3 Globalization and the decline of ‘social protection by other means’: the transformation of welfare regimes in Australia, Japan and Eastern Europe

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This chapter considers the consequences of globalization for patterns of welfare identified in the literature as ‘social protection by other means’ (SPM) (Castles, 1989). SPM refers to the fact that there are functional alternatives to the institutions typical of the Western welfare state, notably social insurance programmes for income security and medical care, and demand management policies to maintain employment. SPM, although not considered as a part of the formal system of social protection, nonetheless may perform broadly similar functions, viz. those of providing economic security and maintaining living standards.¹

In this chapter the implications of globalization for SPM are examined in three different settings: Australia, Japan and the post-socialist countries of Central and Eastern Europe (CEE). Each of these represents a system of welfare that differs significantly from what may be called the ‘mainstream’ post-World War II Western welfare state. In other words what we are exploring here is the transformation of three different welfare systems or ‘regimes’, viz. the Antipodean or the ‘wage-earners’ welfare state’ represented by Australia, the East Asian or the productivist represented by Japan and the state socialist represented by the CEE countries, in the course of their encounter with globalization. Although post-socialist countries vary a good deal in terms of their economic, political and social conditions as well as the nature of transition from state socialism they have shared certain institutional patterns characteristic of state socialism. It is this systemic feature that justifies their being treated as a single category.

What form did SPM take in these three different sites? In Australia it involved (1) economic protectionism, including tariffs and strict control over immigration, meant to nurture domestic industries and ensure plentiful employment, and (2) a system of compulsory wage arbitration meant to provide the working man with a living wage (Castles, 1989). In Japan SPM took the form of full employment and job security maintained through a system of lifetime employment, and enterprise welfare

(Pempel, 1989). In the case of state socialist countries distinctive forms of social protection involved guaranteed employment for men and women and extensive consumer price subsidies to help maintain living standards (Standing, 1996). While the policies and institutions identified above do not necessarily exhaust all forms of SPM in these countries the chapter proceeds on the basis that these constitute the most important forms of SPM and have been recognized as such in the literature (Castles, 1989; Pempel, 1989; Standing, 1996).

The basic argument of this chapter is that these forms of SPM developed in conditions in which nation states could remain relatively insulated from the global economy. The opening up of national economies to market forces and international competition has tended to weaken, if not undermine, the foundations of these types of SPM. They have been dismantled to a large extent in Australia, virtually eliminated in former state socialist countries and have been in a state of relative decline in Japan. The result of these changes can be seen as a form of *institutional* convergence of systems of social protection towards what might be described as the mainstream Western welfare pattern. For example, in former state socialist societies systemic full employment has been replaced by levels of employment determined largely by the market together with unemployment benefits. Targeted forms of income support, social assistance and other familiar Western-style welfare patterns, which were virtually non-existent in the past, have been instituted. From this viewpoint, economic liberalization and the greater integration of national economies into the global marketplace can be seen as a source of increasing uniformity and 'Westernization' of welfare patterns. It is important to keep in mind that what is being claimed here is a convergence in the *institutional form* or structure of social welfare rather than policies. The assumption is that a useful, if analytic, distinction can be drawn between *institutions* and *policies*. The former refers to the structure or form of social provision, the latter to its substance. Although they are interrelated, change in one does not necessarily imply change in the other. Thus, whether policies, that is, the substance of social provision, are also converging is a different issue that we are not concerned with here. Much of the debate over the implications of globalization for social welfare has, of course, been concerned with policy, for example, whether globalization leads to the retrenchment or enhancement of social provision, rather than changes in the institutional *form* or structure, which is the focus of this chapter.

Thus far we have used the term 'globalization' without defining it. It is time to clarify the meaning of the term as employed in this chapter. Essentially the reference here is to *economic* globalization, that is, the closer integration of national economies into the global marketplace

through the liberalization of trade and financial flows. However, the promotion of economic liberalization by supranational agencies, notably the International Monetary Fund (IMF) and World Bank (WB) through their influence on economic and social policies of nations, will also be considered as an aspect of globalization (Deacon et al., 1997; Mishra, 1999). One problem of employing a broad-gauge concept such as globalization as, so to speak, an 'independent variable' is the difficulty of demonstrating that the change in question was in fact due to the influence of this particular variable. Clearly what is offered here is an interpretation of the relationship, an argument backed by evidence, and not, for example, a statistical demonstration of the nexus between increasing economic openness and the decline of SPM. Moreover, the transformation of SPM involves influences other than that of globalization. For example, national responses to global challenges differ and make a difference to the outcome. Thus, Australia and New Zealand have responded quite differently to the problem of dealing with SPM in the context of globalization (Castles, 1996). In New Zealand the institutions of economic protection and wage arbitration, in short SPM, were virtually eliminated outright. In Australia, by contrast, the process of change was more gradual and elements of compulsory wage arbitration have been retained. In general both endogenous and exogenous influences have been involved in the process of change. Essentially the argument here is that globalization has been an important contextual influence in the erosion of SPM in the countries under examination.²

The rest of the chapter is organized as follows. We consider the nature of SPM and its transformation since the 1980s in Australia, Japan and the post-socialist CEE countries. In each case the relationship between globalization and the decline or demise of SPM is a key issue to be explored. A concluding section summarizes the main arguments and evidence and discusses their broader implications for the relationship between globalization and social welfare.

AUSTRALIA

In Australia SPM comprised a strategy of economic protectionism and a system of wage arbitration, both of which developed in the early years of the twentieth century. Protectionism involved a high level of tariffs to restrict foreign competition and a strict control on immigration designed to exclude low-wage labour and to maintain a tight labour market. The system of compulsory wage arbitration was meant to secure for the worker – typically a male wage earner with a dependent wife and children – a minimum wage that met his 'normal needs', in short,

something like a 'living wage'. These conditions sought to ensure a high level of employment as well as a reasonable family wage for the worker, which made the need for a comprehensive system of social protection along West European lines less pressing. Castles (1989) argues that this is what accounts for the apparently 'residual' form of income protection in the Antipodes. Thus, Australia never developed a system of social insurance, the essential core of income security provision in the welfare states of virtually every industrialized nation. Australia's welfare state, which has been labelled the "'wage-earners" welfare state', remained a laggard in this respect with largely means-tested social benefits and low social expenditure (Castles, 1988, p. 31). Yet as Castles (*ibid.*, p. 18) points out, in terms of welfare outcomes Australia was by no means a laggard nation. In short, SPM acted as a functional alternative to regular forms of social welfare provision.

The basic structure of SPM remained in place until the 1980s and seems to have provided an effective means of economic security and welfare down to the early 1970s (Castles, 1996). During 1960–73 unemployment remained below 2 per cent and the country posted high rates of economic growth. Australia was among the most prosperous of the OECD nations in the 1960s with a relatively low rate of poverty and egalitarian income distribution (Castles, 1988, pp. 14–18). However, in the 1970s the international economic situation began to change, making the policy of economic protectionism increasingly counterproductive. By 1975 Australia had become the third most closed economy, after the United States and Japan, in terms of trade (*ibid.*, p. 43). High tariffs and protectionism had made Australian manufacturing, producing largely for the home market, relatively inefficient and uncompetitive. Moreover, following the OPEC price shock of 1973 and the resulting 'stagflation', unemployment had been rising. It averaged 5 per cent during 1974–79 and over 6 per cent during 1980–82. Overall, Australia's macroeconomic performance in the 1970s was one of the worst among OECD countries. Despite some effort to reduce tariffs and make Australian industry more competitive, protectionist policies, which included subsidies to primary and secondary industries, continued into the 1980s (Castles *et al.*, 1996).

By the early 1980s, economic protectionism was ceasing to be a viable option. Major developments were taking place internationally, with the USA and the UK in the lead, to open up Western economies in terms of financial flows and trade and extend the scope of market forces, nationally and globally. Instead of growth based primarily on domestic markets the new circumstances demanded trade-led growth in a globally competitive market. In short, the globalization bandwagon was on the roll and a relatively small nation such as Australia had little choice besides

trying to get on it. Isolationism could only mean further economic decline. Henceforth, becoming 'internationally competitive' became the new mantra in Australia as elsewhere (Castles et al., 1996; Wiseman, 1998). What all this amounted to was the need for a substantial deregulation of the economy, including the financial system and the labour market. The latter had to be made more 'flexible', with wages more responsive to market forces. Financial liberalization implied removing capital controls and allowing national currencies to float, which in turn meant far greater influence – direct or indirect – of global markets and global investors on national policies. The implications for the system of SPM were clear. As a part of the old protectionist and regulated economy it had to be scaled down substantially, if not dismantled (Wiseman, 1998).

The change came in the early 1980s when the Labour government decided to float the Australian dollar and deregulate the financial system. Reduction in tariffs followed in the late 1980s. Further falls in tariffs and industry assistance were projected in order to bring Australia in line with most other OECD nations (OECD, 1997a, p. 81). As Castles (1998, p. 28) remarks, the new economic strategy was based on the 'need to strip away all those policies and practices' that had insulated Australia from global trends and international competition. Growth was to come by way of reversing the decline of Australian manufacturing and creating a specialized export-oriented manufacturing sector.

The deregulation of the wage arbitration system followed a more circuitous path. The Labour government's agreement with the trade unions (the Accord) ensured that change was gradual and consensual. In the mid-1980s the system was used to hold down wages in order to reduce inflation and follow a reflationary policy of creating jobs and reducing unemployment. From the late 1980s the scope of wage arbitration has been steadily curtailed while that of free collective bargaining has been extended. By the end of the 1990s collective bargaining had also been very substantially decentralized, allowing more free play of market forces and a smaller role of the government in the determination of wages (Wiseman, 1998; OECD, 2001).

The result of economic liberalization and the dismantling of large components of SPM can be seen in changes in the labour market and income distribution. Unemployment rose to 10.6 per cent in 1992 before declining to 6.8 per cent in 2001 and then falling below the OECD average (OECD, 2010, p. 336). Wage dispersion also increased although post-transfer inequality increased far less (Garnett and Lewis, 2008, pp. 148–9). 'Non-regular' forms of employment, for example, temporary and part-time work at low wage, increased substantially. For example, casual employment grew from 17 per cent of the workforce in 1985 to 24

per cent in 1995, one of the highest in the industrialized world (Beresford, 2000, p. 196). It subsequently reached a plateau of 27 per cent (Garnett and Lewis, 2008, p. 172). On the other hand, the economy performed very well in terms of productivity and GDP growth following the reforms of the 1980s and has continued to do so.

As far as social welfare is concerned Australia has chosen to retain and strengthen its selectivist system of income maintenance. In this sense the legacy of the past continues. On the other hand, along with economic deregulation and liberalization, a public system of medical care was put in place in 1983, followed in 1992 by a mandated system of occupationally based superannuation – the Superannuation Guarantee – which covered virtually all employees (Bryson and Verity, 2009, pp. 76–7). These two measures are universal in nature and although not based on social insurance mark a move towards the Western welfare model.

In sum, of the three components of Australia's SPM identified earlier, viz. economic protectionism, immigration control and wage arbitration, the first has been virtually eliminated, and the third has been very substantially reduced in scope. As regards immigration, economic liberalization in Australia, as in other countries, stops short of the free mobility of labour across national borders. Controls remain in place and immigration policy is largely influenced by economic and demographic (decline in fertility) considerations. But in this respect Australia is not very different from other industrialized countries. What we also find in Australia is that within the broader context of liberalization domestic politics has made a difference. Thus, unlike its Labour predecessor, the Conservative government of John Howard (1996–2007) pushed reforms – especially in respect of industrial relations and labour market deregulation – aggressively in a neo-liberal direction. By contrast the Labour government that took office in 2007 has sought to moderate and modulate these policies. Nonetheless, it is clear that Australia's SPM has been largely dismantled as a result of changes in the international political economy and, in particular, the closer integration of the economy with the global market. As a result the “‘wage-earner's” welfare state’ of Australia has morphed into a variant of ‘liberal’ welfare state (Esping-Andersen, 1990; Bryson and Verity, 2009) with a ‘flexible’ labour market, a selectivist system of income security, mandated occupational pensions and a universal programme of medical care.

JAPAN

In Japan, SPM, which took shape after World War II, comprised two main elements. First, there was a policy of full employment and job

security institutionalized through a commitment to 'lifetime employment' by employers and employees. What was distinctive about this pattern of full employment was that it sought to provide a job for everyone – or at least for all working age males – based on the *preservation* of private sector jobs, within a long-term relationship between the employee and the employer. Second, and related to the above, was a system of wide-ranging workplace benefits, for example, pensions and retirement allowances, housing, medical care, family allowance and family leave, provided by the employer. In fact, lifetime or long-term employment and occupational benefits formed a part of a broader system of industrial relations in which wages were based on seniority rather than 'merit' and unions were organized around the enterprise (Pempel, 1989; Peng, 2000). Although the system of lifetime employment, seniority pay and enterprise welfare was far more typical of the large firms, in a weaker form the norm of job security and workplace benefits also prevailed in medium and small firms. Significantly the obligation on the part of the employer not to dismiss regular employees save in exceptional circumstances was not merely customary but also upheld by the law (Schregle, 1993). Thus, the majority of the Japanese (male) labour force enjoyed *de facto* job security leaving about one-fifth of the workforce, including temporary, contractual and part-time workers, as 'non-regular' employees. The latter consisted largely of women, older workers (who may have retired from their regular employment) and immigrants. Although the non-regular workforce was not a part of the lifetime system of job security the national policy of maintaining full employment sought to ensure that there was little or no unemployment (Therborn, 1986; Schregle, 1993; Peng, 2000).

In sum the majority of Japanese employees (especially males) did have job security and access to a range of occupational benefits and the labour force as a whole enjoyed the conditions of full employment. To full employment and enterprise welfare we need to add another element, viz. strongly institutionalized extended family obligations to support and care for family members, which has been enshrined in family law (Peng, 2000). This last element can be seen as a cultural norm reinforced by law. Together these three elements made up what was distinctive about Japanese patterns of welfare, in short, SPM. All three have been under pressure since the collapse of the 'bubble economy' in 1990. However, globalization is mainly relevant to full employment and enterprise welfare and the chapter will focus on these. As we shall see below, economic protectionism, which has been increasingly challenged by globalization, has been important in maintaining these patterns.

Although Japan developed a safety net of social insurance and assistance, the role of state welfare remained limited. Japan's social expenditure

was one of the lowest among OECD countries and remained so until the 1990s. Thus, in 1990 it was only 11.57 per cent of GDP compared with an average of 21.6 per cent for other OECD countries (OECD, 1994). Yet the Japanese did enjoy economic security, a high standard of living and an egalitarian distribution of income comparable to that of Scandinavian countries. Indices such as life expectancy, infant mortality and enrolment in tertiary education put Japan among the top nations of the world (Rose and Shiratori, 1986; Pempel, 1989). Clearly Japan had developed its own indigenous version of economic and social security, which, arguably, offered social protection comparable to the advanced welfare states of Europe. This worked well through the 1980s with the country enjoying full employment, relatively strong economic growth, low inflation and surplus budgets. At a time when most of the OECD countries were suffering from high unemployment, inflation and chronic budget deficits Japan seemed to be amply vindicated in its distinctive way of welfare (Mishra, 1999, p. 86).

However, the situation changed dramatically in the 1990s. Japan went through a period of speculative investment boom in the late 1980s (the so-called 'bubble economy') followed by a collapse of the 'bubble' in 1990 (Katz, 1998). For a decade thereafter the economy remained mired in stagnation and recession. Repeated stimulus by the government in the form of huge spending on infrastructure failed to set the economy on the growth path. Meanwhile the national debt soared to unprecedented heights. Despite the government pumping billions of yen to prop up the economy and maintain employment, unemployment kept on rising, exceeding 5 per cent by the year 2000. While this does not seem high by OECD standards it must be remembered that unemployment in Japan was exceptionally low, averaging 1.8 per cent during 1960–89 and reaching 3 per cent only in 1995. Moreover, in the 1990s unemployment was held down by keeping redundant workers on the payroll of companies and the government having to run up massive deficits. True, the proximate cause of Japan's economic woes was the collapse of the bubble economy and the inability of the nation to deal with the ensuing problems effectively. But what the crisis also underlined was (1) the systemic nature of Japanese capitalism that was making reform difficult and (2) the economic costs of maintaining a relatively closed and regulated domestic economy in the context of increasing trade openness and competitiveness worldwide.

In order to understand the Japanese situation better it is useful to look at the distinctive character of the Japanese economy as it developed after World War II. It was a dual economy that combined a highly efficient and competitive export-oriented sector with a large and substantially less efficient domestic sector of services and small producers. The domestic economy was highly regulated – both formally and informally – justifying

the label of a 'closed' economy (Katz, 1998). Not only was domestic competition restricted but non-tariff barriers of various kinds also limited foreign competition very substantially. It was largely this relative insulation from the sway of market forces, domestic and international, that enabled Japan to maintain its pattern of enterprise-based full employment and welfare benefits. The less efficient but labour-intensive domestic sector of the economy helped maintain jobs, as did the 'lifetime employment' system of large and medium-sized firms. The broader social norm that employees will not be dismissed by the company as long and as far as possible meant that 'millions of redundant' workers remained on the company payroll even when profits were falling (Greider, 1998, p. 375). This in turn was made possible by the distinctive nature of the Japanese capital market and financial institutions that enabled corporations to work within a long-term perspective rather than seek short-term profit (Dore, 2000). In part, this was what made it possible for Japan to live through post-war recessions, including its longest in the 1990s, without making a radical break with traditional practices. Moreover, the inflexibility of the labour market in terms of employment was counterbalanced by a variety of 'flexibilities' (OECD, 1997b, pp. 112–17). For example, a part of Japanese wages consisted of biannual bonuses. These could be adjusted according to the financial health of the company. Employees could be redeployed within the firm or within the conglomerate. In addition, measures such as early retirement, restrictions on overtime, freezes on new hiring and dismissal of temporary staff provided employers with a great deal of flexibility in terms of overall wage costs, making it possible to avoid dismissal of regular employees. These were used extensively in the 1990s (Michito, 1998; OECD, 1999, pp. 33–4, 47–50).

The idea of the company as a community and a focus of loyalty of employees within a long-term relationship has been a distinctive feature of Japanese social and industrial organization for nearly half a century. During this time the Japanese economy grew to be the second largest economy in the world. Indeed, it was not so long ago that Japan was the envy of the industrialized world and Japanese management and labour practices were not only an object of admiration but also emulation. No wonder that Japan has been reluctant to turn its back on an economic and industrial system that has served the country, on the whole, very well in the past. SPM has been an integral part of this system. And to a large extent its future is tied to the viability of the Japanese form of capitalism itself. However, the protracted economic crisis of the 1990s has taken its toll. Open unemployment reached or surpassed that of many OECD countries, weakening Japan's claim to remain a full-employment economy.³ The proportion of 'non-regular', that is, temporary, contractual and

part-time, workforce rose from one-fifth of the total in 1990 to one-third by 2008 (OECD, 2009, p. 12). These 'non-regular' employees have no job security and often no company welfare benefits (Peng, 2000, pp. 104, 109; OECD, 2009, p. 35). On the other hand, regular employees have continued to enjoy stringent employment protection (OECD, 2009, p. 36). Thus, labour market dualism has intensified although the core of lifetime employees has also been shrinking. As a result of the long recession many Japanese pension funds have been in serious financial difficulty (OECD, 2000, p. 129; Takayama, 2004, p. 253). Government reforms have sought to make occupational plans more viable, flexible and portable. Defined-contribution pension funds and American-style 401(K) type retirement accounts, which shift market risks to employees, have been legalized (Japan and Sakamoto, 2010). With the rising burden of insurance contributions for pensions and medical care, companies are cutting back on employee welfare in order to reduce non-wage labour costs and to prepare for a more competitive environment (Peng, 2000, p. 105; 2004, p. 406). The practice of basing pay on seniority rather than merit is one aspect of the old pattern that is being slowly phased out. In short, SPM has been in a state of relative decline since the late 1990s, especially in respect of security of employment and corporate welfare. True, a high level of employment is being maintained but at the cost of increasing dualization of the labour market and an insider/outsider divide, resulting in higher levels of poverty and inequality (OECD, 2006, Ch. 4).

However, along with the deregulation of the labour market the government has also provided some measure of social protection. Some ad hoc and temporary measures, for example, to help older displaced workers, have been adopted in order to soften the impact of redundancy and early retirement. Part-time workers have become eligible for unemployment insurance (OECD, 2009, p. 35). In some areas of need, for example, long-term care insurance for the aged and disabled, as well as child care, the state has made significant commitment although this has more to do with the ageing of the population, increasing participation of married women in the labour force and sharp fall in fertility rates (Peng, 2000). In general, there is an increasing – almost grudging – acceptance of the notion that the state will have to assume greater responsibility for social protection. In 2008 the government approved the goal of developing a 'medium-level welfare society', with a level of social expenditure somewhere between that of the USA and the European countries. Apparently this implies a level of expenditure higher than the 18.6 per cent of GDP reached in 2005 (a substantial rise from 12 per cent of GDP in 1990), which though above that of the United States was still below the OECD average (OECD, 2009, p. 320).

From a globalist perspective what is surprising is that in spite of

a decade-long economic stagnation followed by years of low growth not much has changed. Overall, Japan seems to be holding on to its past pattern of SPM although its long-term survival is questionable. Japanese-style welfare developed as an integral part of the country's post-World War II economy, a developing economy dedicated to rapid industrialization via export-oriented growth. With its 'strategic' integration into the global market, Japan has been extremely successful in the venture of 'catching up', enjoying sustained high rates of growth for a long time. In part it was the protected domestic economy, but in part also the high rate of economic growth and the expectation that it would continue, that made the system of full employment and enterprise welfare affordable. Many of these assumptions underlying the Japanese economy are no longer valid.⁴ The continuing stagnation and recession of the 1990s has exposed the weaknesses of Japan's financial system and capital market, which rely much more on the norms of trust and 'accommodation' rather than on the impersonal market criteria of performance, transparency and other 'objective' standards. With increasing ascendancy of market forces and competition worldwide Japan has been under pressure to open up its economy to international competition (Greider, 1998, pp.374–9; Katz, 1998; OECD, 2006). Yet in spite of reforms undertaken since the 1990s Japan's level of globalization and domestic competitiveness still remain quite low (OECD, 2006). In its effort to shore up the economic and financial system the government has racked up an accumulated debt close to 200 per cent of GDP. It is a rich country that has so far been able and willing to pay the cost of resisting pressures to liberalize and globalize its economy. But how long can it be sustained? Significantly, Japan's welfare regime is closely tied to its production regime and that has not changed much so far. Moreover, change has been slow, uneven, path-dependent and system sustaining (Jacoby, 2005, p.77). As with the production regime, changes in the welfare regime have also been largely 'adaptive' and parametric rather than 'transformative'. The systemic features of the Japanese economic and industrial organization, the 'institutional complementarities' intertwined with politics, make the reform process difficult and slow. Moreover, Japan's distinctive brand of capitalism with its unique configuration of institutions and values has many advantages that the country is loath to forgo (Jacoby, 2005, pp.168–70; Nottage et al., 2008). In any case it appears that Japan has yet to tackle the problem of restructuring its economic system in order to make a successful transition to a mature post-industrial economy and to come to terms with globalization. It is likely that short of a serious 'shock' of some kind Japanese SPM will continue in an attenuated form while both the state and individuals/families take on a greater share of responsibility for social security. The large accumulated

national debt and the political difficulties of raising taxes may, however, limit the expansion of state welfare. In the coming years therefore we may see an increasing hybridization of the welfare system with an eclectic mix of old and new elements.

POST-SOCIALIST SOCIETIES

The post-socialist countries of Eastern Europe and the former USSR provide the most dramatic example of the collapse of SPM in late twentieth century and the transformation of a welfare regime. These countries, of course, vary enormously in many significant ways including how far they have moved away from their former social system. The shift away from socialist forms of SPM is most evident in the CEE countries, for example, Hungary, Poland and the Czech Republic, the focus of this chapter. Although the decline of socialist forms of SPM has mainly to do with the collapse of state socialism, globalization has played a significant role in hastening the process.

In state socialist countries SPM comprised two basic elements. First, there was a policy of guaranteed full employment for both men and women of working age. Second, there was a system of consumer price subsidies for a wide variety of basic goods and services, which held down the cost of living for the general population very substantially. In addition these countries also provided a range of universalistic services, for example, education and medical care, as well as income security programmes, for example, pensions, sickness benefits and child allowances, broadly similar to those of Western countries. Given full employment and also the importance accorded to labour and production there was also an array of services and benefits based on the enterprises complementing and augmenting state welfare services. SPM together with the state welfare programmes formed the core of economic security and welfare under state socialism (Standing, 1996; Kapstein and Mandelbaum, 1997).

Guaranteed, indeed obligatory, full-time work and consumer subsidies formed a part of the political economy of state socialism, which entailed state ownership of the means of production, the virtual elimination of the market and control over the entire economy by a one-party state. The 'right to work', the emphasis on collective consumption, low wage differentials and egalitarian living standards were a part of the ideology of state socialism. In short, it aimed at 'de-commodification' on a grand scale. Unlike capitalism, it was not the market that determined wages, prices and employment. Thus, employment was more a 'social' than an 'economic' concept and many more workers remained on the payroll of enterprises

than was justified by market criteria.⁵ In the absence of the market forces of competition and profitability, productivity was low and the quality of goods produced was poor. Enterprises worked in order to fulfil production quotas for a captive domestic market in which consumers had little choice. Foreign trade was conducted largely with other socialist bloc countries and was guided by political rather than economic criteria (Kramer, 1997, p. 81). No doubt CEE countries, notably Hungary and Poland, did introduce elements of market in their economies and developed significant trading and economic relations with capitalist countries. But on the whole, it is true to say that the economies of state socialist countries were subject to very little competition, domestic or international. It was the subordination of the market and the insulation from the international economy – in terms of trade and finance – that enabled these countries to maintain full employment and to provide many basic necessities at a price far below not only what might represent a reasonable market price but below even the cost of production.

We need not rehearse the inherent weaknesses of state socialism as an economic, political and social organization that eventually led to its unravelling. By the end of the 1980s the communist regimes had virtually collapsed in Eastern Europe and by 1991 in the former USSR. Since then most of these countries have been in a process of transition towards some form of market-based economy and representative government. In the event, transition has meant integration into the global market economy. The exact timing, extent and process of integration has varied. Countries such as Poland and Hungary and some Baltic countries have led the process, followed, to a varying degree, by Russia and other former state socialist countries. Integration has meant opening up the economies fully to market forces – domestic and global – with free trade and financial flows and convertible currencies (Gowan, 1995). The dramatic change from conditions of relative closure and insulation from the international economy to full exposure meant the virtual elimination of SPM within a short space of time, which contributed to the rise of mass unemployment, economic insecurity, inequality and poverty (Standing, 1996; Ferge, 2001). Full employment became a thing of the past and consumer subsidies were drastically reduced, if not eliminated (Kolodko, 1999; Ferge, 2001). It is now the market forces – global and local – that largely determine employment levels.⁶ With the acceptance of unemployment as a part of the new economy, forms of unemployment benefits have been instituted. These did not exist under state socialism, which claimed to have abolished unemployment. Social assistance was weakly developed and means-tested benefits were practically non-existent. They now form an important part of the system of social protection. Old pay-as-you-go pension programmes have

been converted into multi-pillar schemes with funded elements in most countries. Partial privatization of other programmes has also been taking place (Standing, 1996; Ferge, 2001; Hacker, 2009). The post-socialist countries differ a great deal in respect of economic, political and social conditions and it is the CEE countries that have been more successful in transforming themselves into something like stable capitalist democracies. Their system of social protection now broadly resembles that of Western countries, at least in institutional *form* or structural characteristics if not also in policy or substantive *content* (Ferge, 2001, p. 135; Potucek, 2008; Hacker, 2009, pp. 164–7). In short, socialist forms of SPM have virtually disappeared and a gradual 'Westernization' of systems of social protection has been taking place. By 2007 ten CEE countries had joined the EU, enhancing the prospect of further 'Europeanization' of their social policies (Potucek, 2008, p. 80; see also Haggard and Kaufman, 2008, pp. 344–5).

How much of the socialist forms of SPM might have survived in the case of a gradual transition from state socialism towards some form of social democracy – as hoped for by many – is largely a hypothetical question. Arguably a policy of maintaining high levels of employment and retaining consumer subsidies in a modified form might have worked in more favourable international circumstances. However, the collapse of state socialism coincided with economic globalization and the ascendancy of the Washington Consensus in the West (Ferge, 2001). Thus, liberalization of trade and finance, deregulation of labour markets and the unleashing of market forces more generally were seen as providing the best conditions for growth for former socialist countries, as indeed for others. This translated into a policy of 'shock therapy', that is, a rapid marketization and globalization of the economy. This policy was followed, to a varying degree, by many post-socialist countries through a mixture of choice and necessity (Gowan, 1995; Standing, 1996). It meant a radical dismantling of SPM. Here the influence of international financial institutions (IFIs) such as the IMF and WB has been important. Apart from providing general policy advice, agencies such as the IMF and WB were directly involved in extending loans to many of these countries to help with problems of transition (Deacon et al., 1997, Ch. 4). These loans included various conditionalities, for example, that consumer subsidies be cut back drastically and market forces allowed maximum possible scope in determining prices and levels of employment if not also wages. The marketization of the economy was to be complemented by a social safety net to include unemployment benefits and means-tested social assistance. Partial privatization of pensions was also strongly urged upon these countries by the IMF and WB (Standing, 1996; Ferge, 2001).

Thus, the general context of economic globalization and the direct

influence of IFIs have both worked in the same direction – towards a rapid dismantling of SPM. In Hungary, for example, the first Structural Adjustment Loan of 1990 required consumer and housing subsidies to be reduced substantially. In the event they fell from 7.0 per cent of GDP in 1989 to 1.5 per cent in 1993. In Poland subsidies fell from 8.2 per cent of GDP to 0.7 per cent over the same period (Ferge, 2001, p. 133). Apparently the removal of subsidies was considered ‘absolutely necessary’ by the IMF, which was willing to back only those adjustment policies that would lead to the eventual liquidation of all subsidies (Kolodko, 1999, p. 162). The IFIs in fact favoured the rapid withdrawal of price subsidies without compensation (Ferge, 2001, p. 133). However, governments often found it difficult to implement such drastic measures, which were highly unpopular and imposed a great deal of hardship on people (Haggard and Kaufman, 2008, pp. 341–3). The extent to which countries compensated for the reduction of subsidies by way of wage increases, social assistance or other forms of protective measures varied a great deal (World Bank, 2000). Whereas the old practices continued longer in Russia and other countries of the former USSR, the CEE nations formed the vanguard of Westernization – phasing out old SPM and instituting the *structures* and *forms* of Western welfare (Ferge, 2001, pp. 132, 135; Potucek, 2008; Cerami, 2009).

DISCUSSION

This chapter has looked at SPM in three different settings and considered its transformation since the 1980s. One element common to all three forms of SPM has been a policy of full employment albeit in each case the approach has been different. In state socialist societies it took a systemic form entailing the virtual abolition of the market economy and the establishment of the ‘right (and duty) to work’ for men *and women* as an integral part of socialism. Employment became more a social than an economic concept. In Australia it involved conventional methods of economic protectionism within a capitalist economy and control over immigration to ensure plentiful employment though essentially for the male breadwinner. The Japanese approach to full employment stood somewhere in between. It has shared with Australia the practice of economic protectionism in a capitalist economy and the idea of full employment essentially for male breadwinners. But the means of economic protection have been very different, involving non-tariff barriers and a dual economy. Japan has also differed from Australia in having a far bigger and stronger economy with formidable export competitiveness and a

strong currency. It has therefore been in a much stronger position to maintain its strategy of 'domestic defence' and its relative insulation from the global market economy. Moreover, full employment has been a key component of Japan's welfare regime in the context of a dual economy and a distinctive production regime. Hence its effort to sustain employment has been far stronger than that of Australia. Its SPM has not therefore suffered a great deal of erosion thus far. What Japan has shared with state socialist societies is a *systemic* or *quasi-systemic* feature that involves the intertwining of economic, financial and industrial organization. It enabled Japan to take an approach to employment that was, in part, 'social' rather than economic – in the sense of being market-rational – echoing state socialism. These systemic features also allowed Japan to maintain full employment through periods of economic recessions and restructuring. Unlike state socialism, however, Japanese capitalism has been a story of economic triumph, at least until recently. The Japanese form of welfare capitalism, which includes SPM, has on the whole served the nation well. It also appears to have enjoyed a great deal of support in the country. Not surprisingly, therefore, Japan is to a large extent holding on to its distinct form of capitalism and SPM in spite of serious economic difficulties and a long period of stagnation.

But can Japan be called a full employment country any longer? Since the late 1990s unemployment has been above 4 per cent, a rate slightly higher than or comparable to more than half a dozen OECD countries (see note 3). And this has been achieved, among other things, by substantially enlarging the periphery of insecure workers. In any case the old pattern of full employment, based on the assumption of a male breadwinner and female homemaker family, is unlikely to return. Thus, it appears that full employment as a part of SPM has ended in all three systems and the countries concerned. The future seems to lie more in the direction of the Western pattern, that is, largely market-determined unemployment, together with systems of unemployment compensation and active labour market policies although moves in this direction have so far been uneven and limited in Japan.

Extensive subsidies were a feature of state socialist societies alone. It was the socialist economy that allowed prices to be determined by social and political rather than economic criteria. It should be noted, however, that subsidies for food and other necessities of life as a form of social protection have featured in many developing countries. Indeed, in a limited form they also exist in many advanced capitalist countries, for example, for housing and transport, and are by no means incompatible with a well-functioning market economy. No doubt the retrenchment, if not elimination, of subsidies in former state socialist countries was in part

due to the economic difficulties resulting from the sudden collapse of the system and the transition to a market economy. However, the context of globalization as well as the pressure from Western donors and IFIs such as the IMF and WB has been important in eroding subsidies. The IFIs have had considerable leverage in influencing the social policy of these countries, by way of conditionalities for loans and other assistance. Indeed, as Standing (1996, p. 230) observes, 'the revolution that has been taking place in Central and Eastern Europe is the first in history in which social policy has been shaped and influenced by international financial agencies'. It is worth noting, however, that for many years Structural Adjustment Loans made by these IFIs to developing countries have included similar stipulations about the reduction, if not the elimination, of price subsidies. Restoration of market pricing, coupled with targeted assistance to the needy has been the preferred policy. Consumer price subsidies as a method of social protection have been very much out of favour with the Washington Consensus and the globalized market economy with their penchant for allowing market forces full play and limiting the nature and scope of state intervention in the economy.

Labour market 'flexibility', including wage flexibility, has emerged as a key requirement for competitiveness and growth in the global market economy. Australia's system of compulsory wage arbitration made for considerable rigidity in the wage structure by making annual wage awards that formed the basis of wage determination throughout industry and beyond. Wage flexibility, on the other hand, requires that wages be responsive to the market situation of firms and to labour productivity. This is not to say that centralized forms of wage agreements – tripartite or bipartite – are necessarily dysfunctional for a national economy in the context of globalization. Flexibilities can be built around a basic agreement on wages as a number of European countries, in varying degrees and forms, have shown (Hirst and Thompson, 1999, Ch. 6; Rhodes, 2001). Indeed, the Labour government in Australia practised a form of centralized wage determination during its period of accord with the trade unions in the 1980s and early 1990s, which held down national wage costs while seeking to ensure fairness and protection for low wage earners. Australia posted good economic as well as job growth during this period. However, business and global investors were pressing for the decentralization of collective bargaining and the deregulation of wage structure. The Conservative government, which succeeded Labour in 1996, was more sympathetic to these objectives and took steps to decentralize bargaining and limit the scope of wage arbitration. Thus, changes in the Australian wage arbitration system cannot be understood in terms of globalization alone. National, including political, responses to the phenomenon must

also be taken into account. Indeed, as the somewhat different outcomes in Australia and New Zealand in this regard show, policy responses of governments and other major actors are important in deciding the specific outcomes. What we have argued, however, is that the changed context of globalization, which called for labour market flexibility, provided the rationale for scaling down the wage arbitration system.

Extensive occupational welfare linked with lifetime employment has been a distinctive feature of Japanese SPM. But occupational welfare *per se* is far from unique to Japan. It exists in many other countries and acts, in part, as an alternative to more comprehensive public provision (Shalev, 1996; Ellison, 2006, Ch. 7). For example, in the United States, health insurance benefits in the workplace have served as a partial substitute for public provision of medical care for the working population. Globalization pressures have weakened the nature and scope of such benefits in the United States too, eroding this type of SPM (Mishra, 1999, pp. 26–80; Alber, 2010, pp. 105–6). More recently the Obama administration has legislated health care coverage for virtually all Americans, thus extending the role of the state. Nonetheless, occupational provision continues to form a part of the health care mosaic. In Continental Europe again – as in Australia – we see examples of an enhanced role of occupational welfare, especially in regard to pensions (Ellison, 2006, Ch. 7). In Japan too occupational pensions are envisioned as a continuing feature of social security. Clearly the relation between globalization and occupational welfare is somewhat contradictory, variable and nationally specific.

CONCLUDING REMARKS

The main concern of this chapter has been to draw attention to the transformation of certain major forms of SPM (social protection by other means) at the end of the twentieth century and to highlight the relevance of globalization to the process. It was above all the relative insulation of national economies from the global market economy that enabled countries to fashion policies and institutions of social protection other than those typical of the post-World War II welfare state. At the close of the twentieth century it has proven increasingly difficult, if not economically untenable, for these countries to maintain their isolation from the global market economy. They have been under pressure, directly or indirectly, to open up their economies in terms of trade and financial flows and to compete internationally. This openness and integration into the global economy has meant scaling down or dismantling SPM. The process has been uneven across the countries examined in this chapter and Japan, in

particular, still remains a relatively closed economy with rather limited erosion of SPM. Speculations abound regarding the future of Japanese capitalism and its welfare patterns. A likely outcome is a slow process of change resulting in greater liberalization of the economy and increasing Westernization of welfare patterns.

Influences other than those associated with globalization have been at work in the process of change. Actors within the nation-state as well as without, including IFIs such as the IMF and WB, have played a part in the process. In any case it is clear that the imperatives of openness and closer integration with the global market economy have deprived nations of certain policy options available to them earlier. In this respect globalization does curtail the policy autonomy of nations.

This is not to say that countries have no choice regarding the social provision that might replace SPM. How far globalization influences such choice is a question that is outside the remit of this chapter. It appears, however, that a 'mainstreaming' of methods of social protection is taking place leading to the 'Westernization' of the form or structure of welfare systems. This is certainly evident in CEE countries and to a lesser extent also in Japan where we are witnessing greater state responsibility for social protection. In Australia too the universality of medical care and mandated workplace superannuation represent a shift towards the mainstream Western welfare pattern. Nonetheless, a broad institutional convergence on the Western model still leaves plenty of scope for diversity and choice in welfare.

NOTES

1. This raises the question of how to demarcate those arrangements that constitute 'social protection by other means' from those that do not. In our view there is no clear-cut divide between the two. Rather, there is a continuum of relevance of policies and institutions to social protection. It is a question of focusing on those that appear to be more directly relevant.
2. See Ellison (2006), especially Chapter 3, for a nuanced perspective on how globalization pressures influence welfare regimes.
3. For 1995–2001 the unemployment rate averaged 4 per cent (calculated from OECD, 2002, Annex Table 14, p. 220). In 2001 it stood at 5 per cent compared with 4.8 per cent in the USA. In that year 12 OECD countries had a lower rate of unemployment than Japan (*ibid.*). During 2002–09 it ranged from 3.9 per cent to 5.4 per cent. These rates were comparable to those of nearly a dozen other OECD countries (see OECD, 2010, Annex Table 14, p. 336).
4. For example, Japan's annual rate of economic growth fell from 10.2 per cent during 1961–70 to 4.5 per cent in 1971–80 and to 4 per cent in 1981–90 (OECD, 1998, Table 1, p. 22). It dropped to 1.4 per cent during 1991–2001 and averaged less than 2 per cent during 2002–07, in each case falling below the OECD average (see OECD, 2010, Annex Table 1, p. 323). The growth rates of the 1980s now look highly unlikely.

5. According to one estimate (Kramer, 1997, p. 87), a quarter of the employed workforce in Poland, Hungary and Czechoslovakia under the communist rule was redundant.
6. During 1993–2001 unemployment averaged 6 per cent in Czech Republic, 8.9 per cent in Hungary and 13.8 per cent in Poland (calculated from OECD, 2002, Annex Table 14, p. 220). In 2001 the respective rates were 8.2 per cent, 5.7 per cent and 18.2 per cent (ibid.). Unemployment remained highest in Poland, reaching a record 20 per cent in 2002 before falling to single digits in 2007 (OECD, 2010, Annex Table 14, p. 336).

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