

Sociology 924 INTERROGATIONS #8 WITH STUDENT COMMENTS
October 30, 2002.

[1] 924momo#7-Keedon + Pablo's comments.

1. I remain at least in part persuaded by the globalization thesis despite Swank's detailed critique of it. Globalization changes the preexisting cost-benefit structure of capital mobility by greatly lowering its costs. Thus globalization gives capital mightier and more critical leverage. This appears to be objective necessity that can be drawn from a simple speculation. This is the economic logic of globalization that constitutes a fundamental constraint of the outcomes in question. Globalization then has objective causal force in determining the phenomenon of interest. (The only situation where globalization doesn't make any difference is one where despite globalization, the cost of capital mobility is still so huge relative to its benefit. Here capital wouldn't move even under heavy taxes.) What I am trying to say is that Swank cites some empirical evidence running counter to the globalization thesis and deprives any causal force inherent to globalization: "international capital mobility has had a *contingent [and episodic] effect* across the developed welfare states" (p. 279). To prove this, he takes pains to prove that the timing of globalization and that of retrenchment did not coincide, that globalization makes differences only in interaction with fiscal crises, etc. Does this should amount to the rejection of globalization as having inherent causal force? His focus is only on the final outcomes, that is, whether or not a retrenchment finally took place and whether or not a retrenchment taken place represented a convergence with neo-liberalism. But we see throughout that globalization claims itself as the axis around which new agenda arises and are debated about, even when it doesn't have direct effects. The quantitative method used, too, doesn't seem quite appropriate for revealing the logic of globalization. For example, different kinds of capital mobility that are added up as dollar amounts in one and the same quantitative variable may have totally different implications for the phenomenon in question.

I think you may be confusing two (related but) different claims:

- a. The increased mobility of capital exerts strong pressure on national states towards rolling back the welfare state (and toward other pro-business outcomes).**
- b. The effects of the increased mobility of capital on the welfare state are mediated by the institutional characteristics of the national state, and by the previous shape of welfare state programs (universalistic, mean tested, etc.). In particular, the increased mobility of capital has smaller effects on the welfare state the more a country exhibit the following properties: social corporatism, inclusive electoral systems, centralized decision making, universalistic programs, etc, etc.etc. In countries characterized by either a conservative or a social-democratic welfare state (which are highly correlated with the institutional properties just mentioned) the effects of high mobility are close to zero. This contradicts the globalization thesis, i.e., the thesis that high capital mobility produces a rolling back of the welfare state, and that this effect is greater the greater the size of the welfare state.**

Claims a and b are perfectly compatible with each other. The second claim does not deny that all countries suffer strong pressures towards rolling back the WS (claim a); it just says that that pressure is not successful under certain conditions, and successful under others. In addition, it explains why this is the case, i.e., why different conditions make a difference, what are the microfoundation of these correlations between conditions plus globalization, and outcomes. I think that your arguments support a, but do not speak much to b.

2. Swank argues that political institutions matter in determining the outcomes about retrenchment. Specifically, social democratic institutions are in favor of defense of the welfare state, whereas political systems like the US's are highly instrumental to neo-liberal decline of the welfare state. I can agree with this. But some crucial questions remain. If the social democratic institutions are argued to be favorable for defense of the welfare state because they require consensus and negotiations among various political forces and thus slower the neo-liberal challenge, why can the same logic not be applied to the advent of the welfare state in, say, Scandinavia? I mean, should the welfare state rise there not be slower? Likewise, if

the US majoritarian system favors Republican challenges to the already-weak welfare state, why should the same system not favor Democratic defense of it?

His argument is that institutions matter not only in the way you describe, but also because they affect actors' political capacities, and the formation of alliances in favor of the welfare state. In addition, they also shape norms, values, etc. In the specific case of the US, Swank explicitly says that:

- a) **There is a positive effect in favor of the maintenance of the WS, because of the veto points that the institutional framework gives to many actors; but**
- b) **There is a negative effect, because the institutional framework tilts the balance of power against pro-WS supporters;**
- c) **There is a negative effect, because the IF promotes norms and values that are against the WS.**
- d) **There is a negative effect, because the character of the existing welfare programs makes it difficult the formation of broad, cross-class alliances.**
- e) **The negative effect b+c+d+e if greater than the positive effect a.**

[2] Weekly Interrogation -- #8

Sun Jing (Comments by Keedon Kwon)

Is globalization such a sweeping force that it creates a Race-to-the-Bottom, and compels all the states to act in the same direction of liberalizing, privatizing, and cutting back welfare provisions? Duane Swank argues that globalization may not be as pervasive as it appears to be. Scandinavian countries, for instance, have demonstrated considerable resistance to the general trend of globalization identified above. The basic institutions and distinguishable features of Scandinavian political systems have largely persisted, and it is simply exaggerating to announce the death of distinctive models of national economy.

While I agree that institutions, once established, may exhibit a great degree of staying power to changes emanating externally, I think Swank has to some extent neglected changes arising from within. It is true that party systems, social corporatism, and the established institutions that facilitate consensus all matter in face of global economic integration. But isn't it also true that these institutions are themselves evolving: party systems are fragmenting, solidarity is declining, and the division between the Social Democratic Party and the trade union organization are widening? In other words, I think while nation-specific institutional arrangements do make different countries adapt to globalization at different paces, the general direction is certain, and even Scandinavian countries have been locked in this process of change already underway. **[Swank argues that the general direction is not certain at all. Institutions, not globalization, explain the different recent trajectories of the advanced welfare states. Institutions differ, so do the trajectories. Though you don't give me any evidence for the general direction being certain, I can agree with you. Some of the evidence Swank presents to make his point seems to ruin it. We are definitely witnessing the relative decline of the welfare state. Of course, Swank argues that this has to do with nations' internal economic crises rather than with globalization itself, but the general impact of globalization appears to be certain.]**

[3] Matt Dimick comments by Sarah Swider

Sociology 924

Theories of the State

Weekly Interrogation 8

How much does Swank's data undermine the theory of the structural dependence of the state on capital (I will call this the SDSC theory)? Swank argues that a variety of institutional features—including the kind of welfare state, the kind of political institutions, the nature of the industrial-labor relations—limit the impact of internationally mobile capital. His argument, reduced to its essentials, seems to be that, despite the advantage conferred on capital through its international mobility, welfare-state and welfare-state

coalitions have the political and institutional resources to match capital's power. I don't believe this argument directly addresses the SDSC theory. This latter theory, as I understand it from Pzeworski, says that no matter what one's attitude toward the welfare state or welfare-state entitlements, all interests are subject to the interests of capital. The interests of capital must be met for any other actor to achieve his or her interests. Thus, for example, it shouldn't matter that a social democratic politician has the institutional capacity to vote for a measure that capital is against. The SDSC claim, as I understand it, says that even the social democratic politician will drop support for the measure because otherwise capital will leave the country, precipitate a crisis, causing the incumbent politician to be thrown out of office (as one possible scenario). Or more directly, workers themselves will not support a measure because, knowing that capital will leave, they would rather keep their jobs, or moderate their claims, rather than be unemployed. Thus, the SDSC argument suggests that it is irrelevant what the capacities the actors have to resist international capital; rather, they will simply *choose* not resist. It is an argument about preferences, not institutions or capacities or powers to resist.

Hence, I would have liked to have seen two kinds of argument/evidence in order for Swank to more effectively engage the SDSC theory. First, should we assume outright that strong welfare states are inimical to capitalists' interests and what evidence would be sufficient to show that the welfare state is against capital's interests? In a couple of places, Swank acknowledges that welfare states may provide public goods, such as education, that benefit capital (pp. 22, 23). But he construes the SDSC theory to suggest that, on balance, welfare-state measures negatively affect business investment. But I don't think there is necessarily any incompatibility between the SDSC theory and the existence of a strong welfare state. Indeed, Swenson made the claim that even the grandest welfare state of them all, Sweden, was the brainchild of capital. Further, the compatibility of the SDSC and a strong welfare state is what it means, if I understand Erik right, for capitalism to be a hegemonic system. In this case, a strong welfare state is one of several possible equilibria. **In the case of Sweden, it seems that the welfare state was a good solution when it was initiated, but increasingly mobilized capital has placed pressure on the problem of solidarity (among the capitalists), which can be observed in the breakdown of the coordinated peak bargaining. If this is the case, I think this fits with Swank's argument.** Capital may not willingly choose such an equilibrium—indeed, the state and/or a “domesticated” labor movement may be the actors that solve a collective action problem—but the welfare regime nevertheless serves capital's interests. In such a case, even internationally mobile capital will be indifferent to strong or weak welfare states—though it may do extensive damage to a medium welfare state, like the United States, that doesn't constitute an equilibrium once capital has become mobile. That welfare states are compatible with capitalists' interests may mean that the SDSC theory is not as strong or robust as we may like (or not); but I don't think such a compatibility makes it meaningless. **One this first point, I agree with in the sense that I am not sure he really takes on the SDSC theory. It does seem that the welfare state plays a different role for different types of capital configurations (productive versus mobile financial) and in some cases when we add other variables, as Swenson has shown, different strong welfare configurations could be welcomed or encouraged by capital. However, I think that Swank's model, which shows that state welfare systems are affected differently by mobile capital, can be explained by both a Swenson thesis and a Swank thesis, and parsing between the two would require us to look at the specific cases in detail. I always thought that Australia was interesting, small state that did institute centralized bargaining but has more recently undergone welfare restructuring (as Swank puts it, “limited retrenchment and neoliberal restructuring of the welfare state (241)”), whereas another small state, New Zealand has decimated both labor and welfare. Swank suggests that this is due to the institutional differences. However, I am not sure why would he classify Australia in the same group as the US, especially since they did, in the past, have strong unions and corporatist bargaining? How do these two cases play out under Swenson's arguments?**

Second, to show that the welfare state is inimical to capital and that pro-welfare state actors do not choose to submit to the dictates of capital would require evidence that indicators like economic, job, or investment growth (controlling for business cycles) was lower in strong welfare states. But then, this would confirm the SDSC theory in a roundabout way. Economic growth may be lower in strong welfare states countries, but this may mean a slightly more than moderately-militant labor (or pro-welfare state) force. That is, one that is not so militant as to cause an immediate crisis, but also one that does discount the future somewhat. The question then becomes how long a crisis can be postponed?

EOW comment: I like Matt's formulation here: that there are multiple capital-compatible equilibria, each of which creates strategic interactions that reinforce the equilibrium, and there may also be cases in which a configuration is held in place much more precariously and is thus subject to more rapid erosion and transformation in the face of pressures. Where I would put the emphasis here is on the tax-carrying capacity of the state by virtue of the popular coalitions behind the high tax-regimes: this is what, in principle, would insulate the internal fiscal capacity from external shocks and pressures.

**[4] From: Pablo
comments by Sun Jing**

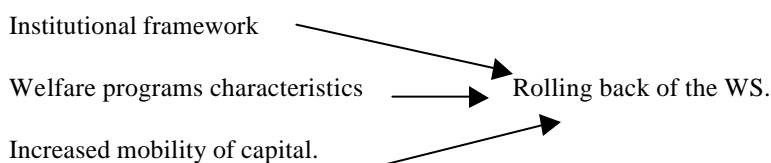
Another great book. Something that is not clear for me, however, is the following. Swank argues that, according to globalization theory, there are three main mechanisms through which the mobility of capital impacts on the welfare state: The first two are very clear. First, the theory assumes there is an impact through the operation of markets, because “mobile asset holders pursue the most profitable rate of return on investment and governments compete to retain and attract investments” (p21). Second, the theory assumes there is an impact through the operation of the political system, because “mobile asset holders enjoy enhanced conventional political resources as a result of the _exit option_” (ibidem). Third,

“International capital mobility may constrain the social welfare policies of democratically elected governments through the ascendance of neoliberal economic orthodoxy where the arguments for neoliberal reforms (...) of the welfare state reinforce, and are reinforced by, appeals for policies that improve international competitiveness and business climate” (ibidem; see also p.38).

How this third mechanism is supposed to work is quite obscure. The mobility of capital, as measured by any of Swank's indicators, seems to be pretty unrelated to the effects that neoliberal economic ideology may have on the WS — effects that, of course, it may have. So, a first thing that I would like to discuss is what is going on here **(My impression is that Swank argues that the impact of capital mobility has been exaggerated. Established institutions should be not viewed as merely passive, and despite globalization, basic institutional arrangements in welfare states have exhibited considerable amount of staying power. In this sense we may indeed treat the mechanism identified above as a pseudo one.)** **EOW comment: the claim, I think, is that globalization underwrites neoliberal views of how economies work – i.e. that markets should be unleashed and international flows are mutually beneficial – both because (a) liberalization is a condition for such globalization to occur, and (b) the fact of increased deregulation helps give material force to neoliberalism. But then – and here is where ideology has an autonomous effect – neoliberalism also potentially gets applied to other domains besides freeing markets in general from regulation, namely to social provision. That is: the ideology gets its force and credibility from one set of developments but potentially infects other domains of policy.**

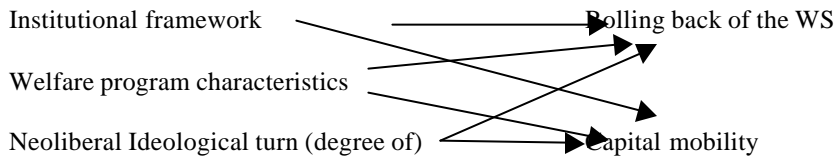
However, this may seem to be a very marginal issue to suggest for discussion — indeed, even if this is a pseudo-mechanism, one could ask why is this important in the context of Swank's full argument. There is one reason: This calls our attention to the independent role that ideology may have on the rollover of the WS, and if we understand how it works we may be able to solve the following conundrum.

One of Swank's main conclusions is that the increased mobility of capital has had effects on the WS in countries with liberal welfare states (see table 3.10, panel C for the summary of the effects). The question is what are the mechanisms operating here. One alternative is the one suggested by Swank. It can be summarized in the following way:



Here, each of the labels in the left stands for the corresponding group of factors suggested by Swan .

An alternative is this. In countries with a liberal welfare state, the forces accounting for the rolling back of the state, including a neoliberal turn in political ideology, also account for the degree in which the country has opened its frontiers to capital movements. So, we would have this explanatory scheme:



EOW: Neither of these pictures really contains the interactive logic of Swank's models – i.e. these arrows (especially the first two) should impact on the ways in which external pressures affect WS spending.

If this were the case, the association that Swank finds between mobility of capital and WS in liberal countries would be spurious. This could happen even if ideology played no role in the explanation. However, I think it is important to add ideology to the explanation because even if the values of the other variables were more or less the same across liberal countries, we could still find a correlation between capital mobility and WS roll back. If this correlation is spurious, we need to postulate a common cause to account for it (unless we believe the correlations is just an accident). Ideological differences appear to me as a plausible common cause

Observe that if what I am saying here were true, in one sense it would strengthen one aspect of Swank's argument — that is, that the increased mobility of capital hasn't had the effects over the WS predicted by globalization theory. On the other hand, it would challenge his alternative theory; institutional differences would still matter a lot, but capital mobility would not matter at all — in his theory, capital mobility does matter in states with liberal WS. **(Capital mobility does matter, and I am not sure whether Swank would simply treat the relations between capital mobility and the changes of the welfare states as merely spurious. It is just that the impact of capital mobility cannot explain everything. It is just too early to announce the death of unique, country-specific economic management. Faced with the common challenge or common pressure of globalization, nation states may also come up with one common sensual approach rather than another because they draw their solutions at least partly from their cultural and normative repertoires. Hence, I agree that norms and ideology should be discussed in greater details).**

[5] Vidal Interrogation [Comments by Amy]

I found Swank's book to be empirically and theoretically convincing. Especially in relation to the political science literatures of international and comparative political economy which it primarily engages, it is really a cogent set of analyses. I accept his argument on its own terms—i.e., focusing on globalization *qua* international capital mobility—and have no particular critique of it in those terms. International capital mobility has provided the theoretically most persuasive argument for welfare state retrenchment, from the authors he cites to other sophisticated treatments such as Streeck, Strange and Cerny. Here I only wish to briefly dwell on a curious paradox of his analysis: while the state is alive and many advanced capitalist states still retain the ability to tax and intervene in social and macroeconomic policy, we still have to worry about the accumulation of incremental neoliberal changes that will erode the sources of diversity, policy choice, and welfare state resilience. I'm happy to see strong empirical evidence for the former, though I still am indeed worried about the latter.

Why is it, if states respond differently to pressures of globalization and many of them continue as strong welfare states with policy choices, that we end up fearing the neoliberalization of the state in any case? I think the analytical formulation of this question is, what is the relationship between globalization

and neoliberalization? **[I agree that this is an important question to address. Are we all just misinformed? It may be that in our debates we somehow ‘map’ other issues on to globalization, eg. widening national income and wealth inequalities are obscured by focusing on international capital movements (Which is not to say they’re necessarily unrelated, just that the relationship isn’t made clear) Swank hints at possibilities of a relationship between neoliberalism and particular institutions – Liberal regime institutions (notably decentralization of political decision-making) predispose populations to be suspicious of states. Thus there is an affinity between Anglo political institutions and the ideologies that shape their debates. But this is not a systematic observation in Swank, since neoliberalism also becomes central to debates in other non-Liberal regime countries]** While there are tendencies toward non- and anti-neoliberal forms of globalization, the processes of political-economic spatial and scalar transformations **[these would be trade agreements and international economic organizations? It might be analytically more useful to talk about various globalization processes rather than to “widen” the definition of “globalization” itself]** currently in process are predominantly tendencies toward a particularly neoliberal globalization. This richer and more qualitative understanding of globalization as the re-scaling of political and economic structures comes largely from geographers (Peck and Tickell, Amin, Brenner, etc.), and I think is complementary to Swank’s analysis, unlike most other quantitative analyses. If we broaden the notion of globalization in this way, it makes sense that there are many other forces of neoliberal globalization that may lead to incremental neoliberal changes, erode the institutions that provide the basis for resistance, and then be compounded by the pressures he discusses, leading in fact to some form of convergence.

Again, I find his analysis extremely useful and convincing. I’m only struck by a number of questions he couldn’t possibly be expected to answer within this particular study. Does broadening our notion of globalization lead to a reinterpretation of the relation between it and state capacities and actions? Would it be worthwhile to try to separate neoliberal from other forces of globalization? Should we try to separate the neoliberal forces within states from those of globalization proper (e.g., is the welfare state retrenchment in the US due more to neoliberal forces within the state—national class formations—using the “globalization justification” rather than pressures of globalization as such)? **I think that it is more useful to analyze neoliberalism as an ideology and to limit our understanding of economic globalization to a process of widening internationalization of capital flows, as Swank has done, and because he demonstrates that the economic process is not necessarily bolstered by, nor does it precipitate the adoption of neoliberal premises by policymakers.** What is the effect on and role of sub- and supra-national institutions (as with national institutions in his analysis, in privileging particular actors; shaping capacities, values and norms ; refracting/mitigating forces of globalization; providing welfare; etc.

[6] SARAH SWIDER (comments by TERESA MELGAR)

Forgive me, I have not finished the reading but wanted to get my questions to you:

1. (A cluster of questions around the quantitative analysis) Swank provides us with data on changes in capital and trade flows in the first two chapters. And later in his modeling, he suggests that trade flows have a small effect (pg 90 and nested model 2, pg 93), wouldn’t this vary by type of welfare state – also is there a lagged effect? **(I myself would be interested to find out if there is a lagged effect. In the case of the Nordic states, for instance, I think he argues that the rather minimal forms of welfare state retrenchment that took place occurred not during the height of substantive capital mobility and internationalization of markets. Rather, it occurred when these states were faced with a huge amount of domestic stress, (e.g. public deficits), many years after this intense period of globalization. But then I wonder. Couldn’t the negative effects of intense capital mobility have somehow contributed, in a sort of incremental manner to these stresses? In a broader sense, is it plausible to conceive of globalization, (or in this case, unhampered capital mobility) as having potentially “delayed” impacts on economies, and that these impacts tend to manifest themselves more intensely, under a specific mix of conditions?** Would it make a difference if we ran the same analysis but instead of using countries we sub-grouped them into welfare types? It seems that trade and financial capital represent two different, and often opposing, aspects of the international economy. In some economies couldn’t the burdens of the

international flows be shifted to productive capital instead of restructuring welfare state? I think that this is suggested in Rodick's work, see reference on pg 31.

Generally speaking, it is often important to distinguish between different types of capital flows (particularly long term and short term speculative), although I am not sure how this does or doesn't affect his model and question (**I agree with you that it is important to distinguish between these types of capital. Most of the literature I have come across on globalization tend to look at the unhampered mobility of short-term speculative capital as more pernicious to economies – analysts agree that this was one of main culprits behind the Asian crisis. But I think Swank does distinguish between these different types of capital flows and adopts different operationalizations for them, see p. 76**). Finally, he does find that "domestic fiscal stress" along with this capital mobility is correlated with pressure on welfare states. Domestic fiscal stress is basically in the form of budget deficits, which it seems is an indirect measure of some of his other variables. **I think his main argument is that international capital mobility has had a "contingent effect" across these welfare states; i.e. it has interacted with this "domestic stress" to produce some amount of retrenchment in the social protection provided by these welfare states. However, the effect across different types of welfare states have been variable depending in large part on the nature and structure of the political institutions shaping domestic policy, the structures of interest representations available and whether or not they provide openings for forging cross-class alliances against welfare state retrenchment, and the specific constellation of values that these institutions and structures of policy making and interest representation, tend to promote in the public discourse.**

2. In the case of Europe, globalization is mediated through efforts of regionalization, and some of the pressures on the welfare states, employment structures, immigration and labor market policies can be detected. Would this affect his model? Perhaps a different level of analysis would be called for? **He does hint at how some of these factors may impact on the future capability of states to deal with the impact of globalization. If I understand him correctly, for instance, he considers the possibility that a transfer of social welfare policy-making to a confederal European Union could 1) increase the veto opportunities available to opponents of welfare state expansion; and 2) make it more challenging, if not difficult to build coalitions for the enhancement of the welfare state, since these formations would now have to unite constituencies across different parts of Europe, who are confronted with different economic imperatives and affected by different levels of welfare state provision. He goes on to say that there is a possibility that European social welfare policy could become more "residual" should these conditions prevail. I agree, however, that immigration would be an specially interesting dimension to look into in this context.**

3. I have not finished the book, but so far, I am not clear on how his arguments counter the economic and political logics put forth by other theorists, listed on page 20-1. It seems that what his model shows is that states, due to variation in institutional configurations and associated ideology define how states can and do react to the pressures of the "global economy". It doesn't seem that he gives us any evidence that those pressures don't exist (**but I think he acknowledges that those pressures exist. What I believe he is trying to show is that how states respond to these pressures, and consequently, the extent or manner in which the welfare state will be affected, will vary, depending on the nature of policy-making processes present, the structures of interest representation in these states, the characteristics of the polity, etc.. Domestic institutions as well as the policy-making environment, therefore, will be pivotal in shaping the outcomes of these pressures for the welfare state.**) or that there isn't a heavy price to pay, even if it is not in the form of welfare rollbacks. (**yes, I agree that this might be something worth looking at**)

[7] Landy Sánchez [\[Comments by César\]](#)

I think Swank presents an airtight argument about the connection between international capital mobility and welfare state; particularly his view on the role of political institutions in shaping international pressures,

and in providing power resources to relevant actors is compelling. However, I think there are some aspects in the impact of globalization that are not fully covered by Swank's analysis.

1. In the case study analysis of welfare states he points out changes not just in the budget, but also in the beneficiary groups, access and provision structure of welfare services; however, when he evaluates the impacts on capital mobility he focuses mainly on the resources allocated on welfare policies. I think Esping-Andersen's idea of how insufficient can this variable be to assess welfare states holds in Swank's case. Particularly, the little attention he pays to other elements makes it difficult to differentiate structural changes from minor transformation. For example, we can think that changes in pension systems, decentralization of welfare provision, or increasing access barriers to social programs in some Nordic countries imply substantive transformations of welfare structures which have long-term impacts on social support towards universalistic systems. But those changes doesn't reflect fully and immediately on welfare state budget. In general terms, I think it would be necessary to address to what extent recent decreases or expansions of welfare policies have an incremental impact on polity institutions and the structure of welfare states, as well as their long-term repercussions. **[Although I agree with you that the case studies do not provide sufficient evidence to determine with precision whether the qualitative changes in welfare states have been structural or minor. But Swank is aware of the problems associated with using total expenditure on social protection as the dependent variable and offers, in my view, two arguments to compensate for the drawbacks of such a measure. First, in his quantitative analysis, he refines his model by assessing separately the impact of internationalization on (1) different dimensions of the welfare state: cash income maintenance, the social wage, government health effort, and the public-private ratio of health spending, and (2) individual dimensions of the welfare state for subsets of nations according to Esping-Andersen's welfare state types. Second, in his qualitative analyses he concludes that the "structure" of virtually all universalistic and corporatist welfare states has remained untouched, i.e., that in relative terms they continue to belong to the same categories of Esping-Anderson's typology that they used to be part of before internationalization, despite the changes that took place in the 1980s and 1990s. Of course, as your comment points out, it is not entirely clear where he draws the line between "minor" and "structural" changes]**
2. In Swank's explanation of polity institutions, it is not clear to me how strong is "affinity" and interaction between the variables inclusive/exclusive electoral systems and dispersion of policy making authority, particularly it is not clear to me that decentralization reinforce exclusive electoral systems. **[This is an interesting point. I don't think Swank reports correlation coefficients for these two variables, but it is true that he pretty much assumes that they go together within some clusters of welfare states –i.e., the universalistic and corporatist ones].** I also have some doubts about the negative impact of decentralization on political capacity of pro-welfare interest. For example, the living wage campaign in US has a local focus. It seems that in this case the local level is used to promote policies that exclusive political institutions are leaving out, and by doing that the campaign can contribute to built a broader coalition to sustain living wage at the national level (hopefully). **[(Or they can have a demonstration effect that could spark similar campaigns in other localities). I think that Swank would respond by saying that such a national coalition would be very unlikely because in a decentralized system localities (e.g., states or cities in the US) will be competing for investment and thus while some will adopt a living wage, others will find it in their interest to attract investors by offering low labor costs].** Also, it is no clear what is the particular impact of corporatist and social democratic welfare structure on welfare provision, since it seems that social corporatism and electoral inclusiveness is what differentiates both of them from the liberal states.
3. In chapter 7 Swank addresses other salient of globalization thesis, particularly the impact of international capital mobility in taxation, state capacity to control macroeconomic variables and social corporatism. He makes the point that none of theses variables is directly impact by capital mobility, but he admits that is possible to think "indirect" effect of globalization. To me the globalization thesis remarks a) the constrains that increasing economic interdependence posses to national governments; b) the problems to attempt policies that do not rely on markets, and c) the increasing difficulties to built political alliances and social support to welfare and redistributive

policies. I think Swank show that national institutions mediate those pressures, but I think the argument is less strong in some aspects. Many of the changes in welfare states reinforce the position of markets in the provision of welfare, for example pension and health care reforms, other increase the dependency of individuals in their own contributions, that is, in their position on the markets. At the same time, welfare states seem to have problems getting access to financial resources (mainly the reinforcement negative effect between taxation to capital and budget deficits) and building political coalitions to cover “high risk” groups or “new risks” (immigrants, single households, long-term unemployment, etc.). Even though these problems are not direct effects of capital mobility, it seems that increasing economic interdependency and the “theoretical possibility” of capital mobility are related to them. **[I share your criticism –in fact, this is largely what my memo was about—and was hoping that you would provide the answer!]**

[8] Robyn Autry Interrogation #8 (comments by Christine Overdeest)

Swank’s evidence that the impact of globalization varies according to welfare state types and that the impact is not uniform across developed economies is convincing. He argues that the contribution of globalization to welfare state retrenchment depends greatly on national political institutions and that states are differentially able to manage the social impacts of internationalization. It seems that over time this management will increasingly become a fiscal burden on big and conservative welfare states, making them more reliant on capital or taxes to finance social provisions. Swank seems to argue that in instances where the state is less dependent on capital as its financial base, the advancement of neoliberal policies at the expense of social welfare provisions, as in liberal economies, seems likely. The swelling management burden on universal and conservative welfare states may lead them to pursue broader neoliberal reforms in the future to both link provisions to employment and generate greater revenue. **(I’m not exactly sure what you mean by states as ‘less dependent on capital as a financial base’, but I think it is an interesting question how different regimes may link employment with welfare revenues under continuing pressure).**

LCDs

It would be useful to extend Swank’s work to understand how globalization impacts developing economies. In these cases it seems that the internationalization of markets and capital mobility would generally have negative impacts on states’ ability to implement broad/ progressive social policies. Further, it could contribute to the challenge of establishing strong corporatist or collaborative relationships between organized labor, the state, and business that Swank finds so important for countering the impact of globalization on welfare states. Most research on how neoliberal development and globalization influence social welfare policies in LCDs does not breakdown differences in domestic economies and institutions. **(Seems like a really good point. Comparative institutional capacity across LCDs would be an interesting empirical project. I wonder how much variation there is in state configuration/capacity. For development, come to think of it, I think Evans addresses some of those questions in embedded autonomy).**

[9] # 8 – TERESA MELGAR: SWANK: GLOBAL CAPITAL

[Comments: Matt Dimick]

1. One of the things that I found most interesting in this book is the author’s discussion on how the nature and structure of political institutions, systems and polities shape the manner by which the state responds to these so-called pressures for the retrenchment of the welfare state arising as a result of globalization. Differences in the structure and nature of these institutions, (e.g. system of collective interest representation in place, inclusive versus majoritarian systems, etc.) have, accordingly, led to variations in the extent to which states have responded to these pressures, and consequently, the scope and magnitude of neoliberal reforms adopted.

Some questions/comments:

a). I am specially intrigued by the author's contention that the structure and nature of political institutions, and more specifically, that inclusive systems (e.g. proportional representation) tend to be more capable of cushioning the effects of globalization, than majoritarian, pluralist systems. What is the particular implication of this finding in the US context? Does it make sense for anti-globalization advocates in the US, for instance, to attempt to combat the most pernicious effects of this phenomenon by advocating for specific changes in their systems of interest representation, side by side with addressing the particularly negative dimensions (e.g. unhampered capital mobility, etc.) associated with globalization itself? In other words, does institutional reform, specially in the structures of interest representation in the US, pose a potentially promising approach for combatting the most pernicious aspects of globalization in the US domestic scene/economy? **[I think it makes a lot of sense, not just for anti-globalization activists, but any progressive minded person to advocate for politico-institutional and especially electoral reform. It would certainly be part of a broader left strategy to combat, among other things, pernicious globalization. The subject of electoral reform is not new and many leftists see it as important and vital; although US citizens seem habitually to attribute a "sacred" view to their present system. The question, of course, is how to get there. It poses some obvious difficulties trying to work through and utilize the very system you are trying to reform. Maybe it's a question of finding the chinks in the armor. I know Joel Rogers here in the department has advocated for a quasi-PR electoral rule that allows different parties to endorse the same candidate. This lets people register their preference for a particular party without feeling like they have to "throw their vote away" and arguably forces candidates to "pay attention" when increasing numbers of votes come from the "non-traditional" party.]**

b) it seems to me that the capacity of social corporatist systems of representation to blunt the effects of globalization and preserve the most important aspects of the welfare state is also largely dependent on the strength of the trade unions in articulating their interests under these systems. This strength, in turn, may be shaped by a number of factors, such as the density and scope of union organizing, their integration in Left political parties, etc. Therefore, while I understand why social corporatist systems may provide greater openings for trade unions and other constituencies of the welfare state to resist the retrenchment of the welfare state and forge cross-class alliances in favor of its substantial protection, I feel that their ability to **use** such openings judiciously and effectively, will in turn, be shaped as well, by these many other factors. Does this make sense? Is it plausible to think of situations in these social corporatist contexts whereby other dimensions of globalization not associated with the unhampered mobility of capital, (which Swank focused on) or where some internal dynamics peculiar to these trade unions, could prevent them from taking advantage of these openings for resisting the retrenchment the welfare state? **[Swank does say that social corporatism is defined by three characteristics: union density, confederal power, and the level of wage bargaining (p. 59). So I think that he would agree that the effectiveness of social corporatism depends on these kinds of "internal" factors. I'm trying to grasp your second question, but I'm not sure I understand completely what you mean by "other dimensions of globalization." As for internal dynamics of trade unions, I think these matter a lot. The fact that union density was never quite strong in the US and even weaker now, I think says a lot about the capacity of unions to institute and enforce high levels of wage bargaining (Swenson would say that these are consequences of employer's interests, which gives us something to think about, although I'm still not totally persuaded this is the full story). I tend to believe that the current, difficult state of US unions has much to do with a legacy of the past (cozy and stable, large and bureaucratic) and why they are in such a weak position now. But arguably Swedish unions are also "domesticated" and bureaucratic, why aren't they suffering (as much)? Maybe we would say along with Swank that social corporatism and other welfare state institutions have self-reinforcing aspects.]**

Add to interrogations #8

[10] James Benson Notes on Swank **[comments from Matt Nichter]:**

It's hard for me to argue with an excellent analysis and a level-headed approach to a complicated situation. I would like to point to three areas of interest, two of which would help to bolster my understanding of world economics, and one that I think is important for our understanding of globalization at the micro-level (of workers and families):

- 1) I am confused as to why some countries, including the United States and Britain, were beginning to experience problems with "stagflation and problems attendant on globalization" (224) during the late 1970's. Swank refers to Krieger and Borchart's explanation of the phenomenon as driven by "**a politics of relative economic decline. (224).**" I guess that in my naivete, I have attributed this relative economic decline to a reduction in the insulation of U.S. producers (in particular) from competition in the domestic market (for example, the introduction of Japanese automobiles into the U.S. market starting in the mid-1970's. Also, I have attributed this to an increase in price competition on the world market, for items that had at one time been provided largely by U.S. manufacturers (such as steel). **[Sounds about right to me as far as the U.S. goes, though it's not sufficient to explain why all the advanced industrial countries experienced varying degrees of 'stagflation' in this period.]** Were these phenomena the result of processes independent of globalization, or do they represent the first stage of globalization? If they were independent, one explanation could be that the global output of industrial producing countries simply reached critical mass in the 1970's, and suddenly the producers (like the U.S. and Britain) that had enjoyed de facto monopolies began facing competition. Such a phenomenon would be reflected in a higher rate of trade flows, but not of capital flows. I'm seeking some clarity on how we understand the 1970's global economic situation.
- 2) A graduate student from our department made an interesting presentation at the PCS brownbag last week concerning what she describes as "**financialization.**" By "financialization" she refers to the increased portion of GDP that is a result of investment income. According to this thesis, there is now much more mobile capital within the U.S. economy, and there is much more mobile capital across national borders. However, if I understand the thesis correctly, "financialization" means that less of this capital is committed to increasing the productive capacities of industries, and an increasing amount of it goes into speculative investments in the stock market, currency markets, etc. Does financialization differ from the capital flows that Swank addresses, and how? **[I think Greta's notion of financialization is rather more general than Swank's focus on international capital flows.]**
- 3) Swank introduces what I see as a very important hypothesis, called the **compensation hypothesis**: "globalization generates pressures for insurance against new risks, compensation for losses, and policies that generally bolster social cohesion (88)". This sounds very accurate to me, because it sounds to me as if globalization theorists are on sound footing when they point to reductions in wages, job security, and (sometimes, as in the U.S.) unionization that have taken place as a result of the globalization of the *labor market*. Swank tends to focus on globalization of capital markets primarily, but this issue of the globalization of labor markets really deserves attention. **[I'd distinguish here between a mechanism of globalization and a motive for globalization. Increased cross-border labor flow (i.e. immigration) is a globalization mechanism whose effects Swank does not address at all. But moving production abroad in search of lower labor costs (or lower taxes or proximity to final markets or whatever) is a goal of the globalization of capital markets. I think it's a fair criticism – acknowledged by Swank himself on p.246-7- that there is no one factor (such as taxation levels) that explains the decision to shift investment abroad, and so it should not be completely shocking that there is no direct relationship between increased int'l capital flows and levels of taxation on capital, between increased int'l capital flows and the retrenchment of the welfare state, etc. The search for cheaper labor is certainly an important consideration in the decision to shift investment, though much research suggests it is generally not the most important.]** The U.S. has hemorrhaged decent-paying manufacturing jobs over the last 25 years. There are similar pressures in the Central European and Nordic countries, but the outflow of manufacturing jobs has been occurring in these countries as well. Corporatist and Universalistic welfare states may have been able to compensate for these losses up until now. How far can any country go toward compensating for the loss of decent-paying blue-collar jobs, before the bottom gets lower?

[Swank seems to hold out the most hope for universalistic countries like Denmark. But he explains the tentative resurgence of the Danish welfare state largely in terms of an improvement in the general macroeconomic environment. I'm skeptical whether significant retrenchment can be avoided in the face of major recessionary shocks.]

Interrogations #8, set III

[11] César A. Rodríguez , comment by Landy

1. Throughout the book, Swank struggles with an interaction term –i.e., that between capital mobility and high fiscal deficits— that produces an effect on social welfare effort that contradicts his theory. In his quantitative analysis, Swank manages to incorporate this effect into his theory by claiming that at levels of fiscal deficits above 10% conventional globalization theory holds —i.e., capital mobility has a significant negative effect on social welfare effort. This, however, explains only the *direct* effect of capital mobility on social welfare effort, as Swank acknowledges. It may very well be that capital mobility brings about fiscal deficits in the first place, by producing economic imbalances —e.g., unemployment— that undermine the economic base of the welfare state.

Thus, in presenting his case studies in subsequent chapters –particularly in assessing the “long-term impacts of capital mobility” in Chapter 7–, Swank takes up the question of the *indirect* effects of capital mobility on social welfare effort. His basic argument is that taxation, social corporatism, and macroeconomic management are not radically altered by increased capital mobility –and that, therefore, his theory is robust also in light of potential indirect effects of globalization on welfare states.

While I find his arguments on the effect of globalization on taxation and social corporatism convincing, his argument on the effect of globalization on the ability of states to pursue supply-side and proactive monetary macroeconomic policies —e.g., full employment and growth with inflation— rests on shaky ground. To support his view, Swank makes two claims (p. 269). First —in an odd twist that, unlike the rest of his argument, rests purely on ideological consensus among policy makers—, he claims that the loss of such key policy instruments stemmed not from pressures from international markets but from decisions of policy makers to “consciously abandon instruments for the neoliberal policies of financial deregulation, hard currency, etc.” (p. 269). Second, and more importantly, Swank argues that the control of inflation was the principal impetus behind the abandonment of supply-side and monetary policies.

I find this defense problematic. As Swank himself points out, “international capital markets charge a premium in the form of higher interest rates on governments who run budget deficits and threaten price stability [i.e., create inflationary pressures] and growth prospects with fiscal imbalance” (p. 156). Given the close association between fiscal deficits and inflation, controlling the latter entails controlling the former. Thus, by exerting pressure on states to control inflation, international capital markets force states to reduce fiscal deficits and thus social welfare effort. In other words, Swank’s argument about inflation is but a confirmation of the considerable negative *indirect* effects on international capital mobility on welfare state expenditures.

In light of this, my general question for discussion would be the following: is Swank’s treatment of the indirect effects of capital mobility on social welfare effort convincing? What is the precise connection between globalization, the abandonment of supply-side and proactive monetary policies, and the variation of social welfare effort?

2. Swank devotes little attention to the effect that the process of integration of most of his “focal” countries into the European Union has had on the evolution of their levels of spending in welfare. Given that, particularly after the Maastrich Treaty and in preparation for the single currency, the EU set low and rigid inflation and fiscal deficit levels as conditions for countries to become part of the new monetary system, this may be an additional, autonomous factor putting pressure on European countries to converge at lower levels of social welfare effort. Given that Swank’s data cover the period 1965-1993, they do not capture the effect of this development. Does growing economic integration at the EU level –particularly monetary integration– enhance the “globalization effect” on European welfare states?

I agree with you that the connection between capital mobility and fiscal deficits is not fully explored in Swank's book, especially the interaction of capital mobility and third variables which can exercise indirect pressure over state budget. On your comment about the connection between globalization and macroeconomic policies, I think Swank argues that national economic conditions and past policies were determinant in choosing economic instruments, in opposition to the thesis of international pressures; and that even though international forces could promote fiscal balance, they didn't determine reductions (or the size of the reductions) on welfare provision, neither the specific "form" of those cuts. Anyway, I think your question about the indirect effects points out the multiple ways in which international economic environment can shape the opportunities structure of national states.

[12] Christine Overdeest [Robyn Autry comments]

I liked a lot about Swank's analysis. I think he does an excellent job, in particular of isolating mechanisms (collective group representation, electoral interest representation, and the structure of decision making authority) as variables (e.g. corporatism v. pluralism, proportional v. majoritarian representation, and federalism v. concentrated decision structures) across cases as an explanatory strategy for patterns in welfare state retrenchment. In general, I think its particularly nice approach because the mechanisms clearly link individual's strategies and capacities for action to broader level outcomes.

Its interesting still to note that just precisely the "European" institutions he identifies as blunting welfare retrenchment historically (corporatism, proportionalism and concentrated decisional structures) are potentially under threat in the making of the common EU market, although that itself is a controversial line of argumentation which might be discussed. **I think you're right. Also, he doesn't spend much time describing the various levels and motivations for states' integration into the EU. Of course the EU also presents opportunities for governments to coordinate activities in a collaborative manner, enhancing the capacity of each to manage the social Impacts of globalization.**

Also, my overall sense is that he has crystallized some really important mechanisms, but what about the broader question of coherence among regimes. **"coherence among regimes?"** His data seem to tell the story that both institutions and coherence among regimes "matter" i.e. exist empirically in fairly stable ways and have discernable effects in the world. But isn't it the case that institutions also change, and perhaps as a second order consequence of globalization? **I don't Swank would disagree that institutions change and his analysis seems to allow space for this to occur. For example, he discuss the declining or altered corporatist models in some welfare states, particularly in Germany.**

He takes this point up some, but it might be worth further discussion.

Side question:

How is FDI measured? If a multinational corporation is headquartered in the US but has subsidiaries in other countries, are the latter counted as FDI? **These are important questions that underscore how international linkages complicate measuring the processes and implications of globalization processes.** How is the FDI data collected? Surveys, public reporting requirements.? Are the numbers estimates based on samples or censuses numbers? Is this OECD data? How are mergers and acquisitions handled?

[13] Matt Nichter comments by Shamus Khan

Swank shows convincingly that there is no simple, direct relationship between the growth of international capital flows and retrenchment of the welfare state; moreover welfare states have not converged toward the liberal model. But Swank admits that the flowering of the welfare state in the immediate post-WWII period has since given way to significantly slowed expansion within solidaristic and conservative welfare state regimes, even if they have not been unraveled to the extent that liberal regimes

have (p. 69). He attributes this u-turn to the combination of pressures from international investors and acute fiscal strains of an episodic nature. But such acute fiscal strains, while varying in precise timing from country to country, were an increasingly common experience among all advanced capitalist nations during the last quarter of the 20th century - and this must itself be explained. While capital flows per se may not account for the general trend away from welfare state expansion, the conditions for fiscal crisis themselves appear to have been transmitted globally through various market mechanisms in all of the cases Swank examines. **This is a good point. I think that Swank constructs somewhat of a straw man; few would argue that the globalization in the form of international capital flow have constant effects across different state forms. However, the unraveling that Swank sees slowly happening (and, in the conclusion, predicts will continue) seems to suggest that while there has not been a convergence in welfare states, it may be a question of time. That is, have solidaristic and conservative welfare states simply been able to hold out longer?**

Moreover, Swank does not deny that capitalists in all of the various countries had an interest in retrenchment, all else equal, given the general deterioration of the economic environment in the post-1973 period; he simply denies they all had the same capacity to act on these interests (p.37-8, 285). But what happens when capitalist interests (which I take to mean: their profit rates) are injured? Doesn't this increase the likelihood of episodic fiscal crises, and hence retrenchment?

Interrogations #8, set IV

[14] Amy Lang **[With Vidal comments]**

Comments on Swank, *Global Capital, Political Institutions and Policy Change in Developed Welfare States*

1. I would like to tease out what Swank really means when he talks about the “political logic” of globalization, and what exactly is the role of this logic in relation to welfare state retrenchment. Swank initially describes “political logic” of globalization as a process in which

“The widespread ascendance of neoliberal macroeconomic ideas...provides a supportive theoretical framework for appeals for market-oriented reforms in social and tax policies...[A]rguments about the adverse impacts of moderate-to-high levels of social welfare provision and taxation on a nation’s international economic performance lend further weight to neoliberal claims of general welfare state inefficiencies and calls for market-oriented reforms.” (24-25)

So, “political logic of globalization” refers to the prominence of neoliberal ideals in national debates about welfare state policy. **[As I read Swank, there are actually two separate “logics” that he discusses under the rubric of the political, only one of which is ideological. The other has to do with the privileged political position of business. Thus, capital is already privileged in terms of organizational, financial and access resources (p. 24), and with their political position being further enhanced by their control over investment decisions. The globalization argument is that such political influence is further enhanced by increased capital mobility because of (a) the threat of capital flight, and, something that he doesn’t explicitly discuss, (b) increased price sensitivity on international financial markets. It is argued that these two forces place “real,” rather than ideological/rhetorical pressures on states to neoliberalize, in order to (a) attract regime shoppers and (b) appear to have a sound currency, etc. I think that there is some combination of economic and ideological forces involved.]** He goes on to discuss “political logic,” as an important variable in understanding welfare state retrenchment in Norway (151) Germany (184-185), the US (224) and Britain (235). What explains the ascendancy of neoliberal ideology across different regime types? Swank credits decentralized, non-corporatist political institutions with the capacity to shape general predispositions against state interventions in the provision of welfare. One might then make a case that there is some kind of congruence between kinds of political institutions and the types of ideologies that dominate national debates, but this would not explain the importance of neoliberal ideology in the Norwegian and German cases. He talks about the mobilization of certain segments of capital (“employers” in the German case, “American business” in general in the US case) in

the pursuit of shaping national debates along neoliberal lines. Why don't we see capitalists in other countries mobilizing around neoliberal principles? Shouldn't Swank discuss the importance of other non-neoliberal ideologies in the maintenance of welfare regimes? **[Excellent questions. As I recall, Swank doesn't make a systematic attempt to account for the sources of ideologies. On the one hand, he seems to have a quasi-pluralist notion of political institutions—though privileging certain actors and shaping their capacities, they are essentially institutions for representing diverse interests. Yet, on the other hand, he does argue that political institutions shape values, norms and behaviors. If all of this is correct, then we should expect regime types to covary with both values/norms and privileged actors and their capacities. But is it really the case that social democratic and corporatist institutions foster more solidaristic values and welfare state interests? It seems not for the German and Norwegian cases. I think this implies that the covariation is not causal, or at minimum, that there are other intervening forces (structural dependence? ideology autonomous from political institutions? fractions of capital with increasing political power in spite of those institutions?).]**

2. Relatedly, do all capitalists have equal access to the state in Liberal regimes, and if so, do they all support retrenchment? In his argument for the importance of decentralized political institutions in weakening pro-welfare forces, Swank does not mention whether any capitalists might have interests in maintaining certain levels of welfare provision. He seemed to be implying that pro-welfare policy forces in Liberal regimes were comprised of welfare recipients, workers, the aged, and social justice types. This has interesting implications in conjunction with Swenson's argument. We can understand Swenson's argument to mean that there are segments of capital whose objective interests might lead them to support a certain level of welfare state provision in any case, or we can understand it to mean that there are segments of capital that can be convinced that their objective interests lie in supporting certain welfare state provisions, but that the convincing is usually done by other pro-welfare forces. If we take the first interpretation, Swank has omitted an important variable from his analysis, since not all capitalists are predicted to respond the same way to internationalization. [I think the second reading of Swenson is more correct. However, I think it is also the case that Swank clearly doesn't take into account enough variable interests within capital. Following from comments above, this further problematizes his causal framework: once we drop the assumption of homogeneous class interests (for particular policies) then the relation between collective actors, interests, ideology and political institutions becomes much more complex.] On the other hand, Swank's emphasis on trade unionism and corporatism as powerful anti-retrenchment forces might provide evidence for the second interpretation of Swenson's argument. (I realize corporatist systems involve both labour and capitalists in a consensus-oriented framework; I'm not sure whether Swank is privileging labour power, or this consensus-orientation when he talks about corporatism).

3. Why does growth appear to have a significant negative relationship with both income maintenance (table p. 104) and public health expenditures (table p. 114) across regime types, and why does Swank argue the opposite, namely that "Economic downturns appear to generate substantial pressure on health budgets (see the coefficients for growth and unemployment)" (116)?
