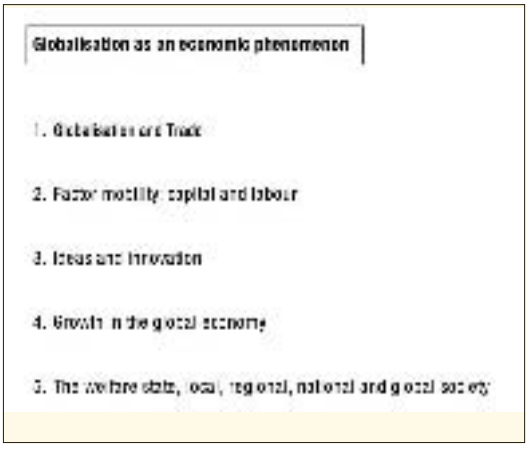
Finisterra, **XLI, 82, 2006, pp. 67-72**

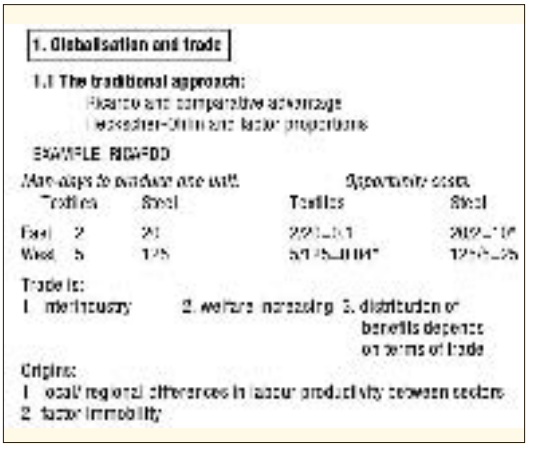
GLOBALISATION, LOCALISATION AND THE WELFARE STATE

CHRISTOPHER JENSEN-BUTLER[1]

Em 2004 convidámos Chris a participar numa reunião sobre Globalização e Localização *que, com Antoine Bailly, organizámos em Alvito, numa iniciativa da associação* Estudos Gerais de Alvito. *Nessa reunião participaram alguns dos grandes nomes mundiais da Ciência Regional, que se deslocavam a Portugal por ocasião do Congresso da RSAI, que teve lugar no Porto. Chris aceitou, mas por motivos de saúde foi obrigado a cancelar a sua vinda; no entanto, não deixou de nos enviar a apresentação em* Powerpoint. *Publicar agora o texto dos* slides *é uma homenagem a alguém a quem muito devemos.*

Jorge Gaspar





[1] School of Economics and Finance, University of St. Andrews.

1.2 New trade theory

Intra-industry trade (Grubel et al)

INTRA industry trade has its origins:
1. Customer requirements for differentiated products
2. Scale economies for firm

Results:
1. Close substitutes are imported
2. Regional firms trade other regional markets (brand wars)
Highly integrated economies have much intra industry trade

Depends on:
1. Initial local advantage
2. Large market (product diversity)

1.3 New Economic geography (Krugman)

Industries are characterised by:
1. scale economies 2. imperfect competition
Industries of this type benefit from a home market effect:
Good (home) market access gives
a) high wages (firms bid up) b) net export of manufactures

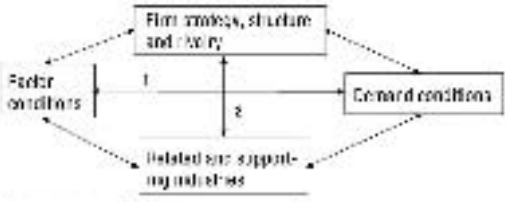
How: the model a) load start b) cumulative causation
the global: global markets based upon scale economies
and imperfect competition

NEG models based on the home market effect and extend to include spatial clustering. There are two variants:
Footloose capital models – a) keep wages in check b) lowers prices c) nominal wages are lower in growing regions
– cumulative causation

Vertically linked models: clustering reduces costs. Cluster locally
Sell globally

1.4 Competitive rather than comparative advantage

Porter's diamond:

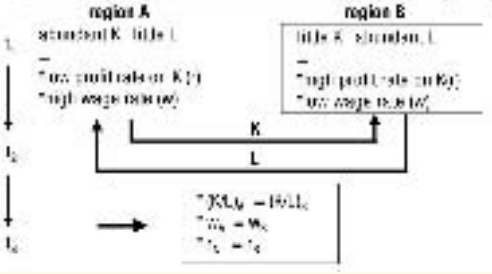


Origins: agglomerations
Consequences: global

2. Factor mobility

2.1 Globalisation: the triumph of the neoclassical perspective: geography no longer matters

The simple version: no net investment and no population growth



2.2 Why geography matters (I) barriers to factor mobility

1. Information

2. Pecuniary costs

3. Non-pecuniary costs: psychological, cultural, linguistic

All of which link in to the social and the local

But in principle, such barriers can be removed

2.3 Why geography matters: Externalities

Positive externalities are often social and cultural in origin and also local or regional. Their effects are global.
Externalities are:
1. Informal
2. Pecuniary or technological
3. Static or dynamic

Externalities constitute the basis of perfect or near-identical world

Externalities are inherently spatial (local and regional)

1. Localised with global effects (emissions of CO_2, information spillovers)
2. Are related to population density in their effects
3. Are subject to distance decay
4. Are subject to jurisdictional boundary problems with some outside costs

3. Ideas and innovation

Key issues for globalisation:

1. Product v process innovation

2. Codified v tacit knowledge

3. The strength of weak ties (Granovetter)

4. Embodied v disembodied technical progress

5. Spillover effects versus the market

6. Networks v clusters

All have global v local dimensions

3.1 The neoclassical approach to technical progress

Technical progress is related to the creation of new ideas
What determines the rate of creation of new ideas?:
The number of researchers producing ideas x the rate at which they produce them

The rate at which they produce ideas is determined by:

- the stock of existing ideas
- the degree of spillover

There is no geography in this explanation

What determines the rate of diffusion of new ideas?:

3.1.1 What determines the rate of diffusion of new ideas?

The catching-up model

- technical progress diffuses rapidly
- the bigger the technological gap, the faster the catch-up

$$\frac{\Delta A}{A} = \lambda(A^* - A_t) \qquad \lambda > 0$$

A^* technological level in the most advanced region

Low technology regions benefit from rate (via) convergence in Y/L, i.e. low technology regions have fast growing Y/L

3.2 The institutionalist approach to knowledge creation

- Gains from knowledge accrue to others than those who finance its generation, a *positive externality*
- Knowledge is produced in creative environments: their characteristics?

1) Interactive
2) Competent actors
3) Variation
4) Knowledge rich
5) Networked: internal and external
6) Institutions for keeping and developing knowledge
7) Knowledge intensive firms
8) Entrepreneurs

These factors are
a) locationally specific
b) immobile

Thus, success in knowledge is spatially differentiated and quasi-permanent

3.2.1 The institutionalist approach to diffusion of knowledge

Stock of knowledge varies by region and locality

Human capital varies by region and locality

Spillover effects vary by region and especially locality

These effects are self-reinforcing and therefore cumulative,
Giving permanent advantage to some localities,
even in a globalised world

4. Explaining growth in the globalised world

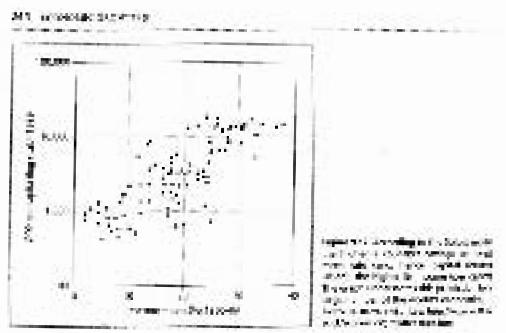
Capital, labour and technology: the essential ingredients

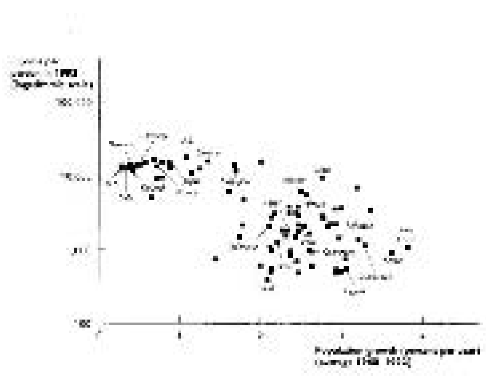
4.1 The neoclassical perspective

$Y = f(A, K, L)$ or as is well known $Y/L = f(K/L)$
Productivity = f(Capital/labour ratio). Therefore savings are important

$GA/A = f(t)$ A: technological level
K: capital stock
L: labour

In the neoclassical perspective growth in K and L determine economic growth (Y).
1. This means that growth is available to any nation which saves enough to buy capital
2. Growth is reduced by rapidly increasing L as the K/L ratio declines
3. A and its growth remains a black box
Stylised global facts





4.1.1 A Neo classical variant:

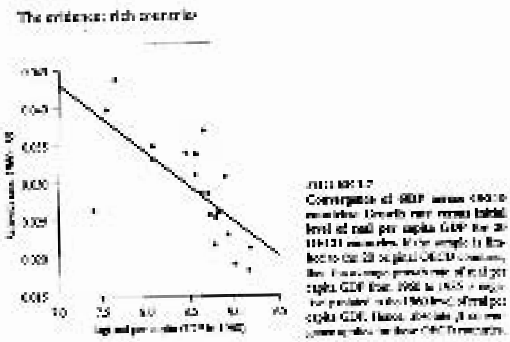
disembodied technical progress

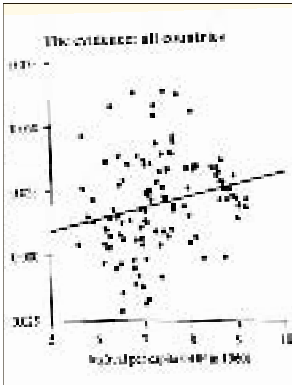
embodied technical progress

Implications for growth, trade and technical progress

4.1.2 The global neo classical view

The principal conclusion: Long-run convergence in GDP/capita





4.2 The institutionalist perspective

Fagerberg's model:

1. Innovation: social, cultural, institutional, entrepreneurial [illegible]
2. Economic development: disequilibrium process
3. Productivity gaps between regions depend on:
   a) own innovative performance
   b) innovative performance of advanced frontier regions
   c) imitative efforts

Q = Z D N C

where

Q: product   Z: constant

D: level of knowledge diffused from outside

N: level of knowledge created in the region

C: regional capacity for exploiting benefits of knowledge

In words, economic growth depends on:

1. Diffusion of technology from abroad (imitation)
2. Creation of new technology in the region (innovation)
3. Development of regional capacity to exploit benefits of technical progress

Conclusion: convergence is not automatic

4.3 Combining neoclassical and institutionalist theory

Y = A. K. L
where the key to explanation is K. L and A is a residual

O = Z D– N– C –
where the key to explanation is D– N– C– and Z is the residual
interpreting Z = K. L (the neoclassical residual) and A = D– N– C–
then it would seem possible to combine the two approaches

The sources of technical progress are in their model:
1. Embodied technical progress
2. Disembodied technical progress
3. K/L ratio
4. Public good technology

EXPLAINING THE GLOBAL AND LOCAL SIMULTANEOUSLY
Regional technical progress can be decomposed into 1 2 3 4 by region
It can be demonstrated that Yr / Lr is higher in regions where disembodied technical progress is important.
What are the policy implications?

5. Welfare states and the global

Why did welfare states grow:
1. Industrialization: qualified labour, urbanization, unemployment
2. Population growth and composition (non-active population)
3. Nation states and politics
4. Growth of political democracy and citizenship

The global:
1. Changes the characteristics of industrialization
2. Makes population composition a threat (ageing and migration)
3. Reduces the nation state
4. Makes politics complicated: no relation between political and economic power

Theories of the welfare state

1. Logic of industrialism: the reproduction of labour (Therborn)
2. Modernization: urbanisation and industrialisation (Flora & Alber)
3. Political compromise between class forces (functionalism) (Marshall)
4. Management theory and Keynesianism/SD (Esping Andersen)
5. Active labour market policy (Korpi)
6. Open economies require welfare states (Cameron)
7. Social control (Piven & Cloward)
8. Contradictions (Gough)
9. Crisis management (Offe)

Typology of welfare states

	Universalist	**Insurance based**
High provision	*Full coverage rights, not needs*	*Labour market based plus subsidiarity*
Low provision	*Liberal-residual needs based*	*Residual and selective insurance plus traditional (family)*

Survival of different types in a globalised world?

Threats to the welfare state in a globalising world

1. Openness of economies: volatility and insecurity increases (Cameron)
2. Mobility of factors: downward pressure on taxation and social expenditure (Andersen)
3. International capital markets: threaten welfare states with high taxation, public expenditure and lack of budgetary discipline

Crisis of the welfare state in a globalised world: concrete issues

1. Scissors effect of crisis induced from outside: higher demand/fewer resources
2. Migration: insurance/universalist schemes
3. Disparities between levels of taxing power and financial responsibility
4. The role of traditional society in the future
5. Portability of schemes

Expenditure as % of GDP (1991-97)

	Social	Public
Belgium	28	58
Canada	19	35
Denmark	32	47
France	20	42
Germany	28	58
Japan	13	22
Sweden	36	50
UK	17	36
USA	17	29

Crisis of the welfare state: other views

1. Disorganised capitalism (Lash & Urry)

2. Regulationist (Aglietta, Boyer)

3. Crisis of Fordism (Jessop)
   Alternative outcomes:
   1. Neo liberal (privatisation and mixed)
   2. Neo corporatist (voluntary and labour unions)
   3. Neo statist (reinforcement of the welfare state)
   Role of flexibility

Policies

1. Super-state welfare systems

2. Integration of immigrants and labour market policies

3. Transition to insurance based systems

4. Anti-globalisation policies

Solow on welfare reform (1996 USA): reducing the caseload

1. Clarity of goals incidence of welfare, employment, equity etc.
2. Evaluation research
3. Incremental change
4. Welfare recipients respond to incentives
5. No time limits to welfare provision