift has led companies to outsource and offshore parts of their business, resulting in a large amounts of job losses, predominately among workers in low and middle skill sectors. These challenges got further amplified by digital and technological progress – fueled by globalization – that increased automatization and the use of machines in manual labor jobs[8].

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[6] Streeck (2014)
[7] Chancel (2018)
[8] Yoon (2009)

Furthermore, global competition places additional pressure on the low to middle skill industries due to the increased competition companies within lower wage sectors. To remain competitive, companies often reduce their labor expenditures, leading to either lower nominal wages, or stagnating wages and due to inflation, declining real wages. Combined with the offshoring of business operations, this creates fewer job opportunities and hence, intensifies competition among workers in those sectors. As a result, labor unions and collective bargaining lost parts of their power and influence, leading to further wage suppression. Additionally, globalization increased global labor mobility and migration, further intensifying competition in lower skill industries. This places downward pressure on wages in sectors, where workers are already struggling with reduced opportunity[9].

3.3 Economic Inequality and Redistribution

In addition to fiscal challenges and labor market disruptions, globalization also poses challenges regarding economic inequality, making adjustments in redistribution mechanisms essential. While globalization has helped narrowing gaps in economic output between advanced and emerging economies (see chapter 4), it has increased in-country inequality at the same time. As stated in the previous chapter, low skill workers face the risk of stagnating or even declining wages and job losses due to heightened competition both domestically and internationally[10]. This growing income disparity can be shown by the evolution of income of the top 1% and the bottom 50% in the US (see figure 2). The share of national income of the top 1% in the US – primarily composed of capital owners and highly skilled workers – has increased significantly since 1980. In contrast, the share in income of the bottom 50% has decreased considerably[11].

[9] Milanovic (2016)
[10] Piketty (2014)
[11] Chancel (2018)

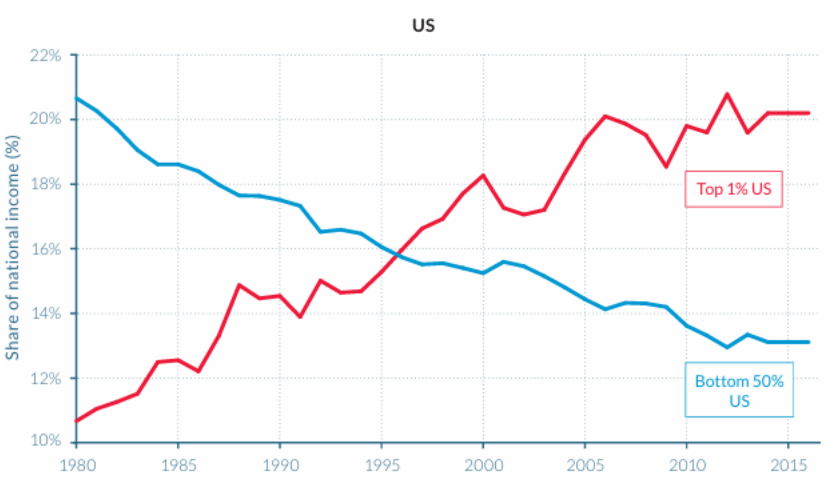

Figure 2: The share of national income of the top 1% and the bottom 50% in the US between 1980 and 2016 (Chancel, 2018)

A similar trend can be observed in the distribution of wealth within countries. The easier accessibility to global markets and the unrestricted movement of capital led to an increased concentration of wealth in the hands of the richest individuals and corporations, particularly export-orientated businesses[12]. For instance, in the US, the wealth held by the top 0.1% grew from 9% in 1990 to 14% in 2023, amounting to approximately $20 trillion in wealth. Over the same period, the wealth held by the bottom 50% decreased significantly to a share of only 3% in 2023[13].

As the income and wealth gaps increased, redistributive policies by governments have become even more important. Welfare states try to mitigate economic inequality through different policies: Firstly, many governments have implemented progressive taxation systems that specifically target inhabitants with higher income while relieving lower income groups to some extent. Secondly, social welfare programs such as unemployment benefits, child support and pensions – funded by tax revenues – provide a social safety net that reduces social inequality. Thirdly, universal services like healthcare and education promote social inclusion and offer at least similar opportunities for every citizen[14].

[12] Piketty (2014)
[13] Lu (2024)
[14] Atkinson (2015)

However, not every welfare state has implemented such social policies. Therefore, the extent of those negative mechanisms of globalization differs vastly between country. Social-democratic welfare states, characterized by progressive taxation, universal healthcare, free education and various other social benefits - have been notably successful in reducing inequality and poverty. In contrast, countries with less extensive welfare systems have experienced a bigger impact of globalization on inequality, emphasizing the critical role of inclusive redistributive policies[15].

[15] Arts and Gelissen (2002)

4 Globalization's positive effects on the welfare state

4.1 Economic growth and innovation

Apart from the negative aspects of globalization discussed in the previous chapter, there are several positive effects as well. Firstly, globalization fosters global, barrier-free trade, thereby enabling countries to specialize in goods where they have comparative advantage in (e.g. Germany's focus on manufacturing)[16]. This specialization led to major efficiency and productivity gains, which – combined with export expansion enabled by open global markets – have been the key drivers of global economic growth. Secondly, globalization stimulates foreign direct investment, which can lead to the modernization of infrastructure and promote the transfer of knowledge and technology across borders. These developments further enhance economic productivity, contributing substantially to economic growth[17].

Additionally, globalization also accelerates technological innovation - particularly in sectors like IT – by supporting cross-border cooperation and knowledge transfer. Multinational enterprises (MNEs) play an important role in this stimulation of technological innovation by fostering shared research and development programs and facilitating the diffusion of innovations across jurisdictions (e.g. through FDI or scientific collaborations). Furthermore, MNEs promote integrated global supply chains, improving both economic efficiency and productivity[18].

4.2 Labor market benefits and reduction in global inequality

Aside from the labor market challenges described in chapter 3.2, globalization has created numerous opportunities as well. By encouraging international trade and economic growth, globalization has increased employment in export and labor-intensive sectors (e.g. China's increased export orientation has created millions of new jobs in manufacturing). Furthermore, through FDI and MNEs a huge focus on the international development and transfer of skill and knowledge occurred, granting greater access to modern technologies and hence, improving working conditions in middle to high skill

[16] Based on David Ricciardo's theory of comparative advantages, in which each country profits from specializing in the good it is relatively better at

[17] Dollar and Kraay (2004)

[18] Narula and Zanfei (2009)

sectors[19]. These developments have enhanced efficiency and productivity, driving wage growth in these sectors, while simultaneously fostering economic expansion in emerging economies. Notably, the wage increases have been particularly significant in the low- and middle-income sectors in these emerging countries[20].

This trend can be illustrated by the so-called elephant curve (see figure 3), which highlights the significant income growth for the global top 1% as well as substantial increases for the bottom 40%, largely due to globalization's positive effects on wages and economic growth in emerging markets. However, the middle income percentiles, representing the lower and middle class in developed countries, have experienced only small growth in income[21]. This reflects the widening income gap within developed countries described in chapter 3.2.

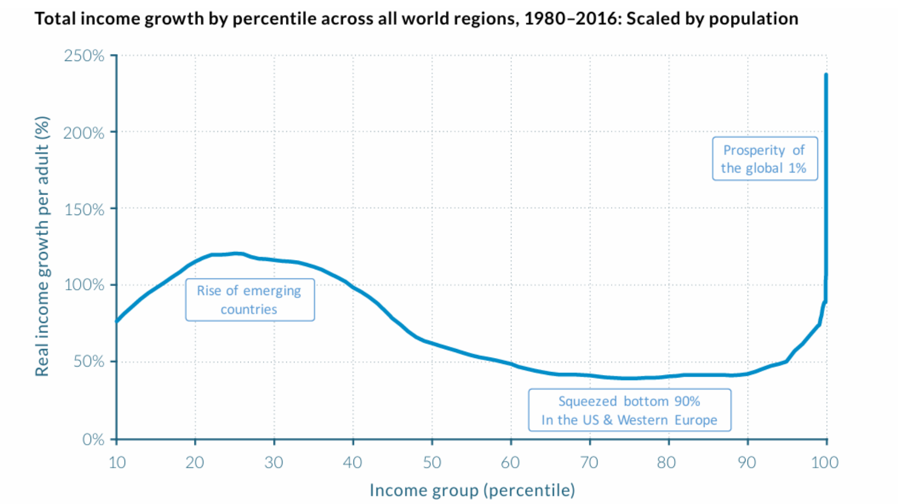

Figure 3: The Elephant curve (implemented by Milanovic and Lakner) illustrates the unequal distribution of growth in income depending on the income percentile form 1980 – 2016 (Chancel, 2018)

As previously noted, globalization fostered economic growth and the integration of emerging countries in global markets, resulting in the creation of millions of jobs (mostly in manufacturing and outsourced service sectors) and an increase of wages in those countries and sectors. The resulting economic boom in emerging economies led to an

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[19] E.g. the IT sector in India heavily benefitted from the knowledge transfer and outsourcing by the EU and the US

[20] Milanovic (2016)

[21] Chancel (2018)

income growth in emerging economies that outshines the growth of the middle and lower income percentiles in developed countries, leading to an expansion of the global middle class and the redistribution of global wealth. However, this redistribution does not affect the wealthiest 1%, who continue to benefit disproportionately from globalization. Therefore, this redistribution helped reducing inequality between countries and generate positive spillover effects, such as increased investments in education and healthcare in emerging economies[22].

The reduction in inequality between countries can be observed through the global Gini-coefficient[23], which decreased from over 70 to around 62 in 2019[24]. Another way to illustrate the economic and social gains caused by globalization is comparing the human development index (HDI)[25] scores between 1990 and 2022 for different emerging economies (see table 1): Looking at the example of India, China, Brazil, Indonesia and Argentina, the HDI has increased considerably in all five countries. The increase is particularly significant for China, whose HDI increased from 0.482 to 0.788, thereby not being that far away from the European average of 0.882[26]

Country	**1990**	**2022**
India	0.434	0.644
China	0.482	0.788
Brazil	0.620	0.760
Indonesia	0.526	0.713
Argentina	0.724	0.849

Table 1: HDI in 1990 and 2022 of five emerging economies (UNDP, 2024)

[22] Milanovic (2016)
[23] The global Gini-coefficient measures income inequality across all countries on a scale from 0 (perfectly equal) to 100 (complete inequality).
[24] World Bank (2022)
[25] The HDI measures life expectancy, education and GDI for each country and comes up with a score between 0 and1, with 1 being the best
[26] UNDP (2024)

5 Case Studies of Different Welfare Regimes

5.1 Liberal Welfare State: The United States

The United States exemplifies a liberal welfare state, characterized by minimal public intervention and a strong reliance on market solutions. This approach is rooted in the belief that the market is the most efficient mechanism for resource allocation and that government intervention should be limited to avoid distorting market outcomes.

5.1.1 Social Welfare Policies and Programs

In the U.S., social welfare policies are primarily means-tested, targeting assistance to those deemed most in need. Major programs include Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and Medicaid. These programs are designed to provide a safety net for the poorest segments of the population, but they are often criticized for their limited scope and stringent eligibility requirements.[27]

5.1.2 Economic Growth and Poverty Reduction

The liberal welfare regime in the U.S. aims to promote economic growth and reduce poverty through a highly productive capitalist economy. The focus is on creating a favorable business environment to stimulate job creation and economic expansion. However, this approach has led to significant income inequality, as the benefits of economic growth are not evenly distributed.[28]

[27] (Bowles & Wagman, 1997)
[28] (Headey et al., 1999)

5.1.3 Challenges and Criticisms

One of the main criticisms of the U.S. welfare system is its inability to adequately address poverty and inequality. The reliance on market solutions means that those who are unable to compete effectively in the labor market often fall through the cracks. Additionally, the limited scope of social welfare programs means that many individuals do not receive the support they need to achieve economic stability.[29]

5.1.4 Dealing with Globalization

The U.S. has faced significant challenges in dealing with globalization, particularly in terms of maintaining its welfare state. The phenomenon of globalization has led to increased competition and the offshoring of jobs, particularly in manufacturing. This has resulted in job losses and wage stagnation for many low- and middle-skill workers[1]. In response, the U.S. has implemented various measures to support displaced workers, such as the Trade Adjustment Assistance (TAA) program, which provides training and financial assistance to workers who lose their jobs due to international trade[1]. However, these measures have often been criticized for being insufficient and not reaching all affected workers. [30]

5.2 Conservative Welfare State: Germany

Germany represents a conservative welfare state, characterized by a strong emphasis on social insurance and the preservation of traditional family roles. This model is designed to provide a high level of social protection while maintaining social order and stability.

[29] (Headey et al., 1999)
[30] (Bowles & Wagman, 1997)

5.2.1 Social Insurance and Benefits

The German welfare state is built around a comprehensive system of social insurance, which includes health insurance, unemployment insurance, and pensions. These programs are funded through contributions from both employers and employees, and they are designed to provide income security and social protection based on individuals' employment status. [31]

5.2.2 Family and Gender Roles

A key feature of the conservative welfare state in Germany is its emphasis on traditional family roles. Social policies are designed to support the male breadwinner model, with benefits linked to employment status and family responsibilities. This approach has been criticized for reinforcing gender inequalities, as it often limits women's participation in the labor market. [32]

5.2.3 Reforms and Adaptations

In recent years, Germany has undertaken significant reforms to adapt its welfare state to changing social and economic conditions. These reforms include measures to promote labor market participation, particularly among women and older workers, and to address new social risks such as long-term unemployment and poverty among single-parent households.[33]

5.2.4 Challenges and Criticisms

Despite these reforms, the German welfare state faces ongoing challenges. The aging population and changing family structures put pressure on the social insurance system, while economic globalization and labor market changes create new social risks.

[31] (Snower et al., 2009)
[32] (Snower et al., 2009)
[33] (Aust & Bönker, 2004)

Additionally, the emphasis on social insurance means that those outside the formal labor market, such as the long-term unemployed and migrants, often receive inadequate support.[34]

5.2.5 Dealing with Globalization

Germany has had to navigate the pressures of globalization while maintaining its welfare state. The country has faced challenges such as increased competition from low-wage countries and the need to adapt to technological changes. In response, Germany has focused on maintaining a strong industrial base and investing in education and training to ensure that its workforce remains competitive.[35]
Additionally, Germany has implemented labor market reforms, such as the Hartz reforms, to increase flexibility and reduce unemployment. These measures have helped Germany to maintain a relatively strong welfare state despite the pressures of globalization. On the other hand, it resulted in Germany being home to the largest low-wage sector in Europe compared to countries with similar economic development[36]

5.3 Social-Democratic Welfare State: Sweden

Sweden is often cited as a prime example of a social-democratic welfare state, characterized by universal social benefits and a strong emphasis on equality and social justice. The Swedish model aims to provide comprehensive social protection and promote economic and social well-being for all citizens.

5.3.1 Universal Social Benefits

The Swedish welfare state is built on the principle of universalism, providing extensive social benefits such as healthcare, education, and social security to all citizens

[34] (Aust & Bönker, 2004)
[35] (Snower et al., 2009)
[36] (Grabka & Göbler, 2020) (*Hartz-Reformen*, 2014)

regardless of income or employment status. This approach is designed to promote social inclusion and reduce inequality.[37]

5.3.2 Economic Growth and Redistribution

Sweden's welfare state is funded through high levels of taxation, which are used to finance a wide range of social programs. The country has a progressive tax system that ensures that those with higher incomes contribute more to the welfare state. This approach has been successful in reducing poverty and promoting economic equality.[38]

5.3.3 Challenges and Criticisms

Despite its successes, the Swedish welfare state faces challenges such as an aging population and the need to adapt to changing economic conditions. Additionally, the high levels of taxation required to fund the welfare state have been criticized for potentially stifling economic growth and innovation.[39]

5.3.4 Dealing with Globalization

Sweden has managed to maintain its welfare state while adapting to the pressures of globalization. The country has focused on maintaining a competitive economy through investments in education, innovation, and infrastructure.[40] Additionally, Sweden has implemented labor market policies that promote flexibility and adaptability, such as active labor market programs that provide training and support for unemployed workers. These measures have helped Sweden to maintain a high level of social protection while remaining competitive in the global economy.[41]

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[37] (Bergh, 2011)
[38] (Bergh, 2011)
[39] (Bergh, 2011)
[40] (Bergh, 2011)
[41] (Bergh, 2011)

6 Trade openness and size of the welfare state

The challenges of globalization (see chapter 3) require the state to engage increasingly in government spending. It can be therefore insightful to look at the historic development of trade openness and public spending. The trade openness ratio is defined by exports plus imports in relation to GDP. Public spending can be also looked at via government revenues, as David R Cameron argues, who provided the groundwork research in that field.[42]

6.1 Past relationship between trade openness and state size (1960s-1990s)

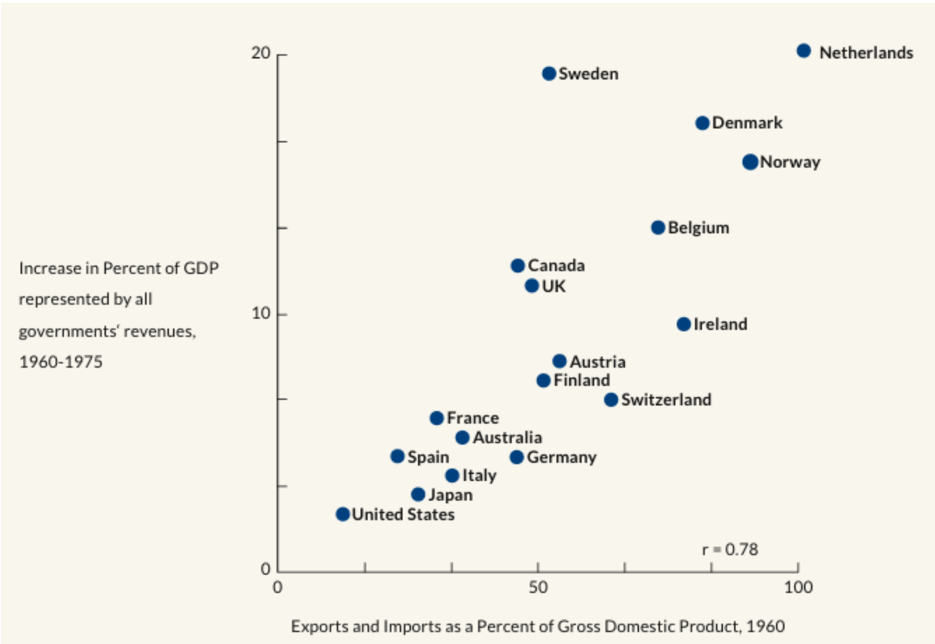

Figure 4: Relation between trade openness in 1960 and the increase in government revenues 1960-1975 as a percentage of GDP (Cameron, 1978)

A clear relation can be seen between trade openness in 1960 and the expansion of the public sector in the following 15 years. Cameron explains this by arguing that openness leads to specialization in industrial production which then results in unionization and collective bargaining. The significant role of labor unions subsequently gives rise to additional income supplements, which may be characterized as the insurance

[42] (Cameron, 1978)

component of the welfare state. This, in turn, has the effect of increasing public expenditure.[43]

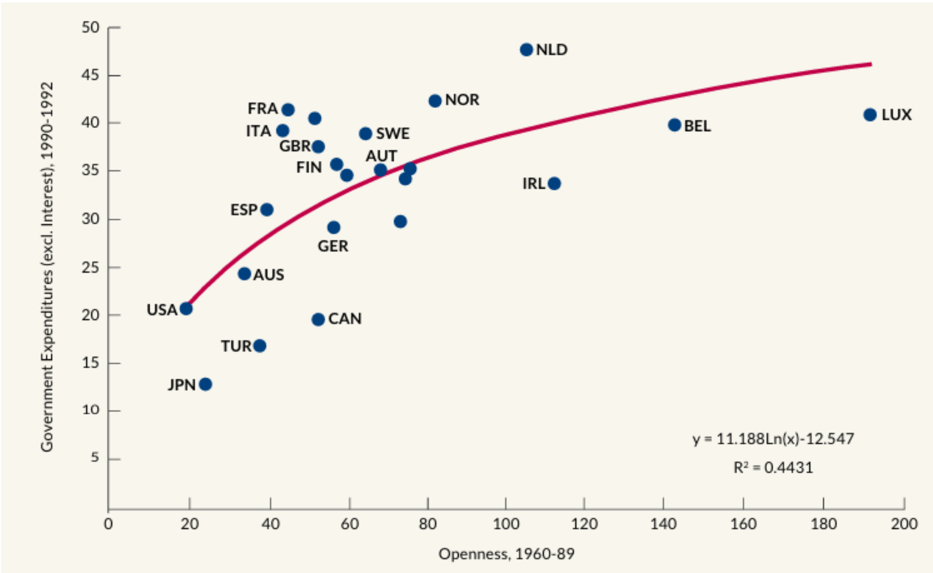

Figure 5: Relation between trade openness in 1960-89 and government expenditures 1990-92 (Rodrik, 1998)

Dani Rodrik continued Camerons research 20 years later and essentially confirms his findings. Rodrik also expands the scope of the analysis by taking more countries into account and performs a regression analysis that controls for area and regional effects, the dependency ratio, the degree of urbanization and potential effects per capita income. Although the coefficient of 0.34 is less steep than in Cameron's sample, the correlation he finds still shows a clear positive trend. Furthermore, he uses logs instead of levels, which itself leads to a different result and may increase the credibility of his findings.[44]

[43] (Cameron, 1978)
[44] (Rodrik, 1998)

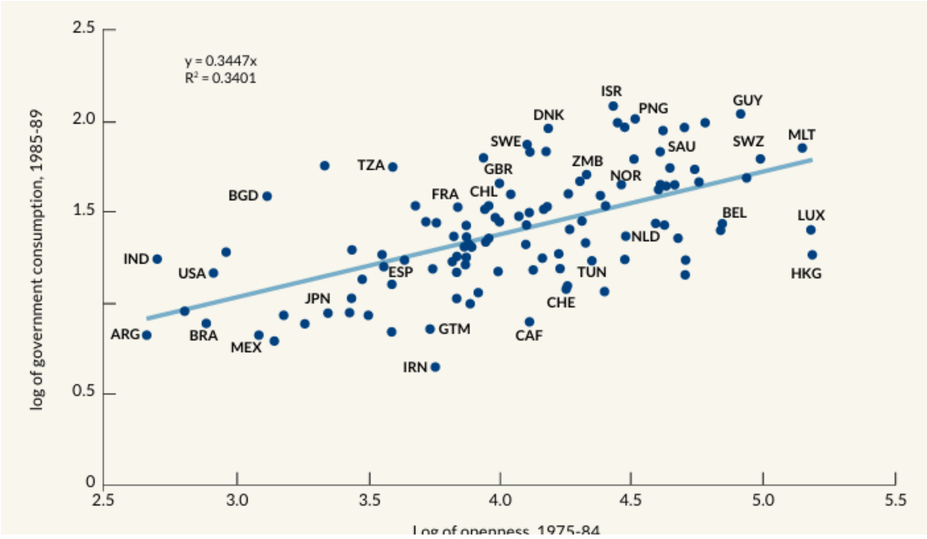

Figure 6: Relation between trade openness in 1975-84 and government consumption 1985-89 (Rodrik, 1998)

Rodrik conducts additional research that shows the link between total government expenditure and openness is influenced by the level of exposure to external risk. He concludes that "societies seem to demand (and receive) a larger government sector as the price for accepting larger doses of external risk." He then makes a significant prediction: "International trade has expanded considerably during the post-war period. Despite some reversals since the 1980s, so has the scope of government activity in most countries of the world. The findings in this paper suggest that this was perhaps no coincidence. And, looking forward, they suggest that scaling governments down – which is the trend of the 1990s – may actually harm the prospects of maintaining free trade on a global scale. Globalization may require big, not small, government."[45] This prediction is very relevant today, as we witness president elect Donald Trump's calls for the reduction of free trade, turning back time on globalization and on the reduction of the public sector.[46]

6.2 Fading relation of trade openness and state size (1990s-2010s)

The data presented so far ranges from the 1960s to 1992. Although this is already a time of vibrant globalization, it is essential to look at more recent data. An analysis of the Bertelsmann foundation does exactly that and looks directly at social expenditures (i.e. the welfare state). The results are similar when looked at total government expenditures

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[45] All (Rodrik, 1998)
[46] (Fariza, 2024) (Campisi, 2024)

like in the previous studies, therefore I only present the former as it is more targeted towards the topic of this assignment.

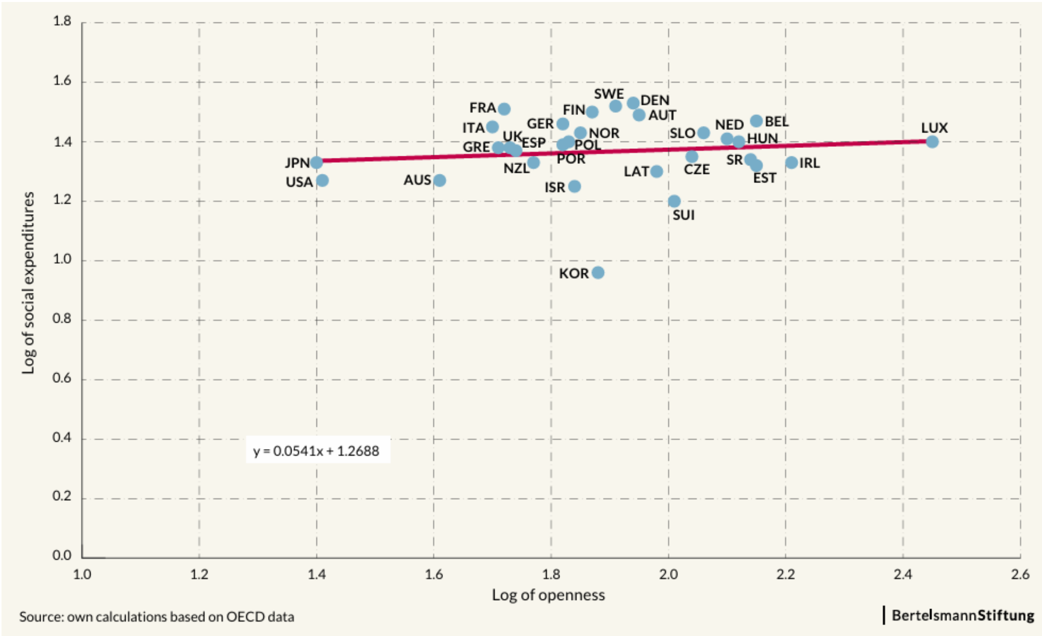

Figure 7: Relation between trade openness social expenditures (1995-2014)

The coefficient of 0.05 of the trend line is hardly positive, far away from Rodrik's 0.34 and the relation therefore seems to be flat. Over the two decades observed, trade has grown faster than ever but the welfare state failed to keep up with that. Although this prima facie evidence presented here should be interpreted with caution, it may help explain the current dissatisfaction with globalization and the growing concern over increasing inequalities.[47]

6.3 Trade openness and welfare state relation today (2010s-2020s)

As the data of the study ends in 2014 and I could not find newer graphics, I decided to analyze the newer data on my own. First, I looked at the development of trade openness from 2014-2022.

[47] (Bluth, 2017)

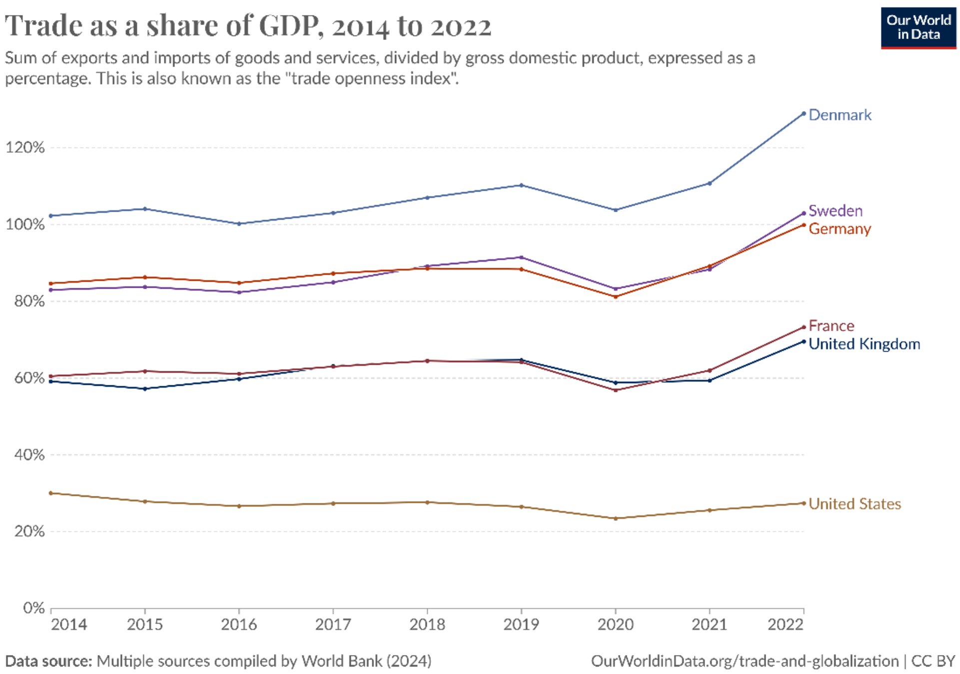

Figure 8: Trade as share of GDP for selected countries (2014-2022)

Country	2014	2022	Absolute change	Relative change
Denmark	102.3%	128.9%	+26.7 pp	+26%
Germany	84.6%	99.9%	+15.3 pp	+18%
Sweden	82.9%	102.9%	+20.0 pp	+24%
France	60.5%	73.2%	+12.8 pp	+21%
United Kingdom	59.1%	69.5%	+10.4 pp	+18%
United States	30.0%	27.4%	-2.6 pp	-9%

Table 2: Changes of trade shares for selected countries (2014-2022) (data: World Bank)

To represent the three different welfare regimes (see chapter 2 & 5), I picked two of each (liberal: USA & UK, conservative: Germany & France, social-democratic: Sweden & Denmark). Besides the US, every country saw an increase in trade openness during that time span. Denmark and Sweden experienced the largest increase, while the United Kingdom and the United States grew the least (or even negative). This is consistent with what we have established in the previous chapters. To see whether these six countries are representative, I also analyzed data from all 38 OECD countries and added a trendline.

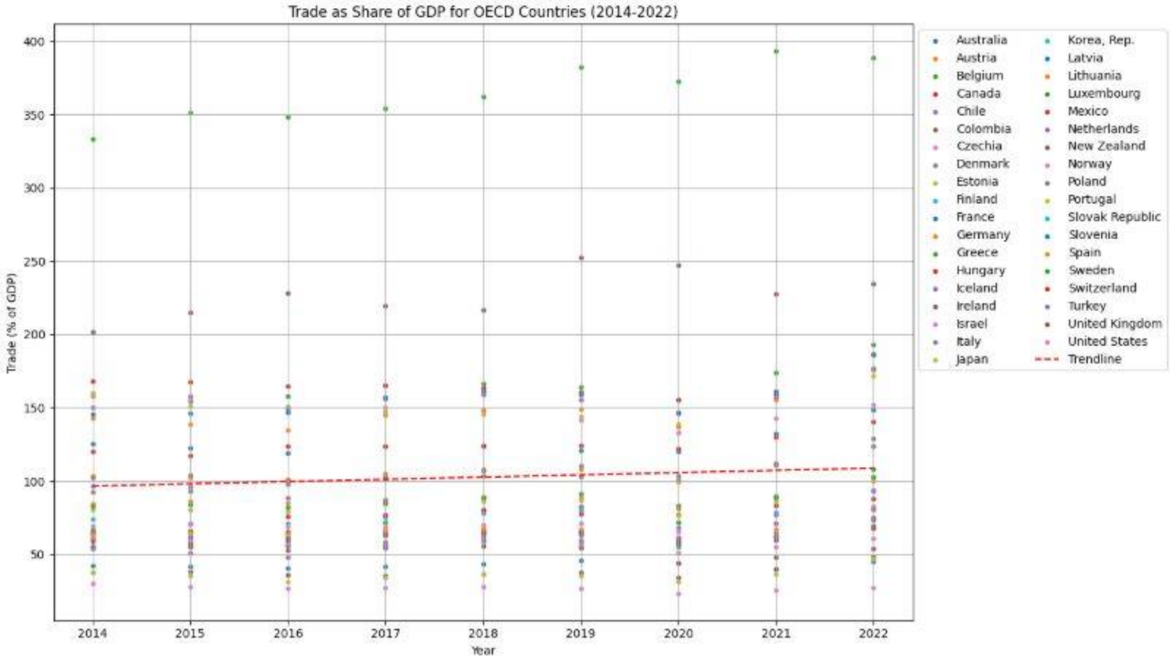

Figure 9: Trade as share of GDP for all OECD countries with trendline (2014-2022)

The slope of the trendline in the graph is approximately 1.53. This indicates that, on average, trade as a share of GDP increased by about 1.53 percentage points per year during this period. So we still observe increasing trade openness in OECD countries.

After looking at the development of trade openness, I analyzed data on the social expenditure of governments. These are spendings in social policy areas like health, old age, unemployment and other and therefore fit our analysis of the welfare state.

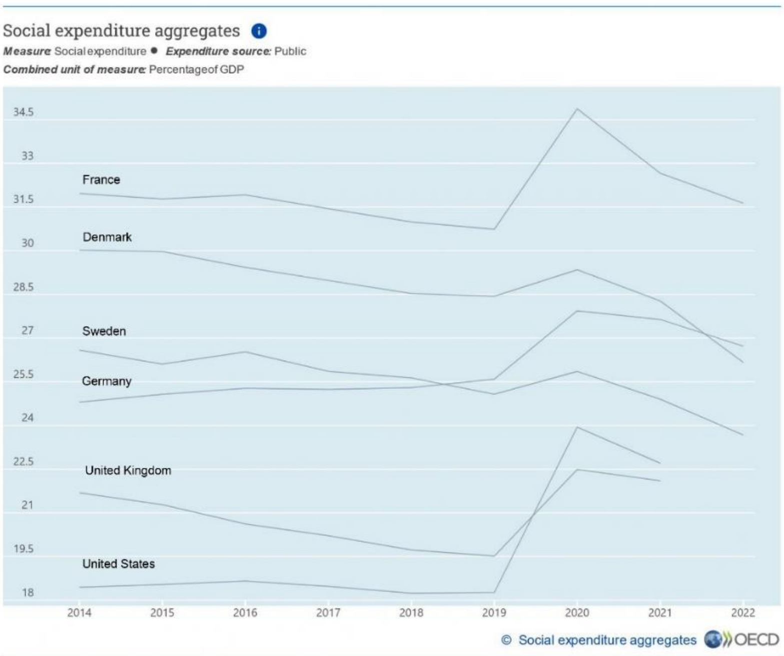

Figure 10: Social expenditure as share of GDP for selected countries (2014-2022)

Country	2014	2021/2022	Absolute change	Relative change
France	32.0%	31.7%	-0.3 pp	-0.94%
Denmark	30.0%	26.2%	-3.8 pp	-12.67%
Sweden	26.6%	23.7%	-2.9 pp	-10.9%
Germany	24.8%	26.7%	+1.9 pp	+7.66%
United Kingdom	21.7%	22.1%	+0.4 pp	+ 1.84%
United States	18.4%	22.7%	+4.3 pp	+23.37%

Table 3: Changes in social expenditure for selected countries (2014-2022 (data: OECD)

To begin, I looked at the development of these social spendings for the same six countries previously chosen. Denmark and Sweden decreased their social spending the most, which is notable as they were the countries where the trade openness increased the most. So, there is a negative correlation for these two countries in that time frame, which is the exact opposite of what the earlier studies showed. France and Germany display mixed results and the United Kingdom and the United States both increased their social spending over time.

What needs to be stated is the influence of the covid-19 pandemic, which lead to massive social spending from governments and in some case to a decrease of the GDP. These two factors increase the social expenditure rapidly and possibly distort an even clearer trend of reduction in social spending.[48]

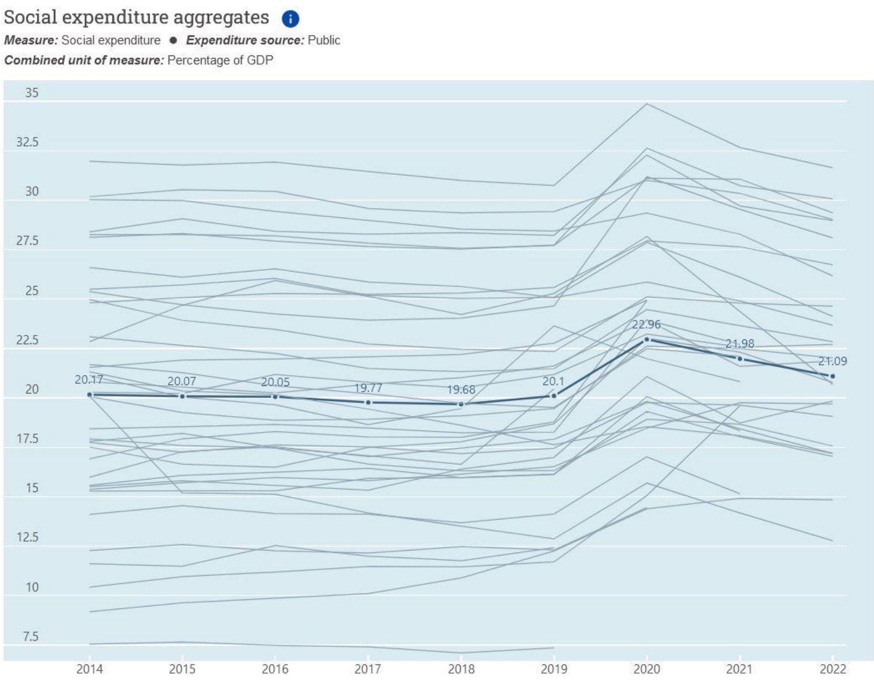

Figure 10: Social expenditure as share of GDP for all OECD countries with highlighted OECD average (2014-2022)

[48] (OECD, 2023)

Adding a trendline into this graph would result in a positive slope of 0.257. Besides this being already smaller than the trend for the development of trade openness (regardless of statistical differences not further described here), it would also not reflect the observable trend in consideration of the timeline. From 2014 to 2019 there is clear stagnation and the sharp rise in the year 2020 is already declining in the years following. It can be therefore said that no general upward trend in social expenditure can be seen in the observed time frame, the data indicates stagnating levels of social expenditure.

The analysis of trade openness and social expenditure from 2014 to 2022 reveals a nuanced relationship that challenges earlier findings of a direct positive correlation. While trade openness has generally increased among OECD countries, the corresponding rise in social expenditure has not been as pronounced, with some countries even experiencing reductions. This divergence suggests that factors such as economic policies, political decisions, and external shocks like the COVID-19 pandemic play significant roles in shaping the extent of social spending. Consequently, the simplistic view that greater trade openness automatically leads to expanded welfare states is insufficient. Instead, a more comprehensive understanding that considers the interplay of various economic and social dynamics is essential for accurately assessing the impact of globalization on welfare systems.

7 Conclusion

Globalization has emerged as a defining force of the modern era, profoundly influencing economies, societies, and political systems worldwide. This essay has delved into the intricate relationship between globalization and welfare states, examining how different types of welfare systems (liberal, conservative-corporatist, and social-democratic) navigate the complexities of an increasingly interconnected world.

Our analysis highlights that globalization brings both significant opportunities and formidable challenges for welfare states. On the positive side, globalization has driven economic growth, fostered innovation, and reduced poverty in many developing countries. The integration of global markets has enabled countries to specialize in areas of comparative advantage, leading to efficiency gains and productivity boosts. Additionally, the diffusion of technology and knowledge across borders has spurred advancements in various sectors, contributing to overall economic development.

However, globalization also poses substantial challenges. Fiscal pressures arise from international tax competition and the "race to the bottom," where countries lower tax rates to attract businesses, thereby reducing their ability to fund welfare programs. Labor market disruptions, such as job losses due to offshoring and automation, disproportionately affect low- and middle-skill workers, exacerbating economic inequality. The increasing concentration of wealth among the top echelons of society further intensifies in-country inequality, necessitating robust redistributive policies to mitigate these effects.

The case studies of the United States, Germany, and Sweden illustrate the diverse strategies employed by different welfare regimes to address these challenges. The United States, with its liberal welfare state, relies heavily on market mechanisms, resulting in significant income inequality and limited social safety nets. Germany's conservative-corporatist model emphasizes social insurance and traditional family roles, facing pressures from an aging population and globalization. Sweden's social-democratic approach, characterized by universal benefits and high taxation, has successfully promoted equality but faces sustainability challenges due to high public spending.

Furthermore, the relationship between trade openness and the size of the welfare state has evolved over time. Historical data suggests a positive correlation between trade openness and public spending, driven by the need to mitigate external risks. However, recent trends indicate a more complex and less consistent relationship, with some countries experiencing stagnation or even reduction in social spending despite increasing trade openness.

In conclusion, the future of welfare states in a globalized world depends on their ability to adapt to changing economic conditions while maintaining social protection and inclusivity. Policymakers must balance the benefits of globalization with the need to address its adverse effects, ensuring that welfare systems remain robust and capable of supporting all citizens. As globalization continues to evolve, so too must the strategies and structures of welfare states, fostering resilience and equity in an increasingly interconnected world.

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