

**INTERNATIONAL NETWORK FOR ECONOMIC RESEARCH**

# Globalisation, welfare models and social expenditure in OECD countries

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*This brief, based on Santos and Simões (2021), discusses whether different manifestations of globalisation have the potential to influence the composition of social expenditure, highlighting the mediating role of welfare models. The findings for 36 OECD countries observed over the period 1990-2018 suggest that the influence of economic, political and social globalisation varies across welfare models in intensity but, in most cases, more globalised countries spend more on social policy. The Nordic regime shows a quantitatively more important positive reaction, especially for active labour market and housing policies. Health and education spending are not context specific, while survivors pensions, incapacity related and unemployment benefits and other social policy areas respond to factors other than globalisation. These findings may have important consequences for cross-country convergence in standards of living.*

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Globalisation is gaining new attention after the Covid-19 outbreak and the rise in populism and nationalism (Enderwick and Buckley, 2020, Bergh and Kärnä, 2021). The overall impact of globalisation on social expenditure can hide some opposite effects on the different components of social spending that might cancel out when taken together. However, little is known about the link between different types of globalisation, the composition of social expenditure and the

mediating role of welfare state regimes. In Santos and Simões (2021) we consider the mediating role of welfare state regimes on the relationship between globalisation and social expenditure over the period 1990-2018, for 36 OECD countries. We explore the differences in the globalisation impacts across welfare regimes disentangling the influence of economic, social and political globalisation on the different components of public spending. The 36 OECD countries are grouped into six

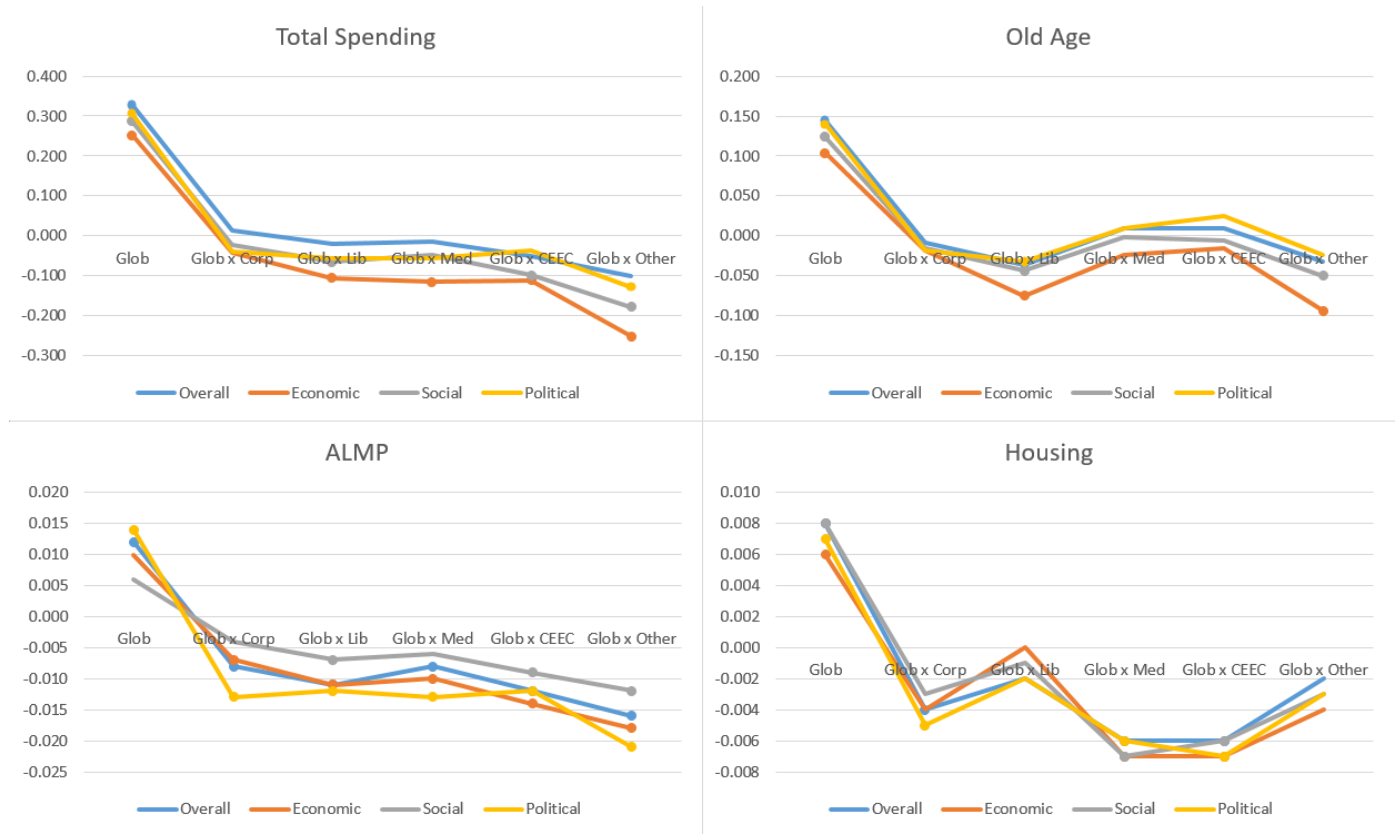
welfare state regimes based on the recent works of Tridico and Paternesi Meloni (2018) and Hein et al. (2021): Nordic, Corporatist, Liberal, Mediterranean, Central and Eastern European Countries (CEEC) and Others. Figure 1 illustrates the results obtained for the impact of overall globalisation and its dimensions across welfare state regimes for total public social expenditure and some of its components, old age pensions, active labour market policies (ALMP) and housing. The reference group is the Nordic regime. These results suggest that the reaction of different components of social spending is regime specific in terms of intensity. However, in most cases, this reaction is positive, supporting the view that globalisation leads to higher social expenditure. Indeed, voters ask for more state intervention that promotes welfare for all citizens to compensate for possible adverse economic and social effects of globalisation.

More specifically, the different dimensions of globalisation affect more or less social

expenditure and its composition. Economic globalisation reduces spending on ALMP in almost all regimes (the exception is the Nordic regime) and in particular in the Others regime. For health and education expenditures the impact of overall globalisation and its different manifestations is positive and our findings suggest no welfare regime specific differences.

Globalisation has been investigated mostly in economic terms, but political factors are also considered. The participation in international organisations and social globalisation, with its higher awareness of the welfare regimes in other countries, act independently and differently from economic globalisation. The results obtained (see Figure 1) suggest that the relative pace of change of each manifestation of globalisation may have different consequences for the dynamics of social expenditure across welfare state regimes and consequently on the respective future economic outcomes.

**Figure 1: Results for the relationship between dimensions of globalisation and some categories of social expenditure across welfare state regimes**



Selected results for the relationship between different types of globalisation and some of public spending components. Corp - Corporate regimes, Lib - Liberal regimes, Med - Mediterranean regimes, CEEC - Central and Eastern European Countries, Other - Other types of regimes. Dots incorporated in lines stand for values that are statistically significant. All interaction terms should be interpreted as comparative values to Nordic regimes.

# Implications

Given the positive influence of political globalisation on social expenditure, the higher coordination of social policy at the OECD level (taking into account the respective composition) may help avoiding a relapse into protectionism, by addressing the negative economic and social consequences of globalisation. From the policy makers perspective, raising the awareness of citizens to the varied social and economic outcomes of specific categories of social expenditure, and thus influencing the pressure voters can exert on changes in social policy, could also potentially counteract undesirable consequences of globalisation.

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