

An Effect of Globalization on Labor Market policies in Three Welfare Regimes: Changes in the Expenditure on Labor Market Programs from 1980 to 2000

Abstract

This paper is to study the effect of globalization on welfare expenditures, especially expenditures for labor market programs, in three welfare regimes.

There is generally a large body of researches (Sainsbury, 1999; Shin, 2000; Offe, 1987; Martin, 1998; Lee, 2003) insisting that globalization drove welfare states to active programs, so-called, 'back-to-work' programs (i.e. job training) out of passive programs for supporting livelihoods of the unemployed. However, empirical studies did not arrive to a consensus.

This paper is to analyze whether all the welfare states of the advanced industrial world, coping with globalization, directed their efforts towards active programs from passive ones. If not, how differently did they adapt to globalization? Which states spent more on active labor market programs and which states did not?

In this paper, we classified fifteen OECD member states into the 'three welfare regimes' (Esping-Anderson, 1990) for the institutional differences among welfare states to be considered. And we performed multiple regression analyses to find out the effect of globalization on expenditures for labor market programs.

The result of analysis showed that expenditures on passive programs have been significantly cut down as the influence of globalization when the welfare regime was not included in the analysis. However, when the welfare regime entered into analysis, the effect of globalization turned out to be significantly different among welfare regimes.

Even though this analysis was conducted on fifteen OECD countries considered to be mature welfare states, their responses to the globalization may also have implications for Asian countries.

Keywords: globalization, welfare regime, labor market program

INTRODUCTION

Our contemporary world faced with so-called “globalization” – that is, free trade and free capital flows, and since 1990s, globalization has caused social and economic changes different from previous decades. In regard to globalization, various studies in various fields including sociology, economics, and cultures have been conducted on various subjects such as ‘what is the globalization?’ or ‘what is the effect of globalization on politics, societies, and economics?’.

Particularly, the effect of globalization on welfare states or policies has been the popular subjects since 1970s, when the so-called “welfare crisis” had begun to be discussed and the related researches produced various results: reform of welfare states, changes in welfare policies, etc.

Among welfare policies, labor market programs were discussed to be influenced by globalization. Welfare states have slashed the budget for passive programs, mainly used for maintaining incomes for lower income brackets, whereas directed their efforts towards active programs – i.e. job training - supporting the unemployed to go back to work(Sainsbury, 1999; Shin, 2000; Offe, 1987; Martin, 1998; Lee, 2003). However, there are few empirical researches on the subject, whether all countries, identically, coped with globalization changing welfare policies: from passive to active programs. Also, empirical studies, though statistically analyzing the effect of globalization, showed different results.

This study is to examine whether all welfare states, facing globalization, have diverted their efforts from passive programs to active ones, empirically analyzing the effect of globalization on changes in expenditures on labor market programs.

Especially, we supposed that previous studies had reached different conclusions because they had limitations in their analysis methods. That is, analysis results can vary depending on which variable was defined to represent “globalization”, which labor market programs were included in the welfare expenditure, or which countries were selected for respective welfare regimes. Widely used variables representing globalization are the shares of trade in GDP, FDI(Foreign Direct Investment), or international capital flows and the period of globalization can vary depending on which variable was selected for representing globalization.

The effect of globalization can be different depending on which program was chosen for labor market programs between active and passive ones. Likewise, which states were included in the analysis can judge the effect of globalization.

Additionally, the effect of unemployment rates should be controlled because unemployment rates exert direct influences on expenditures on labor market programs and the effect of globalization might be overestimated if unemployment rates were not included in the analysis model.

In this study, we focused efforts on elaborating the analysis methods in order to assess an independent effect of globalization on expenditures on labor market programs.

GLOBALIZATION AND ITS EFFECT ON LABOR MARKET PROGRAMS

Globalization

Recent spending patterns on the labor market programs have changed in the so-called welfare states. They have increased spending on active programs providing subsidies for vocational trainings or business start-ups, whereas expenditures on passive programs such as income supporting programs for low-income earners or the unemployed have been reduced(Sainsbury, 1999).

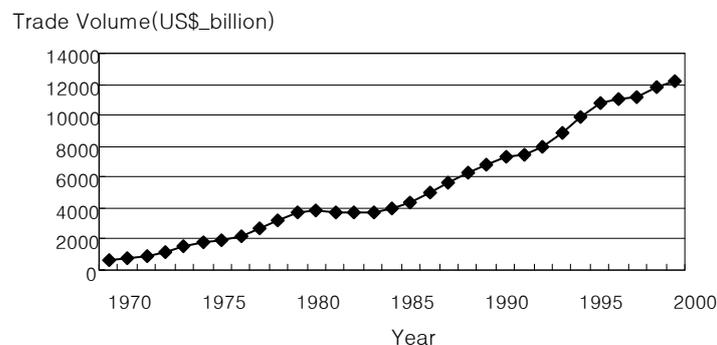
Previous studies have defined “globalization” using economic terms such as trade, foreign investment or capital flows to empirically analyze the effect of globalization on changes of spending on labor market programs (Shin, 2000; Lee, 2003; Burgoon, 2001).

Globalization, as the economic term, is generally operationally defined as one of three indices: trade; FDI(Foreign Direct Investment); capital flows. However, there are differences among three terms of globalization in its most globalized period or the pace of change(Shin, 2000).

First, trade is commonly used to denote globalization in that current trade volume equals an unprecedented record and is fundamentally different in its pattern from the previous periods. However, trade has some limitations to represent the globalization since 1990s. Axford(1995) argued that international trade has a long history and it is no exaggeration to say that it has developed and expanded along with the civilization of human beings. Hirst and Thompson(1996) mentioned that the globalization as changes in the trade volume did not exist because current changes in trade can be explained as the impact of economic cycles or peculiar economic situations such as the recent Asian crisis.

Fig. 1 shows changes in the world trade volume since 1970. Trade volume had steadily increased although it had surged or fallen due to periodic economic performances. In that sense, changes in trade volume are not suitable to represent current globalization of which the scope has been drastically expanded for a short time.

Fig. 1 Changes in the World Trade Volume (1970-2000)



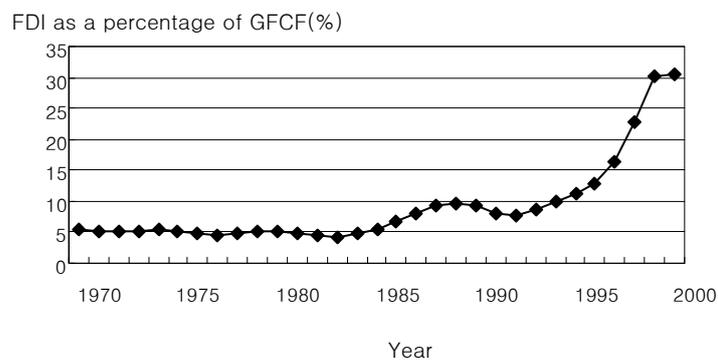
Source: IMF homepage, 「World Economic Outlook」 Database

Another variable representing the globalization as the economic term can be ‘international capital flow’. Recent transaction volume in international capital markets has increased so as to be as much as nine times more than in the late of 1970s(Hirst & Thompson, 1996), and also daily transaction volume in major foreign exchange markets amounted to two trillion dollars, which is as much as forty times more than daily international trade volume(Helleiner, 1996; Roberts, 1995). Besides, the geographical scope of transaction activities has enlarged, so that private capital is allowed to flow freely across borders(Helleiner, 1996).

The rapid growth in global financial markets is considered to represent today’s globalized world better than any other economic indicators, such as trade volume or FDI. However, it is hard to find any direction of international capital flows because private capitals tend to go for short-term profits. Moreover, it is difficult to maintain that international capital flows have any relationship with labor market programs, which is the most important part in this study. Therefore, international capital flows are thought to be inappropriate as the proxy variable of the globalization in this study.

Third, FDI, the financial capitals transferred from one country to another country for the purpose of investment on products and service, increased two times faster than international trades since 1980’s (Yeats, 2001; Evans, 1997; OECD, 1992, 1996). It is considered to be one of the major indicators of the globalization.

Fig. 2 Changes in global FDI volume
as a percentage of GFCF(Gross Fixed Capital Formation) (1970-2000)



Source: UNCTAD homepage, 「Foreign Direct Investment」 Database

It is noteworthy that the changing pattern of FDI is different from that of international trades for the same period of 1970~2000. Trades had steadily increased since 1970s and did not show any steep increasing pattern recently. However, FDI showed a dramatic increasing trend since the early 1990s, posting 11.26% points increase in 1993 and 40.66% points increase in 1998 compared to the previous year.

When Bowles & Wagman(1997) explained these differences between trades and FDI. They mentioned it had been the 1970s that there was a considerable increase in trades volume,

whereas it had been the 1980s that the inflows or outflows of long-term investment capitals, such as FDI, had shown a substantial increase. In short, it seems that FDI is more appropriate to represent the globalization which has been visibly impactful in recent years.

Another point to be discussed here is the “time” of the globalization. Which period can be the “time” of “the economic globalization” in terms of loss of control over capital flows and foreign investments?

Mishra(1999) pointed out that the loss of control over capital flows and the liberalized capital markets are the most important factors in understanding the recent globalization and these features were conspicuous since the 1990s. It is because that most of OECD countries have loosened the control over capital flows since the early 1990s. Thereafter, foreign capitals or firms were able to move freely and make investments across borders. Shin(2000) argued that it was the 1980s when OECD countries began to pursue policies to remove barriers to free flows of international capitals and to reform domestic markets to adapt to the international finance system. In the 1980s, there were intense competitions among OECD countries to induce foreign capitals or firms. In short, it seemed that the globalization has emerged in the early 1980s and widely spread out over most of OECD countries in the 1990s.

To sum up, the recent globalization may be better represented by FDI than by trades and can be analyzed with the data on the trends since the 1980s.

Globalization’s effect on labor market programs

‘Labor Market Programs(LMPs)’ include all sorts of government programs - a low-income subsidy, job training, job placement etc. - to support the labor market to effectively work. LMPs can be subdivided into ‘Active Labor Market Programs(ALMPs)’ and ‘Passive Labor Market Programs(PLMPs)’ on the basis of the program objectives.

ALMPs are designed to support the unemployed in their job seeking activities by providing them job placement services and vocational trainings, whereas PLMPs are to subsidize the low-income of the unemployed(Kim, 2004). The scope of LMPs, which had focused on PLMPs until recently, has enlarged to ALMPs. Especially, under the pressure of globalized competition, national governments have regarded HRD(Human Resources Development) as important as the labor market flexibility to make domestic markets more attractive to foreign capital or firms. In that sense, governments have directed their efforts from income maintenance programs towards active programs(Bowles & Wagman, 1997; Shin, 2000).

Moon(2001) claimed that welfare states effected welfare reforms in that they introduced “the workfare” into their traditional welfare system and linked the welfare benefits with “work”. That is, they made it a rule that recipients should make efforts to be reemployed as the new relationship - so-called, ‘mutual obligation’- was established between the state and welfare recipients.

Since the mid of 1980s, advanced countries introduced the concept of “Welfare-to-Work” into their welfare systems and changed the traditional strategy which had focused on the income maintenance of recipients to so-called “bridging strategy” between welfare and work. As listed

in the below 'table 1', several countries adopted a new policy that welfare recipients should register with authorities and be regularly checked whether they are engaged in job-seeking activities. Welfare recipients are required to make their efforts to participate in job search activities. They adjusted the old public assistance system to be more like the ALMPs(Moon, 2001).

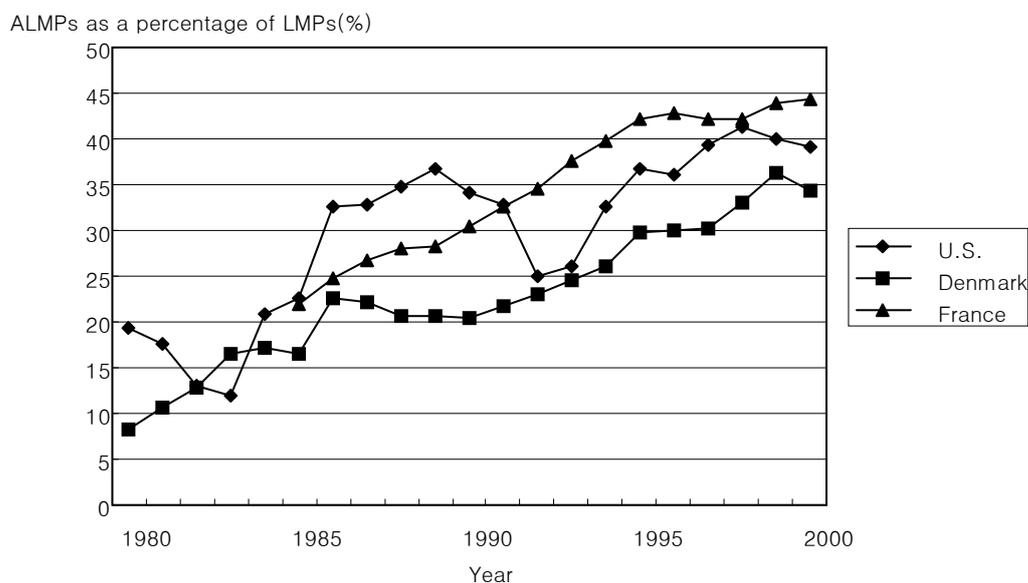
Table 1 Job search requirements in social assistance schemes, OECD countries(1994)

Country	Job search requirements	Sanctions	Job offers/training schemes
Australia	Unemployed people must demonstrate that they have sought work in the last two weeks(the "actively seeking work test"). The activity test is not applicable to those aged 60 and pension age.	The income support is linked to satisfying the work test. Failure to do so may mean loss of benefit.	Refusing a job offer or training scheme may be seen as failing the qualification test.
Canada	For employables, they must be involuntary and take active steps. Lone parents may be exempted.	Sanctions vary across provinces like suspension, reduction or termination.	They are not compulsory as employability enhancement measures.
U.K.	Yes, except lone parents, disabled, elderly, etc., others must sign on.	Failure to seek work can lead to ineligibility for benefit. However, hardship payments are available. Reduction is made in case of voluntary unemployment.	There is wide range of training schemes, which is not formally compulsory.
Austria	Yes, they are not applicable to lone parents, disabled, and elderly. Others register with LMA(Labour Market Administration).	Partial or full loss of benefit	Not compulsory. There are no specific insertion or integration agreements.
Germany	Yes, but not physically or mentally incapable and older unemployed. But lone parents must seek part-time work.	Not stated.	There are highly developed general trainings. And there are obligations on municipalities to offer regular jobs, or special less regulated schemes. It is compulsory to accept offers on special employment schemes.
Sweden	There are strict requirements, except for those 65 years and over, and those with documented impediments to work. Lone parents must have child care, which is obligatory for municipality to provide for children 18 months and over	There is Supreme Administrative Court ruling that benefits cannot be denied if work is refused.	Municipalities may offer public relief work and organize training.

Source: Tony Eardley and others(1996)

In fact, expenditures on ALMPs have increased across OECD member countries. Fig. 3 demonstrates that, in U.S., Denmark, and France, spendings on ALMPs, as a percentage of LMPs, have steadily expanded since 1980.

Fig. 3 Changes in expenditures on ALMPs as a percentage of LMPs(1980-2000)



Source: OECD, Social Expenditure Data

A shift to ALMPs can be found in existing studies, which empirically analyzed the changes in the LMPs as an effect of globalization. Burgoon(2001) made an analysis on the effect of various proxy variables of “openness¹” on “welfare efforts” of governments in the form of government spending for the period of 1980-1994. The result showed that inflows and outflows of FDI had a statistically significant effect on the increase of training and relocation benefits among ALMPs.

Lee(2003) cotrolled the welfare characteristics of respective countries using welfare regimes and fixed effect model and analyzed the effect of globalization on welfare expenditures for 27 OECD member countries from 1980 to 1992. He argued that, in liberal and social democratic regimes, spending on ALMPs has increased whereas unemployment benefits and family allowances have been reduced as openness, measured by trades, has grown.

In short, empirical studies which analyzed the changes of LMPs as an effect of globalization concluded that spending on ALMPs has increased while levels of spending on PLMPs has been lowered.

However, Shin (2000) proposed the concept “policy linkage” between the economic policy and the social policy and maintained that most countries have commonly adopted business

¹ “Openness” was represented by (1) trade openness(import plus exports as a percentage of GDP); (2) low-wage imports (imports from non-OECD countries excluding OPEC as a percentage of total imports); (3) FDI exposure(inflows and outflows of FDI as a percentage of GDP); (4) portfolio flows(assets and liabilities of international bonds, and equities as a percentage of GDP) (Burgoon, 2001).

friendly policies to activate the inducement of foreign capitals and curtailed social taxes as a relief of the corporate burden, but actual policies, nevertheless, varied by their institutional environments. That is, each country has nourished a specific production regime based on a specific coordinating mechanism, which had been historically constructed. Therefore, faced with the same pressure of globalization, they differed in the welfare policy because the production regime is closely related with the welfare regime.

In short, existing studies on the effect of globalization on labor market programs agreed on the same opinion that LMPs have been reformed to focus on ALMPs, however, a different view has been put forward that each country differs in its LMPs due to the divergence of its institutional environment.

THREE WELFARE REGIMES

A classification of welfare states has been brought up for lively discussion beginning with Wilensky & Lebeaux(1965)'s typology of 'institutional welfare state' and 'residual welfare state'.

In particular, Esping-Andersen's "The Three Worlds of Welfare Capitalism(1990)" has been a dominant framework in comparative studies of welfare states(Wincott, 2001). Using the word of 'regime', Esping-Andersen(1990) pointed out 'the fact that in the relation between state and economy a complex of legal and organizational features are systematically interwoven'(Ebbinghaus & Manow, 2001; Esping-Andersen 1990).

Esping-Andersen(1990) proposed that welfare states can be classified into the so-called 'three worlds of welfare capitalism': liberal, conservative(corporate), and social democratic on the basis of three variables of 'de-commodification', 'the system of stratification', and 'welfare mix'. Theoretically, welfare regimes are clearly distinguishable from one another.

Liberal welfare states have a relatively low-pay structure, and are low in the degree of decomodification. It has characteristics such as means-tested public transfer, low level of income transfer and social insurance. Recipients of welfare benefits are mostly low-income working class. In this model, the social reform has been done within the traditional ethical norm of "liberalism". Therefore, strict conditions are attached to the receipt of welfare benefits and welfare benefits are inevitably accompanied by social stigma. For the purpose of activating the market, governments do not more than ensure the least of livelihood and support the private welfare as passive measures. The result can be to re Commodify welfare recipients, and to isolate recipients from non-recipients. The United States, Canada and Australia are classified as liberal welfare states.

Conservative(corporate) welfare states are middle in the degree of decomodification and protect the difference among jobs and social classes. Social rights are also achieved depending on rank and status. However, governments play the role of the welfare provider instead of the market. Thus, the role of private insurance or welfare is insignificant. In addition, governments give a top priority to the protection of traditional home, and thus, full-time housewives are excluded from social insurance and the development status of family welfare services – i.e.

child care – is low. Austria, France, Germany and Italy are included in the conservative(corporate) regime.

Social democratic welfare states are characterized by a generous and highly decommodified welfare system, which is common to all citizens. Universal and decommodified social rights have extended to the middle-class and therein, it could be said that upward-readjusted welfare society was realized. In the social democratic regime, a high level of the decommodification and universal programs are designed to meet different expectations of the middle-class. This means that all the layers are assigned to a single universal insurance system but the level of welfare benefits are adjusted to income. Another feature of the social democratic regime is a guarantee of full employment. As it bears a huge cost to maintain the universal and decommodified welfare system, it requires a high level of employed population.

Studies on the labor market programs were mainly international comparative studies focused on disparities in spending on passive/active programs, or employment protection system. For example, Schmid(1994) contrasted unemployment insurance and active labor market programs and classified as countries of a relatively large expenditures for unemployment insurance and those of a large expenditures for active programs. OECD(1999b) and Mosley(1994) compared countries based on the strictness of the employment protection system.

Recently, attempts to combine two fields of researches which have been independently developed are emerging(Iversen & Wren, 1998; Esping-Andersen, 1993, 1999). They argued that labor market programs differ by welfare regimes.

Iversen & Wren (1998) and Esping-Andersen (1993, 1999) hold that welfare states adopted different labor market programs by the welfare system to cope with high unemployment - low economic growth problem. Esping-Andersen (1993, 1999) presented the two policy responses. The first is to reduce wages of low-cost sector to lower price and increase employment. Second, the government expanded public works and offered relatively high wages to workers. The second response, which primarily preferred by the social democratic regime, accompanied the drawback of the increase of tax and/or public debt. The first might result in the expansion of the income inequality, so it is extremely difficult to find nearly impossible to find the best claim to avoid a deficit budget, while minimizing the income inequality.

Iversen & Wren (1998) claimed that each welfare regime adopted different policy combinations in “the service economy” of low growth - high unemployment. This means that each regime adheres to different pairs of policies of “the trilemma” of budget restraint, employment growth, and income(earnings) equality. Liberal welfare states prioritized employment growth and budgetary restraint; social democratic states are in the pursuit of income equality and high employment; conservative states emphasized income equality and fiscal restraint.

This research assumed that the effect of globalization on labor market expenditure would be different by welfare regime. Traditionally, social democratic welfare states have focused on full employment by facilitating turnover during restructuring or technological changes. Therein, spending on the ALMPs is expected to increase in the social democratic regime in the aftermath of globalization. Meanwhile, conservative (corporate) welfare states have spent a large portion

of social insurance on unemployment benefits but relatively low portion on the ALMPs, faced with mass unemployment (Jeong, 2005). Accordingly, it would be difficult to suppose that spending on the ALMPs is expected to increase due to globalization. In addition, liberal welfare states have rarely involved in the labor market and have been even reluctant to spend on passive programs. Thus, it is expected that spending for overall labor market programs including both active and passive ones would decline under the impact of globalization.

DATA AND METHODS

Data Description

The data used in this analysis were collected from the home page of OECD, UNCTAD, IMF, and ILO. The data for unemployment benefits and active labor market program that are used as the dependent variables in the analysis model came from the "OECD_SOCX"². 'FDI inflows', the independent variable, was extracted from the UNCTAD: "Foreign Direct Investment Database". 'Unemployment rate' and 'GDP per capita' were collected from "LABORSTA Internet (ILO)" and "Annual National Accounts for OECD Member Countries: Data from 1970 onwards (OECD)" respectively. In addition, "Central Government Debt, International Comparisons - Data from 1980 onwards (OECD)" and "Labour Market Statistics (OECD)" were referred for 'government debt' and 'union density' respectively.

Methods

In this research, multiple regression analysis method was used to analyze globalization effect on labor market spending.

First, 'welfare regime', 'country dummy', 'unemployment rate', 'GDP per capita', 'government debt' and 'union density' were included to control the country-specific features. 'Welfare regime' was included to control institutional welfare characteristics and other cultural and political characteristics were controlled using fixed effect model'.

In addition, 'unemployment rate' has a direct effect on labor market spending because an increase in the unemployed means greater need for unemployment benefits and also for active labor market programs to support job placement and retraining. Therein, it is hard to see the independent impact of globalization if unemployment rate was not included in the analysis model. 'Table 2' demonstrates a relationship between unemployment rate and unemployment benefits. Similar changing pattern is observed between them in all three regimes. Spending on the ALMPs is not seemed to be directly affected by the unemployment rate, however, it is difficult to exclude the effect of unemployment rates because the condition of labor market should be considered to determine the level of the spending.

² "2004 Social Expenditure database (SOCX), 1980-2001 (OECD)" includes social expenditure data surveyed from 30 countries of the OECD member states for the period of 1980-2001.

Table 2 Changes in unemployment rates and LMP spending in three welfare regimes(1980-2000)

Welfare Regimes	Unemployment Rates(%)					ALMP/GDP(%)					Unemployment Benefits/GDP(%)				
	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
Liberal	6.63	9.45	6.86	7.62	5.40	0.39	0.56	0.50	0.55	0.39	0.84	1.19	1.21	0.99	0.72
Social Democratic	3.80	6.40	4.98	9.46	5.14	0.77	1.10	1.15	1.62	1.22	1.59	2.09	1.98	2.88	1.64
Conservative	6.25	9.73	8.73	10.68	9.34	0.34	0.74	0.73	0.89	0.96	0.90	1.77	1.37	1.61	1.28

Source: OECD, 「Social Expenditure database(SOCX)」, 2004.

'GDP per capita', on behalf of economic conditions, was controlled in that the economic condition would have an impact on the level of spending on labor market programs. 'Year' variable was included in the analysis to control a natural but significant change over time.

In addition, 'government debt' has exerted pressure on the budget since the end of the 1970s, as shown at 'table 3'. The negative aspects of deficit budget were highlighted under the influence of monetarism and various measures were taken to reduce government debt. The welfare retrenchment, especially in labor market programs, was one of these measures. In that sense, 'government debt' should be included in the analysis.

'Union density' was also controlled in that labor unions would engage themselves in the budgeting process and play a decisive role in increasing the welfare budget. As shown in 'table 3', a decline in the union density since the 1980s in both conservative and liberal welfare states, except for the social democratic states, is assumed to have an effect on cuts in the welfare spending.

Table 3 Changes in union density and government debts in three welfare regimes(1980-2000)

Welfare Regime	Union Density(%)					Gov't Debts(%)				
	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
Liberal	45.34	46.90	42.80	32.40	26.80	17.09	29.63	31.77	44.17	32.89
Social Democratic	63.92	62.96	62.62	65.16	61.68	33.40	52.55	39.07	61.37	45.66
Conservative	40.02	39.52	36.30	34.90	32.34	36.76	58.65	67.80	70.49	70.02

Source: OECD, 「Central Government Debt, International Comparisons - Data from 1980 onwards」, 「Labour Market Statistics」

As discussed above, foreign direct investment(FDI) was considered to properly represent a recent trend of 'globalization' other than trade or capital markets, so FDI was selected as the globalization variable. 'FDI inflows' showed an increase in all the regimes. Relatively, liberal welfare states recorded a high level of FDI inflows as of the year of 1990. Thereafter, social democratic welfare states have attracted more FDI capitals.

Table 4 Changes in FDI inflows in three welfare regimes

Welfare Regimes	FDI inflows(%)				
	1980	1985	1990	1995	2000
Liberal	6.30	7.58	11.62	13.56	32.20
Social Democratic	1.68	1.46	6.38	15.96	58.38
Conservative	1.00	1.33	2.80	4.05	22.73

Source: UNCTAD, 「Foreign Direct Investment Database」

‘Expenditures on labor market programs’ were classified into ‘spending on active labor market programs’ and ‘unemployment benefits’, which a representative passive labor market program. Then, changes in the expenditure pattern on each program under the influence of globalization were statistically analyzed.

In particular, the analysis model is composed of two parts: fixed effect model, which controls only ‘country dummy’ (Model I); tendency-controlled model, which includes country dummy and the year variable (Model II). This is because a general tendency in the welfare spending, if it exists, needs to be separated from the influence of globalization or other factors.

Fifteen OECD countries - five countries for each welfare regime - were selectively chosen for the analysis. Esping-Andersen(1990) introduced them as exemplary welfare states to represent each welfare regime. Countries included in the analysis are listed in ‘table 5’ below.

Table 5 Selected countries for the analysis

Conservative	Liberal	Social Democratic
Austria Belgium France Germany Italy	Australia Canada New Zealand U.S. U.K.	Denmark Finland Netherlands Sweden Norway

Source: Esping-Andersen(1990), "The Three Worlds of Welfare Capitalism".

The variables were measured as following(Table 6).

Table 6 Measurement of variables

Independent variables	
FDI	FDI inflows as a percentage of GFCF(%)
Unemployment rates	Unemployed population as a percentage of economic active population(%)
GDP per capita	(US\$)
Year	(1980~2000)
Government Debts	Central government debts as a percentage of GDP(%)
Union Density	Union members as a percentage of the employed(%)
Country Dummy	(Respective Country=1, others=0)

Dependent variables	
ALMP	Spending on the ALMPs as a percentage of GDP(%)
UB	Unemployed benefits as a percentage of GDP(%)

Results

It is necessary to look at the overall influence of globalization before having a discussion about an individual effect on each welfare regime.

‘Table 7’ shows the result of multiple regression analysis with the welfare regime being not included using a fixed effect model. With the year variable, the general tendency of labor market spendings can be observed. ‘Model II’ that controls the general tendency confirms that spending on ALMPs has significantly increased while unemployment benefits have been reduced. Rather, the increase in the influx of FDI has a statistically significant effect to reduce unemployment benefits, but does not have a significant correlation with spending on ALMPs. This result is quite different from previous studies’ argument that the impact of globalization increased spending on ALMPs but reduced on passive programs. It seemed that the general tendency was confused with the effect of globalization or discussed to be included in the impact of globalization. Additionally, unemployment rate appears to have a direct influence on expenditures for ALMPs and unemployment benefits as expected.

Table 7 Globalization Effect on LMP Expenditures (Welfare Regimes being not controlled)

	Model I		Model II	
	ALMP	UB	ALMP	UB
Year			0.214***	- 0.119***
Gov't Debts	- 0.027	0.030	- 0.011	0.038
Union Density	- 0.159	0.438***	0.423	0.201*
Unemployment	0.253***	0.571***	0.181***	0.603***
FDI inflows	0.058	- 0.096***	- 0.009	- 0.064***
GDP per capita	0.215***	- 0.026	0.080	0.045
<i>Adjusted R2</i>	<i>0.831***</i>	<i>0.951***</i>	<i>0.842***</i>	<i>0.954***</i>

In sum, there was a general tendency for the fifteen countries from 1980 to 2000 that spending on ALMPs has steadily increased while unemployment benefits have steadily decreased. However, it is noteworthy that expenditures on passive programs have been significantly cut down as the influence of globalization when countries were not classified into welfare regimes.

‘Table 8’ in the below shows the analysis result when the fifteen countries are classified into three welfare regimes. The results demonstrate that globalization had different effects upon three welfare regimes when all the fifteen countries were categorized into three welfare regimes and analyzed respectively.

Table 8 Globalization Effect on LMP Expenditures in Each Welfare Regime

Liberal Regime				
	Model I		Model II	
	ALMP	UB	ALMP	UB
Year			0.724	- 0.624*
Gov't Debts	0.734*	- 0.887***	0.375	- 0.592*
Union Density	- 1.239***	0.176	- 1.099***	0.064
Unemployment	0.328**	0.760***	0.183	0.884***
FDI inflows	- 0.364**	- 0.584***	- 0.827**	- 0.232
GDP per capita	- 0.133	0.467***	- 0.430	0.722***
<i>Adjusted R2</i>	<i>0.725***</i>	<i>0.846***</i>	<i>0.743***</i>	<i>0.858***</i>
Social Democratic Regime				
	Model I		Model II	
	ALMP	UB	ALMP	UB
Year			- 0.383**	0.076
Gov't Debts	0.303***	0.018	0.447***	- 0.011
Union Density	0.871	0.290	0.729	0.319
Unemployment	0.124	0.518***	0.151	0.513***
FDI inflows	0.148**	- 0.102***	0.266***	- 0.126***
GDP per capita	0.406***	- 0.004	0.691***	- 0.061
<i>Adjusted R2</i>	<i>0.759***</i>	<i>0.949***</i>	<i>0.769***</i>	<i>0.949***</i>
Conservative Regime				
	Model I		Model II	
	ALMP	UB	ALMP	UB
Year			- 0.039	- 0.370***
Gov't Debts	0.209	0.091	0.286	0.374***
Union Density	0.022	0.060	0.012	0.052
Unemployment	0.060	0.315***	0.063	0.332***
FDI inflows	0.096**	- 0.131***	0.117	0.000
GDP per capita	0.008	- 0.226***	0.024	- 0.072
<i>Adjusted R2</i>	<i>0.929***</i>	<i>0.947***</i>	<i>0.928***</i>	<i>0.957***</i>

Notes: *p<0.1, **p<0.05, ***p<0.01

The globalization effect in the liberal regime was that expenditures on ALMP had been reduced significantly; On the contrary, in the social democratic regime, expenses on ALMP had increased, although those on unemployment benefit had been curtailed. In the conservative regime, there found no significant correlations between globalization and expenditures on LMP.

General expenditure tendencies on ALMPs and unemployment benefits also significantly differ by welfare regime. Liberal and conservative welfare states showed a statistically significant decreasing tendency of unemployment benefits while ALMPs have significantly declined over time in social democratic welfare states.

The argument that a rapid increase in government debt has slashed unemployment benefits across welfare states has prevailed. However, the results tell the different story. It was only in

the liberal regime that gov't debts had a statistically significant influence to cut down unemployment benefits. Rather, the social democratic welfare regime has expanded spending on ALMPs and conservative welfare states have raised unemployment benefits despite deteriorating gov't debts.

The reduction of unemployment benefits in conservative and social democratic welfare states stems from the increase in the FDI inflows, that is, the impact of globalization and the general tendency.

Additionally, it is commonly understood that labor unions could not effectively oppose to reduce unemployment benefits due to weakened organizing capacity of labor, which had originated in lowered union density. On the contrary, liberal welfare states showed a significant growth of ALMPs despite low union density. In social democratic and conservative states, the union density variable does not have a statistically significant correlation with labor market spending.

Unemployment rate is a major factor to decide how much unemployment compensation should be made. This is very common aspect across all welfare regimes.

GDP per capita, on behalf of the impact of economic factors, has a significant effect on changes of unemployment benefits in the liberal regime and ALMPs in the social democratic regime. This means that liberal welfare states raised unemployment benefits while social democratic states increased ALMPs spending, in a booming condition.

Notably, a general tendency factor made a difference between the analysis results of model I and II. With the year variable being included, the statistical significance or estimates of other variables underwent a marked change. In particular, FDI inflows, which made a statistically significant effect on the decline of unemployment benefits in the liberal regime, turned out to be insignificant with the year variable being included. In the conservative regime, spendings on unemployment benefits and ALMPs were significantly reduced under the influence of FDI inflows, but with controlling the year variable, FDI inflows became insignificant. It can be understood that globalization effect, which had been confused with the general tendency was removed with controlling the year variable.

In other words, it seems that globalization, if properly represented by FDI inflows, does not have a significant effect on the labor market spending in liberal and conservative welfare states and expenditure changes can be largely explained as the general tendency. However, the social democratic regime differs in that although the year variable was included in the analysis, globalization still exerts a significant effect, with a higher estimate, to reduce unemployment benefits and to raise ALMPs. This means that globalization had made a significantly considerable impact on the labor market spending in social democratic welfare states without the influence of the general tendency.

To sum up, the purely independent effect of globalization can be observed with the general tendency being controlled. And, that effect of globalization turned out not to be dramatic as expected.

CONCLUSION

In this study, the effect of globalization on welfare expenditures, especially expenditures for labor market programs, in three welfare regimes was discussed.

In conclusion, globalization had different effects upon three welfare regimes when all the fifteen countries were categorized into three welfare regimes and analyzed respectively. The globalization effect in the liberal regime was that expenditures on ALMPs had been reduced significantly; On the contrary, in the social democratic regime, expenses on ALMPs had increased, although those on unemployment benefit had been curtailed. In the conservative regime, there found no significant correlations between globalization and expenditures on LMPs.

The general tendency that had been confused with globalization effect turned out that unemployment compensation had significantly decreased in the liberal and conservative regimes, whereas ALMPs had declined in the social democratic regime.

Also, in previous studies, welfare retrenchment - especially in unemployment benefits - was attributed to recent rise in gov't debts or the decline of union power. However, the results showed that these two variables did not exert consistently significant influences on unemployment benefits.

Unemployment rate is a major factor to decide how much unemployment compensation should be made, which is very common aspect across all welfare regimes. However, ALMPs showed different counter-moves against globalization in each welfare regime.

In short, facing with globalization, the liberal regime minimized the gov't intervention in the labor market by reducing ALMPs. The social democratic regime actively supported people to be adapted to globalized systems by increasing ALMPs expenditures. However, conservative regime did not make significant efforts to implement ALMPs.

However, this study has a limit in that the analysis focused on developed countries, which had historically developed their own typical welfare system. Therefore, it is difficult to apply the analysis results to other developing countries. In addition, this study has the fundamental limit in taking the argument of Esping-Andersen(1990) over the validity and persistence of three welfare capitalisms as graded, which has been under heated discussion.

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