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# The Global Economy and the American Welfare State

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*The American social welfare state is approaching a crisis because of the global economy. Survival in a new world economy requires corporations to become more efficient, a strategy which leads to a rapidly changing technology, plant shutdowns, and industrial reorganization. To aid corporations, government often curbs taxes to make capital available for investment. These policies can lead to governmental debt, reduced welfare services, a deterioration in the infrastructure, and myriad social problems. This article investigates the effects of the global economy on the American welfare state.*

The concept of a welfare state is a relatively recent phenomenon. Before the middle 1930s, the majority of countries had only rudimentary forms of social security. However, by the 1950s most industrialized nations had developed comprehensive health care programs, unemployment compensation, state-sponsored pensions for the elderly, and various income maintenance support programs.

Grounded in John Maynard Keynes' (1936) theory of demand-side economics, welfare states in Western industrialized nations grew rapidly from the 1950s to the early 1970s. However, by the middle 1970s economic malaise, in the form of high inflation, high rates of unemployment, slow economic growth, and unacceptably high levels of taxation began to characterize Western industrial economies. During these difficult times, governments were forced to reassess their economic strategies, including the resources allocated to welfare activities. Throughout the late 1970s and 1980s, most Western governments either arrested or reduced their welfare programs.

The welfare state is confronting a serious crisis. Forced to survive in a highly competitive global economy, corporations and government are compelled to become more efficient. For

corporations, this can lead to economic restructuring, which in turn often leads to a rapidly changing technology, plant shut-downs, and major industrial reorganization. To increase the competitive position of its domestic industries, government is forced to lower corporate and personal taxes to free up money for investment. The subsequent loss of revenue leads to a heavy governmental debt, a reduction in welfare services, a deterioration in the public infrastructure, and myriad social and economic problems. This situation is exacerbated as governmental cuts are met by increased demands for social services stemming from global-based changes. This article investigates the emergence of the global economy and its effects on the American welfare state. Also examined are three scenarios relating to the future of the welfare state in a competitive world economy.

### The Emerging Economic Order

The new world economy is marked by shifting demographic trends and novel socio-political arrangements. For example, close to 75% of the world's population live in poorer nations, most in the Southern hemisphere. As recently as the middle 1960s, economies in developing nations primarily manufactured basic goods (e.g., clothing, shoes, toys, and simple and inexpensive consumer electronics) requiring cheap labor and relatively simple technologies. However, by the 1970s, Japan, Korea, and Taiwan began exporting products which called for sophisticated and capital-intensive modes of production. Although second-tier industrial countries such as India, the Philippines, and China were able to inherit the basic goods production of the industrialized Asian nations, they too, were forced into adopting more sophisticated technologies. By the middle 1970s, Western nations began to experience the affect of this new economic competition as their manufacturing industries declined, their growth rates flattened, and their unemployment increased (Reich, 1987).

The effects of this new economic order are illustrated by examining the United States. Once the world's undisputed economic leader, the U.S. is now struggling to maintain an economic presence in a highly competitive world economy (Bowles, Gordon, & Weisskopf, 1983). In 1980 the United States had a

\$2 billion trade surplus; by 1984 other countries were gradually catching up with its productivity and that surplus turned into a deficit of \$102 billion (Thurow, 1985). To maintain prosperity and finance an increasingly (if relatively) unproductive economy, the U.S. turned to massive foreign borrowing. In 1982 America had net foreign assets of \$152 billion; by 1986 it surpassed Brazil to become the world's largest debtor nation.

The economic problems of the U.S. are compounded by several factors. From 1960 to 1980, America's share of the world's manufactured exports fell from 25% to 17%. By 1988 the United States had dropped to the third largest exporter (\$320 billion), behind West Germany (\$323 billion) and ahead of Japan (\$256 billion). Even with a 27% increase in exports in 1988 (due mainly to a drop in the dollar), America imported \$460 billion worth of goods, making it the world's largest importer (International Monetary Fund, 1989). (In comparison, Germany imported \$251 billion in 1988 and Britain \$189 billion.) By the early 1980s the United States imported 50% of its consumer electronics, 30% of its automobiles, and a large proportion of cameras, shoes, tools, tires, machinery, and clothes (Magaziner & Reich, 1982). Apart from the trade deficit, another striking imbalance exists. In terms of dollar value, Japan's number one export to the U.S. is motor vehicles, followed by heavy equipment, iron and steel plates, and consumer electronics. In contrast, the leading exports of the United States to Japan are soybeans, corn, fir and hemlock logs, coal, wheat, and cotton (Bluestone & Harrison, 1982). In essence, the United States has become an agriculture exporter trying to compete in a global economy.

According to Lester Thurow (1985), the roots of the economic crisis are found in the loss of the technological edge held by American industry in the 1950s and 1960s. Thurow maintains that American industry is now facing competitors who have matched and surpassed its economic achievements. This dilemma is exacerbated as America is thrust into a competitive world economy while at its most vulnerable economic point since World War II (Thurow, 1985).

Bennett Harrison and Barry Bluestone (1988) accept that global competition has propelled the economic crisis, but they argue that instead of going back to basics—improved product

quality, investment in new technology, and more constructive relationships with workers—American corporations responded by abandoning core businesses, investing offshore, shifting capital into highly speculative ventures, subcontracting with low-wage contractors both domestically and abroad, and substituting part-time workers for full-time employees. The economic crisis in America is manifested in other structural problems. Bluestone and Harrison (1982) document the deindustrialization of America, or in other words, the widespread and systematic disinvestment in the nation's productive capacity. They argue (1982) that "the essential problem with the U.S. economy can be traced to the way capital—in the forms of financial resources and of real plant and equipment—has been diverted from productive investment . . . into unproductive speculation, mergers and acquisitions, and foreign investment" (p. 135). Indeed, high-income production jobs declined by 1.4 million between 1970 and 1982 (Day, 1989). Permanent job losses in Ohio included a 20% loss in primary metals manufacturing, a 10% loss in electronic equipment manufacturing, and a 19% loss in transportation equipment manufacturing. The loss of high-paying manufacturing jobs corresponds to increased poverty in the traditional industrial states. In Pennsylvania, New Jersey, and New York the poverty rates climbed from 10.4% in 1978 to 13.4% in 1985; in Michigan, Ohio and Illinois they went up from 10% to 14% (Day, 1990). In the wake of deindustrialization lay empty factories, displaced workers, bankrupt communities, and widespread social dislocation. The human misery resulting from global economic changes has put immense pressure on the welfare state.

### The Affects of the Global Economy on the American Welfare State

Within the context of the global economy there are two interrelated issues that affect the welfare state: the actual trends in the global economy, and the adoption of policies believed necessary to ensure economic survival. Two conservative writers on the global economy, Alvin Rabushka of the Hoover Institution and Steve Hanke (1989) of Johns Hopkins University, have outlined the requirements for success in the new economic

community: (a) a laissez-faire economic approach emphasizing free trade and markets, no tariffs, and a commitment to the free movement of capital; (b) an emphasis on research and development; (c) dramatic reductions in corporate and progressive income taxes; (d) a decrease in governmental regulations and in the power of regulatory agencies; (e) privatizing the economy by selling off publicly owned industries, utilities, and transportation systems; (f) reducing the role of government in the marketplace, including slashing or eliminating public employment programs; and (g) a decrease in welfare activities, including major cuts in entitlement programs.

These economic schemes have clearly devolved from Reaganomics. Taking their cue from supply-side theorists, conservative supporters of the global economy argue that it has the potential to provide untold affluence for countries willing to play by the new rules. Shrewdly omitted, however, is a discussion of the repercussions of a free-market economy. In the United States for example, these consequences include a large growth in the underclass, a high poverty rate (in 1987 the poverty rate was 13.6%), a widespread homelessness (perhaps 3 million Americans are homeless), and under- and unemployment, and a deterioration in the public infrastructure (Karger and Stoesz, 1990).

### The Realities of the Global Economy and the Welfare State

The reality of the global economy stands in sharp contrast to the promises of its proponents. Moreover, much of the growth of modern corporations is not based on real growth, but on enormous debt in the form of junk bonds, mergers, acquisitions, and leveraged buyouts. The global economy has also ushered in subtle changes in the perception of corporations by stockholders, corporate executives, and boards of directors.<sup>1</sup> The traditional corporation which concentrated on making money by producing a product, is being replaced by the corporation more concerned with its value to competitors and speculators than with its actual production. Hence, many Chief Executive Officers (CEOs) see the value of their corporations mainly in terms of their worth to Wall Street speculators, competitors, and deal

makers. Even many small entrepreneurs view the success of their companies in terms of finding a corporate buyer.

To ensure survival in a competitive world economy, corporations must make their operations more efficient and more profitable, a strategy which often includes expensive mergers and other forms of horizontal and vertical economic integration. Hence, CEOs and boards of directors are compelled to borrow huge sums of money at high interest rates or promise investors high rates of return. This leads to an emphasis on short-term profits at the expense of long-term corporate goals. The focus on short-term profit forces corporations to cut back on capital equipment, defer plant modernization, and may result in a significant employee reductions. While the ostensible reason for a short-term profit approach is the need to compete in the global marketplace, this tactic eventually leads to less competitive corporations.

Excessive corporate debt has several consequences for the welfare state. For one, high corporate debt—and the write-off of interest payments—produces less governmental revenues. Moreover, government must freeze or lower tax rates because of the fiscal vulnerability resulting from high corporate indebtedness. The inherent anti-tax bias of the global marketplace means that government cannot easily raise individual taxes, especially using progressive taxation. On the other hand, the requirements of the business sector for new infrastructures such as roads, advanced communications systems, and public facilities, forces government to plunge deeper into deficit spending in order to provide services for economic growth. Caught in this economic vise, government must cut back on both critical services and infrastructure. Education is pared back, social services are cut, and less important secondary roads are left to deteriorate. Despite these cutbacks, increased public and corporate demands requires government to resort to even heavier borrowing and deficit spending, thus repeating the cycle.

The scope of deficit spending in the United States is difficult to grasp. While the Gross National Product (GNP) of the U.S. was \$5 trillion in 1989, the budget deficit was \$3 trillion. In other words, the federal budget deficit equalled three-fifths of the GNP in 1989. Seen in another way, the world traded a total

of \$2.7 trillion worth of goods in 1988, less than the \$2.83 trillion federal budget deficit in late 1989. By creating an enormous debt (from about \$50 billion a year in the Carter term to between \$145 to \$200 billion a year in the 1980s), Reagan paralyzed the growth of public services well into the next century. This federal debt has made new fiscal-based social welfare programs almost inconceivable in the near future, regardless of social problems (Moynihan, 1989).

The need to repay high interest loans requires corporations to restructure their operations. This corporate rationalization often includes the downscaling of production, a process which may involve laying-off large numbers of workers. In addition, corporations often replace full-time employees with less expensive part-time workers who are ineligible for normal employment perks, including health and pension benefits. These conditions promote the establishment of an underclass of low-wage employees. For example, although 20 million new jobs were created in the 1980s, they were not with the *Fortune 500* companies, who cut their work forces by 35 million. Many of the new jobs created in the 1980s were low-paying service positions in the secondary labor market (Friedrich, 1990). Thus, despite a 6% unemployment rate, over 44% of the jobs created in the U.S. between 1979 and 1985 paid less than \$7,400 per year (Harrington, 1987). Instead of achieving economic self-sufficiency, many workers in these low-paying jobs remain eligible for basic welfare benefits. In this way, government tacitly assumes the social costs of corporate competition in the new global economy.

An unstable labor market results in less tax revenues while contributing to greater pressures on unemployment compensation programs. For example, in 1989 only 31% of the short-term unemployed in the U.S. received benefits, a figure which compares unfavorably to the 75% who received benefits in the 1970s (Shapiro & Greenstein, 1988). Moreover, laying off or terminating workers affects merchants, banks, landlords, and the tax base of local and national governments. Taken together, these trends lead to greater challenges for the welfare state, eventually influencing a deterioration in the basic interpersonal and group structure. For example, previous studies have linked economy-related changes to an increase in mental illness and suicide rates



(Feather & Davenport, 1981; Platt, 1984; Brenner, 1984) and a rise in the crime rate (Thornberry & Christenson, 1984).

The technological revolution, another important part of the global economy, requires new equipment and a comprehensive retraining of the workforce. Many American corporations, however, are reluctant to invest in retraining, arguing instead that it is a governmental responsibility. Faced with a huge deficit, the federal government can not afford the costs of retraining large segments of the workforce. Citing a shortage of skilled workers, this stalemate becomes another excuse for corporations to move their manufacturing offshore. Thus, government's fiscal paralysis encourages capital flight, and instead of assuring prosperity, it helps create a fiscal crisis of the state.

Labor policy is another factor in the global economy. Corporations demand a loose labor market—high levels of unemployment—in order to bring down or stabilize wage rates and lower inflation. As part of this strategy, employers argue for loosening labor market controls while curbing the power of unions. This corporate strategy can result in a decline in both the strength and numbers of trade unions. For example, in 1945 roughly 35% of the U.S. work force was unionized, by 1986 that number had dropped to 17.5% (Karger, 1988). A decline in union strength is often correlated with diminished levels of employee security.

This labor policy has other ramifications. Thomas Donahue (1989), Secretary Treasurer of the American Federation of Labor (AFL-CIO) argues that:

[There is a] trend toward replacing long-term employees with part-time and temporary ones who have no personal stake in the company's success, no permanent home workplace, only the most transitory and superficial relationships with their fellow workers, and—of course—no regular benefits, vacations, holidays, or company life and health insurance plans, and no retirement benefits at the end of a working lifetime. If that trend prevails, there's a serious danger that a large piece of our society will be split three ways: At the top, a highly paid professional, managerial and technical group, made smaller and more tightly knit by

computer networks. Next, a layer of outside contractors providing materials and services that the corporate elites would rather buy than provide in-house. And at the bottom, doing the work, a permanent floating population of rootless functionaries, moving from job to job or to the unemployment line, who would be closer to the Marxist idea of a dispossessed proletariat than anything that America has seen so far. (p. 6)

The creation of a large *lumpen proletariat* presages greater dilemmas for an already overextended welfare state. Because low-paid and marginal workers have few of the traditional employment perks and protections accorded a stable workforce, they require more social welfare benefits, including various forms of income support. Moreover, with few retirement benefits and insufficient incomes to create their own retirement plan, this group will likely consume high levels of welfare benefits when they retire. By allowing corporations to create a floating labor force, government agrees to strain its present resources while mortgaging its future.

Laissez-faire labor policies also encourage greater income inequality. For example, in 1960 the average CEO was paid 41 times more than a shop floor worker; by 1988 that CEO earned 91 times more than the factor worker (Donahue, 1989). Between 1973 and 1984, families with incomes over \$50,000 per year increased from 14.9% to 15.6%. During that same period, the proportion of families with incomes below \$20,000 increased from 32.1% to 36.4%. These changes occurred while the traditional middle class—families with incomes of between \$20,000 to \$50,000 per year—fell from 53% to 47.9% (Bradbury, 1986). The economic gap between upper- and lower-income American families was wider in 1987 than at any time since the Census Bureau began recording this data (Karger & Stoesz, 1989).

The rich were getting richer while real earnings for most Americans either stagnated or fell. While the yearly earnings of the top 20% of American families rose (after adjusting for inflation) more than \$9,000 (to almost \$85,000), the income of the bottom 20% dropped by \$576 (to \$8,800) (Friedrich, 1990). Examining family income over an eleven year period provides

even bleaker figures. From 1973 to 1984 the incomes of the poorest fifth with children fell 34%. It is estimated that from 1980 to 1984, there was a net transfer of \$25 billion in income from poor and middle-income families to the richest fifth of the population (Center on Budget and Policy Priorities, 1988).

While the salaries of top management dramatically increased, many of these managers lobbied to keep the minimum wage as far below the poverty line as possible. In fact, since 1981 the minimum wage remained stagnant while the cost of living has substantially risen. These figures have enormous impact for the welfare state, since not only is the number of people eligible for entitlement programs growing, but much of the clientele of these programs were once middle-class.

While alarming to liberals, monetarists and supply-side economists argue that income inequality is a socially desirable phenomenon. For these economists, social policies that promote income equality encourage coercion, limit individual freedom, and damage the economy. Furthermore, income inequality is seen as the desirable outcome of the marketplace—it reflects differences in rewards based on individual talent and initiative. According to these economists, income differentials provide an incentive to work hard for an otherwise unmotivated labor force (Walker, 1990).

Policies designed to foster corporate competition in the global economy affect the welfare state. While government arrests personal and corporate tax rates,<sup>2</sup> the economic dislocation caused by plant shut-downs, erratic employment, and low wage scales results in increased numbers of people eligible for social welfare programs.<sup>3</sup> Even if corporate profits are higher and governmental revenues greater, the negative consequences of economic reorganization cancel out much of the positive effects of revenue growth. In short, the effects of unregulated economic change occur at a faster rate than governmental revenues can remedy, and the social welfare activities of the state fall short of the needs and expectations of its most vulnerable constituents. Several future scenarios are possible given the realities of the global economy.

### Future Scenarios for the Welfare State

The following scenarios for the welfare state seem plausible given current trends: (a) the attenuation of welfare programs through neglect and fiscal attrition, (b) the creation of a corporate welfare state, and (c) the revitalization of welfare programs in response to increased social problems.

The first scenario suggests that current trends in welfare will continue. Ramesh Mishra (1984) identifies three factors that signal a crisis in the welfare state: (a) a fiscal crisis of the state (a decrease in social welfare expenditures) and a cutback in welfare benefits, (b) a continuation of the political philosophy that views welfare expenditures as a barrier to economic growth, and (c) a crisis of legitimation (the loss of confidence in the welfare state to solve social problems). If adverse trends continue, an attrition of welfare state functions will build upon itself and eventually immobilize the welfare state. As social problems endemic to the global economy increase, and as welfare programs are curtailed, the belief that the welfare state is ineffective in addressing social problems will gain greater currency. These currents will climax when the welfare state is delegitimized and arguments for its continued existence become indefensible. At that point, dismantling the bulk of welfare state programs will become a mechanical task. Replacement programs or strategies—if any—that would supersede the welfare state are open to speculation. In effect, this scenario presupposes a political economy modelled on a *laissez-faire* framework. Given the economic insecurities faced by the middleclass, and the dependence of this group on key social welfare programs (e.g., social security, student loans, and housing and mortgage assistance), this scenario is unlikely.

A second scenario suggests that the growth in multinational corporations will eventually lead to a corporate welfare state. Within this scenario, economically powerful corporations will provide direct benefits to their employees, including generous retirement benefits, health care, and personal social services. Employees lucky enough to work for multinational corporations will be protected under this umbrella, while workers in the secondary labor market will be covered under governmental welfare programs. Because fewer people will be beneficiaries of the government's largesse, less revenues will be needed.

The realization of this scenario is unlikely. For one, few precedents exist for corporations to assume, on a wholesale basis, the responsibility for meeting the full range of their employees needs. While some corporations provide in-house employee assistance programs (Akabas & Kurzman, 1982; Googins, 1975; Googins & Godfrey, 1987), including mental health and day care services, the provision of comprehensive corporate social welfare benefits has not been adopted on a widespread basis. Moreover, given the corporate strategy of replacing full-time employees with part-time workers, it seems doubtful that corporations are on the verge of starting massive health, welfare, and economic security programs. Furthermore, since corporations must be lean to survive in a competitive global economy, the prospects of establishing expensive social welfare programs appears remote. In short, while benevolent corporations were possible when American business had secure economic standing—little competition, low debt, and unlimited markets—it is not realistic to expect generous corporate entitlements in a highly competitive global economy.

The last scenario suggests that welfare state functions will be revitalized as increased social problems threaten the stability of industrialized nations. The welfare state could be revived using several different strategies. For one, welfare activities would receive more resources as social instability grows and economic problems become worse. Secondly, the welfare state could be strengthened through what Mishra (1984) calls "corporatism"—the creation of a systematic framework for the integration of a productive market economy with social welfare functions. The corporatist welfare state is based on a consensus between important social groupings, such as government, business and labor. While the nature of welfare remains the same, corporatism provides an institutional framework for maintaining full employment and comprehensive social welfare programs within the context of a liberal free-market society.

While corporatism may be a desirable alternative to a declining welfare state, it presupposes that welfare problems can be addressed by individual nation states rather than through a concerted international effort. Because the economic transformation in Western industrialized nations is international in scope, the

restoration of welfare activities should be based on developing minimum universal need standards that are translated into social welfare programs. These need standards should be related to adequate diet, shelter, clothing, health care, economic security, and educational and economic opportunities. In addition, developing a procedure to enforce—possibly through sanctions and boycotts—international need standards for welfare benefits diminishes the economic advantage of countries operating without a comprehensive social welfare system.

While the future of the welfare state is generally open to question, certain things are clear. For one, the use of Keynesian solutions rooted in individual nation states is becoming problematic for addressing social welfare problems caused by an interdependent global economy. Specifically, the need to arrest the growth in corporate and personal taxation is resulting in governmental cutbacks even in highly developed welfare states such as Britain, France, and Italy (Friedman, et al., 1987). Moreover, as social problems attendant to economic dislocation continue to rise, governmental intervention is curtailed due to the revenue restrictions inherent in the economic makeup of the global economy. Secondly, traditional Marxian answers—i.e., the view that the economic system should be the primary social welfare program by ensuring employment to anyone who wishes to work—are largely irrelevant in a global economy where the Soviet Union and Eastern Bloc countries are toying with privatization and are on the verge of joining the world economic community.<sup>4</sup> What is clear, however, is that conventional approaches to the welfare state must be reconsidered in light of the global economy. Unfortunately, there are few models that presently address the development of a humane and efficient welfare state that does not hinder national competitiveness in a global economy. Ideally, compassionate welfare state models should be developed that actively promote international competitiveness rather than hinder it.

### Conclusion

The new global economy has important consequences for the welfare state. For one, the gross revenues of many multinational corporations are greater than the GNP of many nations.<sup>5</sup>

This economic strength translates into political power. For example, corporations can blackmail local and state governments by threatening plant closures, relocating operations offshore, and laying off large numbers of workers. In 1982, International Harvester began to close several of its twenty-three heavy equipment plants. It informed Fort Wayne, Indiana, and Springfield, Illinois that one of the cities would have its plant shut-down unless they bought the plant and then leased it back to Harvester. By September 1982, each city had offered to buy back its respective plant for \$30 million or more, a significantly higher price than the open market would bear. In October 1982, the Fort Wayne plant was selected for closure. When Teledyne, Inc., planned to construct a new plant employing 500 workers, it pitted four South Carolina counties against each other. Oconee County got the plant only by agreeing to build it and then lease it back to Teledyne at favorable rates, something that the other three counties were unwilling to do. These threats were repeated in one form or another by General Motors and many other corporations throughout the 1980s (McKenzie, 1984). Threats such as these ensure that government will respond quickly, and often positively, to corporate demands.

While a few individuals and corporations increase their fortunes (in 1988 the richest 1 percent in the U.S. was expected to amass over \$452 billion in pretax income), public institutions grow poorer. Thus, instead of ensuring a healthy public and private sector, major U.S. tax cuts and pro-corporate fiscal policies in the 1980s led to uneven economic growth (Phillips, 1990). In effect, the private sector grew wealthier as the public sector experienced unprecedented debt. One of the outcomes of this public debt has been a neglected and decaying infrastructure which, if it were now rehabilitated, would be far costlier than if it were attended to throughout the 1980s. Moreover, given a federal budget deficit of over \$3 trillion, it seems unlikely that the federal government can undertake a substantial renovation of the American infrastructure. Hence, the American public sector is now poorer than before the economic upswing of the 1980s.

Perhaps the most important change resulting from the global economy is a shift in the perception of government. Instead of

viewing government as an arbiter of the public interest, neoconservatives maintain that government must stand aside and let economic force rule. This laissez-faire philosophy implies that corporations should exercise their economic muscle to ensure that government does not interfere in the marketplace, except to benefit corporate growth. The argument which calls for a diminished governmental role in the marketplace also applies to social welfare programs. A philosophy which urges government to assume a passive stance in the marketplace is inimical to the basic tenets of the welfare state. For the neoconservatives, governmental responsibility is not perceived as a commitment to the interests of the larger society, but instead to the upper socioeconomic classes. In essence, this philosophy is a repudiation of more than fifty years of welfare statism.

Neoconservatives maintain that if the marketplace is left unfettered, the resulting economic expansion will provide government with abundant revenues. This canard is repudiated by the experience of the United States. After seven years of economic recovery, the federal government is in worse shape (a huge budget deficit, increased foreign ownership of U.S. resources,<sup>6</sup> an increase in poverty, and a high trade imbalance) than before the economic upswing. Despite the economic growth of the last seven years, the overall poverty rate in 1987 was 13.6%—higher than any year of the 1970s, including the recession years of 1974–5 (Center on Budget and Policy Priorities, 1988).

The recent literature in social welfare policy is replete with arguments bemoaning the changes taking place in the welfare state since the late 1970s (Abramovitz, 1988; Block, et al., 1987; Harrington, 1984; Katz, 1986; Piven & Cloward, 1982; Beverly and McSweeney, 1987; Kuttner, 1987; Morris, 1986). Despite the salience of these arguments, liberals ignore the fact that neoconservatives are correct—the economic reality facing industrialized nations has changed and the traditional welfare state may not be the most suitable vehicle to protect vulnerable populations. Moreover, industrialized nations can no longer independently shape their economic future. The interdependence of the global marketplace requires nations to interact in an environment where welfare state decisions will be made in the context of a new economic reality.



On the other hand, neoconservatives are wrong when they argue that a new economic order requires nations to adopt a laissez-faire political economy. Contrary to the pronouncements of conservative pundits, no clear evidence exists that a laissez-faire economic approach ensures success. On the contrary, Japan—a country experiencing economic success—has governmental planning, restricted markets, and a labyrinth of governmental regulations.

The debate about the economic future of industrialized nations is a debate about the future of the welfare state. If neoconservatives are successful, the present attacks on the welfare state will intensify. In the end, new ways of redefining the function, role, and responsibility of the welfare state are necessary if it is to survive in a new global economy.

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## Notes

1. Although much has been written recently about the transformation of modern corporations, one of the earliest voices documenting that change was John Kenneth Galbraith (1967), who maintained that large corporations are now controlled by the technostructure—management, scientists, and technicians—rather than by stockholders. According to Galbraith, these technocrats are more concerned with using their talents than with the actual survival and profitability of the corporation.
2. While corporate taxes have increased in absolute dollars, as a percentage of total U.S. Government revenues they have remained relatively constant throughout the 1980s. In 1980, corporate income taxes totalled \$64.6 billion, or about 12.5% of total government revenues. While corporate taxes rose to \$219.7 billion in 1988, they still accounted for only about 13% of total federal government revenues (Bureau of Economic Analysis, 1989).
3. Although the number of families on AFDC decreased slightly from 1975 to 1984 (from 11.4 to 10.7 million families), this drop was due mainly to eligibility changes and program cuts rather than a drop in those requiring benefits (Karger & Stoesz, 1989).
4. The trend toward the breakup of traditional socialism in Eastern Europe is evident in the recent reunification of Germany, and the increased move toward economic privatization in Poland, Czechoslovakia, Hungary, and to a lesser extent in Romania, Bulgaria, and the Soviet Union.
5. In 1977 the total assets of U.S. multinational corporations was \$2.7 trillion. By 1988 those assets had increased to \$5.3 trillion, higher than the total U.S. GNP for that year. Moreover, U.S. multinational corporations had a combined workforce of over 26 million employees in 1988, larger than the population of many medium-sized nations (Bureau of Economic Analysis, 1989).
6. Outlays by foreign investors to acquire or establish U.S. business enterprises increased from \$10.8 billion in 1982 to \$65 billion in 1988. Foreign outlays have risen 55% per year during the past five years, and in 1985 they amounted to almost \$1 trillion (Bureau of Economic Analysis, 1989).